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Re: Regulation of Derivatives Markets in Québec

Dear Ms Beaudoin

The Canadian Advocacy Committee of the CFA Societies of Canada (the CAC) and the Montreal CFA Society appreciate the opportunity to comment on the Autorité des marchés financiers' (AMF) working document on the regulation of derivatives markets in Québec. The CAC represents the 11,000 Canadian members of CFA Institute¹ and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. The Montreal CFA Society has over 1,600 members working locally in the financial industry.

We are supportive of the AMF's effort to clarify and simplify the current regulatory framework for derivatives in Quebec. The lack of a specific regulatory framework for the Montreal Exchange is a potential problem. We are very supportive of the overall objectives of:

- investor protection;
- providing fair, accurate, timely and transparent market procedures and information; and,
- reducing systemic risk.

We concur with the proposed framework of Institutional Supervision, Co-operation with Self-Regulatory Organizations (SROs), Derivatives as Separate Instruments; and Statute Based on Core Principles.

The concept of using a principles-based approach to regulation has some merit. Clearly, rule-only approaches tend to be cumbersome and slow to react to changing market conditions and products. Nonetheless, a principles-based approach has the real risk of being too vague or lacking sufficient guidance to be effective. There are some significant similarities between the regulatory objectives of the AMF and the objectives of accounting standard setters who have struggled with

¹ With headquarters in Charlottesville, VA, and regional offices in Hong Kong and London, the CFA Institute is a non-profit professional organization of over 83,000 financial analysts, portfolio managers, and other investment professionals in more than 125 countries. Its membership also includes 134 member societies. The CFA Institute is internationally renowned for its rigorous curriculum and examination program leading to the Chartered Financial Analyst designation. <http://www.cfainstitute.org/aboutus/index.html>

these issues for many years. Currently, all major accounting standard setters, including the Financial Accounting Standards Board in the United States, use a hybrid approach of both rules and principles. The CFA Institute has taken the position that, at least for accounting standards, a combination of well thought-out principles supported with an appropriate use of rules is the most effective approach.

Co-operation with SROs is a very effective method of providing timely regulatory responses to changing circumstances. In particular, SROs are likely to have both better market intelligence and better industry/product knowledge. Nonetheless, SROs are more likely to be influenced by industry pressures and can sometimes be slow to implement changes that are good for the investing public but constraining to their members. The AMF must ensure that SROs perform their self-regulatory duties to the highest standards.

We note some satisfaction that AMF has exempted CFA charterholders from some of the educational requirements proposed in the new framework as the CFA program covers derivatives in greater detail and is more thorough than most, if not all, of the current Canadian Securities Institute courses. We would welcome the opportunity to work with the AMF to extend the proposed exemptions to other education requirements of the new derivative framework where the relevant material is covered within the CFA program.

Moreover, we believe that the basic course necessary for registration as a retail investment representative must be upgraded to include the knowledge required for trading equity options, as is the case in the US. The less stringent Canadian requirements partly explain why the equity option market is underdeveloped in our country. The retail investor will be better served by more qualified investment representatives.

The CAC is disappointed that the AMF has not integrated their efforts to better regulate the derivative sector with those of other regulators in Canada. The CAC has a clear preference for one set of regulatory rules to apply to market participants, regardless of the province in which they carry on capital markets activities. Although the CAC does not have firm position on the best method to achieve this consistence set of rules, we believe that derivative products and market participants should be regulated in the same manner across the country. We would encourage the AMF to work closely with the other regulators in Canada in taking the next steps contemplated in the AMF paper.

If you or your staff have questions or seek further elaboration of our views, please contact Vincent Fournier, CFA by phone at + 1 514-840-6013 or by e-mail at vfournier@claret.ca

Sincerely,

Robert Morgan, CFA,
Co-Chair CAC

Vincent Fournier, M. Sc., CFA,
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