Commission des valeurs mobilières du Québec

2001-2002 Annual Report – Highlights

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The *Commission* *des valeurs mobilières du Québec* continues to carry out its mission of protecting investors while safeguarding and fostering the integrity of our securities markets. The Commission is firmly committed to staying the course on this fundamental mission while continuing to play an important role in the development of financial services and capital markets in Québec.

The rapid pace of innovation in the securities market in recent years has not shown any signs of slowing down in the past year. Although the North American and international markets experienced a difficult adjustment period at the end of the growth cycle in the 1990s and in the days following the events of September 11, 2001, these difficulties did not slow the progress of new technologies or the development of new trading platforms, which continue to drastically change the traditional relationships between issuers, intermediaries and investors.

An ever-increasing amount of securities business takes place electronically. Today, securities are held in book based systems and “paper” certificates are almost a thing of the past. Each year, new financial engineering concepts widen the range of securities products and offer new risk and return management methods. National markets, which are traditionally separate, are increasingly converging into a vast continuum where all investors, from the largest institutional fund managers to the smallest individual investors, are looking to diversify their portfolios and obtain access to marketplaces in the four corners of the world.

As a result of all these changes, regulatory authorities from around the world are now required to show constant vigilance, increase cooperation and continually reassess their priorities and intervention methods. Not only must the Commission maintain a constant presence within international organizations where new regulatory approaches and new market oversight and compliance strategies are developed, it must also intensify its contributions to this effort. The same is true across Canada, within the context of the work being done by the Canadian Securities Administrators, as well as in the Americas and around the world.

In 2001, these concerted efforts resulted in the development and implementation of a new regulatory regime for all securities marketplaces in Canada. Two new National Instruments were adopted by the Commission and the other Canadian commissions to regulate the operations of traditional exchanges and to enable the integration of new generations of marketplaces – alternative trading systems – that are now available to Canadian investors and intermediaries.

The adoption of these new National Instruments provided the opportunity to update the regulatory and market oversight mechanisms by paving the way for the recognition of a new generation of self-regulatory organizations – regulation services providers – which help improve market integrity while reducing potential conflicts of interest. In early 2002, Market Regulation Services Inc. was the first of these organizations to be granted recognition by the Commission and most of the other Canadian securities commissions.

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Over the past year, the Commission has intensified its efforts with regard to increasing the efficiency of its operations and has overhauled its financial base.

Moreover, the Commission has continued to fill its vacant positions in order to strengthen its operational capacity in inquiries and inspections as well as in the *Direction des marchés des capitaux* (Capital Markets Division). Over a three-year period, the Commission's total workforce increased from 161 to 207 persons. In the next few years, the Commission will continue to focus its efforts on training and developing expertise, in addition to reevaluating traditional activities and making any adjustments needed to cooperate and collaborate with the other securities authorities and market participants.

Furthermore, the Commission completed the financing of an operational reserve which will permit adequate risk management. As a result, this year there was an unappropriated surplus of $29 million on the Commission's balance sheet. Since these funds are no longer transferred to the government of Québec's consolidated revenue fund, the Commission decided to return the funds to Québec's financial sector participants and is waiting for the approval of the Minister of Finance to do so.

Therefore, half of this amount, i.e. $14 million, will be appropriated to the 15% reduction of fees collected by the Commission. This reduction will be applied until this amount has been fully spent, conceivably over the next three years. The remaining half will be appropriated to the financing of special projects that will contribute to investor education and to improving the integrity of our securities markets.

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From an administrative point of view, it should be noted that two years ago, the Commission adopted and implemented its *Politique linguistique*. Since then, this *Politique* has been reviewed, certain changes were approved by the Commission in 2002, and the amended version has been sent to the *Office de la langue française*.

It should also be pointed out that, over the years, the Commission has established rules of professional conduct and adopted a Code of Ethics and Professional

Conduct of Public Office Holders of the *Commission des valeurs mobilières du Québec*. During the past year, no breaches to the rules of professional conduct were committed by the Commission's public office holders. In order to update and integrate all rules of professional conduct that are currently applicable at the Commission, a general review of these rules began in 2001 and will continue in 2002.

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Over the past three years in particular, the Commission's operating methods and administrative processes have undergone major changes. The Commission is now entering a phase that will continue to focus on building on its strengths and maintaining its growth. The entire industry will therefore reap the benefits of the significant efforts made by the Commission over the years to adapt to the new market conditions and to the ever-changing needs of issuers, intermediaries and investors.

