June 19, 2006

Address by the Honourable Jim Flaherty, Minister of Finance, to the Halifax Chamber of Commerce

Halifax, Nova Scotia

Check against delivery

Good morning.

It's an honour to be here to discuss an issue of growing national importance.

An issue that touches many, yet few know enough about it.

An issue that is critical to our future prosperity, yet garners little interest beyond the business pages.

An issue that seems mundane and complex, yet cultivates opportunity, innovation and investment.

The issue is whether it is in the best interests of the Canadian economy to create a common securities regulator for Canada.

To many in this room, the connection is obvious.

It pertains to investment, economic growth, investor protection and effective, timely prosecution of white-collar crime.

It's a matter that resonates loudly on Bay Street, but is barely a whisper along Main Street.

Although it should be of concern to all Canadians with market investments whether directly, or through pension plans and/or RSPs.

Canadian Investors

The majority of Canadians refrain from talking about a common securities regulator, not because they don't care, because it's not seen as relevant.

Well, I'm here to tell you that it *is* relevant. In the rapidly changing world of global finances, how we attract investment and protect investors is as basic to a strong economy as interest rates and inflation.

For the young worker just starting out, the parent saving for a child's education, or the senior living on a fixed income, this is something that requires our collective attention.

In fact, your personal prosperity, the prosperity of your businesses and the prosperity of Canada as a whole depend on strong and efficient financial markets.

Markets matter, because Canada has become an investing nation.

- 55 per cent of all Canadian households own RRSPs.

- About half of all Canadians own equities, such as common shares or income trust units.

- 40 per cent of all Canadians own mutual funds.

- And, as of January 2004, there were 14,800 active registered retirement plans in Canada covering 5.6 million Canadians.

These nest eggs represent the financial future for Canadians from all walks of life.

People make regular contributions and they trust that this money is not only going to grow, but that it will be protected and secure.

They trust that proper safeguards are in place and the system is being properly policed.

Yet their faith in the system is sometimes shaken by incidents like the Enron scandal in the United States. In this case, innocent people were victimized by some looking to make a quick buck.

It doesn't happen often, but regrettably it does happen. And when it does, the consequences to investors big and small are profound.

We can and we must do better to protect those hard-working Canadians who, in good faith, set aside a few dollars every pay in order to retire comfortably.

Efficient Capital Markets

Whether our individual goal is retirement security, furthering our children's education or simply trying to get ahead, we must recognize that collectively as a country this is an issue worth pursuing.

If we as Canadians are to increase our standard of living, we must reduce or eliminate impediments to the competitiveness and efficiency of Canada's economic union.

An important foundation for a strong economy is a regulatory regime for the securities market that ensures market integrity and investor protection.

Efficient capital markets promote domestic and foreign investment in the economy. They stimulate productivity, growth and jobs.

I'm sure all of you here firmly believe that markets matter.

Markets matter in a city like Halifax with the best-educated workforce in all of Canada and the most competitive mid-size city in North America, according to KPMG.

Markets matter when you consider a 68 per cent increase in aerospace exports from 2001 to 2004, and the tremendous potential of the Life Sciences Research Institute at Dalhousie University.

Markets certainly matter to local companies like DHX Media, one of Canada's leading independent TV and film production companies, whose shares began trading on the TSX and London's Alternative Investment Market on May 19.

Regardless of where we live, competitive and efficient Canadian capital markets are necessary to give all Canadian businesses access to capital, domestic and foreign, that Canadian businesses need in order to grow.

Furthermore, the best capital—"smart capital"—brings with it the best management expertise and guidance for companies seeking to expand their business.

It allows companies based in Nova Scotia, for example, to gain from previously earned knowledge in other markets before they set up shop themselves.

For the vast majority of Canadians who invest in securities, either directly or indirectly through their RRSPs or pension plans, dynamic markets mean more choices to place their savings and better manage their risks as they build their financial security.

Canada and the Global Marketplace

Over the past several weeks I have had the opportunity to travel to St. Petersburg, Russia, London, Dublin and New York to discuss international trends affecting Canada's position in the global marketplace.

I met with the finance ministers of the world's leading economies and with other senior decision-makers such as the CEO of the New York Stock Exchange.

During all of these visits it has become clear to me how very competitive the global financial marketplace has become.

Technology is generating ever-increasing market activity, allowing international investors in search of the best returns to find them not in minutes or seconds, but in fractions of a second.

The range of financial products on the market is rapidly expanding, and the products themselves are becoming more and more complex.

Meanwhile, emerging markets are becoming even more competitive in the quickening race to attract capital.

