



2005 - 2006



Gouvernement du Québec
Le ministre des Finances

Québec City
July 26, 2006

Mr. Michel Bissonnet
President of the National Assembly
Parliament Building
Québec City

Dear Sir:

I am pleased to provide you with the Annual Report of the *Autorité des marchés financiers* for the period from April 1, 2005 to March 31, 2006.

Yours truly,

Michel Audet
Minister of Finance

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Québec City
July 26, 2006

Mr. Michel Audet
Minister of Finance
Parliament Building
Québec City

Dear Sir:

I am honoured to submit the Annual Report of the *Autorité des marchés financiers* for the period from April 1, 2005 to March 31, 2006.

The report presents the *Autorité des marchés financiers*, discusses its main activities and contains its audited financial statements. Moreover, pursuant to section 58 of the agency's constituting Act, it includes the activity report of the *Conseil consultatif de régie administrative*.

Yours truly,

A handwritten signature in black ink that reads 'Jean St-Gelais'.

Jean St-Gelais
President and Chief Executive Officer

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MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

With the end of its second year of operation, the *Autorité des marchés financiers* (the “AMF”) has now attained its momentum. Indeed, as the regulatory and oversight body for Québec’s financial sector, the AMF has established its organizational structure, consolidated its teams, defined its Strategic Plan for 2005-2008 and undertaken major projects.

Beyond the enforcement of laws and regulations, the AMF seeks to ensure a dynamic approach to financial market oversight. The AMF is called on to ensure consumer protection by striking a fair balance between rigorous financial sector regulation and the adoption of effective measures that foster the growth of financial markets.

In this regard, the credibility of financial sector participants and consumer confidence are of paramount importance. Consequently, the AMF will continue to focus on the objectives related to its mission: supervise the financial markets and provide assistance to consumers of financial products and services.

The task of protecting Québec consumers is being fulfilled through a more aggressive battle against economic crime, through the promotion of sound corporate governance for enterprises operating in the financial sector, and through enhanced monitoring of compliance.

This report outlines the AMF’s principal actions over the past 12 months. They are presented on the basis of the issues and orientations set out in our Strategic Plan. These actions, which are driven by the efforts of a team whose daily commitment I salute, demonstrate the AMF’s firm determination to fully serve Quebecers and the financial markets.

I would like to thank the members of the Advisory Board for their assistance and highlight the importance of their mandate toward ensuring effective corporate governance at the AMF.



Jean St-Gelais
President and Chief Executive Officer





PRESENTATION OF THE
*AUTORITÉ DES MARCHÉS
FINANCIERS*

The *Autorité des marchés financiers* (AMF), which was established pursuant to the *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 governed by the laws enforced by the AMF ensure its financial autonomy.

MISSION

The mission of the AMF is to enforce the legislation in respect of the financial sector, including insurance, securities, deposit institutions – other than federally chartered 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;
- 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 Quebecers 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 ACTS 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:

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

These Acts, as well as the regulations and policy statements made thereunder, are available on the AMF website at www.lautorite.qc.ca.

DELEGATION OF FUNCTIONS AND POWERS TO SELF-REGULATORY ORGANIZATIONS

The AMF may, on the conditions it determines, delegate to a recognized organization the exercise of all or part of the functions and powers conferred on it by law.

The following are the self-regulatory organizations (SROs) recognized by the AMF:

- the Investment Dealers Association of Canada (IDA), which regulates the activities of investment dealers with respect to capital adequacy requirements and conduct of business, and acts as the representative of the Canadian securities industry;
- the Montréal Exchange, which operates derivatives markets and is in charge of overseeing its markets and approved participants;
- the Canadian Depository for Securities Limited (CDS), which acts as a clearing house for cash instruments;
- the *Chambre de la sécurité financière* (CSF), whose activities relate to representatives in insurance of persons, group insurance representatives, financial planners and securities representatives, and which oversees its members in terms of discipline, training and professional conduct;
- the *Chambre de l'assurance de dommages* (ChAD), which oversees damage insurance agents and brokers as well as claims adjusters in terms of professional development, supervision and discipline;
- Canadian Derivatives Clearing Corporation (CDCC), which acts as a clearing house for derivatives;
- NASDAQ, which operates equities markets;
- Market Regulation Services Inc. (RS), which acts as a provider of market regulation services.

ORGANIZATIONAL STRUCTURE OF THE *AUTORITÉ DES MARCHÉS FINANCIERS*

To fulfill his mandate, the President and Chief Executive Officer of the AMF relies on an Executive Vice-President and eight executive directors. The AMF's internal auditor and the *Conseil consultatif de régie administrative* (Advisory Board) assist the AMF in the application of its governance rules.

In all, the AMF has 543 employees 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 also co-ordinates Canada-wide relations and regulatory development, particularly in matters involving the Canadian Securities Administrators, which has been chaired by the President and Chief Executive Officer on behalf of Québec since April of 2005. In addition, it monitors the self-regulatory organizations to which the AMF has delegated certain powers. Moreover, it represents the AMF nationally and internationally and in relations with its various clientele.

The Office includes three branches, two sections and one department: the *Direction générale de l'administration* (Administration), the *Direction générale de la réglementation et des organismes d'autoréglementation* (OAR) (Regulatory Affairs and SROs), the *Direction générale des mandats spéciaux* (Special Projects), the *Direction des relations extérieures* (External Affairs), the *Direction des communications* (Communications) as well as the *Service de la traduction* (Translation).

Administration includes the *Direction des ressources humaines* (Human Resources), the *Direction des technologies de l'information* (Information Technologies), the *Direction des ressources matérielles* (Material Resources) and the *Direction des finances* (Finance).

Regulatory Affairs and SROs includes the *Direction de la réglementation* (Regulatory Affairs) and the *Direction de la supervision des OAR* (SRO Oversight).

LEGAL AFFAIRS AND SECRETARIAT

The *Direction générale des affaires juridiques et Secrétariat* (Legal Affairs and Secretariat) ensures the proper functioning of the AMF's institutional framework by advising management on matters related to the accuracy, consistency, fairness and legal validity of decisions regarding the application of financial sector regulations in Québec. In addition, it carries out an inspection program in respect of distributors of financial products and services, conducts investigations and, when required, launches judicial or quasi-judicial proceedings.

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

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 clientele. It also provides assistance and dispute settlement and compensation services to consumers of financial products and services. Moreover, it administers a financial services compensation fund, a deposit insurance fund and the Fund for Investor Education and the Promotion of Good Governance.

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

SECURITIES MARKETS

The *Direction des marchés de valeurs* (Securities Markets) oversees the securities markets by analyzing disclosure documents related to securities offerings and take-over bids. It also ensures that reporting issuers provide security holders and the market with financial statements and other required documents. Moreover, it drafts and implements guidelines and regulations related to its functions.

Securities Markets is made up of the *Direction des marchés des capitaux* (Financial Markets), the *Service de la réglementation* (Regulations) and the *Service de la conformité* (Compliance).

SOLVENCY

The *Direction de la solvabilité* (Solvency) oversees and monitors deposit institutions and insurance companies operating in Québec – other than federally chartered banks – 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 the 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. Finally, it 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), the *Direction de la conformité* (Compliance) and the *Direction de l'actuariat et du développement des normes* (Actuarial Services and Standards Development).

DISTRIBUTION

The *Direction de la distribution* (Distribution) supervises the activities related to the distribution of financial products and services by administering the rules regarding eligibility and the right to practice that apply to representatives, firms, advisers and brokers in all sectors. It provides front-line services for registration, maintenance, certification and renewal of the permits and certificates issued under the *Securities Act* and the *Act respecting the distribution of financial products and services*. Moreover, it drafts and implements the guidelines 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).



PROFILE OF
CLIENTELES OVERSEEN
BY THE AMF

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

TABLE 1 – PROFILE OF CLIENTELES OVERSEEN BY THE AUTORITÉ DES MARCHÉS FINANCIERS

CLIENTELES ¹	AS AT MARCH 31, 2004	AS AT MARCH 31, 2005	NUMBER AS AT MARCH 31, 2006
Deposit institutions			
Financial services cooperatives	579	551	531
Trust companies and savings companies	45	43	46
Insurance of persons (individual and group)			
Insurers	130	128	126
Firms, independent partnerships and independent representatives	8,892	8,760	8,685
Representatives	17,773	17,832 ^R	17,729
Damage insurance			
Insurers	180	183	185
Firms, independent partnerships and independent representatives	1,258	1,234	1,199
Representatives	9,312	10,090	10,474
Claims adjustment			
Firms, independent partnerships and independent representatives	238	222	221
Representatives	2,310	2,324	2,433
Financial planning			
Firms, independent partnerships and independent representatives	996	1,133	1,228
Representatives	3,792	4,244	4,752
Securities			
Reporting issuers	5,438 ²	5,312 ³	5,274³
Unrestricted practice brokerage			
Dealers	126	131	132
Representatives	5,391	6,470	7,350
Restricted practice brokerage			
Dealers	14	17	14
Representatives	133	137	137
Group savings plan brokerage			
Firms	98	92	95
Representatives	21,123	22,023 ^R	22,295
Investment contract brokerage			
Firms	11	11	11
Representatives	61	51	45
Scholarship plan brokerage			
Firms	18	20	22
Representatives	975	947 ^R	817
Securities advisers			
Advisers	176	188	210
Representatives	697	750	888

1. The persons (legal or natural) governed by the *Act respecting the distribution of financial products and services* may pursue activities 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.