Of course there is still considerable work to be done. A great deal of effort must be made to further improve our business processes, simplify administrative procedures, and shorten turnaround times. At the same time, we must intensify our cooperative efforts with our partners, the other Canadian authorities, to improve joint operating mechanisms that were implemented in areas such as the mutual reliance review system, the processing of insider reports and the joint development of regulatory regimes. We must also develop ways to extend this collaboration to other areas such as to simplifying and standardizing dealer registration processes.

With the experience acquired over the past years, the Commission now has the necessary resources and expertise to meet these objectives, which are all an integral part of its strategic plan.

Finally, I would like to emphasize that all these achievements would not have been possible without the combined effort of Commission members, senior management and all personnel. I would also like to thank the *Comité consultatif juridique* (Legal Advisory Committee) and the *Comité consultatif en matière d'information financière* (Financial Information Advisory Committee) for their contribution, not to mention the financial and public sectors for the comments they provide on a regular basis, all of which play an important role in our operations and thought process.

Carmen Crépin

The *Commission des valeurs mobilières du Québec* (the "Commission") is the watchdog agency for the Québec securities market.

The Commission was created in 1955 by a law passed by the National Assembly and it reports to the Deputy Prime Minister and Minister of State for the Economy and Finance. Since June 1997, the Commission has been an independent regulatory body, funded by the securities industry.

The Commission's mission is to promote the efficiency of Québec's financial markets, protect investors and regulate the information that companies must disclose to their securities holders during public offerings. It also oversees the activities of securities market professionals and organizations responsible for the operation of this market.

More specifically, the Commission exercises authority over the following three main groups:

- *Issuers* seeking financing from investors. The Commission regulates specific information during public offerings or bids as well as the continuous financial disclosure of issuers whose securities are traded on the market;

- *Securities dealers, advisers and their representatives.* The Commission registers them and supervises their activities – including their financial situation – to ensure that they adequately serve the interests of their clients and regularly inform their clients of any trades made;

- *Self-regulatory organizations* ("SROs"), such as the exchanges. The Commission approves their rules and ensures their compliance. If applicable, it examines the manner in which SROs carry out their functions and the powers delegated to them;

Essentially, the Commission applies the provisions of Québec's *Securities Act* (the "Act") and is responsible for the administration of this Act. To do so, it provides the public with savings and investment information, it conducts investigations to determine whether or not the Act has been breached and it implements administrative and penal procedures through its enforcement activities.

The Commission fulfils several functions simultaneously, including functions related to being a:

- Quasi-judicial tribunal that performs functions prescribed by the Act in first instance or through an application for review. The Commission uses or delegates the powers that have been specifically vested to it. It is possible to appeal a decision rendered by the Commission members before the Court of Québec;

- Market regulatory organization that adopts the operating standards of the securities sector;

- Supervisory authority that plays a market regulatory role through activities carried out by its staff.

Organizational Chart

Présidente
(Chair)

Bureau de la présidente
(Chair's Office)

Membres de la Commission
(Commission Members)

Secrétariat de la Commission
(Commission Secreteriat)

Relations de travail
(Work Relations)

Vérification interne
(Internal Auditing)

Direction générale - Exploitation
(Office of the Director General - Operations)

Direction de la conformité et de l'application
(Compliance and Enforcement Division)

Direction de la recherche et du développement des marchés
(Market Research and Development Division)

Direction des marchés des capitaux
(Capital Markets Division)

Direction des services juridiques
(Legal Services Division)

Direction générale - Administration
(Office of the Director General-Administration)

- *Service des relations internationales* (International Relations Department)
- *Service des relations publiques* (Public Relations Department)
- *Service des ressources financières* (Financial Resources Department)
- *Service des ressources humaines* (Human Resources Department)
- *Service des ressources matérielles* (Material Resources Department)
- *Service de la traduction* (Translation Department)
- *Service des ressources informationnelles* (Information Resources Department)

Issuers

The *Direction des marchés des capitaux* (Capital Markets Division) is in charge of examining and analyzing prospectuses and other disclosure documents related to distributions or bids. It ensures that the information presented is complete and that the distribution complies with the provisions prescribed by the Act and Québec's *Regulation Concerning Securities* (the "Regulation"). As such, it ensures that reporting issuers provide their security holders and the market with financial statements and the necessary documents.

Over the past year, the Division's volume of activities dropped substantially. In terms of corporate financing and bids, the Division reviewed 6,367 applications of all types compared with 7,786 during the previous year. Essentially, this can be explained by a drop in requests for prospectus exemptions prescribed by the Act – due to the nature of securities issued or the nature of the distribution – as well as time limit extension requests.

