AUTORITÉ
DES MARCHÉS
FINANCIERS

5 YEARS OF A COMMITMENT TO
INFORMATION, REGULATION, PROTECTION.

# 2008-2009
# ANNUAL REPORT

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DES MARCHÉS
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INFORMATION, REGULATION, PROTECTION.

# 2008 - 2009
# ANNUAL REPORT

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Québec
Gouvernement du Québec
**Le ministre des Finances**
**Le député d'Outremont**

Québec City, July 31, 2009

Mr. Yvon Vallières
President of the National Assembly
Parliament Building
Québec City, Québec

Dear Sir:

I am pleased to provide you with the Annual Report of the Autorité des marchés financiers for the period from April 1, 2008 to March 31, 2009.

Yours truly,

Minister of Finance

Raymond Bachand

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AUTORITÉ
DES MARCHÉS
FINANCIERS
5 ANS D'ENGAGEMENT À
INFORMER, ENCADRER, PROTÉGER.

Québec City, July 31, 2009

Mr. Raymond Bachand
Minister of Finance
Parliament Building
Québec City, Québec

Dear Sir:

I am pleased to submit the Annual Report of the Autorité des marchés financiers (the "AMF") for the period from April 1, 2008 to March 31, 2009.

In accordance with section 42 of *An Act respecting* the *Autorité des marchés financiers*, this report presents the AMF's financial statements and discusses its principal activities during the most recently completed fiscal year. The report also outlines the AMF's activities in connection with the administration of the following statutes: the *Deposit Insurance Act, the Securities Act* and *An Act respecting the distribution of financial products and services.* However, the reports referred to in *An Act respecting insurance, An Act respecting financial services cooperatives, An Act respecting trust companies and savings companies* as well as the *Automobile Insurance Act* are set out in separate documents.

Pursuant to section 58 of the AMF's constituting Act, the report also includes the activity report of the *Conseil consultatif de régie administrative.*

Yours very truly,

President and Chief Executive Officer

Jean St-Gelais

Jean St-Gelais

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## MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

# The year just ended was marked by a financial crisis that triggered a major worldwide economic slowdown.

One of the effects of the crisis has been to highlight how significant the links are among the various sectors of the financial industry, between the industry and the real economy, and among the economies of the various countries.

In this context, the response of governments and regulators and the decisions of all market participants are subject to criticism. Clearly, all parties will need to adjust to the new realities.

More than ever, co-operation and the exchange of information are inseparable from national and international oversight of the financial markets.

The recent work of international organizations, including the G20, the International Organization of Securities Commissions and the International Monetary Fund, suggests that improvements are needed to the current framework in order to avert another financial crisis.

As Québec's financial sector regulator, the AMF is closely monitoring these developments and is moving forward with initiatives in the areas under its responsibility.

The AMF's ability to fully assume its oversight mandate in this difficult environment is evidenced by the tangible results that the AMF has achieved since its establishment.

In February of 2009, the AMF celebrated its fifth anniversary: five years of a commitment to inform, regulate and protect.

Its achievements include the publication of numerous regulations in order to better supervise the industry and foster its development, the publication of guidelines setting out the AMF's expectations regarding sound and prudent management practices to be followed by financial institutions, amendments to major laws such as the *Securities Act* and *An Act respecting the distribution of financial products and services,* as well as the implementation of the *Derivatives Act.*

Also worthy of note is the key role played by the AMF in implementing the securities passport system, a concrete and effective response to the federal government's proposal to intervene in an area that clearly falls within provincial jurisdiction.

Since its establishment, the AMF has placed a priority on oversight. Economic crimes are serious and detrimental to society and should be harshly penalized with exemplary dissuasive sentences.

As such, the number of staff assigned to inspections and investigations doubled between 2004 and 2008, from 47 to 93. The number of investigations has increa sed and the time required to conduct them reduced substantially. The average length of an investigation fell from 48 months in 2004 to just under 10 months in 2008. In addition, the AMF's success rate before the courts is now close to 95%.

Moreover, significant resources were earmarked to inform consumers about financial products and services and educate them about fraud risks. The AMF published a variety of information documents and issued numerous cautions. It also set up a mobile team to meet directly with consumer groups. Finally, the AMF helped finance several training, education or research projects through the Education and Good Governance Fund.

In the current climate of market turbulence, Québec can count on a solid oversight body, recognized for its leadership, which protects the public and ensures that the financial markets under its jurisdiction function efficiently.

I wish to thank all AMF staff for their active contribution to the fulfilment of our mandate.

I would also like to thank the members of the advisory board, the *Conseil consultatif de régie administrative*, especially its chairman, Bernard Motulsky. Senior management recognizes the added value that the Board provides in its capacity as the initial stakeholder to which it submits its orientations in a structured format. The AMF appreciates the Board's support and open-mindedness as well as its desire to help grow our organization.

Jean St-Gelais

Jean St-Gelais

# PRESENTATION OF THE AUTORITÉ DES MARCHÉS FINANCIERS

The *Autorité des marchés financiers* (the "AMF"), which was established pursuant to *An Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2) on February 1, 2004, is the body mandated to regulate and oversee Québec's financial sector and protect consumers of financial products and services.

The AMF is a legal person and a mandatary of the State, and it is headed by a President and Chief Executive Officer appointed by the Government.

The duties and fees paid by the individuals and enterprises required to comply with laws under the responsibility of the AMF ensure its financial autonomy.

## Mission

The mission of the AMF is to administer the legislation governing the financial sector, including insurance, securities, deposit institutions—other than banks—and the distribution of financial products and services.

In particular, the AMF must:

- provide assistance to consumers of financial products and services;
- ensure that financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law;
- supervise the activities connected with the distribution of financial products and services;
- supervise stock market and clearing house activities and monitor the securities market;
- supervise the derivatives markets, including derivatives exchanges and clearing houses, and ensure that regulated entities and other derivatives market participants comply with the obligations imposed by law;
- see to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

## Vision

To be recognized as a team that is dedicated to serving Quebeckers and the financial markets.

## Organizational Values

- Active listening to stakeholders
- Mobilization of individuals
- Delivery of quality services
- Enforcement of regulations in a thorough and equitable manner

## Governance Principles

- Openness
- Focus
- Consistency
- Accountability
- Team spirit

### Principal Statutes Administered by the *Autorité des marchés financiers*

In addition to exercising the functions and powers conferred on it by its constituting Act, the AMF administers the following:

- *Deposit Insurance Act* (chapter A-26)
- *An Act respecting insurance* (chapter A-32)
- *An Act respecting the caisses d'entraide économique* (chapter C-3)
- *An Act respecting certain caisses d'entraide économique* (chapter C-3.1)
- *An Act respecting financial services cooperatives* (chapter C-67.3)
- *An Act respecting the distribution of financial products and services* (chapter D-9.2)
- *An Act respecting the disclosure of the compensation received by the executive officers of certain legal persons* (chapter I-8.01)
- *Derivatives Act* (chapter I-14.01)
- *An Act respecting the sociétés d'entraide économique* (chapter S-25.1)
- *An Act respecting trust companies and savings companies* (chapter S 29.01)
- *Securities Act* (chapter V-1.1)
- *An Act respecting the Mouvement Desjardins* (S.Q. 2000, c. 77)
- *Title VII of the Automobile Insurance Act* (chapter A-25)

These statutes, as well as the regulations and policy statements made thereunder, may be consulted on the AMF website (www.lautorite.qc.ca).

### Organizational Structure of the AMF

To fulfill his mandate, the President and Chief Executive Officer of the AMF relies on an Executive Vice-President, three Executive Directors and four Superintendents. An internal auditor, a senior adviser on institutional affairs and the *Conseil consultatif de régie administrative* (Advisory Board) assist the AMF in the application of its governance rules.

The AMF has a total of 614 regular and budgeted staff members in Québec City, where its head office is located, and in Montréal. A complete organizational chart can be found at the end of this report.

### Office of the Executive Vice-President

The Office of the Executive Vice-President handles the development and implementation of advisory and support services within the AMF. It manages special projects and monitors the self-regulatory organizations (SROs) to which the AMF has delegated certain powers. It also supports the organization's representatives in national and international events as well as in relations with its various clienteles, and participates in activities related to them.

The Office of the Executive Vice-President includes two branches, two sections and one department: the *Direction générale de l'administration* (Administration), the *Direction générale aux mandats spéciaux* (Special Projects), the *Direction de la supervision des organismes d'autoréglementation* (SRO Oversight), the *Direction des relations extérieures* (External Affairs) and the *Service de la traduction* (Translation).

#### Administration

It is through Administration in particular that the Office of the Executive Vice-President fulfills its mandate to advise and support the AMF team. This branch is made up of the *Direction des ressources humaines* (Human Resources), the *Direction des ressources matérielles* (Material Resources), the *Direction des technologies de l'information* (Information Technologies) and the *Direction des Finances* (Finance).

#### Special Projects

Special Projects co-ordinates major undertakings such as the development and implementation of a modern framework for derivatives through the Centre of Excellence for Derivatives.

### Enforcement and Legal Affairs

The primary mandate of the *Direction générale du contrôle des marchés et des affaires juridiques* (Enforcement and Legal Affairs) is to detect and investigate violations of the laws under the purview of the AMF and ensure the application of penalties. It conducts all of the AMF's legal proceedings. It co-ordinates the development and adoption of the legal and regulatory framework and ensures its validity, and it interprets financial sector legislation. It also certifies the legal validity of the decisions issued by the President and Chief Executive Officer and the Superintendents.

This branch also develops and manages the AMF's governance framework. In that regard, it ensures the proper functioning of the AMF's decision-making bodies, oversees the application of the code of ethics and professional conduct and manages the rules pertaining to access to information. It also acts as the secretariat for the Advisory Board.

It is made up of the *Secrétariat* (Secretariat), the *Direction des affaires juridiques* (Legal Affairs), the *Direction du contentieux* (Litigation) and the *Direction de l'inspection et des enquêtes* (Inspection and Investigations).

### Client Services and Compensation

The *Direction de l'assistance à la clientèle et de l'indemnisation* (Client Services and Compensation) provides information services to all of the AMF's clienteles. It also provides assistance and dispute resolution and compensation services to consumers of financial products and services. Moreover, it administers a financial services compensation fund, a deposit insurance fund and the Education and Good Governance Fund.

Client Services and Compensation is made up of the *Direction du centre de renseignements* (the Information Centre), the *Direction de l'assistance aux consommateurs* (Consumer Assistance) and the *Direction de l'indemnisation* (Compensation).

### Securities Markets

The *Direction de l'encadrement des marchés de valeurs* (Securities Markets) oversees, among other things, the application of rules relating to public offerings, take-over and issuer bids, continuous disclosure and governance of reporting issuers. To do so, it analyzes disclosure documents related to securities offerings and take-over and issuer bids, and ensures that reporting issuers provide security holders and the market with financial statements and other required continuous disclosure documents. It also drafts and implements strategic orientations and regulations related to securities matters. Lastly, it participates actively in the various regulatory and harmonization projects and initiatives of the Canadian Securities Administrators, which has been chaired by the AMF President and Chief Executive Officer since April of 2005.

Securities Markets is made up of the *Direction des fonds d'investissement et de l'information continue* (Investment Funds and Continuous Disclosure) and the *Direction du financement des sociétés* (Corporate Finance).

### Solvency

The *Direction de l'encadrement de la solvabilité* (Solvency) oversees and monitors deposit institutions—other than banks—and insurance companies operating in Québec for the purpose of protecting the interests of consumers of financial products and services. It ensures that these institutions and companies hold all the authorizations needed to carry on their activities in Québec, and that they satisfy statutory and regulatory requirements. Solvency also assesses their financial condition and the quality of their management in order to avoid potential profitability and solvency problems, and drafts and implements guidelines and standards related to its area of operations.

Solvency is made up of the *Direction du contrôle du droit d'exercice* (Right to Practice Control), the *Direction des normes et de la vigie* (Standards Development and Institutional Oversight) and the *Direction de la surveillance des institutions financiers* (Supervision of Financial Institutions).

### Distribution

The *Direction de l'encadrement de la distribution* (Distribution) applies the rules regarding eligibility and the right to practice related to representatives, firms, advisers and brokers in all financial market sectors. It provides front-line services for registration, maintenance, certification and renewal of the permits and certificates issued under the *Securities Act* and *An Act respecting the distribution of financial products and services.* It also supervises the *Chambre de la sécurité financière* and the *Chambre de l'assurance de dommages*. Lastly, it drafts and implements the orientations and regulations related to its functions.

Distribution is made up of the *Direction des pratiques de distribution* (Distribution Practices) and the *Direction générale adjointe des services aux entreprises* (Industry Services). Industry Services is made up of the *Direction de la formation et de la qualification* (Training and Qualification) as well as the *Direction de la certification et de l'inscription* (Certification and Registration).

# PROFILE OF CLIENTELES OVERSEEN BY THE AMF

## The AMF oversees Québec's financial sector, including the areas of insurance, securities, deposit institutions—other than banks—and the distribution of financial products and services.

The AMF also oversees securities exchanges, clearing houses, self-regulatory organizations as well as other regulated bodies such as alternative trading systems, information processors and guarantee funds, which play an important role in the financial system in Québec and Canada. Each of these entities must be recognized before carrying on activities in Québec and must submit to AMF oversight. These entities help protect investors and promote the integrity and efficiency of the financial markets. A description of the activities of these entities, as well as the decisions rendered in respect of each, are available on the AMF's website.

As at March 31, 2009, the AMF was responsible for overseeing:

- eight exchanges;
- two clearing houses;
- five self-regulatory organizations;
- one guarantee fund;
- seven alternative trading systems;
- one information processor.

# TABLE 1 | Profile of clienteles overseen by the AMF

| Clientele[1] | Number | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | As at March 31, 2004 | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 | As at March 31, 2008 | As at March 31, **2009** |
| **Deposit institutions** | | | | | | |
| Financial services cooperatives | 579 | 551 | 531 | 515 | 497 | **464** |
| Trust companies and savings companies | 45 | 43 | 46 | 45 | 44 | **45** |
| **Insurance of persons (individual and group)** | | | | | | |
| Insurers | 130 | 128 | 126 | 125 | 122 | **117** |
| Firms, independent partnerships and independent representatives | 8,892 | 8,760 | 8,685 | 8,505 | 8,450 | **8,324** |
| Representatives | 17,773 | 17,832 R | 17,729 | 17,565 | 16,961 | **16,723** |
| **Damage insurance** | | | | | | |
| Insurers | 180 | 183 | 185 | 188 | 191 | **186** |
| Firms, independent partnerships and independent representatives | 1,258 | 1,234 | 1,199 | 1,189 | 1,194 | **1,161** |
| Representatives | 9,312 | 10,090 | 10,474 | 10,598 | 10,844 | **11,070** |
| **Claims adjustment** | | | | | | |
| Firms, independent partnerships and independent representatives | 238 | 222 | 221 | 222 | 229 | **221** |
| Representatives | 2,310 | 2,324 | 2,433 | 2,512 | 2,616 | **2,749** |
| **Financial planning** | | | | | | |
| Firms, independent partnerships and independent representatives | 996 | 1,133 | 1,228 | 1,214 | 1,200 | **1,174** |
| Representatives | 3,792 | 4,244 | 4,752 | 4,708 | 4,738 | **4,810** |

1 Persons (legal or natural) governed by *An Act respecting the distribution of financial products and services* may operate in more than one sector. They may therefore have been counted more than once.

R The transition from a semi-automatic count to a fully computerized count resulted in changes to some of the data.

## Clientele[1]

| Number | As at March 31, 2004 | As at March 31, 2005 | As at March 31, 2006 | As at March 31, 2007 | As at March 31, 2008 | As at March 31, **2009** |
|---|---|---|---|---|---|---|
| **Securities** | | | | | | |
| **Reporting issuers** | 5,438[2] | 5,312[3] | 5,274[3] | 5,416[3] | 5,509[3] | **5,503[3]** |
| **Unrestricted practice brokerage** | | | | | | |
| Dealers | 126 | 131 | 132 | 130 | 135 | **138** |
| Representatives | 5,391 | 6,470 | 7,350 | 8,362 | 8,950 | **9,266** |
| **Restricted practice brokerage** | | | | | | |
| Dealers | 14 | 17 | 14 | 13 | 11 | **10** |
| Representatives | 133 | 137 | 137 | 85 | 80 | **72** |
| **Group savings plan brokerage (mutual funds)** | | | | | | |
| Firms | 98 | 92 | 95 | 93 | 92 | **85** |
| Representatives | 21,123 | 22,023[R] | 22,295 | 22,716 | 22,874 | **23,491** |
| **Investment contract brokerage** | | | | | | |
| Firms | 11 | 11 | 11 | 11 | 8 | **8** |
| Representatives | 61 | 51 | 45 | 42 | 36 | **35** |
| **Scholarship plan brokerage** | | | | | | |
| Firms | 18 | 20 | 22 | 22 | 22 | **21** |
| Representatives | 975 | 947[R] | 817 | 810 | 788 | **810** |
| **Securities advisers** | | | | | | |
| Firms | 176 | 188 | 210 | 223 | 245 | **262** |
| Representatives | 697 | 750 | 888 | 1,052 | 1,180 | **1,299** |

1 Persons (legal or natural) governed by *An Act respecting the distribution of financial products and services* may operate in more than one sector. They may therefore have been counted more than once.

2 As at January 31, 2004.

3 Active reporting issuers.

R The transition from a semi-automatic count to a fully computerized count resulted in changes to some of the data.

## Highlights for 2008-2009

The highlights for the period from April 1, 2008 to March 31, 2009 are presented on the basis of the issues and orientations defined in the 2005-2008 Strategic Plan.

# HIGHLIGHTS FOR 2008-2009

## Issue 1 | Regulate the financial markets

Regulatory oversight is crucial for the vitality of our financial markets, and maintaining consumer confidence in this area of activity requires effective action on the part of regulators. Sharp competition in the international marketplace also requires that regulatory intervention not adversely affect the competitiveness of Québec's financial services industry.

The AMF has therefore adopted two strategic orientations:

- enhance monitoring in order to better protect the public;
- harmonize the regulatory system and reduce administrative formalities in order to foster the development of the financial sector.

## Orientation 1

Enhance monitoring in order to better protect the public

**Areas of intervention**

- Compliance
- Inspections
- Investigations

### Monitoring

The AMF exercises powers of inspection over the entities governed by the statutes it administers, such as securities firms, dealers and advisers, firms operating in the distribution of financial products and services, mutual funds as well as persons acting as custodians, trustees or managers of a mutual fund.

