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I'm glad the International Council of Securities Associations chose to hold its annual meeting in Toronto. This is one of the most culturally diverse cities in the world. It's also an increasingly important centre of the global capital markets.

Toronto is a good symbol of the importance of the work you're doing here this week: Helping to shape a universal perspective among people who come from many countries – but all of whom share common goals and challenges.

It's increasingly important that regulators, SROs, and the securities industry view the challenges we're dealing with through a global lens.

Looking at the global economy as a whole, *New York Times* columnist Thomas Friedman said:

“(T)he world is being flattened. I didn't start it – and you can't stop it – except at great cost to human development and your own future. But we can manage it, for better or for worse.”

Regulators are seeing the world – and the capital markets – flatten before our very eyes. We certainly can't stop the process – nor should we try. But we can – and we must – manage it for the better.

Barriers to financial flows are disappearing – leaving more open terrain in which publicly traded companies compete around the world for cost-effective sources of capital.

This intensified global competition has contributed to the emergence of new market structures, new trading systems and new investment products.

Trading technology, for example, is getting faster, better and cheaper every day.

The development of algorithmic and program trading has triggered far more demanding performance requirements. A transaction now needs to be processed within milliseconds. Today, transaction volumes of 5,000 to 10,000 per second are common practice. Some of the new trading systems can handle up to 100,000 transactions per second.

Trading technology is but one indicator of the pace of change in securities markets – change that's eliminating the barriers of time and space.

The flattening of the capital markets is having a profound impact on both regulation and self-regulation. The process is driving everything that we do. So I'd like to talk to you this morning about three areas where the impact of globalization can be clearly seen:

1. The advantages of self-regulation in coping with the rapid pace of change in the global markets;
2. The growing importance of compliance in protecting both investors and market integrity; and
3. The emerging issue of free trade in securities in a world in which investors want access to the widest possible range of investment choices.

Regulation in Canada

First, a few words about how we try to utilize the value of SROs here in Canada.

SROs fulfill an especially important function in Thomas Friedman's "flat world." They can help statutory regulators keep pace with the speed and complexity of innovation in the capital markets.

Regulators need SROs and all of the strengths they bring – including a well-informed view of the issues.

By working with all of our stakeholders, we statutory regulators can achieve a reasonably clear view of the key issues that we must deal with.

But SROs are closer to the ground. You can provide a street-level view – including a sense of emerging issues, often driven by new technologies that are just getting off the ground.

Canada has a long history of self-regulation of its securities industry. The Investment Dealers Association, the IDA, was founded in Montreal in 1916 as the Bond Market Association. Over the years, self-regulation has played an important role in fostering investor confidence and market integrity in our country.

In Canada, member regulation is conducted by the IDA and the Mutual Fund Dealers Association. Market regulation is conducted by Market Regulation Services Inc., or RS – a relatively new SRO, which is jointly owned by the IDA and the Toronto Stock Exchange.

The effectiveness of self-regulation in Canada has been examined a number of times: The conclusion has always been the same – it works. It's an efficient and effective model of regulation for our capital market participants.

The concept of self-regulation reflects the fact that government regulation has its limits. As then-SEC Chairman William O. Douglas said way back in 1938:

“By and large, government can operate satisfactorily only by proscription. That leaves untouched large areas of conduct and activity; some of it susceptible of government regulation but in fact too minute for satisfactory control; some of it lying beyond the periphery of the law in the realm of ethics and morality. Into these large areas, self-government – and self-government alone – can effectively reach.”

Almost 70 years later, it’s easy to see some of the advantages that Chairman Douglas anticipated. The SRO model meets some of the most important criteria in a time of rapid change – responsiveness, flexibility, innovation, and knowledge of how the market is evolving.

That’s especially true in light of the global market changes we’re seeing. When products, technologies and systems are changing, it simply makes sense to draw on the expertise of experienced professionals. SROs provide a regulatory vehicle for applying an industry’s expertise to policy areas that are highly complex and rapidly evolving.

Often, SROs are in a position to solve problems before they become crises.

Moreover, the investing public benefits when an industry is on-side with the regulatory regime that governs it. Ensuring broad compliance depends on building an acceptance that regulations are fair, balanced and rooted in market reality.

An SRO brings all of these strengths to the regulatory table.

It also brings another strength: Motivation.

People who earn their living in the securities industry have a vested interest in maintaining the reputation and integrity of their industry. One of the most important assets the securities industry has is investor confidence. So there's a clear incentive to protect and preserve it.

I certainly don't need to tell you about the inherent conflicts in self-regulation. Statutory regulators must continually work with the industry to ensure that the advantages of self-regulation outweigh the risks. SROs must be fair and impartial – and be seen to be fair and impartial.

Compliance

As I said, respect for market integrity is crucial to competing effectively for risk capital on a global playing field. That leads to the second area I want to touch on: compliance.

In a flat, fast-changing market, it's not enough to rely on enforcement to catch violations after the fact. It's crucial that we pursue rigorous compliance with the rules.