2005-2006
HIGHLIGHTS

The highlights for the period from April 1, 2005 to March 31, 2006 are presented on the basis of the issues and orientations set out in the 2005-2008 Strategic Plan.

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. Moreover, sharp competition in the international marketplace requires that regulatory intervention not adversely affect the competitiveness of Québec's financial services industry.

The AMF has therefore adopted the following 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*

- In 2005, the AMF continued its task respecting the implementation of the New Basel Accord (Basel II). One of the goals in this regard is to update the AMF's guideline regarding capital adequacy requirements applicable to financial services cooperatives that are members of a federation. In December 2005, the AMF set out its expectations and indicated its intent to introduce the new guideline on January 1, 2009.
- The activity report for phase III of the continuous disclosure review program (CDR Program) was published on October 28, 2005. It highlights the fact that the majority of public companies with a head office in Québec comply with their continuous disclosure obligations. The CDR Program is intended to encourage issuers to improve the quality of the financial information they prepare for investors.

- Since the Government of Québec's approval of the *Regulation to amend the Securities Regulation* in December 2005, the AMF may impose new administrative monetary penalties on non-compliant issuers and insiders, in particular, for failure to file material information on time.
- The AMF carried out numerous inspections and investigations related to financial sector participants, including in connection with several major files such as Norbourg, Zenith and Mount Real. In these cases, the AMF used extraordinary measures, such as searches and provisional administrations.
- On October 24, 2005, the AMF launched a recourse in the Norbourg matter, and this was the first time in Québec that legal proceedings were launched on behalf of investors. The AMF is also seeking, from Vincent Lacroix personally, an additional \$10 million in punitive damages.
- On March 9, 2006, the AMF filed 51 counts against Vincent Lacroix in the Court of Québec, seeking imprisonment of up to five years less a day and fines varying from \$20,000 to \$5 million per count.
- On May 1, 2005, the AMF signed an agreement with the *Chambre de l'assurance de dommages* regarding the inspection of certain firms. The agreement authorizes the Chamber to inspect damage insurance and claims adjustment firms with no more than 24 representatives.

The AMF has powers of inspection and investigation over the entities governed by the statutes it enforces, such as insurance companies, trust companies, securities firms, dealers and advisers, firms or advisers 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

INSPECTION		NUMBER OF FILES PROCESSED		
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006
On-site inspections, in accordance with the <i>Act respecting the distribution of financial products and services</i>	Opened	11	40	28
	Conducted (completed)	12	49	18
	Pending	19	11	21
On-site inspections, in accordance with the <i>Securities Act</i>	Opened	7	77	22
	Conducted (completed)	2	99	31
	Pending	59	34	25
Off-site inspections, targeted	Opened	14	347*	169
	Conducted (completed)	13	366*	169
	Pending	26	–	–

* The large number of off-site inspections in 2004-2005 stems primarily from the inspections carried out when the AMF analyzed commercial practices in the damage insurance brokerage sector during that period.

TABLE 3 – INVESTIGATION FILES

INVESTIGATION		NUMBER OF FILES PROCESSED		
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006
Case assessment ¹	Opened	30	149	165
	Conducted (completed)	22	86	127
	Pending	71	134	172
Investigations ²	Opened	8	39	37
	Conducted (completed)	5	25	21
	Pending	112	126	142
Market surveillance ³	Opened	24	106	63
	Conducted (completed)	28	95	43
	Pending	25	36	56

1. Case assessment: examination of a complaint or an alleged violation of legislation enforced 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 clues, particularly through 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 obtain other information.

TABLE 4 – RECOURSES

RECOURSES		NUMBER OF FILES PROCESSED		
		FEBRUARY AND MARCH 2004	APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006
Proceedings before the courts	Statements of offence issued	9	31	26
Quasi-judicial proceedings (BDRVM*)	Requests submitted	7	21	44
Administrative proceedings	Under the <i>Act respecting insurance</i>	–	1	–
	Under the <i>Act respecting the distribution of financial products and services</i>	–	4	16

* Bureau de décision et de révision en valeurs mobilières

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**

- As a result of Canada-wide efforts to harmonize the securities regulatory system, various regulations were adopted, including the following:
 - *Regulation 11-101 respecting Principal Regulator System* came into force on September 19, 2005. It forms part of the passport system promoted by the provincial and territorial governments, excluding the government of Ontario, which signed the Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation in September of 2004.

The passport system simplifies the process for issuers seeking to access capital markets in more than one participating province or territory. The system allows issuers to deal with a single regulator, namely, the one in their principal jurisdiction. The AMF is in charge of applying the principal

regulator system in Québec. The next step in the process (phase II) involves an extensive harmonization of applicable laws and regulations.

- *Regulation 45-106 respecting Prospectus and Registration Exemptions* came into force on September 14, 2005. It seeks to harmonize and consolidate prospectus and registration exemptions that were previously set out in various provincial and territorial statutory and regulatory provisions.
- In April 2005, the AMF, in co-operation with the Canadian Securities Administrators, launched the National Registration System (NRS). The NRS allows a natural or legal person to apply for registration in several jurisdictions and deal with a single securities regulator, namely, the principal regulator.
- The implementation of the National Registration Database (NRD), which was begun in June 2004, was completed. Henceforth, on December 31 of each year, securities representatives, whether they are governed by the *Act respecting the distribution of financial products and services* or by the *Securities Act*, will renew their certificates through a joint electronic system available across jurisdictions. Securities firms must enrol in the NRD in order to allow the persons attached to them to obtain their right to practice, even if the firms continue to register by traditional means.

- The report on commercial practices in the Québec damage insurance brokerage sector, which was filed in April 2005, stated the following:
 - a large majority of brokers concentrate their business on one or two principal insurers;
 - certain commercial practices, considered as a whole (loans, ownership ties, block transfers of business and contingent commissions), are not in the best interests of consumers.

Consequently, a public consultation was held in September 2005, resulting in draft amendments to the *Regulation respecting Information to be Provided to Consumers*. In accordance with an approach based on transparency, these amendments require representatives, firms and independent partnerships carrying on business in the damage insurance sector to disclose to consumers any business relationship they have with an insurer. The draft regulation was published for comment in the March 3, 2006 edition of the AMF Bulletin. It will be submitted to the Government at a later date for approval.

- The agreement between the AMF and the *Institut québécois de la planification financière* regarding the compulsory professional development of financial planners, which was scheduled to end on December 31, 2005, was renewed for a period of four years.

ISSUE 2 – ASSIST CONSUMERS

A regulatory body such as the AMF must assist consumers of financial products and services by providing them with convenient access to quality information through various channels.

In this regard, the AMF is well suited to offer consumer assistance and disseminate relevant and objective information in plain language regarding financial products and services in Québec.

The AMF also assists consumers by providing them 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

AREAS OF INTERVENTION

- *Public relations*

Achievements

- Participating in various forums and meetings with the business community.
- Participating in interviews and news reports.
- Various articles in the general and specialized media.
- Partnerships with the Canadian Securities Administrators (CSA), the Joint Forum of Financial Market Regulators and the North American Securities Administrators Association (NASAA).
- Completion of a survey to measure awareness of the AMF.

ORIENTATION 4 – IMPROVE THE DELIVERY OF SERVICES TO CONSUMERS

AREAS OF INTERVENTION

- *Information and education*
- *Complaints and claims*

Achievements

- Preparation of informational materials regarding investments.
- Partnerships with certain organizations or events that foster the development of financial knowledge (*L'Actif*, *BOURSTAD*, *Question Retraite*, *FADOQ*).
- The AMF Information Centre handles requests from financial sector participants as well as from consumers.

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
Number of telephone requests for information			
From consumers	5,068	27,043	32,836
From financial sector participants	22,890	87,110	84,059
Number of complaints received	103	856	1,056

In 27% of cases, calls from financial sector participants were related to access to professional practice, while 40% were related to the right to practice. The majority of calls from consumers focused on insurance and securities matters as well as confirmation of the right to practice of representatives or firms offering financial products and services.

