C O A L I T I O N
pour la protection des investisseurs

CALL FOR A NATIONAL SAVING POLICY TO AVOID SOCIAL MELTDOWN AND RESTORE TRUST IN THE SAVING AND INVESTMENT SYSTEM

"The Mutual Fund blowups of 2005 and the latest Income trust upheaval uncovered a growing feeling of financial insecurity amongst the public.

Consumers buying an electric brush, a car radio or even a magazine subscription feel better protected than investing their hard earned dollars into funds. Not only Quebecois have not saved enough but they are hardly catching up compared to the rest of Canada, following a collapse of saving rates over the lasxt 30 years[i]. The perceptions of high fees, lack of competition, the greatest risk shift of retirement-planning responsibilities to individuals and a growing complexity of financial instruments have contributed to discourage people from investing wisely and efficiently.

To avoid a social meltdown looming ahead if Québécois can not quickly fill their saving gap, a group of politicians, financial professionals and academics are calling for the establishment of a National Saving and Investment Policy (NASIP). They have joined the Coalition for the Protection of Investors to pull the alarm and restore trust in the current saving and investment system across Quebec.

Because the right arm often ignores what the left arm does within the government, time has come to coordinate more actively policies amongst the departments of Finance, Revenue, Family, Justice (for the legislation on consumer protection) and Labour and review what can be done to ease access to investment markets and stimulate a greater rate of saving. We simply can't go on using a patchwork policy with the Department of Labour proposing a whole new status of fiduciary responsibility to investment management firms while the Department of Finance and its Autorité des marchés financiers (AMF) ignores it. We can't solve the issue of mutual fund safety without taking into account the overall policy covering consumer protection. And the safety of private retirement plans[ii] depends on the need to regroup their assets to maximize economies of scale and make each basis point work harder for the next generation.

Amongst the 16 recommendations made in a brief submitted to the Public Finance Commission of the Quebec Natonal Assembly, four are essential to establish a national policy.

- Fiduciary convergence : The **governance equilibrium of mutual funds should be simplified and restored in favour of investors**, under the concept of full and unlimited fiduciary responsibility promoted by Bill 30 on private pension funds. Greater powers should be given to custodians and depositories, just like in Europe, to balance the role of management firms. Increasingly, pension funds include mutual funds and insurance segregated funds, creating a convergence of investment options in the eye of the investor. This convergence has changed our investment habits to reflect a formidable shift of risk from institutions (state, employers and financial operators) to individual investors and requires a serious adjustment of our regulatory approach.

- Anti-fraud Indemnity Fund : **Reduce investor fear, and instill greater confidence by increasing the investor's protection in fraud cases**. This would allow small to mid-sized investment management firms to compete against larger institutions. The Indemnity Fund would be financed mainly by the investors and the investment management firms overseeing the funds, on the model of the Canada Insurance Deposit Corporation. It would protect only against fraud or fiduciary negligence by funds and investment managers registered, regulated and rated in Canada. While critics may complain about higher costs for the industry, the costs are warranted in return for a better regulated and more transparent market place.

- Fund governance: The industry has been warning repeatingly investors against using past performance to anticipate future returns. And yet, the only thing investors had to make their choice are tables of performance ranking of funds. Rather than focusing on financial products themselves, investors must **evaluate the investment management companies who manufacture them through means of fiduciary certification and rating.** These companies now occupy the centre stage of the fiduciary industry. Their behaviour could have profound effects on today's society, since their investments direct the overall allocation of resources and have implications for labour unions and citizens with social responsibility concerns. They influence how inside investors are controlled, and how companies are governed. Yet, the investment management industry is under-represented in Québec and has no self-regulatory responsiblity.

- National Saving Observatory : In close relationship with the Institut de la Statistique du Québec and Statistics Canada, the university network and the private sector, an Observatory will **prepare an annual diagnosis on the state of savings and investments, track major trends**, foster research on how best to raise saving rate and make constant recommendations to Legislators, policy-makers, industry professionals and investor-consumers.**"**

- Appeal launched in Montreal, November 16, 2006 by:

***Claude Béland**, former President of the Movement Desjardins*

***Claude Castonguay**, former President of the Laurentian Group and Guest Fellow of the Interuniversity research centre of CIRANO*

***Rosaire Couturier,** former President and managing director of the Intitute of Canadian bankers and board member of Universitas*

***René Delsanne,** professor of mathematics at Université du Québec à Montréal (UQAM) and member of several pension fund board (UNWRA, Banque Laurentienne, City of Montreal, Université du Québec)*

***Andrée DeSerres**, director of MBA programme at Université du Québec à Montréal (UQAM) in corporate finance and co-founder of the Groupe interdisciplinaire de recherche en éthique financière (GIREF)*

***Pierre Fortin,** Professor of Economics at the Université du Québec à Montréal (UQAM), past President of the Canadian Economics Association*

***Reynald Harpin,** up to February 2005 was in charge of asset management of Alcan pension funds, investment specialist, director of several companies and member of investment and retirement committees*

***Holger Kluge**, former President of CIBC and board member of Husky Oil, Hutchison Whampoa Limited, Hongkong Electric Holdings Limited and ShoppersDrug Mart*