The bottom line in this vastly expanding global economy is that businesses and investors have choices.

They can choose one of a dozen markets to invest; markets with no impediments; markets where transactions are conducted more efficiently; markets where the standards of protection are common and policy-making is more responsive.

Canada has a great story to tell, one of economic success, visionary entrepreneurs, growing competitiveness and unbounded potential. And the world sees that potential.

Yet we have a capital markets system that is holding us back. By maintaining a system of 13 regulators, Canada is out of step with the western world.

We are the only industrialized country without a common regulator.

For many, our system is seen as cumbersome, slow and repetitive, making it unnecessarily difficult to conduct business.

With only 3 per cent of the world market, we cannot afford to put up unnecessary roadblocks to investment.

While we as Canadians struggle with this issue, our competitors are passing us by.

It raises some serious questions:

What price have we paid in lost opportunity?

How many potential investors have seriously considered all of the great advantages we have to offer in Canada, our educated labour force, our social benefits, our strong economy, and yet opted for a country with a more efficient market system?

Unfortunately, we will never truly know the answer, but we are taking steps to make Canada more attractive.

On May 2nd Canada's new government introduced a budget with tax cuts that benefit all Canadians and Canadian businesses.

While our budget takes the first steps needed to create a more competitive tax system, we clearly have some unfinished business ahead of us: the need to improve how our capital markets work.

Why Canada's System Must Improve

Quite simply, the current system is inadequate. The call for action is getting louder and the arguments for change more compelling.

Less than two weeks ago, in fact, a panel of well-respected Canadians examining Canada's securities regulation system, headed by Purdy Crawford, concluded that our fragmented system erodes confidence.

The panel expressed a profound concern about ineffective enforcement of securities regulation, describing the current system as "a domestic and international embarrassment for Canada."

Just this month, the Senate Committee on Banking, Trade and Commerce also found serious problems with a securities regulation system that has changed little in 40 years.

The committee said our system is "inconsistent with our productivity goals" and is counter to "our goal of seeking to be a leader among the G-8 nations."

A recent article by Edward Waitzer, former Chairman of the Ontario Securities Commission, described our current system as disjointed and lacking capacity and said, "It is stalled by a unique set of systemic weaknesses—a highly fragmented system with overall lack of accountability and co-ordination."

The C.D. Howe Institute, in its review of the productivity of Canada's financial services, called Canada's balkanized securities regulation all but unique in the developed world. It was no compliment—it also found it uniquely expensive to comply with.

High Costs and Lost Opportunity

The costs to Canadians are not merely theoretical.

A study on this subject by Charles River Associates for the Wise Persons' Committee estimated that, with a single securities regulator with regional offices, the costs of operating Canada's regulatory system would have fallen by about one-third or roughly $45 million a year.

TSX and TSX Venture Exchange issuers would have saved $14 million in compliance costs.

Clearly an unnecessary waste of millions of dollars.

When compliance costs go up, the ability of small and medium-sized enterprises—including many in Atlantic Canada—to access markets goes down.

Regulations in multiple jurisdictions can needlessly delay financings and slow down businesses trying to grow.

Companies faced with these obstacles may simply throw up their hands and find financing privately—or flee to markets outside of Canada.

These lost opportunities for Canadian businesses also mean lost opportunities for Canadian investors and differential access to investment products from one region to another.

That is not only costly. It is also unfair.

Enforcement

The current system carries an additional cost: our eroding credibility on the enforcement side.

This is based on a perception that the Canadian system is soft on corporate crime, especially following successful prosecutions in the U.S. As Finance Minister for Canada, it concerns me that some Canadian investors consider it necessary to rely on the U.S. to hold companies to account for their actions.

This is an area where we can and must improve.

We need to ensure investments are adequately protected and the consequences of criminal activity are swift and severe.

Although corporate crime is not as high profile as gun violence, corporate crime is serious crime with serious consequences for victims. Stealing the value of investments of a retired senior is a serious crime with a vulnerable victim.

Canada is also taking a global leadership role in the fight against crime.

In July Canada will be assuming the Presidency of the Financial Action Task Force for the first time. It is an international body that develops and promotes policies to combat money laundering and terrorist financing.

Over the course of the next year we will be responsible for supervising the ongoing operations of the Task Force and chairing the group's three plenary sessions.

We are stepping up our efforts on the crime front, but there are other considerations domestically as well.

Regional Implications, and Recent Reforms

Without a common securities regulator many provinces are at a disadvantage.

Under the current system, all provinces, including Nova Scotia, effectively allow control of the national market by the Ontario Securities Commission, which regulates 83 per cent of Canada's total listed market capitalization.