# TABLE 2 | Inspection files

## Number of files processed

| | | February and March 2004 | April 2004 to March 2005 | April 2005 to March 2006 | April 2006 to March 2007 | April 2007 to March 2008 | **April 2008 to March 2009** |
|---|---|---|---|---|---|---|---|
| **Inspections in accordance with *An Act respecting the distribution of financial products and services*** | Opened | 11 | 40 | 28 | 37 | 65 | **43** |
| | Completed | 12 | 49 | 18 | 24 | 62 | **47** |
| | Pending | 19 | 11 | 21 | 34 | 37 | **33** |
| **Inspections in accordance with the *Securities Act*** | Opened | 7 | 77 | 22 | 10 | 3 | **14** |
| | Completed | 2 | 99 | 31 | 22 | 10 | **8** |
| | Pending | 59 | 34 | 25 | 10[R] | 3 | **9** |

# TABLE 3 | Investigation files

## Number of files processed

| | | February and March 2004 | April 2004 to March 2005 | April 2005 to March 2006 | April 2006 to March 2007 | April 2007 to March 2008 | **April 2008 to 'arch 2009** |
|---|---|---|---|---|---|---|---|
| **Case assessments[1]** | Opened | 30 | 149 | 165 | 298 | 271 | **229** |
| | Completed | 22 | 86 | 127 | 371 | 287 | **257** |
| | Pending | 71 | 134 | 172 | 88[R] | 72 | **44** |
| **Investigations[2]** | Opened | 8 | 39 | 37 | 135 | 137[R] | **84[R]** |
| | Completed | 5 | 25 | 21 | 127 | 131 | **84[R]** |
| | Pending | 112 | 126 | 142 | 90[R] | 96[R] | **96[R]** |
| **Market surveillance[3]** | Opened | 24 | 106 | 63 | 69 | 121 | **147** |
| | Completed | 28 | 95 | 43 | 94 | 116 | **118** |
| | Pending | 25 | 36 | 56 | 31 | 36 | **65** |

1 Case assessment: examination of a complaint or an alleged violation of legislation administered by the AMF in order to determine whether an investigation is necessary.

2 Investigation: collection of relevant information and documents. Use of special powers to access reliable information in a timely manner, thereby enabling the AMF to take conservatory measures to ensure the protection of investors.

3 Market surveillance: search for tip-offs, particularly through the use of software designed to monitor the markets and detect unusual trading activity in real time. This enables investigators to immediately identify participants in a trade as well as the market's ability to absorb such trades, and to collect other information.

R Corrected data

## TABLE 4 | Recourses

Number of files processed

| | | February and March 2004 | April 2004 to March 2005 | April 2005 to March 2006 | April 2006 to March 2007 | April 2007 to March 2008 | **April 2008 to March 2009** |
|---|---|---|---|---|---|---|---|
| **Proceedings before the courts** | Statements of offence issued | 9 | 31 | 26 | 49 | 62 | **60** |
| **Quasi-judicial proceedings (BDRVM*)** | Requests submitted | 7 | 21 | 44 | 42 | 70 | **73** |
| **Administrative proceedings** | Under *An Act respecting insurance* | – | 1 | – | 2 | 1 | **2** |
| | Under *An Act respecting the distribution of financial products and services* | – | 4 | 16 | 19 | 47 | **88** |

** Bureau de décision et de révision en valeurs mobilières*

### Inspection of private fund managers

The AMF undertook a review of all private fund managers in Québec. Since February 2009, the fund managers have been questioned in person on how they manage private funds. The objective is to identify high-risk funds, carry out targeted inspections, detect any misappropriation of funds or attempt to misappropriate funds (Ponzi or other type of scheme) and, in such case, be able to take all appropriate measures to protect investors.

### Inspection of group savings plan firms

Group savings plan firms (mutual funds) were inspected in co-operation with the Mutual *Fund Dealers Association of Canada*. The Québec activities of these firms represent more than $12.6 billion in assets under management and are carried out by more than 3,600 representatives.

In addition, the AMF inspected a trust company because some of its activities were closely related to those of group savings plan firms.

### First Annual AMF Inspection Conference

On November 19, 2008, the first annual conference of AMF Inspection took place in Montréal. Comprising two workshops, which were conducted simultaneously, this conference was intended for compliance officers of group savings plan firms and firms in the insurance of persons sector, respectively.

The purpose of this initiative was to inform these clients of AMF inspection findings and methods and provide them with relevant information concerning their legal obligations and best practices.

### Enforcement

The AMF helped prepare the *2008 Enforcement Report,* which was published by the Canadian Securities Administrators on January 29, 2009. This report summarizes the measures used by the various Canadian securities regulators to enforce securities legislation. It can be consulted on the AMF's website.

Moreover, on February 4, 2009, the AMF issued a press release on its enforcement of the *Securities Act* and *An Act respecting the distribution of financial products and services* ("Distribution Act"). Data were compiled for the 2008 calendar year in order to harmonize their presentation with that of the other securities regulators. In brief:

- 3 317 charges were laid by the AMF, including 3,228 under the *Securities Act* and 89 under the Distribution Act;

- penalties were imposed on 861 individuals and companies;
- total of $3,772,200 in fines and approximately 10 years of imprisonment were imposed.

### Financial institutions supervisory framework

On March 27, 2009, the AMF published in its weekly bulletin Financial Institutions Supervisory Framework, which applies to insurers, trust companies, savings companies and cooperatives doing business in Québec. The document sets out the cornerstones of the AMF's supervisory approach, particularly with respect to solvency and sound and prudent management practices.

The financial crisis prompted the AMF to take several specific actions during 2008-2009. In particular, it assessed the exposure of reporting financial institutions to counterparties deemed to be at high risk and to structured financial products. Exceptionally, it also required them to file their financial statements on a quarterly basis as at September 30, 2008 and March 31, 2009. Finally, the AMF monitored the liquidity positions of the deposit institutions under its supervision on an ongoing basis.

### Continuous Disclosure Review Program (CDR Program)

In November 2008, the AMF released its report on the Continuous Disclosure Review Program (CDR Program), *Keeping the Market Well-Informed is a Priority.* The report covers the period from April 1, 2007 to March 31, 2008 and summarizes the findings and recommendations stemming from a review of a sampling of 115 companies and investment funds whose head office is situated in Québec.

The findings of the reviews conducted under the CDR Program indicate that certain investment funds and companies must further strive to improve the quality of the following documents:

- the financial statements, as regards compliance with GAAP, particularly with respect to disclosure of the methods used and assumptions applied in determining the fair value of asset-backed commercial paper (ABCP) and other financial instruments;
- the MD&A, as regards compliance with Form 51-102F1, including the presentation of a balanced discussion of a company's results of operations;
- the annual information form or circularas regards disclosure of governance practices required by Regulation 58-101, disclosure of the audit committee's responsibilities regarding a written charter as prescribed by Regulation 52-110 and disclosure of technical information as required by Regulation 43-101; and
- the annual and interim management reports of fund performance, as regards compliance with Form 81-106F1, inclu ding the presentation of a complete and meaningful discussion of the results of operations and the presentation of an overview of the portfolio broken down into the most appropriate subgroups or categories.

This report is available on the AMF's website.

### Training seminar on illegal insider trading

On July 25, 2008, the AMF, as part of its resolve to step up the fight against economic crimes, welcomed representatives from various securities regulators in Canada and the U.S. at a training seminar on the latest developments in insider trading and market manipulation with respect to equity markets, derivatives, boiler rooms and international trading.

Experts from the *U.S. Securities and Exchange Commission* (SEC), *the Financial Industry Regulatory Authority* (FINRA) and the *Commodity Futures Trading Commission* (CFTC) as well as from the AMF conducted the training seminar for some 80 participants.

### Restructuring of AMF Securities Markets

AMF Securities Markets was restructured in the fall of 2008. By creating Corporate Finance and Investment Funds and Continuous Disclosure, the AMF is pursuing its ongoing commitment to improving organizational efficiency and to playing a key role in major securities matters.

# Orientation 2

Harmonize the regulatory system and reduce administrative formalities in order to foster the development of the financial sector

**Areas of intervention**

- Regulations
- Administrative processes

## Regulatory and legislative activities

The AMF has supported various legislative and regulatory initiatives toward the development of a framework that is harmonized with other jurisdictions in respect of the financial industry as a whole.

The AMF continued to work closely with the Canadian Securities Administrators (CSA) to complete the task of harmonization needed for the securities passport system. Accordingly, Regulation 31-103 respecting Registration Requirements is expected to come into effect in the fall of 2009. This regulation will result in a substantial reduction in the burden associated with registration requirements, especially for firms and representative carrying on activities in more than one jurisdiction.

Information about ongoing consultations and the entire legislative and regulatory framework is available on the AMF's website.

## Regulatory amendments

More specifically, a report on the regulation activities conducted under the *Securities Act* must be submitted as required under section 335.1 of the Act. The appendix 1 presents a detailed description of each of the nine regulations that came into force this year and an analysis of their impact on the market and on investors. It also contains the principal draft regulations aimed at bolstering the securities regulatory system.

Several draft regulations and guidelines were also prepared to improve the framework related to the distribution of financial products and services, solvency standards and oversight of securities exchanges, clearing houses and self-regulatory organizations.

Highlights in the area of financial products and services distribution include the publication for comment, on April 17, 2009, of several draft regulations concordant to the draft *Act to amend the Securities Act and other legislative provisions* (Bill 8). These draft regulations are part of securities registration reform, which requires that securities sectors currently governed by *An Act respecting the distribution of financial products and services* be transferred to the *Securities Act*.

Specifically, the draft regulations are as follows:

- *Regulation to repeal the Regulation respecting the trust accounts and financial resources of securities firms;*
- *Regulation to repeal the Regulation respecting the rules of ethics in the securities sector;*
- *Regulation to repeal the Regulation on securities certification and certain securities practices;*
- *Regulation to repeal the Regulation respecting practice in the securities field;*
- *Regulation to amend the Regulation respecting the issuance and renewal of representatives' certificates;*

- *Regulation to amend the Regulation respecting the pursuit of activities as a representative;*
- *Regulation to amend the Regulation respecting information to be provided to consumers;*
- *Regulation to amend the Regulation respecting the registration of firms, repre sentatives and independent partnerships;*
- *Regulation to amend the Regulation respecting firms, independent representatives and independent partnerships;*
- *Regulation to amend the Regulation respecting the keeping and preservation of books and registers.*

On January 9, 2009, the AMF published the Ligne directrice sur les normes relatives à la suffisance du capital de base applicable aux coopératives de services financiers membres d'une fédération (adequacy of capital base guideline for financial services cooperatives that are members of a federation), which came into effect on January 1, 2009. This guideline has been amended to incorporate the provisions of the Basel II Accord.

In addition, the AMF published the following guidelines for comment:

- Governance Guideline;
- Integrated Risk Management Guideline;
- Compliance Guideline;
- Outsourcing Risk Guideline;
- Liquidity Risk Management Guideline;
- Interest Rate Risk Management Guideline;
- Securitization Risk Management Guideline.

Furthermore, the Guideline on Capital Adequacy Requirements for life and health insurers was updated. The amendments to this guideline were primarily made to help harmonize requirements across Canada and correct certain deficiencies brought to light by the sharp volatility that battered the Canadian financial markets at the end of 2008.

Morevover, the introduction of new securities markets where the same securities are traded as exchange-traded securities led to the development and adoption of regulatory measures in order to foster price discovery, liquidity, competition, innovation, market integrity and fairness. As a result of the work carried out by the CSA, regulatory amendments were implemented on September 12, 2008 regarding best execution, and draft regulatory amendments were developed concerning trade-through obligations.

Lastly, the AMF issued several staff notices and guidance regarding the application of the regulatory framework.

Market participants and investors can follow the AMF's regulatory activities in its weekly Bulletin. The Bulletin contains the latest publications as required by legislation, in particular notices and requests for comment as well as decisions.

### Legislative amendments

In February 2009, the *Derivatives Act* came into force. The Act provides an adapted, flexible and modern framework for derivative instruments while at the same time recognizing the explosive growth in derivatives markets and products.

A specific report on regulation activities under the *Derivatives Act* is presented in the appendix 2.

Bill 64, which led to An Act to amend the *Act respecting the Autorité des marchés financiers and other legislative provisions* (2008, c. 7), was assented to on May 28, 2008. Several provisions of this major Bill came into force during 2008-2009.

The AMF now has various harmonized control measures at its disposal, and the measures concerning receivership are consolidated under its constituting Act. In addition, the Act contains new investigation powers and allows the communication of information by auditors. Moreover, the provisions specifically regarding fines, administrative penalties and prescription periods have been harmonized.

*An Act respecting insurance* now gives the AMF the power to exempt a foreign insurer from provisions of the Act if the insurer is not governed by any other insurance legislation in Canada and is issued a licence to act exclusively in surety insurance in Québec.

Lastly, the mandate of the Education and Good Governance Fund has been extended to all areas related to the AMF's mission.

### Replacement guarantees

On March 27, 2009, further to the consultations conducted in 2004 and 2006, the AMF published a notice stating that, in its opinion, an automobile replacement guarantee is an insurance product subject to its oversight.

Motor vehicle replacement guarantees will therefore have to be issued by insurers whose regulatory framework —administered by the AMF— gives consumers better protection against the risks of insolvency. Consumers will now be able to contact the AMF for information about motor vehicle replacement guarantees, file a complaint and benefit from mediation services. This framework will also cause contracts to be standardized and thereby better identify the roles and responsibilities of each party involved.

Mindful of the impact that its position might have on the current sales network for replacement guarantees, the AMF is providing the main network stakeholders with a 12-month time period, as of the date of publication of its notice, to carry out the changes needed for compliance with *An Act respecting the distribution of financial products and services*.

### Investment Industry Regulatory Organization of Canada

With the completion of plans by the Investment Dealers Association of Canada and Market Regulation Services Inc. to merge their activities, the AMF recognized the Investment Industry Regulatory Organization of Canada (IIROC) as a self-regulatory organization.

### Canadian Investor Protection Fund

The AMF issued a decision to accept the Canadian Investor Protection Fund as a guarantee fund with respect to the registration of full-service and discount brokers.

### Montréal Climate Exchange

The AMF approved the regulation of the Montréal Exchange, which lists, on the Exchange's electronic platform, futures contracts on carbon dioxide equivalent units, thus launching the activities of the Montréal Climate Exchange.

### Brief submitted to the Expert Panel on Securities Regulation

On July 15, 2008, the AMF publicly released the brief it submitted as part of the consultation process conducted by the Expert Panel on Securities Regulation in Canada. The brief, entitled *Single Regulator: A Needless Proposal,* conveys the AMF's position on the main issues raised as part of the consultation process. This document is available on the AMF's website.

# Issue 2 | Assist consumers

**The AMF's mission is in part to provide assistance to consumers of financial products and services. It carries out this duty by, among other steps, providing them with ready access, in various formats, to relevant and objective plain-language information on financial products and services in Québec. As a regulator, the AMF is uniquely positioned to deliver this service.**

The AMF also provides consumers with the tools and services they need to protect themselves from potential losses or to exercise recourses, when necessary.

As such, the AMF has adopted the following two strategic orientations:

- raise awareness of the AMF and its role;
- improve the delivery of services to consumers.

## Orientation 3

Raise awareness of the AMF and its role

### Area of intervention

- Relations with the various types of clienteles.

### National and international co-operation

Since its establishment, the AMF has continued to work actively with various national and international agencies, including:

- Canadian Securities Administrators (CSA);
- Canadian Council of Insurance Regulators (CCIR);
- International Organization of Securities Commissions (IOSCO);
- International Association of Insurance Supervisors (IAIS);
- International Association of Deposit Insurers (IADI);

- Council of Securities Regulators of the Americas (COSRA);
- *Institut francophone de la régulation financière* (IFREFI);
- North American Securities Administrators Association (NASAA);

Moreover, the President and Chief Executive Officer as well as other executives and professionals represented the AMF at approximately 100 major events attended by financial market participants.

### Third Edition of Rendez-vous with the AMF

On October 20, 2008, the AMF welcomed more than 500 delegates to Montréal as part of its third annual fall rendez-vous. Financial industry re-presentatives attended workshops on economic crimes, succession challenges in the financial services industry and point-of-sale disclosure for consumers. The workshops were an opportunity for participants to discuss sector-specific issues and challenges with prominent industry professionals.

### Partnering with the 14th annual Conference of Montreal

As part of the 14th annual International Economic Forum of the Americas/Conference of Montreal, held from June 9 to 12, 2008, the AMF sponsored and organized the events of June 9 under the theme *The International Economy in Transition.* It conducted its own workshop, entitled *Emissions Trading: Solution or Illusion?*

### Survey of AMF clienteles

To help it pinpoint the orientations of its 2009-2012 Strategic Plan, the AMF commissioned a survey of consumers and industry participants. The findings indicated that consumers have a positive perception of the AMF, with confidence and credibility levels standing at 53% and 57%, respectively. For their part, industry participants have confidence in the AMF, which scored a credibility rating of 85%.

### Media relations

During the past year, close to 200 press releases were issued; 551 requests for information were handled by the AMF spokesperson; and over 460 interviews were granted by the AMF spokesperson or a member of senior management.

## Orientation 4

Improve the delivery of services to consumers

**Areas of intervention**

- Complaints and claims
- Information and education

## Information and complaints

The AMF Information Centre is the gateway for all consumers and financial sector participants wishing to obtain information or assistance. Information officers assist them by answering questions and, if necessary, helping them find solutions to their concerns.

In 2008-2009, the Information Centre received a total of 77,457 calls and handled 3,954 e-mails, 68% of which came from financial sector participants and 32% from consumers.

During the year, 25% of calls from consumers related to the purchase, application or renewal of an insurance contract or an insurer's refusal to pay benefits, while 10% of calls were made to verify a representative's right to practice or to order free publications from the AMF.

In addition, there were 3,112 visits to the Centre in person. Information officers met close to 63% of visitors at the AMF's offices in Montréal and 37% at its head office in Québec City.

## TABLE 5 | Requests for information and complaints received at the Information Centre

| | | February and March 2004 | April 2004 to March 2005 | April 2005 to March 2006 | April 2006 to march 2007 | April 2007 to March 2008 | **April 2008 to March 2009** |
|---|---|---|---|---|---|---|---|
| **Number of telephone requests for information** | From consumers | 5,068 | 27,043 | 32,836 | 27,767 | 20,762 | **19,829** |
| | From financial sector participants | 22,890 | 87,110 | 84,059 | 73,385 | 64,104 | **57,628** |
| **Number of complaints received** | | 103 | 856 | 1,056 | 1,986 | 1,115 | **1,372** |

## Complaints and dispute resolution services

In total, the AMF received 1,372 complaints, approximately 55% of which concerned regulatory breaches such as illegal practice or illegal distributions. The AMF's dispute resolution services are not appropriate in such cases; they require intervention by AMF Case Assessment.

In 45% of the cases, the complaints were eligible for mediation or conciliation due to their nature, such as an insurance of persons or damage insurance claim that was dismissed or a product that did not correspond to a client's needs. Of the files for which resolution services were offered, through conciliation or mediation, the success rate was 67%.

Conciliation was used in nearly 95% of AMF interventions, while mediation was used in the other instances.

Conciliation and mediation are dispute resolution mechanisms that are made available to the public. Conciliation is a personalized process during which AMF analysts work with the parties involved to find a solution. Mediation is a formal three-hour session offered at no charge by the AMF and held by an outside mediator who assists the parties.

## TABLE6 | Number of complaints referred to an AMF unit or to a self-regulatory organization

Number of complaint referrals[1]

| | | February and March 2004 | April 2004 to March 2005 | April 2005 to March 2006 | April 2006 to march 2007 | April 2007 to March 2008 | **April 2008 to March 2009** |
|---|---|---|---|---|---|---|---|
| **AMF units** | Inspection | | 66 | 113 | 33 | 1 | **9** |
| | Case Assessment | | 186 | 485 | 560 | 474 | **392** |
| | Compensation | | 126 | 144 | 512 | 701 | **128** |
| | Other | | 5 | 15 | 21 | 34 | **94** |
| **Self-regulatory organizations** | Investment Industry Regulatory Organization of Canada[2] | | 14 | 68 | 51 | 47 | **62** |
| | *Chambre de l'assurance de dommages* | | 47 | 63 | 69 | 70 | **72** |
| | *Chambre de la sécurité financière* | | 261 | 375 | 413 | 399 | **299** |

1 A complaint may be referred to more than one unit or organization.

2 Formerly the Investment Dealers Association of Canada.

### Expansion of the Complaint Reporting System in Canada

The Complaint Reporting System (SRP-CRS) has been in operation since October 2005 and is available to insurers in Québec and Ontario. During the year, various avenues were explored in order to make the system accessible to other interested Canadian jurisdictions.

