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Thank you, Gordon.

It is a pleasure to be here.

The Canadian Club is this country's premiere forum for identifying issues of national concern and suggesting solutions.

Today, in keeping with that tradition, I have some proposals to make for addressing a national problem of growing importance.

As many of you know, I have been speaking out since last summer about our fragmented system of national securities regulation.

This culminated in a national symposium 10 days ago jointly sponsored by the Capital Markets Institute at the University of Toronto and the Canadian Foundation for Investor Education, which was established by the TSE and CDNX.

The symposium drew together some of the foremost experts in the world to look at how we regulate our securities industry and how others regulate theirs.

I'll return in a few moments to what we achieved and where it can lead us.

But first, it is useful to consider why it matters, not simply as a concern for companies that want to list on a stock exchange or already have, but as a matter fundamental to every Canadian's future.

Most people, not surprisingly, do not often place securities regulation among the usual suspects when they look for what makes a country strong or weak.

Until the 1970s we were, as we had been for more than a century, a nation of savers and our most important financial infrastructure was our national banking system.

This served us well. Through our savings and our credit, we had been able to create the sinews of the modern trans-continental industrial economy that we've become.

And we had created the connections that allowed us to share in a great country's prosperity, in its hopes, its fears, its crises and its triumphs – as we shared that glorious Sunday three weeks ago when as one country we watched the best hockey game of our lives.

But while we were transforming the country, the country was transforming us.

No longer a nation of savers, we have become a nation of investors.

No longer satisfied with country building, we want to own a piece of what we're building.

And now, directly or indirectly one adult Canadian in two *does* own a piece of it, and the proportion of Canadians who own shares in Canada will almost certainly rise in the years ahead.

But not only have we been transformed, our needs have been transformed.

In the course of a single generation, the local matter of securities regulation has become an essential part of Canada's nation-building infrastructure.

That is because the effectiveness of regulation – especially its effectiveness in instilling confidence among investors – underpins the health of our capital markets.

Our capital markets are now our primary interface with the world and *its* markets, and the key to our future as a strong, competitive country in a global economy.

Our capital markets are to nation building in the 21^{st} century what railroads were to the 19^{th}. And our system of securities regulation is the signal system that keeps everything on the rails.

Let me explain why I say capital markets are the railroads of the 21^{st} century.

A little more than a year ago, Charles Baillie, CEO of TD Financial Group, stood before this audience and challenged Canadians.

He said they should set a national goal to achieve a standard of living equal to or better than the U.S. within the next 15 years.

To do that, we will have to grow 1.6 per cent *faster* each year than the U.S. He said it can be done. I'd like to believe he's right. We are in fact now growing faster than the U.S., though not 1.6 per cent faster.

The key to our success, however, is not our economic growth but our productivity. We have to be more productive on a consistent basis than the U.S.

To do that, we have to become more innovative than the most innovative country on earth, because innovation is the raw material of rising productivity.

And that is where our capital markets take on their enormous significance in terms of our success in the 21^{st} century.

Capital markets, exchanges, are the crucible of innovation in a modern economy.

It is in our securities markets that innovative ideas meet risk capital. It is there, in the alchemy of the market, that they become the transforming forces that drive higher productivity and rising living standards.

For now, as a practical matter, we're playing catch up with the Americans in terms of venture capital, too.

We're doing better than before, but to close the gap, we need to squeeze every efficiency we can from the operation of our capital markets.

In other words, to reach Charles Baillie's heroic objective it is critical to focus our ingenuity and our capacity for innovation on improving the operation of our capital markets.

That is one of the roles of regulation. We need a more competitive way of regulating our capital markets, in short.

And that returns us to our symposium.

Among the standout participants, Steven Wallman, formerly a commissioner of the SEC in Washington provided a wonderfully vivid analogy making clear the importance of regulation.

He compared it to a system of signal lights.

It's good for everyone to know, he said, that you go on a green light and stop on the red.

But it's not good if one place decides that, say, a *purple* light means go.

And that pretty much sums up the dilemma we face with our Canadian regulatory system.

We have 13 regulatory authorities in this country, one for each province and territory. For regulatory purposes, we are the equivalent of 13 different countries.

At our symposium, we heard just how costly this can be. I'll say more on that in a moment.

And we heard from the regulators themselves about the immense effort they've begun to deal with a system they agree is too costly, too complex and too slow.

Indeed, in the days following the symposium, Canadian securities administrators issued Notice 11-303 announcing a "senior level committee to develop uniform securities legislation for adoption across Canada."

The message here, of course, is that we have only started the process of agreeing – in Mr. Wallman's analogy – that green means go, red means stop and no purple is allowed.

It is certainly welcome news and the regulators are to be commended for grasping this nettle.