I don't believe this is right, for Nova Scotia, for Atlantic Canada or for any region in this country.

I'm not alone in believing this, either—a growing body of informed opinion recognizes that the current, fragmented system is neither desirable nor sustainable.

That's why, in September 2004, all provinces and territories, with the exception of Ontario, agreed to a process to create a "passport-style" system to regulate securities.

Through their actions, the provinces and territories have demonstrated a clear commitment to improving our securities regulatory system.

Their recent initiatives to narrow regulatory differences and harmonize and streamline securities laws are important to achieving a more efficient and effective securities regulatory system.

While I am encouraged by the level of co-operation, however, I do not believe the passport system, by itself, will be able to fully address the problems highlighted earlier.

Canada would still have 13 securities regulators, with 13 sets of laws and 13 sets of fees.

Investors across Canada would still receive varying degrees of protection.

If we are going to keep pace with a rapidly evolving global marketplace, I believe we need to go further, and faster.

What is required is for all governments to work together to strengthen Canada's economic union and agree on a system that is streamlined, effective and fully equipped to meet the needs of a 21st century economy.

To succeed in the world economy, we must put the right system in place that provides world-class investor protection and enforcement.

A system that instills confidence and assures high standards of integrity.

A system that gives our businesses, large and small, optimal access to the capital needed to prosper.

The Answer—A Common Securities Regulator

What Canada needs is a common securities regulator.

Such a regulator can:

- create more investment and jobs;
- protect investors;
- save money; and
- give all regions a real say.

I believe, along with the Purdy Crawford Panel and the vast majority of Canadian businesses and financial experts, that Canadians would be best served by a common securities regulator responsible for a single set of rules.

A common regulator—not necessarily a federal one—with the capacity to act promptly in the best interests of all Canadians.

Such a solution would make the regulation of our markets more responsive and accountable.

How? By creating a decision-making body that would co-ordinate the views of all jurisdictions promptly and fairly.

It would improve market efficiency and ensure the best use of money and resources.

How? By making the system more efficient to operate, lowering costs and making it more affordable for all who benefit from it, both those with capital to invest and those with businesses to build.

It would improve enforcement and better protect investors.

How? With a common set of sanctions and remedies and better enforcement across the country.

By serving as a single contact for law enforcement agencies, both at home and abroad, to share information and detect market fraud.

By being able to set clear enforcement priorities across the country, while making sure investigation and enforcement resources are deployed efficiently.

It would improve Canada's reputation in the eyes of world markets and lead to more foreign investment in the process.

How? By allowing Canada to speak with one voice instead of 13, while protecting and promoting the interests of Canadian market participants abroad.

By clearly representing Canada while seeking market opportunities beyond our borders.

By being better able to work with the United States and other economic partners.

Finally, a common regulator would better serve our common interest.

How? By having a structure that would allow all regions of the country to participate in market regulation in a more meaningful and constructive way.

By having a structure that would ensure broad participation by provinces, with a strong presence in all regions and local expertise that would respond to regional needs.

And by allowing Canada to put in place a single code, with the right balance of rules and principles, that will establish a competitive advantage for Canada in global markets.

Our history has shown this can be done. The Canada and Quebec Pension Plans, now considered sustainable for at least the next 70 years, provide a perfect example of a co-operative approach that can benefit Canadians while making Canada a world leader.

Conclusion

Let me conclude by saying the time has come to work together for a common securities regulator.

Canadians are wading into the market like never before, investing for their future, their children's future, their family's future.

As the Canadian economy continues to strengthen, companies are looking for an attractive place to establish themselves and create job opportunities for our friends and neighbours.

Attracting foreign investment is important to ensure our standard of living continues to rise and quality services are available to everyone.

By improving the efficiency and integrity of our capital markets and establishing a common securities regulator, we will be better positioned to compete in the global marketplace.

It's part and parcel of strengthening Canada's economic union, one of the core principles in our Government's approach to address Canada's fiscal balance.

To help us along we can draw inspiration from the Crawford Panel.

This report recommends a common securities regulator for Canada and a governance model that ensures more effective participation by all jurisdictions.

I believe it's a sound proposal that can contribute to reform of securities regulation in Canada.

That's why I have invited my provincial and territorial counterparts to discuss this proposal and other capital market issues next week.

I hope these discussions will turn out to be a good first step toward a long-term solution.

With the political will and spirit of co-operation, we can achieve something that will be lasting and worthwhile for all Canadians from the Atlantic to the Pacific to the Arctic, now and for generations to come.

Thank you.