

**Self-Regulation Works Best By
Putting the Public Interest First**

**Terrance K. Salman
Chairman**

Monday, June 23, 2003

**Investment Dealers Association of Canada
Annual Meeting & Conference
St. Andrew's by-the-Sea, New Brunswick**

Ladies and gentlemen...good morning.

It is my pleasure to be hosting the 87th Annual Conference of the IDA. As the soon to be 'past Chairman' of this Association, this will be my last opportunity to address you in this capacity. This institution has served this nation and its capital markets well and I am proud to have been a part of it. The men and women, with whom I have worked with at the IDA, are among the most dedicated individuals, and I will miss them.

Later today, at our Annual General Meeting, I will be speaking of our accomplishments on behalf of the public, our industry and the capital markets. However, I want to take this opportunity to address an issue at the heart of the IDA and the continuing health of our securities markets. And that is self-regulation in Canada.

Many different groups have debated the role of self-regulatory organizations, including the role of the IDA. The argument being made is that because self-regulating organizations have an inherent conflict of interest...they can not be trusted to act in the best interest of the public they are mandated to serve.

For the record, let me say that yes, all self-regulating organizations have a built-in conflict of interest. We are after all, an Association created by investment dealers. We are an Association where to operate as an investment dealer in this country you must be a Member. Our two primary responsibilities are to regulate Member firms and to act in an advocacy role as it relates to the capital markets. This is our full mandate ...and this is the part that our critics often miss. It is because of our self-regulatory role that the IDA must operate to place the interests of the public first.

Consider for a moment the consequences if we did not. How long do you think it would take for the public, government regulators and the media to react if we were only to act in the interest of our membership? A nanosecond might be too long.

The former Chairman of the FTC, Robert Pitofsky once wrote, "From a public policy perspective, self-regulation offers several advantages over government regulation or legislation. It often is more prompt, flexible, and effective than government regulation. Self-regulation can bring the accumulated judgment and experience of an industry to bear on issues that are sometimes difficult for the government to define with bright line rules."

As a representative body of the securities industry we know the markets intimately. We are aware of its challenges, its strengths and its weaknesses. We also have a deep understanding of the unique regional and national issues faced by our Members and the provincial regulators. As an SRO we oversee the business conduct of 200 investment dealers and over 23,000 licensed brokers, representing 97% of the securities industry in Canada. This gives us a national perspective based on roots that are deep and regional.

The IDA also represents the opinions and issues that concern our Members to many third parties. Over 90% of our time and effort is spent working with provincial and federal governments, securities commissions and other SROs on issues like fair dealing, securities disclosure, conflict resolution and regulatory reform. In fact, it is these very organizations that we deal with, that constantly sit in judgment of the validity of our positions. If we were only to advocate positions that benefited securities' dealers – at the expense of the public – these groups would expose our narrow and destructive self-interest in a heartbeat.

The IDA uses its knowledge of the capital markets to comment constructively on a range of issues that have a broad impact on the economy. When we meet with the Minister of Finance or his provincial counterparts, we are there to discuss a number of issues affecting the capital markets and concerning fiscal policy. When we meet with the Bank of Canada, it's to advise the government on the most efficient way for the Government of Canada to access and trade the market.

When we raise cross-border trading, and clearing and settlement issues with American officials, we're working to achieve more effective and efficient market transactions. And, when we recommend changes to tax policy, such as the treatment of RRSPs, we're moving forward with policies that will result in more retirement savings for individuals.

These are issues that do not force us to choose between the interests of our investment dealer Members and the investing public as these policies benefit both equally. We fulfill an advocacy role because we're market and securities experts. It's also a role that government regulators expect us to fill because of our expertise. Equally important, we are asked by many stake holders of the Canadian capital markets for our views both nationally and regionally.

If there is one issue that is paramount, it is the issue of transparency. The public has to be assured that on any issue where there may be a conflict between our Members' interests and the public interest, the public interest will always prevail. This is the reason that we came into existence in the first place. When the IDA was formed in 1916 as a section of the Toronto Board of Trade, they believed that by associating on a formal basis they could improve the savings and investment process and provide protection for the investor.