In addition, information officers from the Centre welcomed over 1,600 persons at the AMF's Montréal offices and 1,700 persons at the AMF's head office in Québec City.

Between April 1, 2005 and March 31, 2006, the AMF received 1,056 complaints. Some of the complaints were transferred to an AMF department for further analysis or to a self-regulatory organization.

TABLE 6 – NUMBER OF COMPLAINTS TRANSFERRED TO AN AMF DEPARTMENT OR TO A SELF-REGULATORY ORGANIZATION

		NUMBER OF COMPLAINTS TRANSFERRED*	
		APRIL 2004 TO MARCH 2005	APRIL 2005 TO MARCH 2006
AMF departments	Inspection	66	113
	Investigations	186	485
	Compensation	126	144
	Other	5	15
Self-regulatory organizations	Investment Dealers Association of Canada	14	68
	Montréal Exchange	12	0
	<i>Chambre de l'assurance de dommages</i>	47	63
	<i>Chambre de la sécurité financière</i>	261	375

* A complaint may be transferred to more than one department or organization.

- On October 11, 2005, the AMF launched the new Complaint Reporting System (www.srp-crs.ca) in co-operation with the Financial Services Commission of Ontario (FSCO). To implement the system, the AMF also worked with the Insurance Bureau of Canada, the Canadian Life and Health Insurance Association Inc. and other industry participants.

This new electronic system facilitates the task of filing annual complaint reports for entities subject to the new provisions regarding complaint examination and dispute resolution. Complaints can be classified by category, according to the reasons for dissatisfaction expressed by consumers.

- 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 Fund for Investor Education and the Promotion of Good Governance.

FINANCIAL SERVICES COMPENSATION FUND

The AMF provides compensation to victims of fraud, fraudulent tactics or embezzlement when victims deal with individuals and firms authorized to carry on business under the *Act respecting the distribution of financial products and services*.

During the 2005-2006 financial year, the AMF issued decisions in respect of claims for losses incurred following fraudulent conduct by Efstratios Gavriil and the group savings plan brokerage firm on behalf of which he was acting, namely, Gestion de placement ISL inc. (ISL). Upon analysis, the evidence submitted in various files demonstrated that the sums remitted to Mr. Gavriil and to ISL, for the purpose of purchasing mutual funds, had been embezzled. In accordance with its mission, the AMF approved the applications for compensation filed in 18 cases, and a total of \$1,749,376 was paid to the claimants. *The AMF subsequently launched a civil recourse in subrogation to claim this amount from Mr. Gavriil, ISL and other parties.*

The AMF also issued its final decisions regarding claims in the Loyalist matter. In total, 210 applications for compensation were approved, for a total of \$3,942,710 in payments, of which \$1,819,067 was earmarked for 77 claims during the financial year ended March 31, 2006. *A recourse in subrogation has also been launched to recover the payments disbursed in this matter.*

IN 2005-2006:

- 32 claim files were opened, representing total claims of \$779,936 (\$646,612 in light of the maximum compensation amounts prescribed by regulation).
- 107 claims were approved for compensation, resulting in a total payment of \$4,292,879. The total claim amount was \$7,576,042, but a substantial portion of this amount was deemed ineligible based on applicable compensation principles.
- 55 claims were dismissed based on applicable compensation rules.
- *Four civil proceedings were instituted and three judgments were handed down against fraudulent representatives pursuant to subrogatory recourses launched by the AMF.*
- *Two proceedings contesting AMF compensation decisions were served and two judgments were handed down in favour of the AMF in respect of previously instituted proceedings.*

As at March 31, 2006, 66 claims for compensation were under analysis. Moreover, as at the same date, the AMF had received over 1,000 claims relating to the Norbourg matter. The AMF is analyzing the information provided by investors and will be following up on each claim.

DEPOSIT INSURANCE FUND

The AMF guarantees to any person that makes a deposit with a registered institution the reimbursement of such deposit in the event of the institution's insolvency. In 2005-2006, the maximum deposit insurance coverage rose from \$60,000 to \$100,000 per person, 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 held 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 balance of the fund totalled \$345 million as at March 31, 2006.

As at April 30, 2005, institutions registered with the AMF under the *Deposit Insurance Act* totalled 587 and held \$66.4 billion in guaranteed deposits.

TABLE 7 – PROFILE OF REGISTERED INSTITUTIONS AND DEPOSITS RECEIVED AND GUARANTEED AS AT APRIL 30

REGISTERED INSTITUTIONS	NUMBER		DEPOSITS RECEIVED IN QUÉBEC ¹ (\$M ²)		DEPOSITS GUARANTEED BY THE AMF (\$M)	
	2004	2005	2004	2005	2004	2005
Financial services cooperatives	579	551	70,349	73,889	44,164	52,289
Trust companies and savings companies	39	36	18,040	17,355	13,266	14,137
Total	618	587	88,389	91,244	57,430	66,426

1. Based on data available to the AMF as at March 31, 2006
 2. \$M: millions of dollars

FUND FOR INVESTOR EDUCATION AND THE PROMOTION OF GOOD GOVERNANCE

Following two calls for projects held in April and November 2005, 18 projects were selected and granted financial support from the Fund for Investor Education and the Promotion of Good Governance. Through this Fund, the AMF has established partnerships with several researchers and organizations, including the *Mouvement d'éducation et de défense des actionnaires* and *Option consommateurs*. A number of major projects have also received AMF support, such as those submitted by the Institute for Governance of Private and Public Organizations and the new *Chaire d'information financière et organisationnelle* at the University of Québec at Montréal.

The Fund launched its activities in 2004 with the funding of four university research projects and a partnership with the *Collège des administrateurs de sociétés*. Its mandate is to support research and training initiatives within four areas of intervention: protecting investors, educating investors, promoting good governance, and improving knowledge of the financial sector.

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.

To do so, the AMF seeks to recruit, retain and train staff who are able to deliver quality services.

It must therefore offer fair compensation, foster skills and knowledge development, 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*

Achievements

- Implementation of an integration plan for new employees.
- Preparation and implementation of a classification tool for supervisory positions.
- Preparation and implementation of a salary policy for management staff.
- Preparation of a skills profile for management staff and professionals.
- Preparation and adoption of performance assessment tools and procedures.

ISSUE 4 – OPTIMIZE PERFORMANCE

In view of its functions as a mandatary of the State, the AMF must establish procedures and adopt tools to ensure that its activities and accountability reporting are carried out rigorously.

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

In addition, the AMF must include a risk management approach for the purpose of managing all of its resources, projects and activities.

ORIENTATION 6 – MANAGE THE GOVERNANCE FRAMEWORK**AREAS OF INTERVENTION**

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

Achievements

- Publication and dissemination of the AMF's first integrated annual report.
- Review and adaptation of financial management policy statements.
- Development and implementation of tools and mechanisms for accountability reporting pertaining to management information, financial results and follow-up on the activity plan.
- Review and implementation of document management tools, such as a retention policy and timetable.
- Receipt and processing of documentation (archives and files) regarding the solvency of financial institutions.
- Implementation of procedures for monitoring compliance with the code of ethics and professional conduct.
- Review and improvement of certain procedures regarding decisions and the delegation of powers.
- Ongoing support for the *Conseil consultatif de régie administrative* (AMF Advisory Board).
- Implementation of an internal audit process: procedure and audit universe.
- Preparation and implementation of a policy against harassment in the workplace.

OTHER
INFORMATION



HUMAN RESOURCES

As at March 31, 2006, AMF staff members totalled 543 employees, all categories combined. From April 1, 2005 to March 31, 2006, 50 persons were recruited.

CODES OF ETHICS AND PROFESSIONAL CONDUCT FOR THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND OTHER PUBLIC OFFICE HOLDERS¹

During its first year of operations from 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 Directors and the Secretary are considered to be public office holders.

The code of ethics and professional conduct for the President and Chief Executive Officer of the AMF and the code of ethics and professional conduct for staff members of the *Autorité des marchés financiers* are available for consultation on the AMF website (www.lautorite.qc.ca). Copies are also available by contacting the Information Centre toll-free at 1-877-395-2263.

From April 1, 2005 to March 31, 2006, no cases were reported involving AMF public office holders for violations of the rules pertaining to ethics or professional conduct.

LANGUAGE POLICY

During the financial year, the *Office québécois de la langue française* issued a certificate to the AMF attesting that it applies a francization program approved by the Office. In addition, the AMF adapted the components of its computer and office technology systems that were not yet compliant for French-language purposes. The AMF also replaced any remaining English software applications in use with new French versions.