In January 2009, an industry task force made up of representatives of insurers, the Canadian Life and Health Insurance Association (CLHIA) and the Insurance Bureau of Canada was created for this purpose. The AMF met regularly with this task force in order to obtain their opinion on ways to optimize the SRP-CRS system and, insofar as possible, followed its recommendations.

An agreement was signed by the insurance regulators in Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Québec, Saskatchewan and Yukon giving them all access to the SRP-CRS system.

With the agreement's scheduled implementation on July 1, 2009, this system will harmonize complaint data reporting requirements across Canada.

### Partnerships

During the year, the AMF renewed its major partnerships with Bourstad, *Question Retraite*, the *Mouvement d'éducation et de défense des actionnaires* (MÉDAC) and ACTIF. It also established new partnerships with the following senior citizens associations:

- *Association québécoise pour la défense des droits des retraités* (AQDR);
- *Association des retraités des secteurs public et parapublic* (AQRP);
- *Conseil des aînés et Conférence des Tables régionales de concertation des aînés du Québec.*

Furthermore, the AMF expanded its public sector ties with various agencies and ministries.

### Awareness campaigns and initiatives

#### Investor Education Month

In October 2008, the AMF highlighted this theme through a series of initiatives, including the targeted mailing of information kits to journalists, press releases, information e-mails to its clientele, the production of an information sheet on market volatility and recorded messages for callers on hold at the Information Centre. The media spinoffs, especially from the partnership with the AQDR for senior citizens, were considerable in terms of the number of articles published and interviews conducted with AMF representatives.

#### RRSP Season

In January and February of 2009, an RRSP media campaign ran in the main dailies and magazines. The campaign focused on caution and the importance of knowing one's investor profile during times of substantial market volatility.

#### Fraud Prevention Month

In March 2009, the AMF launched an initiative with unions at large companies affected by the financial crisis to prevent laid-off workers from falling prey to financial fraud. The information sheet *Tax-Free Withdrawals from your RRSP or LIRA – Beware of fraud!* and the brochure *Red-flagging financial fraud were handed out to employees.* This initiative was warmly received by the labour groups reached by the AMF.

The AMF also raised public awareness through regional weeklies with ads warning readers about fraud as well as a phony advertisement inviting people interested in withdrawing money from an RRSP or LIRA to visit www.argenteclair.com, which was actually a site warning against RRSP fraud.

### Brochures and other information documents

During the year, several brochures were produced and some reissued:

- *Red-flagging financial fraud*
- *Insurance sold without the help of a certified representative*
- *Deposit Insurance*
- *Québec Travel Insurance*
- *Short Investment Glossary*

In addition, leaflets related to insurance, investing and fraud were posted on-line in the Consumer section of the AMF website.

### Mobile team

The AMF's mobile team held 36 conferences before some 1,400 consumers, with visits to the regions of Québec City, Chaudière-Appalaches, Central Québec, Eastern Townships, Montréal, Gaspésie, Lower-Saint-Lawrence, Saguenay-Lac-St-Jean and Laval.

### Canadian Conference on Financial Literacy

The AMF helped organize the second edition of the Canadian Conference on Financial Literacy, which was held in Montréal on September 9 and 10, 2008.

This event, held under the theme *Moving Forward with Financial Literacy,* was a tremendous success, with over 250 delegates. It was followed by a meeting of the Joint Forum of Financial Market Regulators, which brought together industry regulators and participants.

### Youth site – It's Your Money

In February 2008, the AMF officially launched the youth site *TesAffaires.com* (It's Your Money) by carrying out activities to promote the site at secondary schools in Québec and via youth-oriented websites.

### Compensation, protection and education funds

As regards the protection of consumers of financial products and services, the AMF administers three funds: a financial services compensation fund, a deposit insurance fund and the Education and Good Governance Fund.

#### Financial services compensation fund

The AMF pays indemnities to victims of fraud, fraudulent tactics or embezzlement perpetrated by a person or firm authorized to carry on business under *An Act respecting the distribution of financial products and services.* A claim must be received within one year of knowledge of the fraud and the maximum indemnity per claim is $200,000.

In 2008-2009:

- 26 claims were allowed, resulting in a total compensation payment of $842,985;
- 74 claims were dismissed based on applicable compensation rules, and 54 claims were considered ineligible at the preanalysis stage;
- Seven civil actions were instituted against fraudulent representatives pursuant to subrogatory recourses launched by the AMF (including one action for more than $31 million relatingto the Norbourg case); three cases were settled in favour of the AMF;
- No new challenges to AMF decisions regarding compensation were filed. In a challenge dating back to 2005, the complainant abandoned proceedings before the court appearance.

The AMF reviewed its processes in preparation for an indemnity committee established under *An Act to amend the Act respecting the Autorité des marchés financiers and other legislative provisions* (2008, c. 7), which will rule on the eligibility of claims submitted to the AMF and decide on the amount of indemnities to be paid.

As at March 31, 2009, a total of 174 compensation claims were still outstanding.

#### Deposit insurance fund

The AMF guarantees to every person making a deposit in a registered institution that the deposit will be reimbursed in the event of the institution's insolvency. The maximum deposit insurance coverage is $100,000 per person and per institution.

Guaranteed deposits primarily include deposits held in chequing or savings accounts, term deposits and guaranteed investment certificates. To be guaranteed, deposits must carry a term of five years or less (or be redeemable upon demand five years after the date of deposit), be made in Québec and be payable in Canadian currency.

To fulfill the guarantee, the AMF administers a deposit insurance fund financed through the premiums paid by registered institutions. The net assets of the fund totalled approximately $429 million as at March 31, 2009. During the fiscal year, the AMF also worked on updating its intervention plan in the event a deposit institution experiences liquidity or solvency problems.

As at April 30, 2008, 537 institutions were registered with the AMF under the *Deposit Insurance Act* and held $75.5 billion in deposits guaranteed by the AMF. In the spring of 2008, three insurers obtained a registration under the *Deposit Insurance Act* and can now solicit and receive deposits in Québec.

## TABLE 7 Profile of registered institutions and deposits received and guaranteed as at April 30

| | Number | | | | | Deposits received in Québec[1] (M$[2]) | | | | | Deposits guaranteed by the AMF (M$) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Registered institutions** | 2004 | 2005 | 2006 | 2007 | **2008** | 2004 | 2005 | 2006 | 2007 | **2008** | 2004 | 2005 | 2006 | 2007 | **2008** |
| Financial services cooperatives | 579 | 551 | 533 | 517 | **497** | 70,349 | 73,889 | 77,685 | 85,038 | **96,558** | 44,164 | 52,289 | 54,385 | 57,329 | **60,705** |
| Trust companies and saving companies | 39 | 36 | 38 | 37 | **37** | 18,040 | 17,355 | 20,385 | 19,833 | **21,640** | 13,266 | 14,137 | 14,116 | 13,928 | **14,804** |
| Insurers | - | - | - | - | **3** | - | - | - | - | **0** | - | - | - | - | **0** |
| **Total** | 618 | 587 | 571 | 554 | **537** | 88,389 | 91,244 | 98,070 | 104,871 | **118,198** | 57,430 | 66,426 | 68,501 | 71,257 | **75,509** |

**Education and Good Governance Fund**

Following a call for projects that closed on September 30, 2008, nine projects were selected by the assessment committee of the Education and Good Governance Fund. These projects will share nearly $473,000 to carry out training, education activities or academic research.

The mandate of the Education and Good Governance Fund is to support training and research initiatives in four areas of intervention: investor protection, investor education, the promotion of good governance and the betterment of knowledge in the fields related to the AMF's mission.

Since its inception in 2004, the Fund has distributed more than $5.8 million in support of 56 projects.

A complete list of projects, including their description, is available on the AMF website.

1 Based on data available to the AMF as at March 31, 2009.
2 $M: millions of dollars.

# Issue 3 | Mobilize staff

## The scope of the AMF's mission requires co-ordination among multidisciplinary teams, particularly in the highly specialized fields of finance, actuarial services, accounting and law.

As such, the AMF seeks to recruit, retain and train staff who are able to deliver quality services. It must therefore offer fair compensation, foster the development of skills and knowledge, as well as recognize and reward effort and performance.

## Orientation 5

Recruit, retain and ensure the ongoing professional development of staff in order to deliver quality services

**Areas of intervention**

- Mobilization
- Client service
- Skills management
- Recognition

### Organizational survey

The AMF conducted its second organizational survey covering all of its employees. This survey is part of an approach to develop the AMF's human potential. The main objectives of the first edition of the survey were to establish a starting point for setting mobilization growth targets, focusing on the most relevant interventions and measuring progress. This second edition revealed that the overall employee mobilization rate has increased and currently stands at 91%.

### Performance appraisal program

As part of implementing the organization's performance appraisal program, managers received training pertaining to the third phase of performance management, namely, the end-of-year appraisal interview. In addition to being an effective management tool for achieving group and individual objectives, the continuous performance appraisal cycle plays a key role in motivating and mobilizing all staff and helping them succeed.

# Issue 4 | Optimize performance

## To assess and optimize its performance, the AMF has established procedures and developed tools to ensure that its activities and accountability reporting are carried out in a thorough manner.

In order to ensure the sound management of its activities, the AMF has adopted governance principles and practices that are grouped under a corporate governance framework, which is updated as necessary. It also ensures that staff fully understand the scope of these principles and practices.

## Orientation 6

Manage the governance framework

**Areas of intervention**

- Active listening to stakeholders and ensuring their satisfaction
- Governance and management

### Work attendance system

Various tasks have been performed to transfer the work attendance system to a fully automated management environment. The new system, the official implementation of which is scheduled for April 2009, will make it possible to track time banks and payroll processing in real time and enhance the AMF's operational efficiency.

### Streamlining of financial processes

Following discussions with the various units of the AMF, the procedures and policies related to travel expenses were reviewed in full. Furthermore, the methods for allocating expenses for accounting purposes were also reviewed in order to facilitate analysis.

### Implementation of work stemming from the *Regulation respecting the distribution of information and the protection of personal information*

With regard to application of the new *Regulation respecting the distribution of information and the protection of personal information*[1] (the RDIPPI), the AMF set up a committee on access to information and the protection of personal information to oversee the protection of personal information within the organization, particularly when new information systems are implemented or data are used for survey purposes. This committee is also responsible for enhancements to the quality of information distributed through the AMF website, pursuant to the new regulatory requirements applicable to public bodies under the RDIPPI, as of November 29, 2009.

### Modernization and integration of business systems

Further to the work performed last year that resulted in a new business model, supported by a new information technology architecture, the AMF launched a business systems modernization and integration project (MISA, *Modernisation et intégration des systèmes d'affaires*) in fall 2008. The objectives of this project include systematizing client file compliance, reducing processing and validation times and eliminating forms in hard copy.

### AMF governance policies

During the past fiscal year, the AMF worked on new governance documents in order to strengthen its organizational management. A governance and internal operations statement is therefore being developed that sets out the pillars of the organization's intervention framework, components and practices. In addition, the governance documentation for the organization's committees was updated.

Moreover, draft policies concerning management of the AMF's information assets, covering access to information and the protection of personal information, document management and information security, are currently being developed or updated.

### 2008-2013 sustainable development action plan

The AMF filed its 2008-2013 sustainable development action plan with Québec's *Ministère du Développement durable, de l'Environnement et des Parcs* on March 31, 2009.

The AMF will play an active role in implementing actions to reach the sustainable development objectives that are being pursued by the public administration following the coming into force of the *Sustainable Development Act* and the related *Stratégie gouvernementale* (Government Strategy). This document is available, in French, on the AMF website.

1 c. A-2.1, r.0.2

# OTHER INFORMATION

## Human Resources

As at March 31, 2009, the AMF had 614 regular and budgeted staff positions, 568 of which were filled. During the period from April 1, 2008 to March 31, 2009, 41 regular employees were hired.

## Codes of Ethics and Professional Conduct for the President and Chief Executive Officer and Other Public Office Holders[2]

During the period from April 1, 2008 to March 31, 2009, the AMF did not have to deal with any case involving the breach by a public office holder of a code of ethics and professional conduct.

In 2004-2005, the AMF adopted two codes of ethics and professional conduct. One applies to the President and Chief Executive Officer and the other to all staff, including members who are public office holders. It should be noted that, within the AMF, the President and Chief Executive Officer, the Executive Vice-President, the Superintendents, the Corporate Secretary and the Executive Directors are considered to be public office holders.

The *Code of ethics and professional conduct for the President and Chief Executive Officer of the Autorité des marchés financiers and the Code of ethics and professional conduct for staff members of the Autorité des marchés financiers* are posted on the AMF website (www.lautorite.qc.ca). Copies are also available by contacting the Information Centre.

## Language policy

The AMF applies a francization program approved by the *Office québécois de la langue française*. The members of its language committee provide feedback and advice to staff members with a view to its consistent application.

## Access to information

As at March 31, 2009, the AMF had processed 156 requests for access to information under *An Act respecting access to documents held by public bodies and the protection of personal information.*

## Protection of personal information of clients

Under *An Act respecting the distribution of financial products and services,* registered representatives and firms must protect their clients' personal information. Inspections carried out by the AMF enable it to confirm compliance with this obligation, and in particular whether:

- files containing personal information are kept under lock and key;
- the methods for disposing of files and for entering and storing data electronically are appropriate;
- insurance files are maintained separately from other files;
- client data at multidisciplinary firms are used solely for the purposes for which they were collected;
- representatives are able to meet clients in a location where confidentiality is assured.

2 Under paragraphs 3 and 4 of section 3.0.2 of An Act respecting the *Ministère du Conseil exécutif*, a government agency or corporation must ensure public access to its code of ethics and publish it in its annual report. It must also state the number of cases dealt with and the follow-up thereon and set out any breaches determined during the year by the disciplinary authorities, their decisions, any penalties imposed by them and the names of any public office holders revoked or suspended during the year.

# Appendix

# APPENDIX 1
# REPORT ON REGULATION ACTIVITIES UNDER THE SECURITIES ACT, PURSUANT TO SECTION 335.1
FOR THE PERIOD ENDED MARCH 31, 2009

## REGULATIONS BROUGHT INTO FORCE IN 2008-2009
## Regulation respecting Development Capital Investment Fund Continuous Disclosure

### Description

The *Regulation respecting Development Capital Investment Fund Continuous Disclosure* (the "Regulation") is intended to govern the continuous disclosure requirements of the *Fonds de solidarité des travailleurs du Québec* (FTQ), *Fondaction,* the *Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* and *Capital régional et coopératif Desjardins* (collectively the "Development Capital Investment Funds"). The Regulation codifies the current continuous disclosure practices of the Development Capital Investment Funds while introducing new requirements which are more in line with those set out in *Regulation 81-106 respecting Investment Fund Continuous Disclosure* (Regulation 81-106) from which the Funds are currently excluded and which have been applied to other investment funds since June 1, 2005.

The Regulation sets out the continuous disclosure requirements of the Development Capital Investment Funds in respect of financial statements, the auditor's report, the MD&A (Form F1, *Content of Management Discussion and Analysis*), the statement of development capital investments, the statement of other investments, the index of investments made by the specialized funds, the valuation of development capital investments (Form F2, *Certification respecting Valuation of Development Capital Investments*), the material change reports, the annual information form (Form F3, *Content of Annual Information Form*), the delivery of the financial statements and the MD&A, the sending of proxies, and other matters regarding continuous disclosure by the Development Capital Investment Funds.

For example, the requirement to set up an independent valuation committee to ensure compliance with the development capital investment valuation procedure and report to the board of directors is an important new requirement under this Regulation. Disclosure concerning the valuation of exchange-traded securities does not have to be submitted to the independent committee.

### Impact on the securities market and investors

The Regulation allows investors in the Development Capital Investment Funds to receive more complete financial information in order to better monitor their investment. The Regulation creates a uniform regulatory framework with respect to financial disclosure for the three funds.

### Concordant regulations

*Regulation to amend the Securities Regulation*

### Date of coming into force

June 1, 2008

### Date of publication in the AMF Bulletin

May 30, 2008

# Regulation to amend Regulation 21-101 respecting Marketplace Operation and Regulation to amend Regulation 23-101 respecting Trading Rules

## Description

Given the introduction of new markets on which the same securities are traded, specific regulatory measures were presented during recent fiscal years in order to foster price formation, liquidity, competition, innovation, market integrity and fairness. Some of these measures were adopted during fiscal 2008-2009.

During the year, the CSA adopted amendments to *Regulation 21-101 respecting Marketplace Operation* and *Regulation 23-101 respecting Trading Rules,* which pertain primarily to best execution.

The amendments adopted by the CSA introduce a definition of best execution, *i.e.*, the most advantageous execution terms available under the circumstances. Furthermore, the adviser or dealer is required to make reasonable efforts to achieve best execution when acting for a client.

## Impact on the securities market and investors

Innovations and new realities have changed how markets compete. Competition no longer takes place only with respect to price, but also in terms of speed, trade certainty and the overall cost of the trade, for example, and best execution obligations have therefore been updated to take the current context into account.

Moreover, the portion of the adopted amendments relating to best execution obligations will apply to securities advisers as well as dealers. Dealers who are members of the Investment Industry Regulatory Organization of Canada (IIROC) were already subject to very similar provisions.

The elements considered in determining “the most advantageous execution terms reasonably available” (“best execution”) and the weight given to each vary dependingon the client’s instructions and needs, the particular security, the prevailing market conditions and whether or not the dealer or adviser is responsible for best execution under the circumstances.

## Concordant regulations

None

## Date of coming into force

September 12, 2008

## Date of publication in the AMF Bulletin

September 5, 2008

# Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations

### Description

Amendments to the proxy solicitation requirements set out in *Regulation 51-102 respecting Continuous Disclosure Obligations* (Regulation 51-102) came into force on July 4, 2008. Under the Canada Business Corporations Act, a dissident shareholder may solicit proxies without sending a proxy circular if the solicitation is conveyed by public broadcast, speech or publication. A similar exemption has been added to Regulation 51-102.

The exemption under Regulation 51-102 is available provided that the solicitation contains certain information that is filed on the System for Electronic Document Analysis and Retrieval (SEDAR). The exemption is not available when the person proposes a restructuring or the nomination of an individual for election as a director. Instructions explaining proxy solicitations made to the public are set out in the Policy Statement to *Regulation 51-102 respecting Continuous Disclosure Obligations.*

Amendments were made to Regulation 51-102 to eliminate provisions that no longer apply in Québec.

### Impact on the securities market and investors

Although certain statutes offer exemptions covering the types of solicitation in question, dissident shareholders of reporting issuers subject to those statutes were not able to benefit from such exemptions, since Regulation 51-102 did not include a corresponding exemption from its provisions concerning proxy solicitation and the circular.