But, because those who lead are human and not angels, we take precautions. We rely on a series of checks and balances, including public directors on our Board. In fact, public directors sit on all our governance committees, including the executive, audit and regulation oversight committees. What is even more important is that there has not been a single instance in which the public members of our board have been outvoted on

a matter of policy. If that unlikely event were to occur, I can assure you it would be brought to the attention of the regulators.

In addition, our activities are governed and reviewed constantly by provincial securities commissions where we operate. The Alberta, Ontario, B.C. and Quebec securities commissions conduct a complete audit of the IDA every three years. Given the overlapping nature of these audits, the IDA is involved in a continuous audit procedure of our activities, policies and procedures.

Because of our mandate, the IDA operates on two parallel but separate tracks. Internally, we have rigorous checks and balances and firewalls to separate the advocacy work we do on behalf of our Members and our work as regulators. Our commitment to regulation is serious. Over 80% of our annual budget at the IDA is allocated to activities related to Member firm regulation, compliance and enforcement.

It has long been acknowledged that self-regulatory bodies offer a more cost effective alternative to expensive government regulation and arbitration through the courts. For several years the IDA offers the clients of our Member firms a national binding arbitration system that is faster, cheaper and less contentious than the courts. It's an arbitration system that is operated independently of the IDA. Add to this our Ombudservice for investors and Canadians have access to one of the most comprehensive consumer restitution systems in the world.

Last year in Canada, almost 35 million securities transactions were completed by over 23,000 licensed investment brokers. During that period we received 1,100 complaints and commenced 250 investigations. While any transgression is unacceptable, these statistics prove beyond a doubt that the vast majority of investment professionals practice their craft with integrity and put their clients' interests first.

As a Member of the IDA and its out-going Chairman, I can see where some would say of my remarks, "Well, what else would you expect him to say." If I am accused of being a believer in self-regulation then I'm guilty as charged because I don't just believe it works, I have seen it work. And I'm not alone.

The Canadian Securities Administrators recently said, "...the SROs have the skill, expertise and ties to the industry to regulate effectively". The International Organization of Securities Commissions describes SROs as a "valuable component of a modern regulatory system in a complex and ever-changing financial services industry."

The essence of the IDA is our commitment to healthy capital markets that benefit all Canadians. At the current time, over 46% of Canadians own shares in companies, either directly or through mutual funds. When you include indirect holdings through pension funds, virtually every adult Canadian participates in the markets. As a self-regulatory

body our work is about the future of Canada and the quality of life of the millions of Canadians who will inherit that future.

My outgoing message to IDA Members is this...we are the **self** in self-regulation. It is a privilege to serve the capital markets as we do and your mandatory membership in the IDA, like a driver's license, is your license to navigate the capital markets highway that we regulate. It is a role we take very seriously. As the IDA plays a critical role in the future of the securities industry - your industry - your support is important and necessary.

To the regulators, my message is that we need to work together more effectively. We need to articulate common agendas and we need to build together a regulatory system that works for all Canadians. We ask you provide us participation in the process and predictability in the results. With regulatory reform in the spotlight...we have an historic opportunity to create a uniquely viable Canadian regulatory system for the 21st century. I believe we will create a system that is the equal of any in the world.

To the investing public, I would say this...the IDA's future depends upon how effective we are in dealing with your concerns and issues. We acknowledge the fact that we're not perfect. We also know that there's nothing we're doing today that can't be improved upon for tomorrow. To continue to be relevant and viable we must and will respond to comment and criticism as we evolve in response to a continually changing environment. Like the markets...the IDA is a work in progress...and it's a work that can only be truly fulfilled by your involvement.

During my term as Chair, I experienced first hand the value that the IDA brings to the Canadian capital markets. The IDA is a collective effort of the Board, senior management and staff. I want to make special mention of the efforts of our President Joe Oliver. As one of the most experienced regulators in this country - with long experience on both the industry and regulatory side of the business - the IDA and the country are lucky to have him.

While my term as an executive is at an end, my work as an advocate for the continually improving standards of business excellence for the investment industry is not. It is a job in which we all have a role to play. The health of our capital markets depends on it.

Thank you.