



Remarks by David Wilson

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“A Regulatory Priority: Fostering Confidence in Our Capital Markets”

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Good morning.

I want to thank the Canadian Institute for inviting me to speak today.

This is my second Securities SuperConference as OSC Chair. When I spoke here last year, I'd only been on the job for three months. That year just flew by, despite the fact the regulatory world does not always move as quickly as we would like. Which reminds me of a story from a conference of international securities regulators which I attended last year.

A Spanish regulator was asked how things were going in his world. He said, "Well, in Spain, you know – *mañana, mañana* -- tomorrow, tomorrow – things take a long time to get done." The Spanish regulator then asked his Irish counterpart if there was an equivalent Gaelic term for the word *mañana*. The Irish regulator thought for a moment and then replied: "No, there's nothing in Gaelic that conveys that sense of urgency."

There is one thing that must always be an urgent priority on any regulatory agenda: The issue of market confidence.

Public confidence is a distinguishing feature of any healthy economy. And confidence depends upon whether people have reason to believe their economy and their markets are characterized by honesty, fairness, and the rule of law.

That is a prime focus for the OSC. But we need your help. The Street has an interest in fostering market confidence – and an important role to play.

Today, I'll speak about two closely-related priorities for us at the OSC:

1. Providing a robust compliance and enforcement regime for our capital markets;
and
2. Working to help protect investors, so that the rights of all who put their capital at risk in the markets are respected.

These goals are especially important within a global market. As SEC Chairman Christopher Cox said recently: “Just as investors and issuers can more easily seek each other out around the world, those with less honorable intentions can also reach across borders, to prey upon distant investors. And when they succeed, they damage confidence in all of our markets. It is the job of ... regulators to wade into this fray — to protect investors, and to promote the market integrity that capital formation depends upon.”

Compliance and Enforcement

My first main point today is that compliance is key to the effectiveness of securities regulation. And when there is non-compliance, swift enforcement must follow.

People who perpetrate economic crimes may target individuals – but they end up hurting all of us. Misconduct makes it more expensive to raise capital and maintain a robust economy. These are the invisible costs of economic crime.

Put simply, you can have the best regulations in the world, but if you don't enforce them effectively, they don't mean a damn thing.

How well are we doing at combating economic crime? Well, we're making progress.

To illustrate, here are a few figures from the enforcement work of Canada's four securities regulatory bodies: the Canadian Securities Administrators, the Investment Dealers Association, Market Regulation Services and the Mutual Fund Dealers Association. The figures cover the six-month period from April 1 to September 30, 2006.

During that time, the 13 provincial and territorial securities regulators commenced 57 new enforcement matters, up 16 percent from the comparable period the previous year. The number of sanctions more than doubled, from 17 to 37. And together with the three SROs, the regulatory bodies collectively concluded 90 cases that resulted in either sanctions or settlements. That's an annualized rate of almost 200 enforcement sanctions or settlements per year.

But we must do better – and we can.

For one thing, we have to focus on compliance with the rules. The integrity of our capital markets cannot simply rest on the honour system. I believe that people behave a lot differently if they know someone is going to be checking to confirm whether or not they're playing by the rules.

But one cannot devise a regulatory system that is so airtight that misconduct never takes place.

One of the governing policy principles in the U.K. of the respected Financial Services Authority is an explicit recognition of that fact: it is neither possible nor desirable to seek to prevent all failures.

The FSA has said that “the idea that regulation should seek to eliminate all failures may be appealing in theory, in practice it imposes prohibitive costs on the industry and consumers.”

This is why compliance is so crucial. Compliance provides an internal detection process. It also allows us to take a risk-based approach to leveraging our resources to focus on the most important matters.

Let me provide a few highlights from the OSC's compliance work in 2006.

We reorganized some of our Corporate Finance Branch resources into industry-specific groups. The result: We are performing Continuous Disclosure compliance reviews on a more specialized – and more insightful – basis. Staff are gaining a greater in-depth understanding of industry-specific issues.

We also completed two targeted compliance reviews of registrants.

The Capital Markets Branch conducted a focussed review of the marketing practices used by registered investment counsellors/portfolio managers (ICPMs). And staff in the Capital Markets Branch and Investment Funds Branch worked together to review the sales practices used by investment fund administrators (ICPMs). A staff notice will be issued shortly summarizing the findings of these two targeted reviews.

As many of you know, earlier this week the CSA published for comment its proposed Registration Rule, which would create a single national registration regime. One key benefit of the Rule will be the creation of a flexible compliance framework that will apply to all intermediary firms. This should result in lower compliance costs for The Street and help improve the overall efficiency of Canada's regulatory regime. The CSA panel that follows my remarks will discuss the Registration Rule in more detail.

Now, let's look at enforcement.

One of the most important things we must do is maintain a proactive approach. We have to prevent, detect and deter economic crime.

In Canada, one of the tools we've created to do just that is the Joint Securities Intelligence Unit, or JSIU. The JSIU is a partnership among the OSC, the IDA and the RCMP. It sets out to detect criminal activity – and disrupt it – before investors are ripped off.

In enforcement, prevention can save hundreds of millions of dollars. It means sparing investors enormous suffering and anxiety. It means preserving respect for our capital markets – which is always easier than trying to restore confidence after the fact.

It's hard to get headlines when fraud is prevented, rather than punished after it occurs. However, it's a much more effective way to protect investors.