### Concordant regulations

*Regulation 81-106 respecting Investment Fund Continuous Disclosure*

### Date of coming into force

July 4, 2008

### Date of publication in the AMF Bulletin

July 4, 2008

## Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations

### (Executive Compensation)

**Description**

This Regulation establishes a new Form 51-102F6, *Statement of Executive Compensation.*

**Impact on the securities markets and investors**

The purpose of the texts related to executive compensation is to improve the quality and transparency of executive compensation disclosure. Greater transparency will enable users to assess the process by which corporate compensation decisions are made. It will also provide insight into a key aspect of a company's management and governance.

**Concordant regulations**

None

**Date of coming into force**

December 31, 2008

**Date of publication in the AMF Bulletin**

December 19, 2008

## Regulation to amend National Instrument 55-102: System for Electronc Disclosure by Insiders

**Description**

This Regulation aligns the regulatory requirement with the new electronic platform and facilitates the insider report filing process. The platform has been operational since October 6, 2007.

**Impact on the securities market and on investors**

None

**Concordant regulations**

None

**Date of coming into force**

June 13, 2008

**Date of publication in the AMF Bulletin**

June 13, 2008

# Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings

## Description

*Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109) has been in force since June 30, 2005.

An initial draft regulation to repeal and replace Regulation 52-109 was published for comment in February 2005, concordant to draft *Regulation 52-111 respecting Reporting on Internal Control over Financial Reporting* (Regulation 52-111).

Following this consultation, the CSA decided not to implement draft Regulation 52-111 but, instead, to add requirements regarding the internal control over financial reporting of issuers in a second draft regulation to repeal and replace Regulation 52-109, which was published for comment on March 30, 2007.

The following are the new requirements, as proposed in 2007:

- The chief executive officer and the chief financial officer (certifying officers) will be required to certify that they have evaluated the effectiveness of the issuer's internal control over financial reporting (ICFR) at the financial year-end. They will also be required to cause the issuer to disclose in its annual MD&A their conclusions about the effectiveness of ICFR, including a description of the ICFR evaluation process used, a description of any reportable deficiency relating to the operation of ICFR existing at the financial year-end, as well as the issuer's plans, if any, to remediate any such reportable deficiency;
- For any reportable deficiency relating to the design of ICFR that exists at the end of the period to which the certificate relates, the issuer will be required to disclose in its MD&A a description of the reportable deficiency, a description of the remediation plan to address the reportable deficiency and the completion date or expected completion date of the remediation plan;
- Certifying officers will be required to certify that they have disclosed to the issuer's auditors, board of directors and audit committee any fraud that involves management or other employees which was uncovered during their most recent ICFR evaluation

Following comments received on the second draft regulation, the CSA made extensive amendments to the texts published in March 2007. The draft regulation to repeal and replace Regulation 52-109 was therefore published for comment for the third time on April 18, 2008.

The main amendments are the following:

- There is a new form of certificate for venture issuers called a "venture issuer basic certificate"; it does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and ICFR. Consequently, venture issuers are no longer required to periodically evaluate their controls or include representations relating thereto in their MD&A;

- The threshold for reporting a weakness in ICFR is a "material weakness" rather than the previous concept of "reportable deficiency" (the definition of "material weakness" is the same as the corresponding U.S. definition);
- Issuers will no longer be required to remediate a material weakness in design, but they will have to disclose any plan to remediate a material weakness.

The new requirements proposed in the third draft regulation to repeal and replace Regulation 52-109 were adopted without any significant amendments and apply to periods ending on or after December 15, 2008.

### Impact on the securities market and investors

The new Regulation 52-109 will help maintain and strengthen investor confidence in the financial markets by introducing more transparent requirements with respect to the evaluation of the effectiveness of the internal control of reporting issuers other than investment funds, while maintaining an acceptable cost/benefit relationship for issuers.

### Concordant regulations

*Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations*

### Date of coming into force

December 15, 2008

### Date of publication in the AMF Bulletin

December 12, 2008

# Regulation to amend Regulation 81-106 respecting Investment Fund Continuous Disclosure

## Description

*Regulation 81-106 respecting Investment Fund Continuous Disclosure* (Regulation 81-106) defines the continuous disclosure obligations of investment funds that are reporting issuers and mutual funds in the local jurisdiction. These obligations cover the financial statements, financial disclosure requirements, management reports of fund performance, delivery and presentation of financial statements and management reports of fund performance, quarterly portfolio disclosure, annual information form, proxy voting disclosures for portfolio securities, material change reporting, proxy solicitation and information circulars, change of auditor disclosure, the calculation of net asset value, the management expense ratio as well as other continuous disclosure matters.

## Impact on the securities market and investors

Regulation 81-106 changes the obligations relating to the calculation of net asset value following the introduction of CICA Handbook section 3855, *Financial Instruments – Recognition and Measurement,* and clarifies and corrects certain regulatory provisions.

## Concordant regulations

- *Regulation to amend Regulation 81-101 respecting Mutual Fund Prospectus Disclosure;*
- *Regulation to amend Regulation 81-102 respecting Mutual Funds;*
- *Regulation to amend Regulation 41-101 respecting General Prospectus Requirements.*

## Date of coming into force

September 8, 2008

## Date of publication in the AMF Bulletin

September 5, 2008

# Regulation to repeal National Policy no. 50, Reservations in an Auditor's Report

### Description

*National Policy No. 50, Reservations in an Auditor's Report* (NP No. 50) has existed since 1992. The Policy set out the CSA's position with respect to the acceptability of the financial statements of an issuer, a registrant or other person required to file financial statements, where the financial statements are accompanied by an auditor's report containing a reservation. Since June 2003, when section 100 of Bill 57 came into force, NP No. 50 had been deemed to constitute a regulation.

Under the new section 11 of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure,* which came into force on June 1, 2008, an auditor's report on the audited financial statements of a labour-sponsored fund must not contain any reservations. This requirement has also been part of *Regulation 81-106 respecting Investment Fund Continuous Disclosure for investment funds and Regulation 51-102 respecting Continuous Disclosure Obligations* for other issuers since June 2005.

For this reason, NP No. 50, which had been maintained solely in respect of Québec labour-sponsored funds prior to the coming into force of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure,* became outdated and had to be repealed. The repeal took effect on October 1, 2008.

### Impact on the securities market and investors

None

### Concordant regulations

None

### Date of coming into force

October 1, 2008

### Date of publication in the AMF Bulletin

October 3, 2008

IMPORTANT DRAFT REGULATIONS

# Draft Regulation to amend Regulation 11-102 respecting Passport System

### Description

The draft *Regulation to amend Regulation 11-102 respecting Passport System* (Regulation to amend 11-102) will incorporate the registration segment to the passport system, which came into effect on March 17, 2008 with respect to prospectuses, discretionary exemptions and continuous disclosure.

### Impact on the securities market and investors

The Regulation to amend 11-102 will further simplify the securities regulatory system by giving registrants access to clients in multiple jurisdictions by dealing only with their principal regulator and meeting the requirements of one set of harmonized laws. It will also eliminate the professional costs related to the involvement of several securities authorities and compliance with different regulatory provisions. In addition, the implementation of *Policy Statement 11-204 respecting Process for Registration in Multiple Jurisdictions,* which will provide for interfaces with Ontario, will make the regulatory system as effective and efficient as possible in the circumstances for all market participants who want to register in the passport jurisdictions and Ontario.

### Concordant regulations

- *Draft Regulation to repeal Regulation 31-101 respecting National Registration System;*
- *Draft Regulation to amend Regulation 33-109 respecting Registration Information.*

### Date of publication in the AMF Bulletin (for comment)

July 18, 2008

### End of comment period

September 18, 2008

### Update

The passport system is primarily based on a set of regulatory provisions that have been harmonized across Canada. The implementation of the registration segment of this system depends on the coming into force of draft *Regulation 31-103 respecting Registration Requirements and Exemptions,* which is scheduled for September 28, 2009.

# Draft Regulation to amend Regulation 21-101 respecting Marketplace Operation and Draft Regulation to amend Regulation 23-101 respecting Trading Rules

## Description

Given the introduction of new markets on which the same securities are traded, specific regulatory measures were introduced during the year ended March 31, 2009 to foster price discovery, liquidity, competition, innovation, market integrity and fairness.

To do so, the CSA proposed draft amendments to *Regulation 21-101 respecting Marketplace Operation and Regulation 23-101 respecting Trading Rules* pertaining to trade-through obligations.

In a context of market proliferation, there are discrepancies in the application of the current rules to market participants. For example, IIROC's current Universal Market Integrity Rule (UMIR) pertaining to trade-through obligations (Rule 5.2 - Best Price Obligation) only applies to dealers. As certain new markets provide direct access to subscribers who are not dealers, some participants are not currently subject to any trade-through obligations.

The CSA draft amendments deal primarily with trade-through protection. They propose a framework to require all visible, immediately accessible, better-priced limit orders to be filled before other limit orders at inferior prices, regardless of the marketplace where the order is entered. The proposed trade-through protection rule would require each marketplace to establish, maintain and enforce written policies and procedures that are reasonably designed to prevent trade-throughs on that marketplace. Marketplaces would be required to regularly review and monitor the effectiveness of these policies and procedures and act promptly to remedy any deficiencies. The purpose of this approach is to require marketplaces to eliminate trade-throughs that can reasonably be prevented, but also provide them with flexibility about how to do so.

Other parts of the proposed amendments include proposals relating to clock synchronization, technology requirements for marketplaces, information processor requirements and best execution reporting requirements imposed on markets and dealers.

## Impact on the securities markets and investors

Trade-through protection ensures that all immediately accessible, visible, better-priced limit orders are executed prior to inferior-priced limit orders. During previous consultations, commenters generally agreed that the obligation not to "trade-through" (*i.e.*, bypass better-priced limit orders in favour of inferior-priced limit orders) is owed by all marketplace participants to the market as a whole. It is proposed that trade-through protection would apply whenever two or more marketplaces with displayed protected orders are open for trading.

The CSA considers trade-through protection to be important to maintain investor confidence and fairness in the market, especially where there is a high degree of retail participation and a historical expectation of trade-through protection. Without it, it can be argued that there may not be sufficient incentive to contribute to the price discovery process because investors who disclose their intentions will not be assured of the benefit of having their better-priced orders filled while others will be able to use that information to help in determining the prices at which they transact. This confidence encourages more liquidity in the market and a more efficient price discovery process.

## Concordant regulations

None

## Date of publication in the AMF Bulletin (for comment)

October 17, 2008

## End of comment period

January 9, 2009

# Draft Regulation 23-102 respecting Use of Client Brokerage Commissions

### Description

This draft regulation governs the use of brokerage commissions by securities advisers. It sets out the general characteristics of the products and services which may be paid for through brokerage commissions and defines the disclosure obligations of securities advisers with respect to the use of brokerage commissions.

### Impact on the securities market and investors

The draft regulation has four objectives:

- Ensure that investors have more information on their securities adviser's practices with respect to indirect payments through brokerage commissions;
- Harmonize the CSA rules governing goods and services payable using commissions and take into account developments in foreign rules;
- Provide clarification about the goods and services that advisers can pay for through commissions, in order to assess the actual management fees;
- Foster understanding that brokerage commissions actually benefit those who pay the commissions.

Achieving these objectives should help dispose of problems and lessen the frequency of problems associated with indirect payments using brokerage commissions in compliance reviews, reduce the number of requests for information from market participants about authorized goods and services, and improve investor information.

Currently, a policy statement in Ontario and a regulation in Québec set out guidelines for agreements on indirect payments using brokerage commissions and the information to be provided about them. However, it is believed that the current guidelines are not clear enough for market participants and do not sufficiently protect investors against the conflicts of interest inherent in such agreements.

### Concordant regulations

*Draft Regulation to repeal Policy Statement Q-20: Use by Dealers of Brokerage Commissions as Payment for Goods or Services Other Than Order Execution Services ("Soft Dollar" Deals)*

### Date of publication in the AMF Bulletin (for comment)

January 11, 2008

### End of comment period

April 10, 2008

### Update

This draft Regulation is the subject of ongoing discussions at the level of the CSA. It is expected to come into force in the fall of 2009.

# Draft Regulation 31-103 respecting Registration Requirements and Exemptions

## Description

### *Basis of passport system for registration*

Draft *Regulation 31-103 respecting Registration Requirements and Exemptions* (Regulation 31-103) gives effect to the proposed registration reform in respect of securities dealers and advisers, an initiative which began in 2005. It was published for comment by the CSA on February 20, 2007 and February 29, 2008. It ensures the normative harmonization needed for the operation of the passportsystem in respect of registration, since current registration requirements differ significantly from jurisdiction to jurisdiction.

### *Legislative amendments*

The proposed *Act to amend the Securities Act and other legislative provisions* (Bill 8) will enable the adoption of Regulation 31-103. It requires investment fund managers to register and expands the scope of the *Securities Act* to include the mutual fund and scholarship plan sectors, which are currently governed by *An Act respecting the distribution of financial products and services* (Distribution Act).

### *Terms and conditions*

Regulation 31-103 will be the primary regulatory instrument governing registration, together with the regulations on the National Registration Database (NRD), and its main terms and conditions are:

- new registration categories for firms and representatives;
- registration requirement for ultimate designated person and the chief compliance officer of the firm;
- new harmonized rules regarding fit and proper requirements, namely, the proficiency of representatives and the solvency of firms (new obligations with respect to regulatory capital and insurance);
- new harmonized rules of conduct dealingwith several elements pertaining to the internal governance of firms in all categories, including harmonized, simplified and modernized conflict of interest regulations;
- complaint examination obligation modelled on the Québec system;
- simplified rules for the suspension of firms and representatives, based on the Québec model;
- consolidation of all registration exemptions in a single regulatory instrument.

## Impact on the securities market and investors

Registration reform will have a major impact on securities distribution across Canada. In Québec, registration reform will have particularly important consequences for the legislative and regulatory framework governing mutual fund (group savings) firms and representatives, because it is part of efforts toward harmonization:

- Two public consultations were held in 2007 on the current regulatory framework applicable to the mutual fund sector in Québec under the *Distribution Act* and the impacts of registration reform on that framework;
- Bill 8 maintains, for the mutual fund sector, the requirements for the financial services compensation fund, the requirement to hold liability insurance, and the ethical and disciplinary jurisdiction of the *Chambre de la sécurité financière;*
- Mutual fund firms will become mutual fund dealers subject to the Securities Act, but will be subject to specialized regulation of the sector as of 2011 for the purpose of harmonization.

## Concordant regulations

- Draft *Regulation to amend the Securities Regulation,* Title V;
- Draft *Regulation to repeal Regulation 11-101 respecting Principal Regulator System;*
- Draft *Regulation to amend Regulation 14-101 respecting Definitions;*
- Draft *Regulation to repeal National Instrument 33-102: Regulation of Certain Registrant Activities;*
- Draft *Regulation to amend Regulation 33-105 respecting Underwriting Conflicts;*
- Draft *Regulation to amend Regulation 81-102 respecting Mutual Funds;*
- Draft *Regulation to amend Regulation 81-107 respecting Independent Review Committee for Investment Funds;*
- Draft *Regulation to repeal Policy Statement Q-9: Dealers, Advisers and Representatives;*

- Draft *Regulation to amend Regulation Q-17 respecting Restricted Shares;*
- Draft *Regulation to amend the Regulation respecting the Issuance and Renewal of Representatives' Certificates;*
- Draft *Regulation to amend the Regulation respecting the Pursuit of Activities as a Representative;*
- Draft *Regulation to amend the Regulation respecting Information to be Provided to Consumers;*
- Draft *Regulation to amend the Regulation respecting the Registration of Firms, Representatives and Independent Partnerships;*
- Draft *Regulation to amend the Regulation respecting Firms, Independent Representatives and Independent Partnerships;*
- Draft *Regulation to amend the Regulation respecting the Keeping and Preservation of Books and Registers;*
- Draft *Regulation to repeal the Regulation on Securities Certification and Certain Securities Practices;*
- Draft *Regulation to repeal the Regulation respecting Practice in the Securities Field;*
- Draft *Regulation to repeal the Regulation respecting the Trust Accounts and Financial Resources of Securities Firms;*
- Draft *Regulation to repeal the Regulation respecting the Rules of Ethics in the Securities Sector.*

### Date of publication in the AMF Bulletin (for comment)

February 29, 2008

On April 17, 2009: publication of concordant regulations in respect of the withdrawal of the securities sectors from the *Distribution Act:*

- Draft *Regulation to repeal the Regulation respecting the Trust Accounts and Financial Resources of Securities Firms;*
- Draft *Regulation to repeal the Regulation respecting the Rules of Ethics in the Securities Sector;*
- Draft *Regulation to repeal the Regulation on Securities Certification and Certain Securities Practices;*
- Draft *Regulation to repeal the Regulation respecting Practice in the Securities Field;*
- Draft *Regulation to amend the Regula tion respecting the Issuance and Renewal of Representatives' Certificates;*
- Draft *Regulation to amend the Regulation respecting the Pursuit of Activities as a Representative;*
- Draft *Regulation to amend the Regulation respecting Information to be Provided to Consumers;*
- Draft *Regulation to amend the Regulation respecting the Registration of Firms, Representatives and Independent Partnerships;*
- Draft *Regulation to amend the Regulation respecting Firms, Independent Representatives and Independent Partnerships;*
- Draft *Regulation to amend the Regulation respecting the Keeping and Preservation of Books and Registers.*

### End of comment period

May 29, 2008

May 18, 2009 (concordant regulations in respect of the withdrawal of the securities sectors from the *Distribution Act*)

### Update

Regulation 31-103 will be published in its final version in the middle of July 2009. It is scheduled to come into force on September 28, 2009.

## Draft Regulation to amend Regulation 45-102 respecting Resale of Securities

### Description

*Regulation 45-102 respecting Resale of Securities* sets out conditions for the resale of securities purchased under a prospectus exemption.

### Impact on the securities market and investors

The draft Regulation amends the obligations respecting the information to be included, in order to improve efficiency where a purchaser does not receive a certificate. Proposed amendments also state that a person participating in a control position (or any other person required to file the notice prepared in accordance with Form 45-102F1) cannot have concurrent notices covering the same securities.

### Concordant regulations

None

### Date of publication in the AMF Bulletin (for comment)

February 29, 2008

### End of comment period

May 30, 2008

### Mise à jour

The amendments will come into force on the same date as *Regulation 31-103 respecting Registration Requirements and Exemptions* and *Regulation 45-106 respecting Prospectus and Registration Exemptions.*

## Draft Regulation 45-106 respecting Prospectus and Registration Exemptions

### Description

*Regulation 45-106 respecting Prospectus and Registration Exemptions* (Regulation 45-106) sets out several harmonized prospectus and registration exemptions available throughout Canada. Regulation 45-106, which came into force on September 14, 2005, har-monized and consolidated several exemptions from prospectus and registration requirements previously included in various securities regulations.

The CSA is proposing to replace the current regulation in order to clarify and simplify certain provisions and codify discretionary exemptions granted.

In addition, in order to implement *Regulation 31-103 respecting Registration Requirements and Exemptions* (Regulation 31-103), the CSA plans to restructure Regulation 45-106 so that it deals primarily with exemptions from the prospectus requirement. The exemptions from the registration requirement will be contained in Regulation 31-103. Regulation 45-106 will include a transitional provision making null and void, at the end of six months, the registration exemptions currently provided for in that Regulation.

### Impact on the securities market and investors

Regulation 45-106 is expected to be easier to apply and takes into account the impact of the upcoming adoption of Regulation 31-103.