ACCESS TO INFORMATION

As at March 31, 2006, the AMF had processed 141 requests for access to information under the *Act respecting access to documents held by public bodies and the protection of personal information*.

PROTECTION OF PERSONAL INFORMATION OF CLIENTS

Under the *Act respecting the distribution of financial products and services*, registered representatives and firms must protect the personal information they hold regarding clients. Inspections carried out by the AMF enable it to confirm compliance with this obligation, 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 for purposes other than those for which they were collected.

¹ Under paragraphs 3 and 4 of section 3.0.2 of the *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.



FINANCIAL STATEMENTS

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The financial statements of the *Autorité des marchés financiers* and the *Fonds d'indemnisation des services financiers* 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 and the *Fonds d'indemnisation des services financiers* 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 the board of directors to discuss any matter related to the audit.



Jean St-Gelais
President and Chief Executive Officer



Linda Levasseur
Executive Director, Administration
Québec City, June 14, 2006

To the National Assembly

I have audited the balance sheet of the *Autorité des marchés financiers* (AMF) and the *Fonds d'indemnisation des services financiers* as at March 31, 2006 and the statements of income, surplus and cash flows of the AMF and the statements of income and fund balances of the *Fonds d'indemnisation des services financiers* for the year ended March 31, 2006. 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 and the *Fonds d'indemnisation des services financiers* as at March 31, 2006 and the results of operations and cash flows of the AMF and the *Fonds d'indemnisation des services financiers* 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.

Compliance with certain Acts administered by the AMF

As set out in Note 1, under section 248 of the *Act respecting the distribution of financial products and services* and section 330.1 of the *Securities Act*, all amounts payable to the AMF under each Act must be applied to the payment of the expenses incurred in relation to the administration of these Acts. However, the AMF does not have sufficient financial information to ensure compliance with these legislative provisions.



Renaud Lachance, CA
Auditor General of Québec

Québec City, June 14, 2006

INCOME

for the year ended March 31, 2006

			2006	2005
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
	\$	\$	\$	\$
REVENUE				
Fees, contributions and premiums (Note 3)	56,763,601	18,753,532	75,517,133	76,463,117
Interest	1,270,820	14,098,635	15,369,455	16,232,007
Other	2,414,697	15,757	2,430,454	1,583,093
Settlements and fines	2,735,707		2,735,707	390,299
	63,184,825	32,867,924	96,052,749	94,668,516
EXPENSES				
Salaries and employee benefits	40,237,337	464,045	40,701,382	41,731,451
Occupancy expenses	4,085,265		4,085,265	4,779,456
Professional services	6,665,755		6,665,755	4,172,311
Supplies, documentation and maintenance	1,332,811		1,332,811	2,017,312
Business expense and reception	1,209,553	16,919	1,226,472	1,489,349
Communications, information	562,903	212,657	775,560	1,085,308
Telecommunications	449,317		449,317	496,362
Contribution to the <i>Bureau de décision et de révision en valeurs mobilières</i>	1,362,589		1,362,589	3,496,676
Fees related to legislation	850,000		850,000	250,000
Other	2,049,780	23,666	2,073,446	2,215,730
Amortization of fixed assets	1,881,623		1,881,623	1,983,257
Amortization of intangible assets	902,146		902,146	599,703
Amortization of start-up costs	1,159,949		1,159,949	1,353,273
Administrative expenses attributed to the Funds (Note 4)	(889,067)	516,890	(372,177)	(156,307)
	61,859,961	1,234,177	63,094,138	65,513,881
Surplus for the year before the following	1,324,864	31,633,747	32,958,611	29,154,635
Use of designated fund (Note 6)	(1,002,257)		(1,002,257)	(414,762)
Surplus for the year	322,607	31,633,747	31,956,354	28,739,873

The accompanying notes are an integral part of the financial statements

SURPLUS

for the year ended March 31, 2006

					2006	2005
	Surplus	Contingency	Current operations Designated fund	Deposit Insurance Fund Unappropriated surplus	Total	Total
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	13,845,134	33,529,869	14,207,238	312,702,532	374,284,773	345,544,900
Surplus for the year	322,607			31,633,747	31,956,354	28,739,873
Use of designated fund (Note 6)	1,002,257		(1,002,257)			
Balance, end of year	15,169,998	33,529,869	13,204,981	344,336,279	406,241,127	374,284,773

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

BALANCE SHEET

			As at March 31, 2006	As at March 31, 2005
	Current operations \$	Deposit Insurance Fund \$	Total \$	Total \$
ASSETS				
Current assets				
Cash	3,505,044	1,441	3,506,485	2,319,996
Short-term investments (Note 8)	57,965,648	345,680,714	403,646,362	369,101,350
Accounts receivable (Note 9)	14,827,228	335	14,827,563	5,086,235
Receivable – deposit insurance fund	101,900			
Interest receivable	679,361	1,509,979	2,189,340	1,792,147
Prepaid expenses	503,149	1,443	504,592	626,568
	77,582,330	347,193,912	424,674,342	378,926,296
Accounts receivable (Note 9)	1,017,258		1,017,258	1,105,866
Fixed assets (Note 10)	7,777,266		7,777,266	9,246,512
Intangible assets (Note 11)	1,673,126		1,673,126	2,289,838
Start-up costs (Note 12)	3,286,520		3,286,520	4,446,469
	91,336,500	347,193,912	438,428,512	396,014,981

BALANCE SHEET (cont.)

			As at March 31, 2006	As at March 31, 2005
	Current operations \$	Deposit Insurance Fund \$	Total \$	Total \$
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 13)	10,448,736	187,909	10,636,645	5,532,299
Payable – Current operations		101,900		
Refundable fees and contributions	827,015		827,015	475,601
Allowance for vacation time, sick leave and severance pay (Note 14)	4,181,479		4,181,479	2,689,998
Deferred revenue	7,097,526	1,567,824	8,665,350	6,139,938
	22,554,756	1,857,633	24,310,489	14,837,836
Long-term portion of allowance for vacation time, sick leave and severance pay (Note 14)	6,876,896		6,876,896	5,892,372
	29,431,652	1,857,633	31,187,385	20,730,208
NET EQUITY				
Government of Québec contribution		1,000,000	1,000,000	1,000,000
Surplus				
Surplus	15,169,998	344,336,279	359,506,277	326,547,666
Contingency reserve (Note 15)	33,529,869		33,529,869	33,529,869
Designated fund (Note 6)	13,204,981		13,204,981	14,207,238
	61,904,848	344,336,279	406,241,127	374,284,773
	61,904,848	345,336,279	407,241,127	375,284,773
	91,336,500	347,193,912	438,428,512	396,014,981
COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)				

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, 2006

			2006	2005
	Current Operations \$	Deposit Insurance Fund \$	(12 months) Total \$	(14 months) Total \$
OPERATING ACTIVITIES				
Surplus for the year	322,607	31,633,747	31,956,354	28,739,873
Items not affecting cash				
Amortization of fixed assets	1,881,623		1,881,623	1,983,257
Amortization of intangible assets	902,146		902,146	599,703
Amortization of start-up costs	1,159,949		1,159,949	1,353,273
(Gain) Loss on disposal of fixed assets	(6,106)		(6,106)	50,576
	4,260,219	31,633,747	35,893,966	32,726,682
Change in non-cash operating items				
Accounts receivable	(9,655,048)	2,328	(9,652,720)	(376,626)
Receivable – deposit insurance fund	150,077			
Interest receivable	(141,294)	(255,899)	(397,193)	147,087
Prepaid expenses	121,872	104	121,976	(181,923)
Accounts payable and accrued liabilities	5,386,250	152,750	5,539,000	(4,888,930)
Payable – Current operations		(150,077)		
Refundable fees and contributions	351,414		351,414	(362,029)
Provision for vacation time, sick leave and severance pay	2,476,005		2,476,005	1,569,697
Deferred revenue	2,355,393	170,019	2,525,412	(2,969,326)
	1,044,669	(80,775)	963,894	(7,062,050)
Cash flows related to operating activities	5,304,888	31,552,972	36,857,860	25,664,632

CASH FLOWS (cont.)

for the year ended March 31, 2006

			2006	2005
	Current	Deposit	(12 months)	(14 months)
	Operations	Insurance	Total	Total
	\$	Fund	\$	\$
		\$		
INVESTING ACTIVITIES				
Acquisition of investments	(52,908,573)	(31,331,537)	(84,240,110)	(127,358,157)
Proceeds from disposal of investments	48,886,523		48,886,523	109,369,581
Additions to fixed assets (Note 19)	(712,711)		(712,711)	(5,715,406)
Proceeds from disposal of fixed assets	18,387		18,387	73,503
Additions to intangible assets (Note 19)	(432,035)		(432,035)	(2,051,511)
Start-up costs				(761,594)
Cash flows related to investing activities	(5,148,409)	(31,331,537)	(36,479,946)	(26,443,584)
Net change in cash and cash equivalents	156,479	221,435	377,914	(778,952)
Cash and cash equivalents, beginning of year	3,348,565	36,844	3,385,409	4,164,361
Cash and cash equivalents, end of year	3,505,044	258,279	3,763,323	3,385,409
Cash and cash equivalents, end of year include:				
Cash	3,505,044	1,441	3,506,485	2,319,996
Short-term investments		256,838	256,838	1,065,413
	3,505,044	258,279	3,763,323	3,385,409

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

1 - INCORPORATION AND MISSION

The *Autorité des marchés financiers* (the "AMF") is a legal person and a mandatory of the State, created under the *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 the 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 Authority 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;
- 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 supply 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 \$100,000;
- 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 \$700,000,000.