On the other hand, it takes a long time for provincial and territorial administrators to agree on even the simplest of regulatory changes.

Alberta's chief regulator, Stephen Sibold, puts the average at 17 months.

New rules on alternative trading systems or ATSs came into effect in December – four years after the first proposals were made.

The regulators have given themselves two years to make all the existing securities legislation in every jurisdiction the same.

Can it be done? We will see. We can hope.

But as a practical matter, it seems unlikely that this process can ever achieve a result that will not maintain the right of any province or territory to opt out – in other words, to assert the right to replace green or red with purple.

Meanwhile, what is the rest of the world doing?

Australia has brought together all of its local stock exchanges to form one national exchange and consolidated its state regulation into a national system with regional commissions to deal with local matters.

Only last month, the European Parliament legislated a single market with a two-level regulatory system placing responsibility for broad regulatory principles at the European level and enforcement at the level of member states.

And last October, although it didn't figure in our symposium, four Nordic stock exchanges from four different countries that were already operating from the same trading system adopted a single rulebook.

The so-called Nordic Alliance has even managed to get its membership agreement down to a single page. Think of that, a single page.

Contrast that with the objective of the provincial reforms now underway. The goal is to get 13 rulebooks to agree.

That would be better than now. But even uniform rules lend themselves to different interpretation and legal rulings in different provinces. And that's where the costs come in.

The more important matter is what is behind the surge of consolidation, rationalization and simplification that's taking place almost everywhere in the world.

In Scandinavia, it's to make themselves more attractive on global markets by allowing companies and investors to list and trade "with the fewest possible obstacles."

It's to compete.

In the so-called Eurozone, it's central to meeting the objective set by the European Commission to make Europe "the most dynamic and competitive economy in the world by 2010."

It's also to compete.

In Australia, as the former head of that country's securities commission, Alan Cameron put it, Australia would have dropped off the map for global investors had they not put exchanges and regulation under one roof.

Australia changed, if I might repeat myself, to compete.

I might note that Australia's major concern was with the size of its market relative to the world. Australia's market capitalization is only 1.3 per cent of the world's.

Ours is 2.07 per cent, not hugely different from Australia's in terms of global markets.

But my basic point is that all three regions perceived that they would be hurt unless they acted.

Divided by national or state borders, they were too fragmented to compete effectively – even Europe with a greater population than the U.S.

All could see their future prosperity in jeopardy.

All felt impelled to come together, to simplify, to co-ordinate, to make themselves attractive to their own and to international listed companies and investors lest they fall by the wayside.

And what does falling by the wayside mean?

It means more limited access to global capital. It means reduced liquidity in domestic markets. It means share prices less likely to reflect the real value of an asset. It means less of the alchemy that turns innovation into higher productivity and rising living standards.

The challenge these countries and regions have addressed is precisely our challenge.

We do have some significant advantages and I wouldn't want to understate them.

By and large we are well regulated in this country. Our provincial regulators are able people who serve their provinces well, with integrity and concern for the future.

The problem lies not with the people but with the system within which they operate. By its very nature, it gives predominance to local regulatory concerns over national market needs – and indeed the local concerns of each over the local concerns of others.

That is evident in the ideas of the regulators now filling the canvas of reform.

In the last six months, for example, the Canadian Securities Administrators, the umbrella group for provincial and territorial regulators, has worked together on the uniform securities law, Alberta's pet project.

But at the same time, the CSA has also agreed to study a system that would be radically different from anything ever tried before in Canada – B.C.'s "new concepts" paper that would replace detailed regulation with a greater emphasis on broad principles.

Both approaches have potential.

But the idea of harmonizing everything we have now and the idea of creating something entirely new at the same time do tend to tug in opposite directions.

But the tugging doesn't stop there.

Quebec has a third approach. On the basis of a study last December, the Martineau report, La Belle Province is looking at a single Quebec regulator for all financial services, not just securities.

Ontario has a fourth. It marries the idea of a single regulator for all financial services to a single national commission to be chosen by the provinces.

Alberta and B.C. see that kind of national commission as something dredged up from the very shadow of Bay Street.

And they don't see a single commission answering to 13 bosses as much better than 13 commissions answering to 13 bosses.

They say they might prefer a *federal* regulator to something run from Toronto – though they do not think much of a federal regulator either.

Quebec doesn't want either one. It prefers its entirely different solution – and "harmonization."

Each approach is understandable in terms of the imperatives of each province. And that is not unique. Australia had to deal with the same regional tensions. Europe still does.

But, as you can see, it does temper optimism. Indeed, at times it seems our most likely prospect is something akin to Stephen Leacock's wonderful image of the man who got on his horse and rode off in all directions.

And if that is the result, what are we to make of our future prospects as we confront consolidating global markets with a regulatory system that's also riding off in all directions?