### Concordant regulations

Draft *Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations*

### Date of publication in the AMF Bulletin (for comment)

February 29, 2008

### End of comment period

May 29, 2008

### Update

Regulation 45-106 will come into force concurrently with Regulation 31-103. According to the timetable for Regulation 31-103, publication of the final version of Regulation 45-106 is scheduled for July 17, 2009. It is expected to come into force on September 28, 2009.

# Draft Regulation 52-107 respecting Acceptable Accounting Principles, Auditing Standards and Reporting Currency

### Description

The CSA rules currently refer to Canadian GAAP (generally accepted accounting principles), which are established by the Accounting Standards Board (AcSB) and published in the Canadian Institute of Chartered Accountants (CICA) Handbook. The AcSB has adopted a strategic plan to move financial reporting for Canadian publicly accountable enterprises to *International Financial Reporting Standards,* or IFRS, as issued by the *International Accounting Standards Board* (IASB). The AcSB's implementation plan proposes a mandatory changeover from existing Canadian GAAP to IFRS for fiscal years beginning on or after January 1, 2011.

*Regulation 52-107 respecting Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (Regulation 52-107) sets out acceptable accounting principles for financial reporting under securities legislation by domestic issuers, foreign issuers, registrants and other market participants. Under existing Regulation 52-107, a domestic issuer is required to use Canadian GAAP, although an SEC registrant has the option to use U.S. GAAP. Under existing Regulation 52-107, only foreign issuers can use IFRS.

### Impact on the securities market and investors

The new Regulation 52-107 will require issuers to prepare their financial statements in accordance with IFRS, which will be published in the CICA Handbook (in French or English), while allowing them to report compliance with IFRS as issued by the IASB. New Regulation 52-107 will retain the existing option for a domestic issuer that is also an SEC issuer to prepare its financial statements using U.S. GAAP.

### Concordant regulations

Regulation 52-107 and all regulations that use or make reference to accounting concepts currently contained in the CICA Handbook are being reviewed to take the impact of IFRS into account.

### Date of publication in the AMF Bulletin (for comment)

The new Regulation 52-107 and the concordant regulations will be published for comment during fall of 2009.

### End of consultation

Winter 2010

# Draft Regulation 55-104 respecting Insider Reporting Requirements and Exemptions

### Description

Draft *Regulation 55-104 respecting Insider Reporting Requirements and Exemptions* (Regulation 55-104) will define insider reporting requirements and set out the exemptions applicable to insiders in certain circumstances. It will combine and amend the obligations currently contained in *Regulation 55-101 respecting Insider Reporting Exemptions* and *Regulation 55-103 respecting Insider Reporting for Certain Derivative Transactions* (Equity Monetization). These two regulations will be repealed when Regulation 55-104 comes into force.

### Impact on the securities market and investors

Regulation 55-104 is intended to combine and simplify insider reporting requirements. It will also include requirements related to equity monetization. It will clarify certain provisions and codify certain discretionary exemptions which the CSA, including the AMF, may have granted.

### Concordant regulations

- Draft *Regulation to repeal Regulation 55-101 respecting Insider Reporting Exemptions;*
- Draft *Regulation to repeal Regulation 55-103 respecting Insider Reporting for Certain Derivative Transactions (Equity Monetization).*

### Date of publication in the AMF Bulletin (for comment)

December 18, 2008 (website)
December 19, 2008 (Bulletin)

### End of comment period

March 19, 2009

### Update

After reviewing the comments received, the CSA will identify the amendments to be made, if any, and will determine whether a new publication for comment is required. The CSA wants Regulation 55-104 to come into force in the spring of 2010.

# Draft Regulation 58-101 respecting Disclosure of Corporate Governance Practices

## Description

Draft *Regulation 58-101 respecting Disclosure of Corporate Governance Practices* (Regulation 58-101) and the related Policy Statement are intended to enhance the standards of governance and confidence in the Canadian capital markets. They introduce changes to three main areas of our corporate governance regime.

First, the CSA proposes to replace the current governance policy statement with a more principles-based policy that is broader in scope.

Second, the CSA proposes to replace the existing disclosure requirements set out in the current governance regulation with a new set of disclosure requirements. The new set of disclosure requirements are more general in nature (rather than based on a model of "comply-or-explain") and apply to both venture and non-venture issuers.

Third, and as a concordant regulation, the CSA proposes to include a principles-based definition of independence in draft *Regulation 52-110 respecting Audit Committees* (Regulation 52-110) and furnish guidance in the draft policy statement respecting audit committees regarding the types of relationships that could interfere with a director's independence. This guidance would replace the bright-line tests in sections 1.4 and 1.5 of the current audit committee regulation.

## Impact on the securities market and investors

The purpose of Regulation 58-101 is to provide greater transparency for the marketplace regarding issuers' corporate governance practices. The draft Policy Statement respecting governance is intended to provide guidance and orientations on corporate governance practices.

The purpose of Regulation 52-110 is to provide a framework for establishing and maintaining strong, effective and independent audit committees. The purpose of the draft policy statement respecting audit committees is to provide interpretative guidance for the application of this draft regulation.

## Concordant regulations

Draft *Regulation 52-110 respecting Audit Committees.*

## Date of publication in the AMF Bulletin (for comment)

December 19, 2008

## End of comment period

April 20, 2009

# Draft Regulation to amend Regulation 81-101 respecting Mutual Fund Prospectus Disclosure

## Description

The Joint Forum of Financial Market Regulators (Joint Forum) has recommended the harmonization of the rules related to mutual funds with those related to individual variable insurance contracts (IVICs) or segregated funds.

Among the recommendations, the Joint Forum believes it is necessary to regulate the early disclosure of information. This is reflected in a document entitled "Proposed Framework 81-406, *Point of Sale Disclosure for Mutual Funds and Segregated Funds"* (Proposed Framework) published on June 15, 2007.

The objectives of the Joint Forum were to develop a plain-language document providing key information relating to the sale of mutual funds and IVICs in a simple, comparable and accessible format. The document should be available to investors when that information is the most useful, *i.e.*, before or at the time of sale. The Joint Forum also wanted to ensure that the rights of mutual fund and IVIC investors were harmonized.

On October 24, 2008, the CSA published *CSA Notice 81-318 - Request for Comment, Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds.* In this publication, the CSA proposes a revised version ("Revised Framework") of the Framework proposed by the Joint Forum. The comment period ended on December 23, 2008. The CSA received close to 50 comment letters on CSA Notice 81-318. A working committee is reviewing the comment letters and will soon propose the regulatory amendments needed to adopt the Revised Framework in substance.

## Impact on the securities market and on investors

The goal is to give investors a plain-language document before or at the time the transaction takes place. Investors will thus have a document in hand containing key information (costs, returns and risk) so they can make an informed investment decision. Currently, mutual funds are required to deliver a prospectus within two days following the purchase of securities. The Revised Framework will require certain adaptations to be made to the current distribution process in the mutual fund industry.

When this proposal is adopted by the CSA and the Canadian Council of Insurance Regulators, regulatory and/or legislative amendments will be required. In the case of mutual funds, *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure* will have to be revised and, in the case of IVICs, the guidelines of the Canadian Life and Health Insurance Association (CLHIA) and/or the *Regulation respecting the application of the Act respecting insurance* will have to be revised to take into account the decisions of the regulatory authorities.

## Date of publication in the AMF Bulletin (for comment)

October 24, 2008

## End of comment period

December 23, 2008

# APPENDIX 2
# REPORT ON REGULATION ACTIVITIES UNDER THE DERIVATIVES ACT, PURSUANT TO SECTION 179
FOR THE PERIOD ENDED MARCH 31, 2009

## REGULATIONS BROUGHT INTO FORCE IN 2008-2009

## Derivatives Regulation

**Description**

*The Derivatives Regulation* determines the minimum assets of a person for the purposes of the definition of accredited counterparty, establishes the self-certification process for operating rules of regulated entities and provides for a risk information document.

**Impact on the securities market and on investors**

This Regulation has little impact on the market because it is intended to provide additional qualification for accredited counterparties, governs the operating rules of regulated entities and maintains the communication of a risk document.

The impact on the market was minimized through consultations on the draft regulation.

**Concordant regulations**

None

**Date of coming into force**

February 1, 2009

**Date of publication in the AMF Bulletin**

January 23, 2009

## Tariffs for Costs and Fees Payable in respect of Derivatives

**Description**

The Regulation establishes the rate schedule for inspection or investigation costs, as well as the costs incurred by the AMF for the administration of Title II of the *Derivatives Act* concerning regulated entities.

As well, the Regulation sets fees payable annually or occasionally by a regulated entity, a dealer, adviser, representative or other market participant for an application for recognition, registration, qualification or exemption, or for the filing of a notice relating to a derivative, designation or acquisition.

**Impact on the securities market and on investors**

The AMF has set tariffs for costs and fees payable in respect of the derivatives markets that are harmonized with the regulations applicable to the securities industry.

**Concordant regulations**

None

**Date of coming into force**

March 5, 2009

**Date of publication in the AMF Bulletin**

February 20, 2009

## Draft Regulation to amend the Derivatives Regulation

### Description

The draft *Regulation to amend the Derivatives Regulation* will include certain requirements regarding the registration and activities of dealers, advisers and representatives with respect to derivatives. These amendments are expected to come into force concurrently with *Regulation 31-103 respecting Registration Requirements and Exemptions.*

### Impact on the securities market and on investors

This Regulation has little impact on the securities market and investors. It ensures that the requirements for registrants with respect to derivatives are consistent with those with respect to securities.

The impact on the market will be minimized through consultations on the draft regulation.

### Concordant regulations

None

### Date of publication in the AMF Bulletin (for comment)

A 30-day comment period is scheduled for July 2009.

### End of comment period

August 2009

*Autorité des marchés financiers*

# Financial Statements
Year ended March 31, 2009

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# Management’s report

The financial statements of the *Autorité des marchés financiers* (AMF) were drawn up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involves the selection of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfill its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable financial statements. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the AMF.

The AMF recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the financial statements of the AMF in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and expresses his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean St-Gelais
President and Chief Executive Officer

Linda Levasseur
Executive Director, Administration

Québec City, June 10, 2009

# Auditor's report

To the National Assembly

I have audited the balance sheet of the *Autorité des marchés financiers* (AMF) as at March 31, 2009 and the statements of income, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the AMF's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the AMF as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec

Renaud Lachance CA auditeur

Renaud Lachance, CA auditor

Québec City, June 10, 2009

# Autorité des marchés financiers

## INCOME for the year ended March 31, 2009

(in thousands of dollars)

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Current Operations $ | Operations Insurance Fund $ | Total $ | Current Operations $ | Operations Insurance Fund $ | Total $ |
| **Revenues** | | | | | | |
| Fees, contributions and premiums | 73,441 | 12,760 | **86,201** | 72,324 | 12,090 | **84,414** |
| Interest and income from short-term investments | 2,083 | 20 | **2,103** | 2,707 | 33 | **2,740** |
| Investment interest and income | | 12,915 | **12,915** | | 18,543 | **18,543** |
| Other | 1,584 | | **1,584** | 1,268 | | **1,268** |
| Government of Québec contribution to the fight against tax evasion | 1,000 | | **1,000** | 825 | | **825** |
| Administrative penalties and fines | 693 | | **693** | 1,232 | | **1,232** |
| | 78,801 | 25,695 | **104,496** | 78,356 | 30,666 | **109,022** |
| **Expenses** | | | | | | |
| Salaries and employee benefits | 53,317 | 277 | **53,594** | 51,074 | 437 | **51,511** |
| Occupancy expenses | 5,199 | | **5,199** | 4,809 | | **4,809** |
| Professional services | 10,342 | | **10,342** | 9,804 | | **9,804** |
| Supplies, documentation and maintenance | 1,593 | | **1,593** | 1,465 | | **1,465** |
| Business expense and reception | 1,922 | 12 | **1,934** | 1,762 | 6 | **1,768** |
| Communications, information | 833 | 287 | **1,120** | 802 | 279 | **1,081** |
| Telecommunications | 518 | | **518** | 461 | | **461** |
| Contribution to the *Bureau de décision et de révision en valeurs mobilières* | 2,100 | | **2,100** | 2,100 | | **2,100** |
| Fees related to legislation | 973 | | **973** | 950 | | **950** |
| Other | 1,945 | 9 | **1,954** | 2,024 | 11 | **2,035** |
| Amortization of tangible capital assets | 1,204 | | **1,204** | 2,833 | | **2,833** |
| Amortization of start-up costs | 964 | | **964** | 1,163 | | **1,163** |
| Administrative expenses attributed to the Funds (Note 3) | (1,604) | 731 | **(873)** | (1,329) | 419 | **(910)** |
| | 79,306 | 1,316 | **80,622** | 77,918 | 1,152 | **79,070** |
| **Suplus (deficit) of revenues over expenses before the following item** | (505) | 24,379 | **23,874** | 438 | 29,514 | **29,952** |
| Operations of the Education and Good Governance Fund (Note 4) | 137 | | **137** | (889) | | **(889)** |
| **Suplus (deficit) of revenues over expenses** | (368) | 24,379 | **24,011** | (451) | 29,514 | **29,063** |

The accompanying notes are an integral part of the financial statements.

# ACCUMULATED SURPLUS
# for the year ended March 31, 2009

(in thousands of dollars)

| | Current Operations | Deposit Insurance Fund | 2009 Total | Current Operations | Deposit Insurance Fund | 2008 Total |
|---|---|---|---|---|---|---|
| | $ | $ | **$** | $ | $ | **$** |
| Balance, beginning of year | 67,425 | 403,462 | **470,887** | 67,876 | 373,948 | **441,824** |
| Suplus (deficit) of revenues over expenses | (368) | 24,379 | **24,011** | (451) | 29,514 | **29,063** |
| **Balance, end of year** (Notes 4 and 12) | 67,057 | 427,841 | **494,898** | 67,425 | 403,462 | **470,887** |

The accompanying notes are an integral part of the financial statements.

# BALANCE SHEET

(in thousands of dollars)

| | Current Operations | Deposit Insurance Fund | As at March 31, 2009 Total | Current Operations | Deposit Insurance Fund | As at March 31, 2008 Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash | 4,084 | 3 | **4,087** | 7,307 | 2 | **7,309** |
| Short-term investments (Note 5) | 49,418 | 65 | **49,483** | 61,637 | 25 | **61,662** |
| Accounts receivable (Note 6) | 27,897 | 1 | **27,898** | 13,395 | | **13,395** |
| Receivable - deposit insurance fund | 151 | | | | | |
| Receivable - current operations | | | | | 52 | |
| Interest receivable | 343 | 506 | **849** | 499 | 900 | **1,399** |
| Prepaid expenses | 980 | 1 | **981** | 810 | 2 | **812** |
| | 82,873 | 576 | **83,298** | 83,648 | 981 | **84,577** |
| **Accounts receivable** (Note 6) | 1,384 | | **1,384** | 7,977 | | **7,977** |
| **Investments** (Note 7) | 8,601 | 429,762 | **438,363** | | 404,493 | **404,493** |
| **Tangible capital assets** (Note 8) | 8,182 | | **8,182** | 8,226 | | **8,226** |
| **Start-up costs** (Note 9) | | | | 964 | | **964** |
| | 101,040 | 430,338 | **531,227** | 100,815 | 405,474 | **506,237** |

# BALANCE SHEET (cont.)

(in thousands of dollars)

| | | | As at March 31, 2009 | | | As at March 31, 2008 |
|---|---|---|---|---|---|---|
| | Current Operations | Deposit Insurance Fund | Total | Current Operations | Deposit Insurance Fund | Total |
| | $ | $ | **$** | $ | $ | **$** |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued liabilities (Note 10) | 13,016 | 278 | **13,294** | 12,293 | 4 | **12,297** |
| Payable - current operations | | 151 | | | | |
| Payable - deposit insurance fund | | | | 52 | | |
| Refundable fees and contributions | 277 | | **277** | 341 | | **341** |
| Allowance for vacation time, sick leave and severance benefits (Note 11) | 5,530 | | **5,530** | 5,014 | | **5,014** |
| Deferred revenue | 8,567 | 1,068 | **9,635** | 7,961 | 1,008 | **8,969** |
| | 27,390 | 1,497 | **28,736** | 25,661 | 1,012 | **26,621** |
| **Long-term portion of allowance for vacation time, sick leave and severance benefits** (Note 11) | 6,120 | | **6,120** | 7,413 | | **7,413** |
| **Supplemental pension plan obligation** (Note 11) | 473 | | **473** | 316 | | **316** |
| | 33,983 | 1,497 | **35,329** | 33,390 | 1,012 | **34,350** |
| **NET EQUITY** | | | | | | |
| Government of Québec contribution | | 1,000 | **1,000** | | 1,000 | **1,000** |
| Accumulated surplus | 67,057 | 427,841 | **494,898** | 67,425 | 403,462 | **470,887** |
| | 67,057 | 428,841 | **495,898** | 67,425 | 404,462 | **471,887** |
| | 101,040 | 430,338 | **531,227** | 100,815 | 405,474 | **506,237** |
| **COMMITMENTS AND CONTINGENCIES** (Notes 14 et 15) | | | | | | |

The accompanying notes are an integral part of the financial statements.

Jean St-Gelais
President and Chief Executive Officer
*Autorité des marchés financiers*

Linda Levasseur
Executive Director, Administration
*Autorité des marchés financiers*

# CASH FLOWS
# For the year ended March 31, 2009
(in thousands of dollars)

| | Current Operations | Operations Insurance Fund | 2009 Total | Current Operations | Operations Insurance Fund | 2008 Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **OPERATING ACTIVITIES** | | | | | | |
| Suplus (deficit) of revenues over expenses | (368) | 24,379 | **24,011** | (451) | 29,514 | **29,063** |
| Items not affecting cash flows | | | | | | |
| Amortization of tangible capital assets | 1,204 | | **1,204** | 2,833 | | **2,833** |
| Amortization of start-up costs | 964 | | **964** | 1,163 | | **1,163** |
| Loss on disposal of tangible capital assets | 303 | | **303** | 1 | | **1** |
| Loss on disposal of investments | | 3 | **3** | | | |
| | 2,103 | 24,382 | **26,485** | 3,546 | 29,514 | **33,060** |
| Change in non-cash operating items | | | | | | |
| Accounts receivable | (7,909) | (1) | **(7,910)** | (4,476) | | **(4,476)** |
| Receivable – deposit insurance fund | (151) | | | | | |
| Receivable – current operations | | 52 | | | (15) | |
| Interest receivable | 156 | 394 | **550** | 745 | 1,009 | **1,754** |
| Prepaid expenses | (170) | 1 | **(169)** | 115 | (1) | **114** |
| Accounts payable and accrued liabilities | (3) | 274 | **271** | 1,991 | 3 | **1,994** |
| Payable – current operations | | 151 | | | | |
| Payable – deposit insurance fund | (52) | | | 15 | | |
| Refundable fees and contributions | (64) | | **(64)** | 39 | | **39** |
| Allowance for vacation time, sick leave and severance benefits | (777) | | **(777)** | 986 | | **986** |
| Supplemental pension plan obligation | 157 | | **157** | 316 | | **316** |
| Deferred revenue | 606 | 60 | **666** | 307 | 9 | **316** |
| | (8,207) | 931 | **(7,276)** | 38 | 1,005 | **1,043** |
| **Cash flows related to operating activities** | (6,104) | 25,313 | **19,209** | 3,584 | 30,519 | **34,103** |

# CASH FLOWS (cont.)
# For the year ended March 31, 2009
(in thousands of dollars)

| | 2009 Current Operations $ | 2009 Operations Insurance Fund $ | 2009 Total $ | 2008 Current Operations $ | 2008 Operations Insurance Fund $ | 2008 Total $ |
|---|---|---|---|---|---|---|
| **INVESTING ACTIVITIES** | | | | | | |
| Acquisition of investments | (77,620) | (26,244) | **(103,864)** | (76,332) | (30,590) | **(106,922)** |
| Proceeds from disposal of investments | 81,238 | 972 | **82,210** | 70,102 | | **70,102** |
| Additions to tangible capital assets (Note 16) | (738) | | **(738)** | (2,193) | | **(2,193)** |
| Proceeds from disposal of tangible capital assets | 1 | | **1** | | | |
| **Cash flows related to investing activities** | 2,881 | (25,272) | **(22,391)** | (8,423) | (30,590) | **(39,013)** |
| **Net change in cash and cash equivalents** | (3,223) | 41 | **(3,182)** | (4,839) | (71) | **(4,910)** |
| Cash and cash equivalents, beginning of year | 7,307 | 27 | **7,334** | 12,146 | 98 | **12,244** |
| Cash and cash equivalents, end of year | 4,084 | 68 | **4,152** | 7,307 | 27 | **7,334** |
| Cash and cash equivalents, end of year consist of: | | | | | | |
| Cash | 4,084 | 3 | **4,087** | 7,307 | 2 | **7,309** |
| Investments maturing within three months | | 65 | **65** | | 25 | **25** |
| | 4,084 | 68 | **4,152** | 7,307 | 27 | **7,334** |

The accompanying notes are an integral part of the financial statements.