The AMF also administers a financial services compensation fund called the *Fonds d'indemnisation des services financiers*, created under section 258 of the *Act respecting the distribution of financial products and services* as amended by section 424 of the *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 the *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. The financial statements of the *Fonds d'indemnisation des services financiers* are presented in Note 21.

Under section 248 of the *Act respecting the distribution of financial products and services* and section 330.1 of the *Securities Act*, all amounts payable to the AMF under each of these Acts must be applied to the payment of the expenses incurred in relation to the administration of these Acts. Since the amount related to the administrative expenses of these Acts cannot be reasonably determined, this information has not been disclosed.

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

1 - INCORPORATION AND MISSION (cont.)

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

In administering the *Act respecting the distribution of financial products and services* and to facilitate the dues collection process of the *Chambre de la sécurité financière and 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 \$8,288,436 on behalf of and remitted \$8,295,573 to the *Chambre de la sécurité financière*; the AMF collected dues totalling \$4,098,309 on behalf of and remitted \$3,686,439 to the *Chambre de l'assurance de dommages*.

2 - ACCOUNTING POLICIES

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. Actual results could differ from those estimates.

Short-term investments

Investments are recorded at the lower of cost and market value.

Fixed assets

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

Computer equipment	3 years
Office furniture and equipment and leasehold improvements – equipment	5 years
Leasehold improvements – layout	Remaining lease term plus renewal option period or period ending September 30, 2013

Intangible assets

Intangible assets are recorded at cost and amortized on a straight-line basis over a three-year useful life.

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 are amortized on a straight-line basis over a five-year period ending 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

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

Revenues other than contributions, premiums and administrative penalties

Revenues other than contributions, premiums and administrative penalties 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 set up 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 interenterprise defined benefit plans given that the AMF lacks sufficient information to follow defined benefit plan accounting.

Cash and cash equivalents

The AMF's policy consists in presenting, under cash and cash equivalents, bank balances, unappropriated demand deposits and other short-term investments maturing within three months of their acquisition date.

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

3 - FEES, CONTRIBUTIONS AND PREMIUMS

			2006	2005
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
	\$	\$	\$	\$
<i>Securities Act</i> ¹	35,238,209		35,238,209	34,547,013
<i>Act respecting the distribution of financial products and services</i>	10,777,087		10,777,087	11,845,092
<i>Act respecting insurance</i>	6,840,985		6,840,985	6,971,900
<i>Act respecting trust companies and savings companies</i>	1,044,281		1,044,281	1,029,317
<i>Act respecting financial services cooperatives</i>	2,680,641		2,680,641	2,616,790
<i>Act respecting the Mouvement Desjardins</i>	182,398		182,398	30,843
<i>Deposit Insurance Act</i>		18,753,532	18,753,532	19,422,162
	56,763,601	18,753,532	75,517,133	76,463,117

¹ Section 271.12 of the *Securities Regulation* provides for a 15% reduction in fees payable that ended on February 28, 2006. The reduction granted over the year ended March 31, 2006 totalled \$5,716,948 (\$6,165,040 in 2005).

4 - ADMINISTRATIVE EXPENSES ATTRIBUTED TO THE FUNDS

The AMF made human resources, fixed 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 \$516,890 (\$610,858 in 2005) and \$372,177 (\$156,307 in 2005) respectively for the use of these resources. These transactions were conducted in the normal course of activities and measured at the exchange amount, which corresponds to the best estimate of costs. As at March 31, 2006, the deposit insurance fund and the *Fonds d'indemnisation des services financiers* owed \$36,930 (\$43,633 in 2005) and \$260,349 (\$11,165 in 2005) respectively for these services.

5 - DEPOSIT INSURANCE FUND

Pursuant to section 52.2 of the *Deposit Insurance Act*, the deposit insurance fund's accumulated net income is detailed as follows:

	2006 (12 months)	2005 (14 months)
	\$	\$
Balance, beginning of year	312,702,532	280,051,075
Surplus for the year	31,633,747	32,651,457
Balance, end of year	344,336,279	312,702,532

6 - DESIGNATED FUND

As stipulated in section 276.4 of the *Securities Act* (R.S.Q., c. V-1.1), the AMF may, with the Government's authorization, create a designated fund. The Government authorized the creation of a separate fund for investor education and governance promotion used as follows during the fiscal year:

	2006 (12 months)	2005 (14 months)
	\$	\$
Balance, beginning of year	14,207,238	14,622,000
Use of designated fund:		
Investment income	433,823	217,027
Contribution payments	(1,321,110)	(542,355)
Salaries and employee benefits	(110,738)	(75,344)
Other	(4,232)	(14,090)
	(1,002,257)	(414,762)
Balance, end of year	13,204,981	14,207,238

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

7 - FINANCIAL INSTRUMENTS

The market value of participation deposit units in funds entrusted to the *Caisse de dépôt et placement du Québec* stood at \$370,195,770 as at March 31, 2006 (\$342,259,713 in 2005). The market value of bankers' acceptances and bearer term notes was \$15,315,553 and \$13,187,479 respectively as at March 31, 2006 (\$10,716,658 and \$24,530,128 in 2005 for bankers' acceptances and commercial paper).

The fair value of other financial instruments is equivalent to their carrying amounts due to their short maturities.

8 - SHORT-TERM INVESTMENTS

	Current operations	Deposit Insurance Fund	As at March 31, 2006 Total	As at March 31, 2005
	\$	\$	\$	\$
Funds entrusted to the <i>Caisse de dépôt et placement du Québec</i>				
Demand deposits	474,382	256,838	731,220	571,757
Term deposits	16,905,000		16,905,000	4,900,000
Participation deposits	12,411,012	345,423,876	357,834,888	328,807,243
	29,790,394	345,680,714	375,471,108	334,279,000
Funds entrusted to other institutions				
Bankers' acceptances	15,166,455		15,166,455	10,700,000
Bearer term notes	12,999,999		12,999,999	
Commercial paper				24,113,550
Other	8,800		8,800	8,800
	57,965,648	345,680,714	403,646,362	369,101,350

Demand deposits, term deposits, bankers' acceptances and bearer term notes bearing interest at rates ranging from 2.80% to 4.17% and maturing on various dates through March 2007.

9 - ACCOUNTS RECEIVABLE

	Current operations	Deposit Insurance Fund	As at March 31, 2006 Total	As at March 31, 2005
	\$	\$	\$	\$
Current portion				
Fees, contributions and premiums	14,347,836		14,347,836	4,307,119
<i>Fonds d'indemnisation des services financiers</i>	209,895		209,895	254,348
Other	20,813	335	21,148	268,191
Due from the Government of Québec				
<i>Conseil du Trésor</i>	227,608		227,608	227,608
Enterprise Register	21,076		21,076	28,969
	14,827,228	335	14,827,563	5,086,235
Long-term portion				
Other	139,000		139,000	
Due from the Government of Québec				
<i>Conseil du Trésor</i>	878,258		878,258	1,105,866
	1,017,258		1,017,258	1,105,866
	15,844,486	335	15,844,821	6,192,101

10 - FIXED ASSETS

	Cost	Accumulated amortization	As at March 31, 2006 Net book value	As at March 31, 2005 Net book value
	\$	\$	\$	\$
Leasehold improvements - equipment	363,251	206,924	156,327	111,189
Leasehold improvements - layout	6,805,597	1,803,883	5,001,714	5,607,237
Office furniture and equipment	5,872,511	3,868,538	2,003,973	2,663,309
Computer equipment	3,600,294	2,985,042	615,252	864,777
	16,641,653	8,864,387	7,777,266	9,246,513

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

11 - INTANGIBLE ASSETS

			As at March 31, 2006	As at March 31, 2005
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Software	2,000,062	1,751,751	248,311	356,481
Information system development	3,586,225	2,161,410	1,424,815	1,933,357
	5,586,287	3,913,161	1,673,126	2,289,838

12 - START-UP COSTS

			As at March 31, 2006	As at March 31, 2005
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Start-up costs	5,799,742	2,513,222	3,286,520	4,446,469

13 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		Deposit Insurance Fund	As at March 31, 2006	As at March 31, 2005
	Current operations \$	\$	\$	\$
Accounts payable and accrued liabilities	9,596,706	187,909	9,784,615	4,983,844
Due to the Government of Québec				
Ministère des Finances	852,030		852,030	548,455
	10,448,736	187,909	10,636,645	5,532,299

14 - EMPLOYEE FUTURE BENEFITS

Pension plans

AMF employees participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (RRF), the Pension Plan of Management Personnel (PPMP) or the *Régime de retraite de l'administration supérieure* (senior management pension plan). These defined benefit interenterprise plans include guarantees on retirement and death.

