CANADIAN BANKERS ASSOCIATION

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Mr. John Stevenson
Secretary to the Commission
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON M5H 3S8

Dear Mr. Stevenson:

Re: **Multilateral Instrument 11-101 Principal Regulator System**

The Canadian Bankers Association appreciates the opportunity to make our views known regarding Proposed Multilateral Instrument 11-101 Principal Regulator System. The CBA agrees with the position of the Ontario Securities Commission as set out in the OSC Notice And Request For Comment published on May 27, 2005, not to join other members of the Canadian Securities Administrators in the publication of Proposed MI 11-101.

Like the OSC, the CBA is on record as stating that the existing fragmented system of regulation needs fundamental reform in order to improve the efficiency of Canada's capital markets, reduce regulatory costs and enhance investor protection. The way to do this is to establish a single securities regulator, and not to try to get multiple local regulators to work like a single regulator.

The Principal Regulator System takes an approach to reform that the CBA finds lacking. We have assessed the strengths and weaknesses of both a single regulator model and a passport model and we believe that even the best passport model falls short of achieving the benefits of a single regulator. For example, overlapping home and host jurisdictional rights and responsibilities will create a confusing and complex investor protection mechanism, particularly where jurisdictions have different rules, with the potential that investor protection may become even more fragmented. Similarly, we are concerned that the passport system, by maintaining the ability of individual jurisdictions to pursue their own rules, could result in a greater likelihood that regulatory differences among jurisdictions will become entrenched. The model that MI 11-101 would put in place, however, fails to meet even the standards of a well crafted passport model because it is incomplete in so many respects. For this reason we agree strongly with the OSC that the Principal Regulator System "undermines harmonization by endorsing different regulatory standards."

Indeed, one of the key concerns about MI 11-101 is that it merely substitutes one form of fragmentation for another. Currently, market participants face potentially different rules in different Canadian jurisdictions. MI 11-101 corrects this only partially, and creates an entirely new form of fragmentation. Every Canadian province or territory could host market participants who would be subject to different rules, depending on the location of their head office. While MI 11-101 introduces some limited benefits to individual market participants, it introduces additional risks for investors and does nothing to enhance the reputation and integrity of Canada's capital markets.

This latter point is important from an economic point of view. Canada's fragmented system of securities regulation detracts from its reputation as a destination for investment and trade. Bank of Canada Governor David Dodge has commented that international investors view the fragmented Canadian system of securities regulation in a negative light. The Economist recently described the Canadian regulatory system as "antiquated." The International Monetary Fund in its 2005 review of the Canadian financial sector, noted "...the strength and soundness of Canada's well-managed financial system" but suggested that further reforms could enhance the system's ability to benefit from a rapidly changing global environment. The Report went on to state that "adopting a single national securities regulator would help reduce compliance and administrative costs..."

It is important that Canadian capital markets remain competitive in a marketplace that is increasingly global in scope, by removing regulatory hurdles and making regulation less confusing and complex, less costly and more efficient. Unfortunately, the CSA initiative is insufficient reform.

While we appreciate the effort that provincial governments have made to streamline the existing system through regulatory harmonization and mutual recognition, it is our firm belief that this avenue of regulatory reform cannot deliver the efficient, effective, and consistent regulatory system that Canadian investors, entrepreneurs and financial services providers need and want. Furthermore, we also note that while MI 11-101 contains some positive elements that, in the absence of other reforms would be a positive step – the limited registration-related exemptions found in Part 5, for example – these measures also highlight the limited nature of the reforms that MI 11-101 produces. Not only would a single regulator effect these changes as well, it would do so in a much more comprehensive fashion, not in the restrictive fashion found in MI 11-101.

The CBA views the OSC's decision not to publish MI 11-101 for comment as a positive step. It leaves open the door to further profound changes through the development of a single securities regulator which both the Government of Ontario and the federal Minister of Finance, the Hon. Ralph Goodale, are actively working to achieve, in cooperation with their counterparts across Canada. Doing so would, we believe, create an effective and efficient structure of securities regulation that MI 11-101 cannot achieve.

Yours truly,

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