# Notes to Financial Statements as at March 31, 2009

(in thousands of dollars, unless otherwise indicated)

## 1 - Incorporation and Mission

The *Autorité des marchés financiers* (the "AMF") is a legal person and a mandatary of the State, created under *An Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2), which came into effect on February 1, 2004. Reporting to the Minister of Finance, the AMF is funded by various financial sector stakeholders.

The AMF is the body that administers the regulatory framework governing Québec's financial sector. On February 1, 2004, it replaced the *Bureau des services financiers,* the *Commission des valeurs mobilières du Québec,* the *Fonds d'indemnisation des services financiers,* the Inspector General of Financial Institutions (financial services only) and the *Régie de l'assurance-dépôts du Québec.* At that time, it acquired the rights and assumed the obligations of these entities.

The mission of the AMF is to:

- Provide assistance to consumers of financial products and services, in particular by setting up consumer-oriented educational programs on financial products and services, processing complaints filed by consumers and giving consumers access to dispute-resolution services;
- Ensure that the financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law with a view to protecting the interests of consumers of financial products and services, and take any measure provided by law for those purposes;
- Supervise the activities connected with the distribution of financial products and services, administer the rules governing eligibility for and the carrying on of those activities and take any measure provided by law for those purposes;
- Supervise stock market and clearing house activities and monitor the securities market, in particular by administering the controls provided by law as regards access to the public capital market, ensuring that the issuers and other practitioners involved in the financial sector comply with the obligations imposed on them by law and taking any measure provided by law for those purposes;
- Supervise derivatives markets, including derivatives exchanges and clearing houses, and ensure that regulated entities and other derivatives market practitioners comply with the obligations imposed by law;
- See to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

The AMF administers a deposit insurance fund. Under section 52.2 of the *Deposit Insurance Act,* any net income accumulated in the deposit insurance fund must be entered as a separate item in any of the AMF's statements of assets and liabilities and must be listed as being added to or subtracted from the deposit insurance fund. In order to provide complete financial information, the AMF also presents the operations and other asset and liability items of the deposit insurance fund separately. The purpose of this fund, set up under the *Deposit Insurance Act* (R.S.Q., c. A-26), is to:

- Govern the soliciting and receiving of deposits of money from the public;
- Guarantee to every person who makes a deposit of money with a registered institution the payment, on their respective maturity dates, of the principal and interest on such deposit, up to one hundred thousand dollars;
- Manage a deposit insurance fund;
- Administer a permit system.

Under this Act:

- The deposit insurance fund must be maintained to execute the guarantee obligation and to exercise certain powers. The premiums collected by the fund are paid into it together with any sums the Minister of Finance may, with the authorization of the Government and on such conditions as the latter may determine, pay into it from time to time;

- When the resources of the deposit insurance fund are insufficient for the payment of its obligations or the exercise of its powers, the Minister of Finance, with the authorization of the Government and on such conditions as it determines, may make advances to the fund or guarantee the payment of any of the fund's commitments. The total unpaid balance of these advances and guaranteed commitments may not exceed $700 million.

The AMF is trustee of the *Fonds d'indemnisation des services financiers,* a financial services compensation fund created under section 258 of *An Act respecting the distribution of financial products and services,* as amended by section 424 of *An Act respecting the Autorité des marchés financiers.* This fund is assigned to the payment of indemnities payable to victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible. Under section 274 of *An Act respecting the distribution of financial products and services,* the AMF must keep separate records and the assets of the fund are not part of the assets of the AMF.

***Chambre de la sécurité financière* and *Chambre de l'assurance de dommages***

In administering *An Act respecting the distribution of financial products and services* and to facilitate the dues collection process of the *Chambre de la sécurité financière* and the *Chambre de l'assurance de dommages,* the AMF has, under various agreements, taken charge of collecting membership dues for these entities. During the year, the AMF collected dues totalling $8,166 ($7,898 in 2008) on behalf of and remitted $8,142 ($7,899 in 2008) to the *Chambre de la sécurité financière;* the AMF collected dues totalling $4,323 ($3,768 in 2008) on behalf of and remitted $3,912 ($3,818 in 2008) to the *Chambre de l'assurance de dommages*.

## 2 - Accounting Policies

In preparing its financial statements, the AMF primarily uses the Public Sector Accounting Handbook. The use of any other source of generally accepted accounting principles is consistent with this Handbook.

Previously, the AMF used the CICA Handbook for the private sector. This change did not affect the AMF's accounting policies and results. The presentation of the prior year's financial statements has been modified to reflect this change in accounting framework. In particular, in the statement of accumulated surplus, the columns detailing the surplus, the contingency reserve and the Education and Good Governance Fund have been grouped under the heading "Current Operations" as detailed information is provided in the notes. Similarly, intangible assets have been grouped with tangible capital assets.

The preparation of the AMF's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The main items for which estimates are made are the useful lives of tangible capital assets, the allowance for vacation time, sick leave and severance benefits and the fair value of investments. Actual results could differ from those estimates.

**Short-term investments**

Short-term investments are recorded at the lower of cost and market value.

**Investments**

Investments are recorded at cost less any permanent decline in value.

### Tangible capital assets

Tangible capital assets are recorded at cost and amortized on a straight-line basis over the following useful lives:

| | |
|---|---|
| Computer equipment, software and information system development | 3 years |
| Office furniture and equipment and leasehold improvements – equipment | 5 years |
| Leasehold improvements – layout | Remaining lease term plus renewal option period |

### Impairment of capital assets

When conditions indicate that a capital asset no longer contributes to the AMF's ability to provide goods and services, or that the value of future economic benefits associated with the capital asset is less than its net book value, the cost of the capital asset is reduced to reflect the decline in the asset's value. The loss in value is charged to the statement of income in the period in which the impairment is determined.

### Start-up costs

Start-up costs were incurred by the *Bureau de transition de l'encadrement du secteur financier,* which was mandated to set up the AMF. These costs represent primarily remuneration, professional fees and rent for Bureau de transition operations, and were amortized on a straight-line basis over a five-year period that ended on February 1, 2009.

### Revenue recognition

#### *Revenues from contributions and premiums*

Revenues from contributions and premiums are recorded in keeping with the period covered by these revenues. Amounts invoiced for a period exceeding the fiscal year-end are accounted for as deferred revenue.

#### *Revenues from administrative penalties and fines*

Revenues from administrative penalties and fines are recognized when the penalty or fine is payable and when collection is reasonably assured.

#### *Revenues other than contributions, premiums and administrative penalties and fines*

Revenues other than contributions, premiums and administrative penalties and fines are recorded when the supply is delivered or the service is rendered.

### Provision for deposit insurance fund losses

The provision for losses on claims related to repayment of guaranteed deposits results from the subrogation of depositors' rights and interests. The provision for losses is established through a case-by-case analysis and recorded as soon as the losses can reasonably be determined. The annual change in this provision is reported in the statement of income.

### Pension plans

Defined contribution plan accounting is applied to government multi-employer defined benefit plans given that the AMF lacks sufficient information to follow defined benefit plan accounting.

The AMF has also set up a supplemental pension plan for the purpose of paying pension benefits to certain AMF executives, in addition to basic pension plan benefits. The cost of pension benefits accrued by such AMF executives is actuarially determined using the projected benefit method prorated on services and management's best estimate assumptions of the discount rate, rate of compensation increase and retirement age.

**Cash and cash equivalents**

The AMF's policy is to present, under cash and cash equivalents, bank balances, unappropriated demand deposits and other investments maturing within three months of their acquisition date.

### 3 - Administrative expenses attributed to the funds

The AMF made human resources, capital assets and office space available to the deposit insurance fund and the *Fonds d'indemnisation des services financiers*. During the year, the AMF charged them $731 ($419 in 2008) and $873 ($910 in 2008) respectively for the use of these resources. These transactions were in the normal course of operations and measured at the exchange amount, in accordance with an agreement entered into between the parties.

### 4 - Education and good governance fund

Under section 38.1 of *An Act respecting the Autorité des marchés financiers* (R.S.Q., chapter A-33.2), the AMF has established an education and good governance fund (EGGF). The fund's operations for the year are as follows:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Balance, beginning of year | **11,260** | 12,149 |
| Operations of the EGGF: | | |
| Investment income | **112** | 573 |
| Income from administrative penalties and fines | **1,068** | 18 |
| Contribution payments | **(993)** | (1,413) |
| Salaries and employee benefits | **(47)** | (59) |
| Other | **(3)** | (8) |
| | **137** | (889) |
| Balance, end of year | **11,397** | 11,260 |

Of the AMF's short-term investments and investments presented in Notes 5 and 7, an amount of $11,889 as at March 31, 2009 ($11,937 in 2008) is allotted to the EGGF. As at March 31, 2009, the EGGF owed an amount of $495 ($713 in 2008) to the AMF and had interest receivable from the *Caisse de dépôt et placement du Québec* of $3 ($36 in 2008).

The balance of the EGGF is included in the accumulated surplus under "Current Operations."

## 5 - Short-term investments

| | Current Operations $ | Deposit Insurance Fund $ | As at March 31, 2009 Total $ | Current Operations $ | Deposit Insurance Fund $ | As at March 31, 2008 Total $ |
|---|---|---|---|---|---|---|
| **Funds entrusted to the *Caisse de dépôt et placement du Québec*,** at cost | | | | | | |
| Demand deposits | 440 | 65 | **505** | 100 | 25 | **125** |
| Term deposits | 13,000 | | **13,000** | 16,600 | | **16,600** |
| Participation deposits | 2,848 | | **2,848** | 11,837 | | **11,837** |
| | 16,288 | 65 | **16,353** | 28,537 | 25 | **28,562** |
| **Funds entrusted to other institutions,** at cost | | | | | | |
| Bankers' acceptances | 15,730 | | **15,730** | 25,600 | | **25,600** |
| Bearer term notes | 17,400 | | **17,400** | 7,500 | | **7,500** |
| | 49,418 | 65 | **49,483** | 61,637 | 25 | **61,662** |

Term deposits, bankers' acceptances and bearer term notes earn interest at rates ranging from 0.66% to 3.40% and mature on various dates through March 2010. As at March 31, 2009, the rate for demand deposits was 0.73%.

The market value of term deposits entrusted to the *Caisse de dépôt et placement du Québec* (CDP) stood at $13,034 as at March 31, 2009 ($16,645 in 2008). The market value of participation deposit units in funds entrusted to the CDP stood at $2,848 as at March 31, 2009 ($11,837 in 2008). The market value of bankers' acceptances and bearer term notes was $15,907 and $17,683 respectively as at March 31, 2009 ($25,924 and $7,500 in 2008). The fair value of demand deposits is equivalent to the carrying amount due to their short maturities.

## 6 - Accounts receivable

| | | | As at March 31, 2009 | | | As at March 31, 2008 |
|---|---|---|---|---|---|---|
| | Current Operations | Deposit Insurance Fund | Total | Current Operations | Deposit Insurance Fund | Total |
| | $ | $ | $ | $ | $ | $ |
| **Current portion** | | | | | | |
| Fees, contributions and premiums | 20,912 | | **20,912** | 4,133 | , | **4,133** |
| *Fonds d'indemnisation des services financiers* | | | | 286 | | **286** |
| Other | | 1 | **1** | | | |
| Advance to employees[1] | | | | 2 | | **2** |
| Advance to the *Fonds d'indemnisation des services financiers*[2] | 6,785 | | **6,785** | 8,614 | | **8,614** |
| Due from the Government of Québec | | | | | | |
| *Conseil du Trésor* | 185 | | **185** | 347 | | **347** |
| *Ministère de l'Éducation* | 15 | | **15** | 13 | | **13** |
| | 27,897 | 1 | **27,898** | 13,395 | | **13,395** |
| **Long-term portion** | | | | | | |
| Other | 364 | | **364** | 126 | | **126** |
| Advance to employees[1] | 1,020 | | **1,020** | 1,124 | | **1,124** |
| Advance to the *Fonds d'indemnisation des services financiers*[2] | | | | 6,542 | | **6,542** |
| Due from the Government of Québec | | | | | | |
| *Conseil du Trésor* | | | | 185 | | **185** |
| | 1,384 | | **1,384** | 7,977 | | **7,977** |
| | 29,281 | 1 | **29,282** | 21,372 | | **21,372** |

1 An advance corresponding to 56 hours of wages was granted to employees to enable the AMF to defer the payment of salaries by two weeks. This advance does not earn interest and is repayable no later than at the employee's departure.

2 Advance earning interest at rates ranging from 2.90% to 3.60% (4.53% and 4.88% in 2008) based on a one-year bankers' acceptance rate established at the daily market rate and repayable as cash surpluses are generated by the Fonds d'indemnisation des services financiers.

## 7 - Investments

| | Current Operations | Deposit Insurance Fund | As at March 31, 2009 Total | Current Operations | Deposit Insurance Fund | As at March 31, 2008 Total |
|---|---|---|---|---|---|---|
| | $ | $ | **$** | $ | $ | **$** |
| **Funds entrusted to the *Caisse de dépôt et placement du Québec*** | | | | | | |
| Participation deposits | 8,601 | 429,762 | **438,363** | | 404,493 | **404,493** |
| | 8,601 | 429,762 | **438,363** | | 404,493 | **404,493** |

The market value of participation deposit units in funds entrusted to the CDP was $427,646 as at March 31, 2009 ($418,563 in 2008). No loss in value was recognized during the year, as AMF's management does not consider the decline in the market value of the participation deposits to be permanent.

### Third-party and bank-sponsored ABCP

The CDP determined the fair value of participation deposits as at March 31, 2009 taking into account a decrease in value on the investments it held in the Canadian asset-backed commercial paper (ABCP) market that were restructured.

### Description of ABCP

ABCP is short-term debt supported by a range of financial instruments. The assets, such as mortgage or consumer loans, or exposure to risk, such as credit default swaps, are acquired by a conduit by means of various types of transactions, including the purchase of financial assets and derivatives. ABCP is generally issued for a term of 30, 60 or 90 days on either a discounted or interest-bearing basis.

The financial instruments serving as assets for a conduit that issued ABCP generally have maturities that are longer than the maturity of the ABCP issued. The conduit therefore must typically have liquidity backstop facilities with a financial institution that it can draw on under certain conditions in the event that it is not able to issue new ABCP securities in order to redeem those that mature or to meet the need for additional liquid assets.

The subprime mortgage crisis in the United States caused disruption on the international markets, which resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since then, the CDP has not been able to redeem, on maturity, the amounts due under the third-party ABCP that it holds.

### Restructuring efforts

The efforts to restructure third-party ABCP, which began in August 2007, resulted in the conclusion of an agreement on December 24, 2008, which then required approval by the decision-making authorities of the institutions concerned as well as orders-in-council. The agreement was subsequently confirmed in its proposed form and gave rise to an exchange of securities on January 21, 2009.

Under this agreement, third-party ABCP was restructured and gave rise to the creation of three new trusts, called "Master Asset Vehicles." This ABCP will be converted into new securities with maturities corresponding to those of the underlying assets. The new securities will bear interest at rates that will ultimately reflect the cash flow available within the vehicles, including the cost inherent in the funding facilities included in the restructuring plan.

The CDP also held ABCP issued by trusts sponsored by financial institutions. As a result of market turbulence, these trusts received substantial collateral calls from purchasers of credit protection. Therefore, these trusts were also restructured in 2008.

**Establishment of fair value**

Given that there was no active market as at March 31, 2009 for the third-party and bank-sponsored ABCP in which the CDP held investments, it established, in accordance with CICA guidelines, fair values for the various ABCP securities using a valuation technique based on a financial model whose assumptions and probabilities reflect uncertainties regarding the amounts, the return and maturity of the cash flows, the illiquidity risk, the nature and credit risk of the debt and the underlying financial assets, and credit spreads reflecting market conditions as at March 31, 2009. The assumptions, based on information available as at March 31, 2009, use observable market data, such as interest rates and credit quality and price, as much as possible. They also take into account specific aspects of the restructuring plan and are based partially on assumptions not supported by prices or rates observed on the market.

**Effect on March 31, 2009 results**

For the year ended March 31, 2009, the share of charges attributed to the deposit insurance fund stood at $11.2 million ($5.0 million in 2008) for an investment in ABCP, through the CDP, of $33.0 million ($32.5 million in 2008). This share of charges is composed of:

- the share of unrealized losses on these securities of $10.7 million (4.8 millions de dollars in 2008);
- the share of realized losses on these securities of $0.5 million ($0.2 million in 2008), less gains realized on the sale.

For the year ended March 31, 2009, the share of income attributed to the deposit insurance fund for interest received from third parties on ABCP, net of the reversal of interest paid to specialized portfolios, was $0.3 million (charges of $1.0 million from the reversal of interest paid in 2008).

The estimated fair value of the CDP's investments in ABCP as at March 31, 2009 is not likely to be indicative of their definitive value or future fair value. Although CDP management believes that its valuation technique is appropriate in the circumstances, it states in its audited financial statements that changes to the main assumptions, including those used to determine discount rates, credit spreads, expected returns, the credit risk of the underlying assets and the value of the various commitments and collateral, could have a material impact on the fair value of the new notes and the other ABCP securities in the years to come. Accordingly, resolution of these uncertainties could mean that the definitive value of the investments in subsequent periods would differ considerably from CDP management's current best estimates.

A revision of the decrease in value recognized by the CDP would therefore have an effect on the fair value of participation deposits held by the deposit insurance fund.

In addition to the amounts invested in ABCP, the CDP is subject to contingencies arising from guarantees that it issued as part of the restructuring of third-party and bank-sponsored ABCP. The share of these guarantees attributed to the deposit insurance fund was $17.4 million ($13.3 million in 2008).