Who will address the reality that, like the Australians, we in Canada need every bit of *scale* we can garner from our national market if we are not to fall off the map in a world where scale is becoming everything?

In other words, who speaks for our having a competitive *national* regulatory system?

Or, to paraphrase a famous Canadian, who speaks for a competitive Canada?

As able as our regulators are, their concern at the symposium was to argue the value of a continuing local and regional focus.

But I don't question the value of meeting local and regional concerns and accommodating their diversity. We are organizing the TSE and the CDNX to do precisely that.

And I don't think that in addressing our national imperative to compete in global capital markets we need lose our capacity to address the diverse needs of the different provinces.

The trick in modernizing our system is not to choose between one strength or another but to accommodate and to keep our strengths in balance.
That, for the most part, is the advantage of having a federal system – we can have a national government to do national things and provincial governments to do provincial things.

I am afraid, however, that there is often a predisposition in this country for either/or solutions or, to put it in different words, we often settle for win-lose when we could have win-win.

By way of example, one written submission to the symposium declared quite baldly that Canada is a "junior capital market in a global context" and we should accept that and regulate accordingly.

It is an interesting argument. But in the end it is an argument for Canadians competing against Canadians. It is not an argument for Canada competing in global markets.

Indeed, it is an argument for retreating from the competition in which we're already engaged.

And it shows we often underestimate how competitive we can be.

The TSE, for example, is the third largest stock exchange in North America. As of December 31, we're the seventh largest among the 55 members of the World Federation of Exchanges. A year ago we were eighth.

We didn't get that way by playing little brother to the big guys in London or Frankfurt, Paris or Tokyo or even New York.

Every day, we compete fiercely in the market of stocks inter-listed on both the TSE and the New York Stock Exchange and we take some 60 per cent of those trades.

More to the point, the idea that we should act like a junior market is a classic set-up for a self-fulfilling prophecy.

If we act like a junior market, assuredly that's the way we are going to be treated by global investors, global institutions and global companies – including *Canadian* global companies.

In Alan Cameron's phrase, we would very quickly fall off the radar screen of international investors just when Australia, with a smaller market cap than Canada, is becoming a bigger and bigger blip and, in fact, a competitor.

Quebec presented a much different argument about who's competing in last December's Martineau report.

The report saw the idea of a single agency to regulate all financial services as a way for Quebec, and I quote, to "act as a counterweight to the centralized regulatory bodies of other jurisdictions."

The problem with this argument is that Canada needs no provincial counterweight to a centralized regulatory body because we have don't have a centralized regulatory body for securities.

That makes us unique in the industrial world. It makes us unusual among countries of any size.

One of the other countries that does not have a national securities regulator is Afghanistan. They have an alibi.

That doesn't mean we have to have a single regulator.

A number of ideas cropped up at the symposium that do not require a federal securities commission to give us a simpler, more competitive system of securities regulation.

One of them, advanced by a Michigan law professor, Merritt Fox, suggested the possibility of companies that want to list on a stock exchange being able to choose the province where they'll register.

This would involve every province agreeing to accept the paperwork from whatever province the issuer chooses.

No doubt that would be simpler for issuers and fairer for investors. By eliminating 12 or 13 sets of forms and fees, it would be faster and cheaper, too. So it's definitely worth exploring.

However, it might also set off regulatory competition among provinces and territories to attract companies.

And I'm just not sure if letting a company choose between registering in Toronto or registering in Nunavut would set off a race to the top giving us much better regulation, or a race to the bottom giving us much worse.

The importance of the idea, however, does not lie in its detail.

It lies in the fact that there are possibilities for reform other than replacing 13 commissions with a single one run from downtown Ottawa or downtown Toronto as Alberta and B.C. fear.

Indeed, there may be a lot of attractive variations on the idea of a federal securities commission – or even a commission involving all financial services.

For example, the Australian solution to the problem of balancing local and national needs is a national commission with regional commissions around the country.

The European solution, as I said before, is a two-tier system with the European tier regulating at the level of broad principle, while member states deal with the details of administration, compliance and enforcement.

In this country, we have something quite similar in the way we deal with the criminal law. The federal Parliament legislates the criminal law but the provinces are responsible for its enforcement.

So there are plenty of ideas and approaches around.

The problem now is who is going to take those ideas and find a Canadian path to solutions.

That points to one of the clearest results of the symposium, the broad agreement that what we have is not a regulatory problem but a political problem.

And, as a political problem, pretty well everybody agreed that it needs to be solved by political people – by the people we elect to solve problems like this, in other words.

I agree with this. I agree that it’s time to place the emphasis on helping governments to find solutions.

I can think of no better time to begin than now.