The AMF's contributions charged to income for the year amounted to \$1,668,057 (\$1,169,548 in 2005). The AMF's obligations under these government plans is limited to its employer contributions.

Allowance for vacation time, sick leave and severance pay

	As at March 31, 2006 \$	As at March 31, 2005 \$
Allowance for vacation time		
Balance, beginning of year	3,476,976	2,804,633
Expense for the year	2,826,574	3,004,072
Benefits paid during the year	(2,379,325)	(2,331,729)
Balance, end of year	3,924,225	3,476,976
Allowance for sick leave		
Balance, beginning of year	5,105,394	4,208,040
Expense for the year	1,291,084	1,677,562
Benefits paid during the year	(858,156)	(780,208)
Balance, end of year	5,538,322	5,105,394
Allowance for severance pay	1,595,828	
Allowance for vacation time, sick leave and severance pay	11,058,375	8,582,370
Long-term portion	(6,876,896)	(5,892,372)
	4,181,479	2,689,998

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

15 - CONTINGENCY RESERVE

As stipulated in section 276.4 of the *Securities Act* (R.S.Q., c. V-1.1), the AMF may, in the pursuit of its mission under this Act, set up a contingency reserve. Such a reserve has been set up to cover unforeseen changes in the revenues or expenses related to the Act.

16 - GUARANTEED DEPOSITS

The premiums collected from registered institutions are based on the guaranteed amounts they have on deposit April 30 every year.

The deposits guaranteed on April 30, 2005 by the deposit insurance fund totalled \$66.4 billion (\$57.4 billion in 2004), \$11.3 billion (\$10.2 billion in 2004) 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 CDIC for deposits received by a trust company or savings company incorporated under federal legislation.

17 - COMMITMENTS

The AMF has entered into leases expiring on various dates through 2019 for the rental of its offices calling for payments totalling \$49,243,973. The minimum lease payments for the next five years are as follows: \$4,201,829 in 2006-2007, \$4,249,709 in 2007-2008, \$4,340,776 in 2008-2009, \$4,385,407 in 2009-2010, \$4,401,664 in 2010-2011 and \$27,664,588 for the years 2011-2012 and thereafter.

Commitments related to contributions to the Fund for Investor Education and the Promotion of Good Governance amounted to \$738,190 for fiscal 2006-2007 and \$440,000 for fiscal 2007-2008.

18 - CONTINGENCIES

The AMF is currently faced with various lawsuits for damages. 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.

19 - SUPPLEMENTARY CASH FLOW DISCLOSURE

During the year, additions to fixed assets amounted to \$424,658 (\$6,101,429 in 2005), of which \$97,970 (\$386,023 in 2005) was included in accounts payable as at March 31, 2006. Additions to fixed assets resulted in cash outflows totalling \$712,711 (\$5,715,406 in 2005). In addition, during the year, additions to intangible assets amounted to \$285,434 (\$2,198,112 in 2005), of which nil (\$146,601 in 2005) was included in accounts payable as at March 31, 2006. Additions to intangible assets resulted in cash outflows totalling \$432,035 (\$2,051,511 in 2005).

20 - RELATED PARTY TRANSACTIONS

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.

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

21 - FONDS D'INDEMNISATION DES SERVICES FINANCIERS - FINANCIAL STATEMENTS

Statement of Income for the year ended March 31, 2006

	2006 (12 months) \$	2005 (14 months) \$
Revenue		
Contributions	2,412,164	2,410,288
Interest	153,944	231,792
Subrogation revenue	160,521	42,283
	2,726,629	2,684,363
Expenses		
Compensation (Note I)	16,123,246	1,339,475
Salaries and employee benefits	677,172	610,238
Travel expenses	4,068	3,638
Communications, information		(3,720)
Professional services	175,767	213,367
Administrative expenses (Note C)	372,177	156,307
Other	6,956	30,373
	17,359,386	2,349,678
Surplus (deficiency) of revenue over expenses	(14,632,757)	334,685

Change in fund balances for the year ended March 31, 2006

	2006 \$	2005 \$
Balance, beginning of year	(3,817,437)	(4,152,122)
Surplus (deficiency) of revenue over expenses	(14,632,757)	334,685
Balance, end of year (Note D)	(18,450,194)	(3,817,437)

Balance Sheet
as at March 31, 2006

	As at March 31, 2006	As at March 31, 2005
	\$	\$
ASSETS		
Current assets		
Cash	1,171	44,528
Investments (Note F)	4,947,000	6,878,793
Accounts receivable (Note G)	351,606	240,492
Prepaid expenses	8,502	7,671
	5,308,279	7,171,484
Non-interest bearing notes receivable in subrogation, maturing in 2013	41,293	29,300
	5,349,572	7,200,784
LIABILITIES		
Current liabilities		
Accounts payable (Note H)	287,341	483,101
Compensation allowance (Note I)	21,116,000	9,509,211
Deferred revenue	2,396,425	1,025,909
	23,799,766	11,018,221
FUND BALANCE (Note D)	(18,450,194)	(3,817,437)
	5,349,572	7,200,784
CONTINGENCIES (Note J)		



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



Linda Levasseur
Executive Director, Administration
Autorité des marchés financiers

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

21 - FONDS D'INDEMNISATION DES SERVICES FINANCIERS - FINANCIAL STATEMENTS (CONT.)

A - GOVERNING STATUTES AND NATURE OF OPERATIONS

The *Fonds d'indemnisation des services financiers* is a fund incorporated under the *Act respecting the distribution of financial products and services* that was sanctioned on June 20, 1998 by the Government of Québec. This fund replaced corresponding funds created under the *Act respecting market intermediaries* as at October 1, 1999.

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

By 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 the former *Act respecting market intermediaries*. The compensation arising from instances of fraud committed prior to October 1999 were paid out of these patrimonies based on their respective jurisdiction. Henceforth, any and all compensation will be paid out of the *Fonds d'indemnisation des services financiers* irrespective of the year in which the fraud was committed.

The AMF, via the *Fonds d'indemnisation des services financiers*, 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. It also has responsibility for taking over claims on file with the former funds and to rule 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 the *Act respecting market intermediaries*.

B - ACCOUNTING POLICIES

The preparation of the financial statements of the *Fonds d'indemnisation des services financiers* 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. Actual results may differ from those estimates.

No statement of cash flows has been presented since the main operating, investment and financing activities are apparent from reading the other financial statements and it would have provided no additional information.

Investments

Investments are recorded at the lower of cost and market value.

Revenue recognition*Revenue from contributions*

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

Subrogation revenue

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

C - ADMINISTRATIVE EXPENSES

The AMF has made human resources, property, plant and equipment and office space available to the *Fonds d'indemnisation des services financiers*. During the year, the AMF charged \$372,177 (\$156,307 in 2005) for the use of these resources. These transactions were conducted in the normal course of activities and measured at the exchange amount, which corresponds to the best estimate of costs. At March 31, 2006, the *Fonds d'indemnisation des services financiers* owed \$260,349 (\$11,165 in 2005) for these services.

D - FUND BALANCE

Pursuant to an amendment adopted in December 2004 to section 278 of the *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 offset this shortfall over a maximum five-year period.

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

21 - FONDS D'INDEMNISATION DES SERVICES FINANCIERS - FINANCIAL STATEMENTS (CONT.)

E - 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 financial characteristics.