A good example is a recent case in which the JSIU nipped a potential multi-million-dollar scam in the bud.

It started with a report from a foreign law enforcement agency, referring to a stock that was being manipulated in the United States. An RCMP member of the JSIU noticed that some of the people mentioned in the report from the foreign agency were also involved in a company that had filed to issue stock in Canada.

The JSIU and the OSC's Corporate Finance team began asking hard questions of both the company that had filed a prospectus and its underwriters. We learned that the company's initial seed capital came from a well-known organized crime family.

The inquiries of the OSC and JSIU prompted the company to pull the proposed offering – sparing investors from being snared in a potential \$150-million scam.

This JSIU initiative demonstrates the value of being proactive. With relatively little time, effort and resources we were able to save a lot of money for investors – and a long and costly post-fraud investigation.

The success of the initiative illustrates the importance of working together.

There are times when OSC staff in our three specialized policy Branches – Corporate Finance, Capital Markets and Investment Funds – will conduct joint compliance reviews and participate in other cross-Branch initiatives.

There have also been times when Enforcement has worked with the policy Branches on specific issues arising from compliance reviews. And compliance staff will refer cases to Enforcement – when justified by the findings of the compliance review.

CSA members are also making an effort to increase their level of cooperation. We're trying to improve each jurisdiction's understanding of what the other securities

commissions are doing. That will increase our ability to effectively share information and expertise, and apply consistent standards across the country.

Regulators, law-enforcement agencies, and provincial attorneys-general also have to hold a common line against economic crime. And we have to get the word throughout our organizations – all the way down the line: Our priority has to be to get all of the players working together on the same page. Fraud crosses provincial and international boundaries – enforcement can't be stuck at any borders.

Just three months ago, the federal and provincial Justice Ministers agreed to establish a working group – involving police, securities regulators, and Crown prosecutors – to review ways to improve enforcement in Canada. Regulators, prosecutors and police at the federal, provincial and local levels across the country have agreed to talk to each other and work together in the Working Group. More than that, we have to trust each other. We have to set aside our turf instincts.

I'm privileged to be a co-Chair of the Justice Ministers Working Group. We've just started our review. I look forward to working with the other representatives and delivering recommendations to the Ministers for specific actions by year end. It's encouraging to see a greater emphasis at the federal and provincial levels on the entire enforcement apparatus in Canada. It's one of my priorities as OSC Chair to contribute to the success of this initiative.

In addition to cooperating, we have to provide the tools necessary to enforce our securities laws in the 21st century.

Securities scams aren't new. But the way they operate is. Scam artists are using the Internet, they're using derivatives, they're global, and they move around more quickly. We have to continue to improve our own coordination and level of sophistication. The OSC is considering setting up a scam unit to fight boiler rooms, turning the advantages of modern technology against the fraudsters.

Such a scam unit would deploy staff with market, regulatory and law-enforcement expertise to collaborate with law-enforcement agencies, such as the RCMP. A major challenge is to act quickly. We have to guard against the risk of a boiler room suddenly evaporating and starting up again in a different location.

It's important to keep in mind that economic crimes are unique. While economic crime is certainly not a crime without victims, it's usually a crime without eyewitnesses. It's a matter of chasing a paper trail – often a long and complex one.

Investor Protection

The compliance and enforcement initiatives that I've just spoken about will lead to reduced risks for investors in a number of different ways. Which leads me to the second

major topic I want to talk about today – some specific retail investor protection initiatives.

Three major trends are magnifying the importance of providing protection to retail investors.

First, baby boomers are starting to retire. The oldest Baby Boomers are just entering their 60s.

Second, we're seeing a massive transfer of wealth through inheritances from the war generation to the Baby Boomers.

Third, defined-benefit pension plans are giving way to defined-contribution plans. Consider this trend from 1992 to 2003. The proportion of Canadian workers covered by defined benefit plans decreased from 44 percent to 34 percent. That averages out to a decline of almost one percentage point a year. Today, more Canadians than ever are responsible for investing for their retirement security.

One of the OSC's organizational priorities is to improve our understanding and address the needs of investors. This past year, we established the Investor Advisory Committee to consult on issues affecting consumers and ensure their views are well-represented.

We've also been working closely with the IDA, the MFDA and the Ombudsman for Banking Services and Investments. Together, our four organizations are working on a number of significant issues for investors.

We're improving the complaints-handling process. We're providing investors who contact any of our organizations with better information and a more seamless transfer to the appropriate agency where they can get help.

We're enhancing communications with retail investors and making it a priority to ensure that Commission documents are provided in plain language. And we will hold the second Investor Town Hall in October, providing an opportunity for investors to speak directly to our four organizations.

We're making access to information easier for investors. This includes print and online communications that consistently reflect the range of options available to investors.

We're also providing clarity on existing redress mechanisms. Together with the IDA, MFDA and OBSI, we're developing a more consistent and harmonized approach – a better road map for investors.

Conclusion

Ladies and gentlemen, obviously we cannot completely eliminate risk from our capital markets. What we can do – and must do – is give investors solid reason to be confident in the integrity of our markets.

Our shared objective is to instill in them the confidence that the capital markets are fair, efficient and internationally competitive.

That kind of confidence depends on a robust compliance and enforcement regime, and a commitment to look out for the interests of investors. And it depends on active participation from The Street.

We all share a huge interest in fostering respected capital markets that inspire public confidence and contribute to a robust economy. We all have a critical role to play.

Thank you.