Compliance oversight makes sure that regulators – both statutory and SROs – and industry are singing from the same song sheet. Compliance activity creates an intense interface between the regulator and the regulated. That interface encourages companies to regulate themselves – to move the bar up through effective compliance departments.

Let's face it: People behave differently when they know that someone is checking on their conduct. Most drivers watch their speed if they think a radar trap might be nearby.

That's why we're seeing a greater emphasis on compliance oversight by regulators.

About a month ago, John Tiner, CEO of the U.K.'s Financial Services Authority (FSA), told us that the FSA spends about 10 percent of its

annual budget on enforcement activities. This is about half the proportion that the OSC spends on enforcement.

The FSA invests a much larger share of its resources on the intensive compliance oversight of regulated entities – both issuers and intermediaries.

This is a significant shift in emphasis for a securities regulator.

John Tiner didn't even call it compliance oversight. He referred to it as “consultations with the regulated parties” – such classic British understatement.

Well, I used to work for an FSA-regulated entity. Let me tell you – they were the most pointed and persistent “consultations” you'll ever see.

So the compliance bar is high. And it should be.

Today, it's important that regulators encourage the companies that we regulate to take on more of the responsibility for ensuring regulations are followed.

At the same time, it's the job of statutory regulators and SROs to provide market participants with a degree of clarity about how to achieve compliance with our respective rules.

As I mentioned, effective compliance is an essential part of making sure that our markets can continue to attract competitively-priced risk capital.

It's especially important in a global market that's undergoing major technological and structural changes.

Global Issues: Free Trade in Securities

That brings me to the third point I want to address: How regulators respond to an emerging global capital market that's being shaped by new market structures, new trading systems and new investment products.

Increased access to information and technology – along with growing wealth and sophistication among investors – has helped drive a demand for globally traded securities. Institutional and retail investors are not content to restrict their portfolios to stocks available within their own national borders.

One of the clearest impacts of this change is the emerging global issue of free trade in securities – more specifically the growing interest in mutual recognition of exchanges and brokers across national borders.

There's no question that the notion of free trade in securities would represent a major change in the way regulators would have to work with each other and rely on each other. It would also open the door to major benefits for investors.

Investors need and want better, more cost-efficient access to international companies. They need diversification opportunities – and they want the lower intermediation costs that wider competition would encourage.

Canada recognizes it needs to open up the world for Canadian investors and companies.

Put simply, free trade in securities would make it easier for Canadians to buy foreign securities – and for foreign investors to invest in Canada. It would reduce costs, and eliminate a layer of regulatory duplication that now impedes the free trade in securities.

It would create opportunities for Canadian investors, issuers and intermediaries.

Here's one tangible example. In September 2006, the OSC granted an exemption to the London-based exchange ICE Futures to operate in this province, based on our recognition of the oversight of ICE Futures provided by the FSA, ICE Futures' home regulator.

The mutual recognition regime currently being discussed by regulators and governments would involve the mutual recognition of exchange oversight and the mutual recognition of the oversight of brokers. Investors would be protected by the oversight on the recognized regulator in the home jurisdiction.

For example, the mutual recognition of brokers would allow investors to buy securities offered by a foreign broker. But the regulator of the foreign broker must be recognized as providing a similar level of investor protection and enforcement as is provided by the home jurisdiction regulator.

There's significant international momentum for moving to such a system of mutual recognition. In Canada, the federal government released a paper as part of its last budget, pointing out it was pursuing free trade in securities with the United States and other G7 countries.

At their meeting in Germany last February, G7 finance ministers committed to liberalize cross-border capital markets by exploring mutual recognition of regulatory regimes. G7 supporters included U.S. Secretary of the Treasury Henry Paulson.

Indeed, the U.S. has taken the leadership role in the area of mutual recognition. SEC commissioners and senior staff have also spoken of the need to consider the issue of mutual recognition – or as they put it “substituted compliance.”

SEC Commissioner Roel Campos is speaking next, and I look forward to what he has to say on this issue.

What the growing support for free trade based on mutual recognition comes down to is the fact that those seeking capital and those providing it are best served by maintaining the fewest possible barriers between them. At the same time, of course, investor protection and the integrity of the capital markets must remain paramount.

The OSC looks forward to seeing the progress of discussions among governments on this issue.

Ladies and gentlemen, regulators and SROs share a number of common goals. One of the most important – and most challenging – is keeping up with a world in which the only predictable thing is rapid change.

To do that, statutory regulators must work effectively with their SRO partners:

- We collectively have to be nimble and innovative;
- We must provide effective compliance programs that foster investor protection and market integrity; and
- We must recognize that in the capital markets, borders just don't mean what they used to.

Increasingly, it's technology that's defining the limits to the opportunities for both the users and providers of capital. And those limits are disappearing.

Regulators and SROs must address the challenges that stem from a globalized capital market. Free trade in securities and mutual recognition stand high on that agenda.

By pooling our collective strengths and focusing on our common goals, I believe that securities commissions and SROs can successfully meet these challenges.

Thank you.