F - INVESTMENTS

	As at March 31, 2006	As at March 31, 2005
	\$	\$
Term deposits, bearing interest at 4.03%, maturing in March 2007	4,947,000	6,878,793

G - ACCOUNTS RECEIVABLE

	As at March 31, 2006	As at March 31, 2005
	\$	\$
Contributions receivable	326,344	141,340
Other	25,262	37,749
Accrued interest		61,403
	351,606	240,492

H - ACCOUNTS PAYABLE

	As at March 31, 2006	As at March 31, 2005
	\$	\$
Accounts payable and accrued liabilities	77,446	228,753
<i>Autorité des marchés financiers</i> (current operations)	209,895	254,348
	287,341	483,101

I - 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, 2006	As at March 31, 2005
	\$	\$
Balance, beginning of year	9,509,211	10,314,944
Expense for the year	16,123,246	1,339,475
Claims settled during the year	(4,516,457)	(2,145,208)
Balance, end of year	21,116,000	9,509,211

J - CONTINGENCIES

The *Fonds d'indemnisation des services financiers*, which has been replaced by the AMF, is involved in various lawsuits concerning decisions to reject compensation in the course of its activities. Since it is not possible to evaluate the amount the AMF might have to pay, no provision has been made 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 its financial position.

2005-2006
ANNUAL REPORT

OF THE
*CONSEIL
CONSULTATIF
DE RÉGIE
ADMINISTRATIVE*
(ADVISORY BOARD)

Québec City, July 26, 2006

Mr. Michel Audet
Minister of Finance
Parliament Building
Québec City



Dear Sir:

I am pleased to provide you with the 2005-2006 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 our gratitude for the confidence you have expressed in us by entrusting the affairs of the Board to our watch. Rest assured that we are making every effort to ensure that the Board serves as a primary governance body in co-operation with AMF executives.

Yours truly,

A handwritten signature in black ink, appearing to read 'Bernard Motulsky', with a long horizontal flourish extending to the right.

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

ADVISORY BOARD ORIGINS

The *Conseil consultatif de régie administrative* (Advisory Board) was established pursuant to section 48 of the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2) (the “Act”).

ADVISORY BOARD ACTIVITY REPORT

The decision to establish such a board was further to public consultations that took place even before the adoption of the Act establishing the *Autorité des marchés financiers* (AMF). The legislator elected to provide the future regulatory and oversight body for Québec’s financial sector with a council for the purpose of consultation and administrative advisement in support of the AMF’s mission and various mandates.

Almost all bodies that supervise and regulate capital markets in Canada and around the world can draw on a board for corporate governance advice. The approach adopted in Québec distinguishes itself by the fact that the attributes and powers of this Board are defined by law and exercised at two decision-making levels, namely, the AMF itself and its President and CEO, and the Minister who oversees the AMF, namely, the Québec Minister of Finance.

Even though it is an advisory body, the Board’s actions are wide-ranging in scope. The Board performs the following functions in respect of the AMF:

1. to advise the AMF on the compatibility of its actions with its mission;
2. to advise the AMF on its corporate governance, in particular as regards its budget estimates, staffing plan and activity plan;
3. to make recommendations to the AMF President and CEO concerning the appointment of AMF senior executives and the renewal of their terms;
4. to report to the Minister on any matter submitted to it by the Minister and make recommendations concerning the administration of the AMF and the efficient use of its resources.

The Board may also recommend that its advice to the AMF be available to the public.

Pursuant to the Act, the Board is required to submit a report on its activities no later than July 31 each year. It must be appended to the activity report of the AMF. This is a significant formality, as it compels the Board to provide accountability to the members of the National Assembly, thereby ensuring greater transparency. The current report covers the activities of the Board for AMF’s fiscal year beginning on April 1, 2005 and ending on March 31, 2006.

BOARD MEMBERS

The Board is composed of seven members, including a chair, appointed by the Minister, pursuant to section 49 of the Act. They are chosen for their knowledge of the financial industry as well as for their expertise in the area of administrative management.

As of March 31, 2006, the Board was composed of Bernard Motulsky and Michel Lespérance, Chair and Secretary respectively, as well as Michel Lamontagne, Jean Phaneuf and Jacques Saint-Pierre.

Bernard Motulsky is Director General, Communications and Recruiting at the University of Montréal.

Michel Lespérance, who is retired, held the position of Secretary General of the University of Montréal until September 2005.

Michel Lamontagne is a lawyer specializing in private financing and coaching related to angel investor groups and corporate directors through the consulting firm *MLL Société conseil*.

Jean Phaneuf is President of *Analys psychologie organisationnelle*, a consulting firm specializing in potential evaluation and organizational efficiency.

Jacques Saint-Pierre 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.

To satisfy the requirements of the Act, which calls for a Board made up of seven members, two other appointments will eventually have to be made by the Finance Minister. The members of the Board are appointed for a term of no more than three years and it may be renewed only once.



From left to right: Jacques St-Pierre, Michel Lamontagne, Bernard Motulsky, Jean Phaneuf, Michel Lespérance.

BOARD ACTIVITIES IN 2005-2006

STATUTORY MEETINGS

The Act stipulates that the Board is to hold meetings as often as necessary to fulfill its obligations, but it must meet at least four times a year. Two guests attend the meetings on a permanent basis: Maître Anne-Marie Beaudoin, AMF Director, Secretariat, and Jean St-Gelais, AMF President and CEO.

In fiscal 2004-2005, the Board held six meetings. In the current fiscal year, it held the same number of regular meetings as follows:

Seventh meeting: May 11, 2005 in Montréal;
Eighth meeting: June 16, 2005 in Québec City;
Ninth meeting: December 8, 2005 in Montréal;
Tenth meeting: February 15, 2006 in Québec City;
Eleventh meeting: March 3, 2006 in Montréal;
Twelfth meeting: March 29, 2006 in Québec City.

BOARD'S OPERATIONAL TOOLS

Three basic tools govern the Board's operations: by-laws of the Board, a liaison and support protocol between the AMF and the Board as well as a code of ethics and professional conduct that the Board members are required to sign in witness of their adherence thereto.

ADVISING THE AMF AND THE FINANCE MINISTER

Neither the Minister nor the AMF called on the Board for advice on issues related to the financial sector.

BOARD'S CONTRIBUTION TO AMF ADMINISTRATION

As part of its meetings, the Board regularly monitors the AMF's activities. It is briefed on various matters related to its mission. In many instances, the Board conveyed comments or submitted recommendations, most of which were adopted by the AMF.

The main items covered by the Board at its statutory meetings in 2005-2006 were the AMF's activity plan, on which follow-up is provided twice a year, numerous internal management files (including human resources and budgeting) and AMF activities pertaining to its broad mandates: legislation and regulatory affairs, oversight, consumer assistance and compensation.

FOLLOW-UP ON BOARD EXPECTATIONS AND RECOMMENDATIONS OF LAST YEAR

In its 2004-2005 activity report, the Board submitted recommendations at the end of the initial fiscal year. The follow-up provided on its expectations and recommendations are discussed below.

INTERNAL AUDITING AT THE AMF

During the initial fiscal year, the Board had recommended that the AMF hire an internal auditor and implement an internal audit charter as outlined in international standards. The AMF followed-up on this recommendation and hired an internal auditor effective April 2005.

Since joining the AMF, the internal auditor has developed procedures specific to this governance function and kept the Board abreast of his ongoing mandates. Moreover, the internal audit charter, which defines the powers and responsibilities of AMF management, the Board and the internal auditor, was finalized.

BALANCED AMF BUDGET

The Board had expressed the hope for a balanced AMF budget. According to the 2006-2009 financial forecasts filed with the Board, this objective was expected to be achieved in 2007-2008.

The AMF is on course and this objective is realistic given that its initial budget had forecast a deficit of \$8 million, and a surplus is expected in fiscal 2005-2006.

REPRESENTING THE AMF AT NATIONAL AND INTERNATIONAL EVENTS

At the end of the previous fiscal year, the Board had expressed an interest in reviewing the AMF's policy regarding representations at national and international events dedicated to market regulation.

A review has been undertaken and was the subject of an initial guidance document on AMF's external relations. This draft document will enable the AMF to adopt a more complete external relations policy regarding its areas of expertise so as to ensure that Québec regulations and AMF actions are constantly in tune with international standards.

CONCLUSION

Although their involvement in the AMF is only recent, the Board members can vouch for the efforts carried out by the AMF in 2005-2006 to maintain efficient market operations and conduct effective proceedings against defaulting individuals and companies, thereby ensuring that consumers of financial products and services remain confident in the financial markets of Québec.

The Board members are proud to contribute to this mission and wish to assure the Government of their intention to pursue their task with thoroughness and diligence for a third year.

And finally, the Board members wish to highlight the unwavering co-operation they have enlisted from AMF management, in particular from Maître Anne-Marie Beaudoin, AMF Director, Secretariat, and Jean St-Gelais, AMF President and CEO.

On behalf of the members of the Advisory Board.

A handwritten signature in black ink, appearing to read 'Bernard Motulsky', written over a horizontal line.