In the last six months, the problem and the range of the solutions have become as clear as they’ll ever be.

This clarity has come because some of us have spoken out about the costs in lost liquidity, in lost opportunity, in unnecessary cost for issuing companies, in unfairness for investors.

It’s come about because regulators have spoken out and advanced their ideas for solutions.

It’s come about because the importance of good regulation has been brought home by the consequences of regulatory failure, such as we’ve seen in the Enron collapse.

And it’s come about because business has begun to speak up about the unnecessary costs of our existing system.

Some of you may have heard John Steele of the Prospectors and Developers Association talk about those costs in the last week. John is at our head table today.

In toting up what it would cost a mining company forced to register in two or more jurisdictions to raise $600,000 in capital, John put the costs at $300,000.

This went not just to securities commissions for fees.

By far, most of it went for all the hired help – the lawyers, accountants, financial advisers, the brokers – needed to get a company through 13 different regulatory and legal variations on basically a single theme.

This is not the way to fund miners.

It isn't the way to fund innovators.

It isn't the way to build capital markets.

It isn't the way to build a country.

But John Steele can't solve this problem.

I can't solve it.

Even the regulators can't solve it. They can mitigate the worst problems.

But like the rest of us, when it comes to the basic structure, they can only suggest things to elected governments.

That is what their uniform securities law project is about. It's about designing legislation to turn over to politicians in the hope that every legislature, assembly and provincial parliament in the land will pass it within a reasonable amount of time.

More than that, and we need more than that, it requires that there be political leadership and political will and political pressure from people like yourselves.

It requires the interest and involvement of people like you who understand the connection between the weakness of the regulation of our national capital markets and the quality of our national future.

But what should governments be asked to do?

Elected governments, like every other institution, need hard, expert analysis and the systematic testing of alternatives before they make decisions.

In Australia, the essential spadework for their reforms was done by the so-called Wallis Inquiry – by a commission in other words.

Mr. Wallis – Stan Wallis – was assigned to do a "stocktake" – lovely Australian word – of the results of earlier financial reforms.

And then, as his terms of reference said, "recommendations will be made on the nature of the regulatory arrangements that will best ensure an efficient, responsive, competitive and flexible financial system to underpin stronger economic performance, consistent with financial stability, prudence and fairness."

We could lift the same words and apply them to our own situation.

In any case, Mr. Wallis made his recommendations.

This past year, the Australian Minister of Financial Services – who should be a Canadian as his name is Joe Hockey – passed into law the reform package that we heard about at our symposium.

Europe took a similar route to results.

When its reforms stalled, the European Commission appointed a Belgian banker, Baron Alexandre Lamfalussy, and a Committee of Wise Men to restore the momentum.

They reported just a year ago, and last month the proposals of the Lamfalussy commission for a single securities market were passed into law throughout Europe.

So this is what I propose today.

I propose that the premiers of the provinces – when they meet this summer at their annual summit – put the issue of regulatory reform on their agenda, together with the analyses that their officials put together between now and then.

Certainly, they will have available by then as working documents the complete record of what took place at our symposium.

They'll have copies of the papers submitted by the experts we gathered from across the country and around the world.

And they'll have the "White Paper" on the issue being prepared for the Capital Markets Institute and the Canadian Foundation for Investor Education. The same material will be available to the public, I might add.

At the very minimum it should provide governments with a good start, aside from all the work they've already done.

With that kind of supporting material, they may wish to consider an inquiry along the lines of the Wallis Inquiry or the Lamfalussy commission to find a new way to balance our provincial against our national regulatory needs.

If they do opt for that kind of approach, I hope they will ask the federal government to join the inquiry because a lot of work was done on this matter in the mid 1990s that need not be wasted.

Alternatively, federal and provincial finance ministers might wish to take up the issue at their next regular meeting.

Or it might be considered when the Prime Minister meets with the premiers at their next meeting.

If the views they have expressed to me are any indication, public companies, whether they be junior start-ups or global players, would be delighted to see the problem tackled in this or any other way that governments choose.

The need for solutions is widely felt.

That is a significant challenge, I know.

But other lands have picked up the same challenge and are on their way.

Australia has a history every bit as fractious as ours.

But they got on with the job and got it done.

The Nordic countries possess all the same fears that haunt our history, that the small will be dominated by the strong, the west by the east, one language by another.

But they're getting on with the job and getting it done.

And Europe's momentum toward a single market comes little more than a half-century after the selfsame countries were locked in a terrible war.

Now they're meeting on what Sir Wilfrid Laurier called the grand assizes of commerce, and *they* are getting the job done.

It's time that our governments pick up the challenge and get the job done, too.

Then, we can all get on with building capital markets that will truly be the 21st century nation-building equivalent of our 19th century railroads.

Thank you.

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