***Bernard Landry**, former Premier of Québec and Minister of Finance*

***Jean-Luc Landry,** managing partner of LandryMorin and outgoing president of the Quebec Association of Financial Advisors*

***Robert Pouliot**, vice-president and co-founder of the Centre for Fiduciary Excellence (CEFEX)*

***Michel Roux**, dean of the Economics and Business Management Faculty of Université de Paris 13 and co-founder of the Groupe interdisciplinaire de recherche en éthique financière (GIREF)*

***Yves Séguin**, former Quebec minister of Finance, author of the Canadian fiscal imbalance study and board member of Interinvest*

Organizations supporting the Coalition's brief:

***Fédération des Aînés du Québec (FADOQ),** represented by Karine Genest, programme director (www.**fadoc**.ca) - The FADOQ speaks on behalf of 282,000 seniors in 847 clubs throughout the Province of Quebec.*

***Small Investor Protection Association** (SIPA), represented by Stan Buell, President (www.sipa.ca/home.htm) - With head office is in Markham Ontario, SIPA has over 500 members in nine provinces with representatives in Ontario, Alberta and British Columbia.*

National Pensioners & Senior Citizens Federation *(NPSCF), represented by Art Field, president (http://npscf.org) - The National Pensioners & Senior Citizens Federation represents 450 seniors' chapters and clubs across Canada, with combined membership of 1,000,000 seniors over 50 years of age.*

Mouvement d'Education et de Défense des Actionnaires *(MEDAC), represented by Claude Béland, board member (www.**medac**.qc.ca)*

Confederation of National *Trade* ***Unions*** *(CNTU), represented by Claudette Carbonneau, president (www.**csn**.qc.ca) - The CNTU is estimated to represent some 300,000 members*

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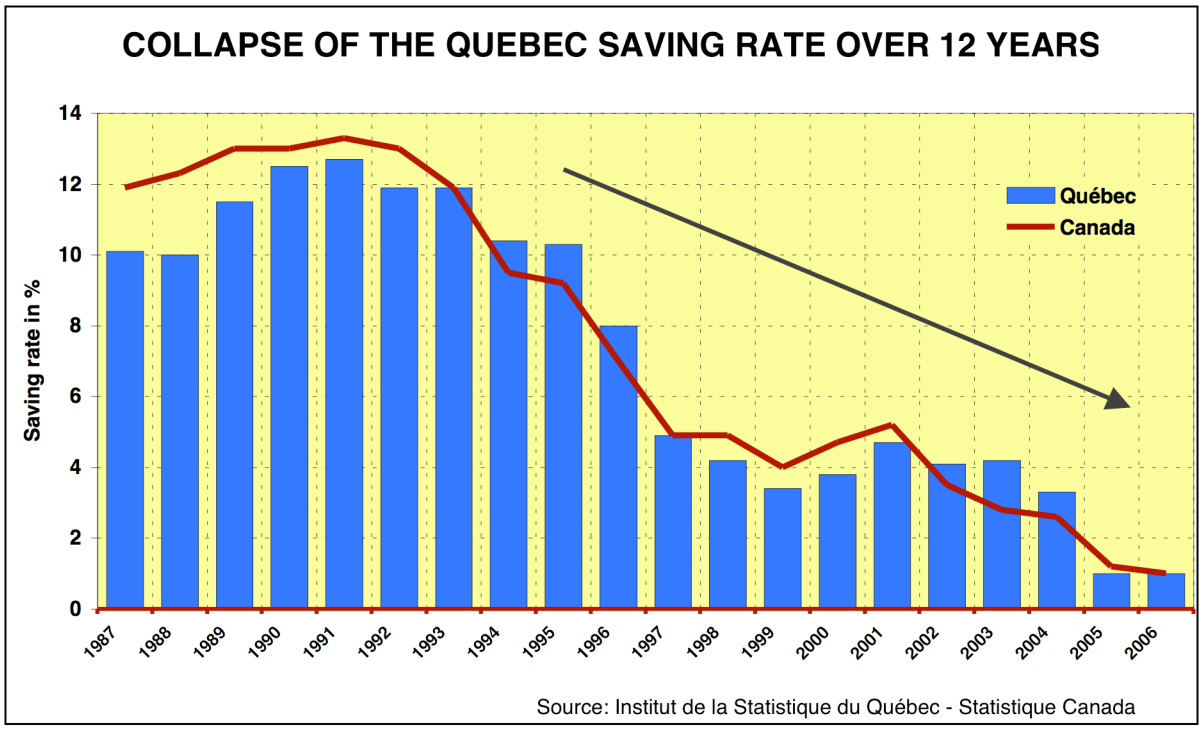
[i] The Canadian and Quebec saving rate dwindled to its lowest level since the Big Depression to 1% in the second quarter of 2006 against an average of 4% to 5% between 1993 and 2004 and double digit between 1973 and 1993.

[ii] About 80% of pension funds are estimated to be insolvent and unable to meet their current future obligations. Sixty-one (61) percent of Chief Financial Officers say Canada's widespread pension crisis will likely persist and grow dramatically for the next several years, according to a survey by Watson Wyatt and The Conference Board of Canada.