Prospectus Receipts

The number of prospectus receipts granted to companies other than mutual funds is increasing, whereas we noted a slight drop in the number of mutual fund prospectus receipts.

CORPORATE FINANCING AND BIDS
Applications received

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Prospectus receipts	416	376	382
Prospectus / mutual fund receipts[1]	215	225	288
SUB-TOTAL	**631**	**601**	**670**
Prospectus supplements	129	138	139
Offering memorandums (s. 47 and 48)	21	29	33
Offering memorandums (s. 52)	131	124	128
Other prospectus exemptions[2]	1,996	2,482	2,180
Prospectus amendments	21	20	26
Prospectus amendments / mutual funds	137	187	111
Offering memorandum amendments	32	35	6
Time limit extensions	344	1,004	390
Exemptions - Policies	1,270	1,441	894
Other exemptions from requirements	333	408	954
Other applications[3]	555	515	569
Bids	81	114	92
Board of director's circulars	72	105	78
Bid amendments	62	61	71
Amendments to board of director's circulars	11	8	7
Exempted bids	362	316	355
Various exemptions - bids	150	151	192
Q-27 compliance	3	2	1
Q-27 exemptions	26	45	43
SUB-TOTAL	**5,736**	**7,185**	**6,269**
TOTAL	**6,367**	**7,786**	**6,939**

1 *These numbers do not represent the number of mutual funds because, in general, prospectuses include more than one mutual fund.*

2 *Prospectus exemptions set forth in sections 12, 46, 50, 51 and 263 of the Act.*

3 *Regularization of securities, financial forecasts, transfers of escrowed shares, geological reports, permission to omit certain financial statements, permission to report that securities will be listed and annual information forms.*

Bids

Division staff reviewed 81 bids this year compared with 114 last year. Furthermore, the number of exemption requests for bids is up compared with the 2000-2001 fiscal year, i.e. up from 467 to 512.

All bids involving companies whose shares are owned in part by Québec investors are examined by the staff. When a takeover is not in compliance with the provisions of the Act and the Regulation, the Commission intervenes to ensure that all shareholders are treated equitably.

Financial Disclosure

In terms of the financial disclosure of reporting issuers, the Division's activities include ensuring that filing deadlines are met and examining disclosure documents: interim financial statements, annual reports, annual information forms and shareholder meeting documents. Finally, the Division also processes insider reports and reviews material changes.

FINANCIAL DISCLOSURE

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Reporting issuers	5,485	5,393	5,317
Annual reports	4,234	4,085	3,935
Annual financial statements	4,581	4,616	4,125
Quarterly financial statements	7,609	7,374	7,106
Information circulars	1,240	1,280	1,371
Annual information forms	1,033	1,042	1,062
Exemptions from periodical disclosure requirements	160	185	106
Insider reports	32,932	40,669	38,957
Miscellaneous			
New reporting issuers	535	793	585
Material changes	5,648	3,182	2,440
Issuance and rescission of cease trading orders	120	178	138
Certificates	502	366	358
Revocations	103	133	74
Notice of year-end change	69	68	19
Notice of change of auditor	64	79	27
Other	171	88	87

Securities Dealers and Advisers

The *Direction de la conformité et de l'application* (Compliance and Enforcement Division) is responsible for registering and supervising individuals and companies operating as dealers, advisers or representatives in the securities industry. Furthermore, the Division oversees the activities of self-regulatory organizations and conducts the Commission's inquiries to determine whether or not any breaches to the Act or to the Regulation have been committed.

Registration of Companies

During the past year, 17 new dealers, including 5 discount brokers – that perform the activities of intermediary in securities trading without providing any buy or sell advice – and 19 new advisers, have been registered. Net registrations (excluding suspensions) include 124 dealers and 161 advisers registered in Québec.