Bernard Motulsky
Chair

THE AMF WOULD LIKE TO THANK THE EMPLOYEES THAT APPEAR ON THE PHOTOS:

Page 9

Claude Martin, Consumer Assistance
Julien Reid, Legal Affairs
Nancy Chamberland, Distribution
Renée Garon, Material Resources

Page 13

Maria Patricia Gonzales, President's office
Nicolette Kost de Sèvres, SRO Oversight
Anne-Marie Beaudoin, Secretariat
Michel Vandal, Financial Markets

Page 17

Martin Massicotte, Finance
Kelton Calixte, Information Technologies

Page 27

Michèle Rolland, Information Center

Page 29

Nathalie Collerette, Material Resources
Truc Truong-Thanh, Information Technologies
David Lee Béliveau, Information Technologies

This report was prepared by the *Direction des communications* and translated by the *Service de la traduction* of the *Autorité des marchés financiers* (AMF). It is also available on the AMF website at www.lautorite.qc.ca.

DESIGN

Maheu Arbour

PHOTOGRAPHY

Inside photos: Claude Mathieu, Pub Photo

2005-2006 ANNUAL REPORT

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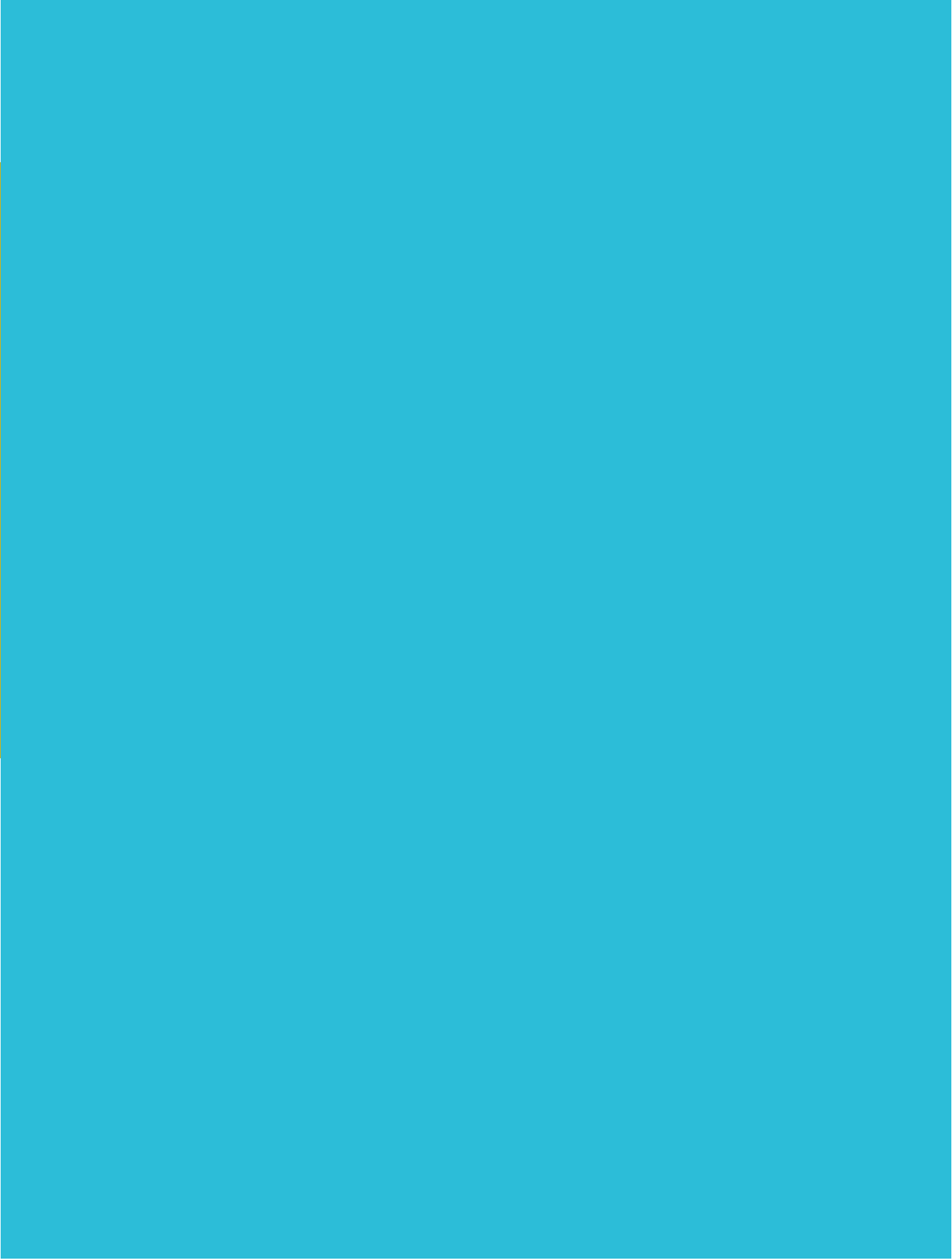
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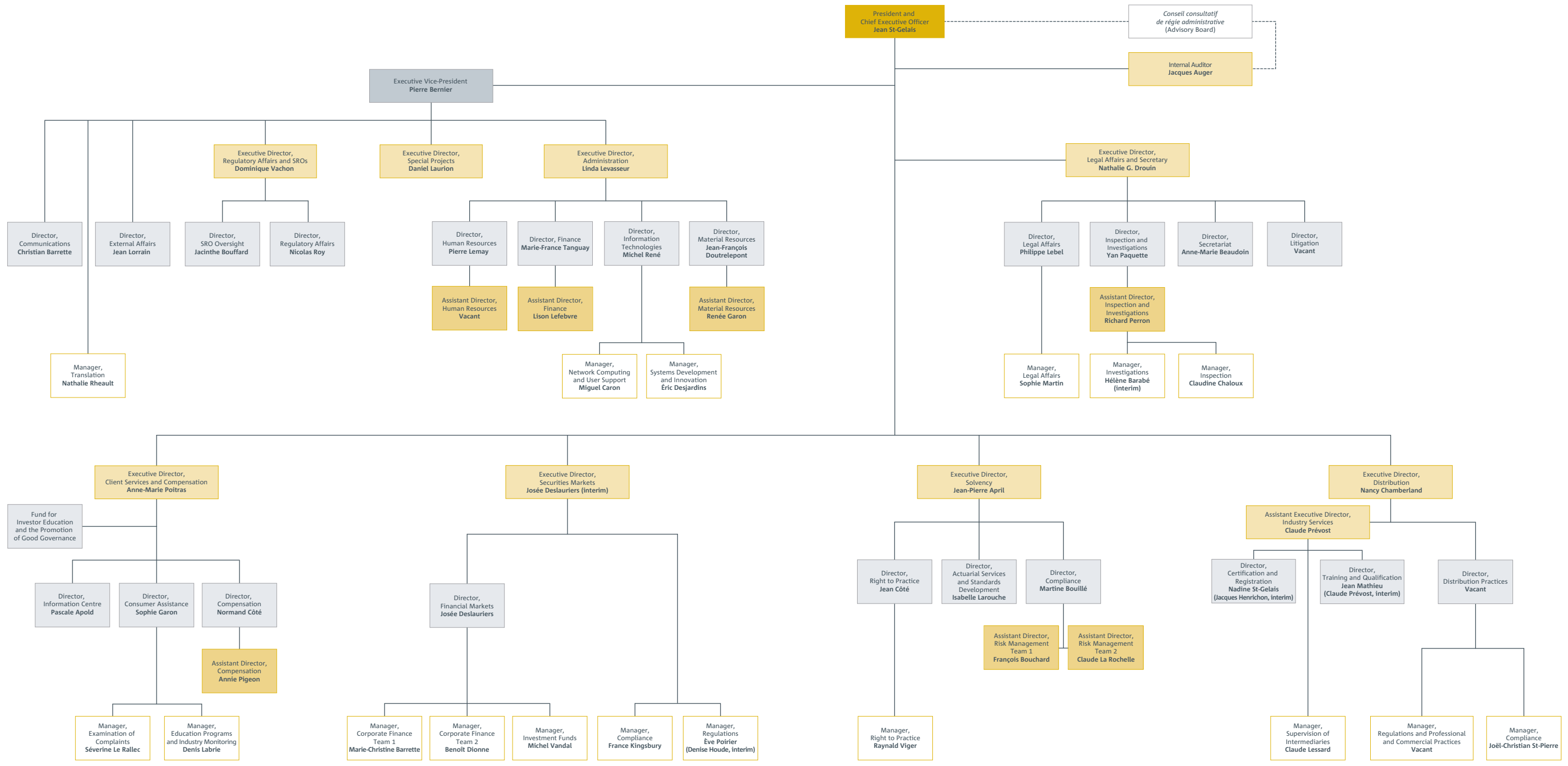
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