The share of unrealized losses on ABCP attributed by the General Fund of the CDP to the designated fund held by the deposit insurance fund includes $1.7 million relating to guarantees associated with ABCP ($1.0 million in 2008).

## 8 - Tangible capital assets

| | Cost | Accumulated Amortization | As at March 31, 2009 Net Book Value | Cost | Accumulated Amortization | As at March 31, 2008 Net Book Value |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Leasehold improvements - equipment | 522 | 365 | **157** | 419 | 310 | **109** |
| Leasehold improvements - layout | 7,648 | 2,169 | **5,479** | 7,899 | 3,219 | **4,680** |
| Office furniture and equipment | 6,898 | 6,017 | **881** | 6,512 | 5,352 | **1,160** |
| Computer equipment | 4,440 | 3,901 | **539** | 4,581 | 3,799 | **782** |
| Software | 2,533 | 2,207 | **326** | 2,572 | 2,060 | **512** |
| Information system development[1] | 4,857 | 4,057 | **800** | 4,609 | 3,626 | **983** |
| | 26,898 | 18,716 | **8,182** | 26,592 | 18,366 | **8,226** |

1 Information system development projects in progress as at March 31, 2009 amount to $356 ($147 in 2008). Amortization will begin upon completion of the projects.

## 9 - Start-up costs

| | Cost | Accumulated Amortization | As at March 31, 2009 Net Book Value | Cost | Accumulated Amortization | As at March 31, 2008 Net Book Value |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Start-up costs | 5,800 | 5,800 | | 5,800 | 4,836 | **964** |

## 10 - Accounts payable and accrued liabilities

| | Cost | Accumulated Amortization | As at March 31, 2009 Net Book Value | Cost | Accumulated Amortization | As at March 31, 2008 Net Book Value |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 4,600 | 278 | **4,878** | 4,633 | 4 | **4,637** |
| Remuneration | 7,019 | | **7,019** | 6,574 | | **6,574** |
| *Fonds d'indemnisation des services financiers* | 287 | | **287** | | | |
| Due to the Government of Québec | | | | | | |
| *Ministère des Finances* | 974 | | **974** | 950 | | **950** |
| *Centre de services partagés du Québec* | 129 | | **129** | 129 | | **129** |
| *Ministère du Revenu* | 7 | | **7** | 7 | | **7** |
| | 13,016 | 278 | **13,294** | 12,293 | 4 | **12,297** |

## 11 - Employee future benefits

### Sick leave

The AMF has sick leave programs for its employees. The program for unionized support and technical positions and certain non-unionized support and technical positions is non-bankable. The program for unionized and non-unionized professional positions as well as certain non-unionized support and technical positions is bankable and gives rise to long-term obligations.

This program for banking sick leave allows employees to accumulate the unused sick leave days to which they are entitled annually. Fifty percent of this leave can be cashed out in the event of termination, retirement or death, up to an amount representing the equivalent of 66 days. Employees who elect to take early retirement may choose to use these banked days as fully paid days off.

### Pension plans

AMF employees participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These defined benefit multi-employer plans include guarantees on retirement and death.

The AMF's contributions charged to income for the year amounted to $2,987 ($2,358 in 2008). The AMF's obligations under these government plans is limited to its employer contributions. As at January 1, 2009, the AMF's contribution rate to the RREGOP remained at 8.19% of pensionable payroll and the rate to the PPMP remained at 10.54%.

The AMF's responsibilities with respect to the supplemental pension plan consist in fully assuming benefits on the beneficiary's retirement. Accordingly, no contributions are made by employees or the employer. Therefore, no pension fund was established. The employer's obligations amount to $473 as at March 31, 2009 ($316 in 2008). The AMF charged $157 to income for the year ($316 in 2008). The significant actuarial assumptions used by the AMF to measure its accrued benefit obligations are as follows: discount rate of 5.0% and rate of compensation increase of 3.5%. The most recent actuarial valuation was performed in November 2008.

## 11 - Employee future benefits (cont.)

| **Allowance for vacation time, sick leave and severance benefits** | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| Allowance for vacation time | | |
| Balance, beginning of year | **4,892** | 4,311 |
| Expense for the year | **3,458** | 3,790 |
| Benefits paid during the year | **(3,280)** | (3,209) |
| Balance, end of year | **5,070** | 4,892 |
| Allowance for sick leave | | |
| Balance, beginning of year | **6,117** | 5,920 |
| Expense for the year | **635** | 1,754 |
| Benefits paid during the year | **(1,356)** | (1,557) |
| Balance, end of year | **5,396** | 6,117 |
| Provision pour indemnités de départ | | |
| Balance, beginning of year | **1,418** | 1,209 |
| Expense for the year | **702** | 1,064 |
| Benefits paid during the year | **(936)** | (855) |
| Balance, end of year | **1,184** | 1,418 |
| Allowance for vacation time, sick leave and severance benefits | **11,650** | 12,427 |
| Long-term portion | **(6,120)** | (7,413) |
| | **5,530** | 5,014 |

### Sick leave obligations

During the year, the AMF modified its method for measuring obligations with respect to accumulated sick leave. The obligations are now measured using a calculation method that takes into account the allocation of accrued benefits. This change in accounting estimate reduced the value of the obligation by $1,319 as at March 31, 2009. The effect of the change was recognized in income for the year. Long-term estimates and economic assumptions are based on the following as at March 31, 2009, depending on the age groups and the pension plan:

| | Pension Plans | |
|---|---|---|
| | **RREGOP** | **RRPE** |
| Rate of compensation increase | 0.6 % | 1.1 % |
| Discount rate | Between 2.87% and 5.49% | Between 2.87% and 5.61% |
| Average remaining service period of active employees | Between 5 and 31 years | Between 5 and 22 years |

## 12 - Contingency reserve

As stipulated in section 38.3 of An *Act respecting the Autorité des marchés financiers* (R.S.Q., chapter A-33.2), the AMF may also, in the pursuit of its mission, set up a contingency reserve. Such a reserve has been set up to cover unforeseen changes in revenues or expenses generated under the Act. As at March 31, 2009, this reserve stood at $33,530 (same amount in 2008), and is included in the accumulated surplus under "Current Operations."

## 13 - Guaranteed deposits

Premiums collected from registered institutions are based on the guaranteed amounts they have on deposit as at April 30 every year.

Deposits guaranteed on April 30, 2008 by the deposit insurance fund totalled $75.5 billion ($71.2 billion in 2007), $13.6 billion ($12.7 billion in 2007) of which was held by trust companies or savings companies incorporated under federal legislation and for which no premium is payable.

Under an agreement with the Canada Deposit Insurance Corporation (the "CDIC"), the CDIC will indemnify the AMF and hold it harmless from any liability resulting from any guarantee whatsoever by the AMF for deposits received by a trust company or savings company incorporated under federal legislation.

## 14 - Commitments

The AMF has entered into leases expiring on various dates through 2019 for the rental of its offices and multifunction terminals calling for payments totalling $46,421. The minimum lease payments for the next five years are as follows: $5,735 in 2009-2010, $5,741 in 2010-2011, $5,538 in 2011-2012, $5,515 in 2012-2013, $5,366 in 2013-2014 and $18,526 for the years 2014-2015 and thereafter.

Commitments related to contributions from the Education and Good Governance Fund amounted to $679 for fiscal 2009-2010, $529 for fiscal 2010-2011, $126 for fiscal 2011-2012 and $6 for fiscal 2012-2013.

## 15 - Contingencies

The AMF is currently faced with various lawsuits for damages with respect to its activities and as trustee of the *Fonds d'indemnisation des services financiers.* Since it is not possible to evaluate the amount the AMF might be required to pay, no provision has been established in the financial statements. However, the AMF believes that the outcomes of these claims will not have a significant negative impact on its financial position.

The AMF has assumed commitments under operating agreements for national filing systems through CDS Inc. (CDS), which operates the SEDAR and SEDI national filing systems on behalf of the Canadian Securities Administrators (CSA) under agreements with the Alberta Securities Commission, the British Columbia Securities Commission, the Ontario Securities Commission (OSC) and the *Autorité des marchés financiers* (the "CSA Principal Administrators"). CDS also operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association of Canada (IDA). Under the agreements:

- If SEDAR budgeted operating costs exceed revenues (a "shortfall"), the CSA Principal Administrators must make a payment to CDS. The AMF's portion of any SEDAR shortfall is limited to 27.8%.
- If SEDAR revenues exceed system budgeted operating costs (a "surplus"), CDS must pay to the CSA Principal Administrators an amount equal to the surplus. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

The OSC is holding $35.2 million in trust. The funds are the national filing systems' accumulated surpluses and expense variances as at October 31, 2008 and interest earned on those amounts as at March 31, 2009. The CSA Principal Administrators have agreed to use these funds solely for the benefit of national filing system users, such as system enhancements, or for offsetting any shortfall in revenues required in order to pay expenses approved in the annual operating plans. The agreements expire on various dates through May 2010.

### 16 - Supplementary cash flow disclosure

During the year, additions to tangible capital assets amounted to $1,464 ($1,903 in 2008), of which $884 ($158 in 2008) was included in accounts payable as at March 31, 2009. Additions to tangible capital assets resulted in cash outflows totalling $738 ($2,193 in 2008).

### 17 - Related party transactions

Related party transactions are included in expenses for the year:

| | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| *Bureau de décision et de révision en valeurs mobilières* | **2,100** | 2,100 |
| *Ministère des Finances* | **973** | 950 |
| *Centre des services partagés du Québec* | **1,095** | 915 |
| *École nationale d'administration publique* | **2** | 7 |

In addition to the related party transactions disclosed in its financial statements and measured at the exchange amount, the AMF is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Government of Québec or subject to either joint control or significant influence by it. The AMF did not conclude any business transactions with these related parties other than those in the normal course of its operations and under normal trade terms. These transactions are not reported separately in the financial statements.

### 18 - Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in 2009.

*Fonds d'indemnisation des services financiers*

Financial Statements
For the year ended March 31, 2009

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# Trustee’s Report

The financial statements of the *Autorité des marchés financiers* (the “AMF”) were drawn up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involves the selection of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfill its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable financial statements. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the AMF.

The AMF recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the financial statements of the AMF in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and expresses his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean St-Gelais
President and Chief Executive Officer

Linda Levasseur
Executive Director, Administration

Québec City, June 10, 2009

# Auditor's Report

To the National Assembly

I have audited the balance sheet of the *Autorité des marchés financiers* (the "AMF") as at March 31, 2009 and the statements of income, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the AMF's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the AMF as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,

Renaud Lachance, CA auditeur

Québec City, June 10, 2009

# *Fonds d'indemnisation des services financiers*

## INCOME for the year ended March 31, 2009

(in thousands of dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Revenues** | | |
| Contributions | **10,928** | 6,432 |
| Interest | **4** | 111 |
| Subrogation revenues | **387** | 338 |
| | **11,319** | 6,881 |
| **Expenses** | | |
| Compensation (Note 10) | **4,617** | 1,781 |
| Salaries and employee benefits (Note 3) | **674** | 790 |
| Travel expenses | **8** | 3 |
| Professional services | **236** | 287 |
| Administrative expenses (Note 4) | **872** | 910 |
| Financial expenses | **518** | 578 |
| Other | **22** | 4 |
| | **6,947** | 4,353 |
| **Surplus of revenues over expenses** | **4,372** | 2,528 |

The accompanying notes are an integral part of the financial statements.

# CHANGE IN FUND BALANCES
## For the year ended March 31, 2009
(in thousands of dollars)

| | **2009** **$** | 2008 $ |
|---|---|---|
| Balance, beginning of year | **(31,965)** | (34,493) |
| Surplus of revenues over expenses | **4,372** | 2,528 |
| **Balance, end of year** (Note 5) | **(27,593)** | (31,965) |

The accompanying notes are an integral part of the financial statements.

# BALANCE SHEET

(in thousands of dollars)

| | As at March 31, 2009 $ | As at March 31, 2008 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 78 | 7 |
| Investments (Note 7) | 150 | 150 |
| Accounts receivable (Note 8) | 634 | 904 |
| Prepaid expenses | 7 | 7 |
| | 869 | 1,068 |
| **Non-interest bearing notes receivable in subrogation, maturing in 2015** | 90 | 134 |
| | 959 | 1,202 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 9) | 59 | 378 |
| Advance from AMF, earning interest at rates ranging from 2.90% to 3.60%, repayable as surplus cash assets are generated | 6,785 | 8,614 |
| Compensation allowance (Note 10) | 14,322 | 10,928 |
| Deferred revenue | 7,386 | 6,705 |
| | 28,552 | 26,625 |
| **Advance from AMF, earning interest at rates ranging from 4.53% to 4.88% in 2008, repayable as surplus cash assets are generated** | | 6,542 |
| | 28,552 | 33,167 |
| **FUND BALANCE** (Note 5) | (27,593) | (31,965) |
| | 959 | 1,202 |
| **CONTINGENCIES** (Note 11) | | |

The accompanying notes are an integral part of the financial statements.

Jean St-Gelais
President and Chief Executive Officer
*Autorité des marchés financiers*

Linda Levasseur
Executive Director, Administration
*Autorité des marchés financiers*

# CASH FLOWS
# For the year ended March 31, 2009
(in thousands of dollars)

| | 2009 $ | 2008 $ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Surplus of revenues over expenses | **4,372** | 2,528 |
| Change in non-cash operating items | | |
| Accounts receivable | **270** | 696 |
| Prepaid expenses | | 1 |
| Notes receivable in subrogation | **44** | (111) |
| Accounts payable and accrued liabilities | **(319)** | 26 |
| Compensation allowance | **3,394** | (29,843) |
| Deferred revenue | **681** | 3,488 |
| | **4,070** | (25,743) |
| **Cash flows related to operating activities** | **8,442** | (23,215) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of investments | **(150)** | (1,300) |
| Proceeds from disposal of investments | **150** | 9,364 |
| **Cash flows related to investing activities** | | 8,064 |
| **FINANCING ACTIVITIES** | | |
| Advance from AMF | | 22,231 |
| Repayment of advance from AMF | **(8,371)** | (7,075) |
| **Cash flows related to financing activities** | **(8,371)** | 15,156 |
| **Net change in cash and cash equivalents** | **71** | 5 |
| Cash and cash equivalents, beginning of year | **7** | 2 |
| Cash and cash equivalents, end of year | **78** | 7 |
| Cash and cash equivalents, end of year consist of:<br>Cash | **78** | 7 |

The accompanying notes are an integral part of the financial statements.

# Notes to Financial Statements As at March 31, 2009

(in thousands of dollars)

## 1 - Governing statutes and nature of operations

The *Fonds d'indemnisation des services financiers* (the "fund") is incorporated under An *Act respecting the distribution of financial products and services,* assented to June 20, 1998 by the National Assembly. This fund replaced corresponding funds created under An *Act respecting market intermediaries* as of October 1, 1999.

On February 1, 2004, the fund was replaced by the *Autorité des marchés financiers* (the "AMF") under An *Act respecting the Autorité des marchés financiers.* As a result, the AMF acquired the fund's rights and assumed its obligations. The fund is now a patrimony by appropriation managed by the AMF separately from its other assets.

Under an Order-in-Council issued on September 21, 2005 by the Government of Québec, the AMF was authorized to incorporate the amounts from the *Fonds d'indemnisation en assurance de personnes,* the *Fonds d'indemnisation en assurance de dommages* and the *Fonds d'indemnisation des planificateurs financiers* into the *Fonds d'indemnisation des services financiers.* Up until that date, the AMF had managed separately these three patrimonies created by An *Act respecting market intermediaries.* Compensation arising from instances of fraud committed prior to October 1999 was paid out of these patrimonies based on their respective jurisdictions. Any and all compensation is now paid out of the *Fonds d'indemnisation des services financiers* irrespective of the year in which the fraud was committed.

The AMF, via the fund, is responsible for administering the amounts deposited into the fund. Its mission is also to compensate individuals who have been the victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership may be held liable in connection with its activities. The AMF also has responsibility for assuming claims on file with the former funds and for ruling on whether claims resulting from offences committed between September 1, 1991 and September 30, 1999 are eligible for payment in accordance with the rules determined by An *Act respecting market intermediaries.*

## 2 - Accounting policies

The preparation of the financial statements of the fund in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant item for which estimates are used is the provision for compensation. Actual results may differ from those estimates.

The AMF, as trustee of the fund, under the option issued by the Accounting Standards Board in September 2008 for non-publicly accountable enterprises, has opted not to apply the current standards relating to financial instruments, namely, Section 1530 - Comprehensive Income, Section 3855 - Financial Instruments - Recognition and Measurement, Section 3862 - Financial Instruments - Disclosures and Section 3863 - Financial Instruments - Presentation. New financial instrument standards will be issued by the CICA and will be applied by the *Fonds d'indemnisation des services financiers* when they come into effect.

### Investments

Investments are recorded at cost less any permanent decline in value.

### Revenue recognition

***Revenues from contributions***

Revenues from contributions are recorded in keeping with the period covered by these revenues. Amounts invoiced for a period exceeding the fiscal year-end are accounted for as deferred revenue.

***Subrogation revenues***

Subrogation revenues are reported when it is reasonably certain that these amounts will be recovered.

**Cash and cash equivalents**

The policy of the *Fonds d'indemnisation des services financiers* is to present, under cash and cash equivalents, bank balances and investments maturing within three months of their acquisition date.

### 3 - Salaries and employee benefits

The AMF made human resources available to the *Fonds d'indemnisation des services financiers* for management of its current operations. The costs of this transaction, which was in the normal course of operations and measured at the exchange amount, were charged to the *Fonds d'indemnisation des services financiers.*

### 4 - Administrative expenses

The AMF made human resources, capital assets and office space available to the *Fonds d'indemnisation des services financiers.* During the year, the AMF charged the fund $872 ($910 in 2008) for the use of these resources. These transactions were in the normal course of operations and measured at the exchange amount, in accordance with an agreement entered into between the parties.

### 5 - Fund balance

Pursuant to an amendment adopted in December 2004 to section 278 of An *Act respecting the distribution of financial products and services,* it was established that should assets be insufficient, the contribution would have to be determined so as to make up this insufficiency over a maximum five-year period.

### 6 - Financial instruments

Cash, term deposits, accounts receivable and accounts payable are financial instruments whose fair value approximates the carrying amount given the short period to maturity and the related terms and conditions.

The fair value of the notes receivable in subrogation could not be determined because it is practically impossible to find market financial instruments with essentially similar economic characteristics. As for the advance from the AMF, its fair value cannot be reasonably estimated given the lack of a market.

## 7 - Investments

| | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| Term deposits, bearing interest at 2.65%, maturing in April 2009 | **150** | 150 |

## 8 - Accounts receivable

| | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| Contributions receivable | **283** | 836 |
| Autorité des marchés financiers (current operations) | **287** | |
| Other | **60** | 62 |
| Accrued interest | **4** | 6 |
| | **634** | 904 |

## 9 - Accounts payable and accrued liabilities

| | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| Accounts payable and accrued liabilities | **59** | 92 |
| *Autorité des marchés financiers* (current operations) | | 286 |
| | **59** | 378 |

## 10 - Compensation and provision for compensation

Establishing the amount of the provision for compensation in respect of reported and unreported claims, determined by the actuaries mandated by the AMF, takes into account known facts and an interpretation of the circumstances based on experience with similar situations, historical claim settlement trends, settled claims, the number of unsettled claims and event frequency.

