



INVESTMENT COUNSEL ASSOCIATION OF CANADA

Association des conseillers en gestion de portefeuille du Canada

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May 23, 2006

The Honourable Dwight Duncan
Minister of Finance
Province of Ontario
Frost Bldg. South, 7th Floor
7 Queen's Park Cres.
Toronto, ON M7A 1Y7

Subject: **A Blueprint for A New Model**

Dear Hon. Duncan:

Let me first introduce our organization. The Investment Counsel Association of Canada ("ICAC") has represented Canada's investment counsel and portfolio management industry for more than half a century (since 1952). Collectively, the association's eighty-eight Member firms manage over \$550 billion in assets for individual and institutional investors. Member firms range in size from under \$25 million to more than \$60 billion. We are an integral part of Canada's capital market system and therefore very interested in the single regulator issue.

The ICAC is pleased that your panel affords us the opportunity to present our views concerning the Discussion Paper on a Single Canadian Securities Regulator. The ICAC has been an active participant in the discussions relating to the establishment of a National Securities Regulator. In October 2002, we issued a position paper entitled "The Path to Achieving a National Regulatory System for Canada". A copy of that paper is attached as Appendix A. In this paper we discussed in detail the impact of the present regulatory system on the businesses of our Member firms.

In this letter, we will initially comment on the Panel's Blueprint for a New Model and reiterate the major issues we face in dealing with multiple regulatory environment and comment on the implications for the investment management industry of the structure of the Crawford proposal.



The ICAC is not self-regulatory organization and its Members do not participate in any self-regulatory organizations. We depend on the Provincial Securities Commissions to provide our registration and regulatory supervision and compliance monitoring. Without a national self-regulatory structure, the investment management industry suffers the full brunt of the regulatory maze that is the Canadian system.

It is important to note that a “Passport System” with or without Ontario’s participation provides little benefit or reduction in regulatory burden as we will continue to have to deal with conflicting regulations on products, exemptions, services and registration requirement across all 13 jurisdictions. The ICAC has been supportive of past efforts to develop a National Securities regulator, but we are particularly encouraged by the recent proposal by the Crawford Panel.

The ICAC is supportive of the Panel’s conceptual model for a National Regulator, particularly as it tries to deal with the concerns about the dominance of any one province or region within a National Regulator. The ICAC is concerned that the multi-level oversight structure with a Council of Ministers, a Nominating Committee, a Board of Directors and Senior Management Team does create a complex and somewhat unwieldy process to make decisions. Members of the ICAC have expressed concern that some Provincial regulators have demonstrated more responsiveness to the changing capital markets and this is a concern with the Multi-level approval structure. We strongly support the shifting of the decision process to the professional Senior Management Team of the National Regulator.

While we are sensitive to the fact that the largest group of regulated public companies, dealers and investment professionals are located in the Ontario jurisdiction, the ICAC supports a recommendation to establish a significant number of the regulatory activities in other jurisdictions, even the head office of the new Regulator. While this may prove to be of some inconvenience to our Ontario-based registrants, this limitation would be greatly offset by the benefits of a National Regulatory platform both to their individual businesses as well as the overall Canadian Financial service industry.

Background Issues for ICAC Firms in dealing with Multiple Regulators

1. Cost

In a study by the UK Financial Services Authority, the regulatory costs in several national jurisdictions were compared. While the study examined regulatory costs for securities, banking and insurance collectively, clearly Canada is now seen to be very expensive compared to the other jurisdictions surveyed. And it is simple to attribute the level of cost to securities regulation by comparing the respective sizes of the three regulated segments examined. To Members of this association, costs are abnormally high, especially given deficiencies inherent in the system, such as the generally low level of responsiveness provided by regulators.



An important point to note is that a significant component of the cost for ICAC members relates to the cost of internal compliance staff and legal and accounting counsel necessary to monitor and respond to up to thirteen securities regulators. These costs are not included in the analysis of the regulatory cost structure and must ultimately be borne by the retail and institutional clients of our members.

2. Capital Market Impact

The ICAC is very concerned about the fact that regulatory cost and complexity are serious deterrents to foreign issuers and market participants. This results in Canada playing a smaller and smaller role in global financial services. The recent change to investment limitations for Canadian pension funds and individual registered retirement accounts will further expose the high cost and reduced competitiveness of the Canadian capital markets. The current regulatory structure can also inhibit our investment managers from successfully competing in the global market, as international pension funds and institutions find it difficult to complete their due diligence on Canadian firms because of the confusing multiple jurisdictions. This clearly translates into reduced growth employment opportunities for the Canadian investment industry.

3. Regulatory Philosophy

Monitoring evolving regulation is a daunting task because of the volume of policies and the activity produced by many regulators. A major component of our association's activities has evolved into a major effort to try to cope with constant changes and inconsistent rules and exemptions. The present framework clearly results in protracted processes to introduce and to modify regulations, national policy statements and national instruments. The ICAC strongly prefers a simpler system based upon principles, which unlike rules, cannot be honoured in the breach. If all jurisdictions followed exactly the same simple rules and interpreted those rules in exactly the same way, regulation in Canada would not be attacked as it is at present.

Summary

In simple terms, we strongly encourage each of the provincial political and regulatory bodies to use "A Blueprint for a New Model" to evaluate the potential opportunity of this new approach. This represents the most innovative concept in addressing challenges of bringing provincial regulations under a single regulatory framework. We realize that this is a large task that may take time to evolve but the successful creation of a national regulator would be of significant benefit to our clients, the industry and the economic well being of the provinces and country.

The Member firms of the ICAC sincerely trust that this comment letter, together with our position paper and the other material we have provided, will be of assistance to your Panel in its deliberations. As an Association, we are available to participate in committee work or other activities that could facilitate the creation of a National Regulator.



We trust your paper will have the intended outcome of stimulating discussion with governments and capital market participants with respect to a securities regulatory framework that features a common securities regulator, a common body of securities law and a single fee structure.

Yours very truly,
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cc: Mr. Purdy Crawford, Chair
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Mr. David Wilson, Chair
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