The following table summarizes the change in the provision for compensation:

| | **As at March 31, 2009 $** | As at March 31, 2008 $ |
|---|---|---|
| Balance, beginning of year | **10,928** | 40,771 |
| Expense for the year | **4,617** | 1,781 |
| Claims settled during the year | **(1,223)** | (31,624) |
| Balance, end of year | **14,322** | 10,928 |

## 11 - Contingencies

The AMF, as trustee of the fund, is involved in various lawsuits concerning decisions to reject compensation in the course of the activities of the *Fonds d'indemnisation des services financiers.* Since it is not possible to evaluate the amount the *Fonds d'indemnisation des services financiers* might be required to pay, no provision has been established in the financial statements. However, the AMF believes that these lawsuits are unfounded and that the outcomes of these claims will not have a significant negative impact on the financial position of the fund.

# *Conseil consultatif de régie administrative* (Advisory Board)

## 2008-2009 Annual Report

Québec City, July 31, 2009

Mr. Raymond Bachand
Minister of Finance
Parliament Building
Québec City, Québec

Dear Sir:

I am pleased to provide you with the 2008-2009 Annual Report of the *Conseil consultatif de régie administrative* (Advisory Board) of the *Autorité des marchés financiers* (“AMF”).

On behalf of the members of the Board, I wish to convey to you that the Board constantly strives to improve the efficiency of the AMF and that it actively seeks to ensure that the AMF properly fulfills its mission.

Yours truly,

Bernard Motulsky
Chair
*Conseil consultatif de régie administrative*
of the *Autorité des marchés financiers*

From letf to right:
Michel Lamontagne, Michel Lespérance, Andrée Mayrand, Jacques St-Pierre, Marie Lacroix, Jean Phaneuf, Bernard Motulsky.

In accordance with the constituting Act of the *Autorité des marchés financiers* (the "AMF" or the "Authority"), the *Conseil consultatif de régie administrative* ("Advisory Board" or "Council") has been established within the AMF. It advises and makes recommendations to the AMF and to its President and CEO.

It also assists the Minister of Finance by reporting to the Minister on any matter submitted to it by the Minister and by making recommendations concerning the administration of the AMF and the efficient use of its resources. The Advisory Board hereby fulfills its obligation to submit to the Minister, no later than July 31 of each year, a report on its activities for the previous fiscal year.

### Composition of the Board

The Board is composed of seven members, including a chair, appointed by the Minister, pursuant to section 49 of An *Act respecting the Autorité des marchés financiers.* They are chosen for their knowledge of the financial industry as well as for their expertise in the area of administrative management. They must also, at all times, be free of any conflict of interest and be totally independent of the AMF and the entities it oversees. Accordingly, in 2008-2009, the Board could count on the contribution of a complete team throughout the fiscal year. This team was made up of the following members:

- Bernard Motulsky, the Chair of the Board, who is a communications specialist, a professor at the University of Québec at Montréal (UQAM) and holder of the Chair in Public Relations and Marketing Communications.
- Michel Lespérance, the Secretary of the Board, who was the Secretary General of the University of Montréal until he retired in September 2005.
- Marie Lacroix, who is active as a management consultant and corporate director. She has more than 20 years of experience in the financial sector.
- Michel Lamontagne, who is active as a corporate director and in the financing sector, and is also a corporate strategy and corporate relations consultant.
- Andrée Mayrand, who is the Director, Pension Fund and Endowment Fund Investment Management at the University of Montréal.
- Jean Phaneuf, who is President of *Analys psychologie organisationnelle*, a consulting firm specializing in potential valuation and organizational efficiency.
- Jacques Saint-Pierre, who serves as Full Professor in the Finance and Insurance Department of Laval University and is founding director of LABVAL *(Laboratoire de recherche en évaluation des entreprises)* at Laval University.

The particular contributions of each member are determined based on expertise and availability, and in conjunction with AMF staff. The framework files to which the members devote most of their time pertain to the management and operation of the Advisory Board, governance and ethics, human resources and risk management.

## Achievements and Activities of the Board

Since the beginning of the AMF's operations, the Board has provided a forum of exchange with senior management on all matters of importance to the organization. These exchanges are based on quality information from various sources. The Board receives information from the Auditor General of Québec, the internal auditor, the President and Chief Executive Officer in the form of a report, made at each meeting, on the activities and major files of the AMF, as well as periodic exchanges that the Board may hold with one or more members of senior management within the formal context of a meeting or during joint sessions organized together with senior management.

The Board also reviews the AMF's performance indicators. It considers management and accountability information produced on a quarterly basis, the complaint management report, and the investment review. All of this information enables it to fully assume its role.

The Board held six official meetings during the fiscal year covered by this report, in addition to three working sessions and two joint sessions with AMF senior management. The resulting discussions led to the following achievements, among others, which reflect the powers conferred on the Advisory Board.

## Advice Relating to the 2008-2009 Activity Plan

Early in the fiscal year, on April 8, 2008, the Board, acting in accordance with paragraph (2) of section 57 of An *Act respecting the Autorité des marchés financiers* (the "Act"), expressed its support for the AMF's 2008-2009 activity plan. This was a transition year leading to the consolidation of initiatives launched under the previous strategic plan and the creation of a climate conducive to the initiation of the strategies and tactics proposed in the 2009-2012 strategic plan.

## SECTION 57 | An Act respecting the *Autorité des marchés financiers*

### With respect to the Authority, the functions of the Council are:

**1°** to advise the Authority on the compatibility of its actions with its mission;

**2°** to advise the Authority on its corporate governance, in particular as regards its budget estimates, staffing plan and activity plan;

**3°** to make recommendations to the president and director general of the Authority concerning the appointment of superintendents of the Authority;

**4°** to report to the Minister on any matter submitted to it by the Minister and make recommendations concerning the administration of the Authority and the efficient use of its resources.

### Advice Relating to 2009-2010 Budget Estimates

Prior to the advice that it gave on February 23, 2009, in accordance with paragraph 2 of section 57 of the Act, concerning the AMF's budget estimates, the Board requested that further consideration be given for the purpose of properly evaluating the scope of proposed oversight initiatives in order to ensure that sufficient resources are available for completion. The Board believes that it is necessary for it to monitor the organization's financial position, particularly during a financial crisis. Accordingly, the Board recommended that the sectors of activity that the AMF is required to regulate be a priority focus of the planned initiatives. Although concerned about the announced operating deficit, the Board supported the 2009-2010 budget estimates, in particular because it believes that the current economic environment carries an increased risk of violations of the laws enforced by the AMF. It is therefore more important than ever to maintain the resources needed not only to consolidate oversight activities, but also to ensure effective monitoring and timely interventions by the AMF. The 2009-2010 budget estimates are the result of close co-operation and regular discussions between the Board and members of AMF senior management.

### Monitoring of the 2009-2012 Strategic Plan

In connection with the development of a new strategic plan, the Board has ensured that the AMF has as much insight as possible into the changes to its external environment based on major market trends and their impact on its activities. It also implemented an exercise to take stock of the AMF's achievements in the initial years of operation. The results were used by senior management for developing the AMF's vision, namely, to be a world-class integrated regulator, a vision that is supported by the Board.

As well, the Board took part in the key phases of the work that led to the adoption of the 2009-2012 strategic plan with a view to ensuring that the appropriate initiatives are launched to optimize the organization's performance through improved governance.

The Board also played an active role in the development of the AMF's risk management position. This exercise, which was undertaken in the spring of 2008, enabled the AMF to define two categories of situations for operational and security risks that it seeks to control. The strategic plan endorsed by the Board enhances the AMF's ability to respond to these risks.

The Board is consequently adhering to the continuity and consolidation approach taken by the AMF as set out in the 2009-2012 Strategic Plan.

### Monitoring of Management Information and Accountability

In order to monitor the AMF's activities, management information and accountability reports are submitted to the Board regularly. In 2008-2009, the Board agreed to a new, more narrowly targeted accountability format but required that a quarterly reference period be maintained.

The Board participated in various discussions with the Auditor General of Québec, including in connection with the delivery of the report to management presenting his findings regarding the 2007-2008 audit engagement. At that time, the Board followed up on the implementation of the recommendations previously issued by the Auditor General. The Advisory Board also took delivery of the audited financial statements for the same period and attended the presentation of the Auditor General's audit approach for the engagement covering fiscal 2008-2009.

### Administrative Governance

The deployment of the AMF's project to modernize and integrate its business systems (MISA, *Modernisation et intégration des systèmes d'affaires*) was monitored by the Board to help ensure that the project increases the organization's effectiveness and efficiency, that the costs are controlled and that the project is carried out without disrupting routine operations. Reports are presented regularly at meetings of the Board.

The Board tracks, on a regular basis and in accordance with the liaison mechanisms set out in the Internal Audit Charter, the work conducted by the internal auditor.

The Board was kept regularly informed, during Board meetings, of developments in the global financial crisis and their repercussions on Québec and Canadian markets. It was thus apprised of the impact of this situation on the AMF's finances, given the expected decrease in revenues from fees payable by the industry. In light of this crisis, the Board sought to make sure that the AMF continuously monitored the markets so it could fully assume its mission of protecting consumers and investors. As planned at the end of 2007-2008, the Board reviewed the management framework and investment policies of the AMF. Moreover, as usual, it carried out an annual investment review.

### Advice relating to Human Resources

The Board believes that the AMF must rely on dedicated and competent employees in order to meet the major challenges encountered in fulfilling its mission. The Board therefore continues to follow with keen interest the development of the AMF's human resources. In fiscal 2008-2009, the Board carefully considered several major issues related to human resources, in line with its involvement in this regard during the previous year.

The Board followed up on the appointment of the Superintendent of Distribution, Mario Albert. It also monitored and participated in the process to recruit an internal auditor, which led to a recommendation to hire Gaétan Lussier.

The members of the Board also analyzed matters related not only to executive pay but also to compensation of all the AMF's supervisory staff. Moreover, the

Board was informed of the performance assessment results of members of senior management and the internal auditor.

In addition, during 2008-2009, the Board was kept up to date by the President and Chief Executive Officer on initiatives to adjust the organizational structure, and the Board conveyed its comments.

### Monitoring of Regulation and Legislative Activities

The Board followed the AMF's efforts to further harmonize securities regulation across Canada, particularly Passport Phase II. It was also kept up to date on major legislative matters, such as those related to the *Derivatives Act* and Bill 64, which proposes a number of measures intended to increase the level of investor protection. Furthermore, the Board has expressed support for the AMF's position against the proposal to create a single securities regulator.

### Monitoring of Major Oversight Matters

Throughout fiscal 2008-2009, the Board continued to monitor major oversight matters to ensure that the manner in which they were conducted did not affect the organization's routine operations. It accordingly ensures that the required staff remains available and properly deployed in order to complete not only all oversight and compliance initiatives, but also initiatives related to other facets of its mission. To this end, it was kept informed, at each meeting, of general developments, in particular with respect to the Norbourg and Mount Real cases and the financial crisis related to asset-backed commercial paper (ABCP).

### Education and Good Governance Fund

During the 2008-2009 fiscal year, the Board continued to be involved in the governance of the Fund so that the Fund could continue to support the AMF in carrying out its mission to promote governance as well as protect and educate investors.

To better align itself with the various administrative constraints faced by university researchers, the Board adopted a recommendation to amend the date on which calls for projects take place. The date is now set at September 30 of each year. The Board also validated the themes proposed as part of the call for projects in the fall of 2008 and commented on both the projects selected by the assessment committee and related AMF-sponsored projects. It also oversaw the appointment of a new member of the assessment committee and strengthened measures to avoid any appearance of conflict of interest where AMF executives sit on the board of directors of entities receiving financial support from the Fund.

### Gouvernance

The Board is keenly interested in any matter related to its governance or that of the AMF.

It therefore participated in the drafting of the organization's governance statement, which is expected to be posted on-line in fiscal 2009-2010. In addition, the Board decided to institute a practice for reviewing public complaints against the organization as it believes that such an exercise can help it properly orient some of its initiatives. The list of suppliers with which the AMF maintains business relationships is also reviewed each year.

Furthermore, the Board devoted time to clarifying the duties, roles and responsibilities of both the chair and the secretary. A new practice was introduced whereby these officers present a formal report, at the beginning of each meeting, updating the Board on developments since the previous meeting. These reports are formally entered in the minutes of the Board. The members also reviewed the mechanism for approving, allocating and tracking the expenditures of the Board and adopted a processing and accountability procedure for its expenditures.

In addition, the Board sought to clarify the method for assigning files used by the Board since its previous advice regarding the improvement of AMF governance. The members believe that the interests of the organization are best served by assigning files on a case-by-case and better defined basis, and formally entering the assignment in the minutes of the meeting with deadline and accountability details. This approach is more practical, flexible and responsive to the changing availability of members. The formal procedure for assigning mandates is now more fully documented.

Moreover, in order to highlight the relevance of each item on the agenda, the members of the Board requested that the presentation documents include a reference establishing a link between the item itself, the strategic plan and any identified risks.

The Board assessment process is now in place. This process consists of an assessment of the proceedings of each meeting, performed on a confidential basis, by each member at the end of the meeting. These assessments are analyzed by the secretary of the Board, who reports on the findings at the next meeting. The process also consists of a three-part annual self-assessment exercise. First, each member completes a confidential questionnaire on an assessment of his own performance and on the operation of the Board. Then, the chair meets with the members individually. Finally, on a collegial basis, the members review the exercise and discuss the overall operation of the Board. In order to correctly assess their contribution to the AMF's activities, the members have asked senior management to also participate in this assessment process.

The members of the Board renewed their annual undertaking to comply with their code of ethics and professional conduct, and the appropriate disclosures were made. No specific breach was reported in this regard.

### AMF's Public Presence

The members of the Board reviewed the results of a survey on client perceptions of the AMF conducted in May 2008. These results revealed that most of the general population is familiar with the AMF and that the public has a positive perception of the organization. The services offered by the AMF are relatively well known. A very large percentage of the clients of the AMF's various oversight units have confidence in the AMF and consider it to be credible.

The Board maintained its support of communications activities, in fiscal 2008-2009, by participating in various events, including the *Rendez-vous with the*

*AMF,* which was held with industry representatives on October 20, 2008. The members of the Board also took part in activities organized by the *Collège des administrateurs de sociétés*, HEC Montréal, the Institute of Corporate Directors, the International Finance Club, the Economic Forum of the Americas, and the Board of Trade of Metropolitan Montreal.

Moreover, from June 6 to June 19, 2010, the AMF will host the 35th Conference of the International Organization of Securities Commissions (IOSCO) – a major annual event. In the Board's opinion, the event contributes to market integration and showcases the AMF's leadership within the international community. The Board ensures that it is kept up to date, on an as-needed basis, on the progress of activities related to the organization of the event.

## Conclusion

The Board believes that relations with the AMF are part of a mode of operation whereby it can fully perform its role and contribute, in an effective manner, to the administrative management of the organization and its governance by providing follow-up or formulating recommendations and advice as set out under the Act. It is available at all times to provide advice on any decision that senior management wishes to submit to its attention.

Thanks to the quality of these relations, the Board is able to better grasp the challenges faced by senior management, particularly in a time of economic uncertainty when the implementation of a new strategic plan requires a solid team capable of focusing its actions on contributing directly to the protection of consumers while fostering the development of Québec's financial sector.

The Board has ensured that it has, on an as-needed and annual basis, an overview of the activities of the AMF and the major risks to which it is exposed.

Once again, the Board members wish to highlight the unwavering co-operation displayed by Jean St-Gelais, President and Chief Executive Officer, as well as by all AMF senior management, including the AMF's Corporate Secretary, Anne-Marie Beaudoin.

ORGANIZATION CHART

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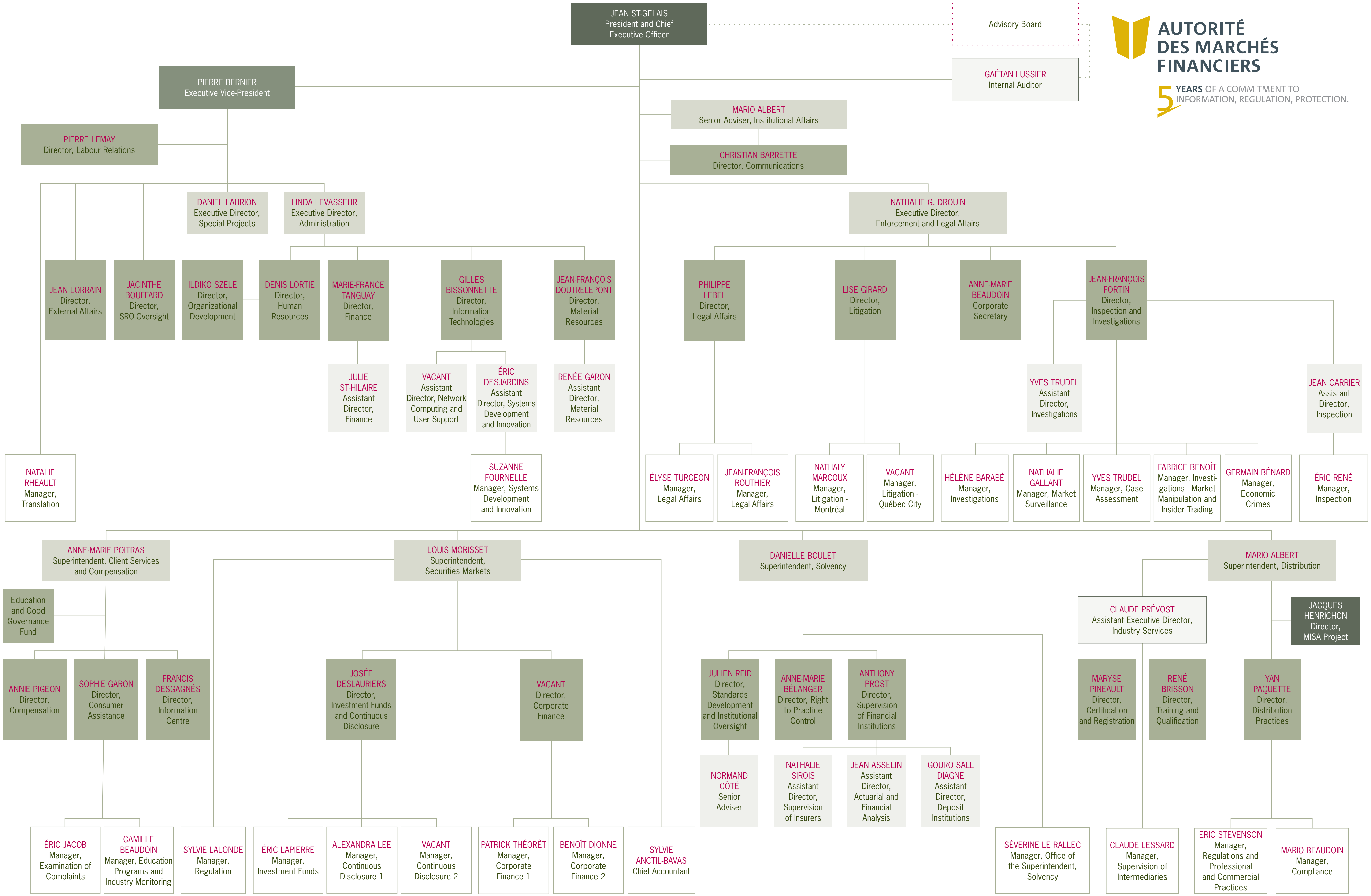


March 31, 2009

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