DEALERS AND ADVISERS
Applications for registration and suspension of activities

FISCAL YEAR	**2001-2002**		**2000-2001**	
	Registration	Suspension	Registration	Suspension
Dealers with unrestrictice practice	7	8	11	7
Dealers with unrestricted practice (NASDAQ)	1	-	4	-
Discount brokers	5	-	1	-
Dealers distributing QBIC shares	-	1	5	1
Mutual fund dealers	-	-	-	5
Mutual fund dealers and investment contract dealers	-	-	-	12
Securities issuers	2	2	1	3
Other[1]	2	1	-	-
SUB-TOTAL	**17**	**12**	**22**	**28**
Advisers with an unrestricted practice	17	7	15	5
Advisers with a restricted practice	2	4	-	1
SUB-TOTAL	**19**	**11**	**15**	**6**
TOTAL	**36**	**23**	**37**	**34**

[1] *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

REGISTERED DEALERS AND ADVISERS

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Dealers with an unrestricted practice	95	96	92
Dealers with an unrestricted practice (NASDAQ)	5	4	-
Discount brokers	8	3	2
Dealers distributing QBIC shares	3	4	-
Mutual fund dealers	-	-	5
Mutual fund dealers and investment contract dealers	-	-	12
Securities issuers	10	10	12
Other[1]	3	2	2
SUB-TOTAL	**124**	**119**	**125**
Advisers with an unrestricted practice	153	143	133
Advisers with a restricted practice	8	10	11
SUB-TOTAL	**161**	**153**	**144**
TOTAL	**285**	**272**	**269**

[1] *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

Registration of Individuals

The Division registered 797 new representatives of dealers and 116 representatives of advisers, bringing the total number of active dealer representatives in Québec to 5,460 and the total number of active adviser representatives in Québec to 625.

REPRESENTATIVES
Applications for registration, resumption or suspension of activities and cancellation of registration

FISCAL YEAR	2001-2002				2000-2001			
	Reg.	Res.	Susp.	Canc.	Reg.	Res.	Susp.	Canc.
Dealers with an unrestricted practice	715	273	748	1,206	845	450	844	326
Dealers with an unrestricted practice (NASDAQ)	12	-	4	6	6	-	-	-
Discount brokers	30	7	18	8	11	3	7	5
Dealers distributing QBIC shares	2	1	7	14	31	1	14	3
Mutual fund dealers	-	-	-	-	178	5	4,107	4,107
Mutual fund dealers and investment contract dealers	-	-	-	-	26	22	1,762	1,762
Securities issuers	19	-	10	8	13	-	7	3
Independent traders	19	-	114	114	28	-	30	30
Other[1]	-	-	-	-	-	-	1	-
SUB-TOTAL	**797**	**281**	**901**	**1,356**	**1,138**	**481**	**6,772**	**6,236**
Advisers with an unrestricted practice	110	24	52	31	144	25	67	33
Advisers with a restricted practice	6	-	4	3	5	-	4	5
SUB-TOTAL	**116**	**24**	**56**	**34**	**149**	**25**	**71**	**38**
TOTAL	**913**	**305**	**957**	**1,390**	**1,287**	**506**	**6,843**	**6,274**

[1] *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

ACTIVE REPRESENTATIVES[1]

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Dealers with an unrestricted practice	5,244	5,004	4,553
Dealers with an unrestricted practice (NASDAQ)	14	6	-
Discount brokers	40	21	14
Dealers distributing QBIC shares	14	18	-
Mutual fund dealers	-	-	3,924
Mutual fund dealers and investment contract dealers	-	-	1,714
Securities issuers	52	43	37
Independent traders	76	171	173
Other[2]	20	20	21
SUB-TOTAL	**5,460**	**5,283**	**10,436**
Advisers with an unrestricted practice	611	529	427
Advisers with a restricted practice	14	12	11
SUB-TOTAL	**625**	**541**	**438**
TOTAL	**6,085**	**5,824**	**10,874**

1 *Registered persons minus those whose activities were suspended during the period.*
2 *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

The Division is also responsible for the certification of senior executives of registered companies. During the past year, 895 candidates were certified as senior executives, bringing the total to 7,945.

SENIOR EXECUTIVES
Applications for certification and termination of activities

FISCAL YEAR	2001-2002		2000-2001	
	Cert.	Term.	Cert.	Term.
Dealers with an unrestricted practice	634	335	466	510
Dealers with an unrestricted practice (NASDAQ)	1	2	11	-
Discount brokers	10	6	7	4
Dealers distributing QBIC shares	1	4	35	2
Mutual fund dealers	-	-	23	320
Mutual fund dealers and investment contract dealers	-	-	2	57
Securities issuer	-	2	-	10
Other[1]	-	1	-	2
SUB-TOTAL	**646**	**350**	**544**	**905**
Advisers with an unrestricted practice	221	175	260	144
Advisers with a restricted practice	28	14	9	10
SUB-TOTAL	**249**	**189**	**269**	**154**
TOTAL	**895**	**539**	**813**	**1,059**

[1] *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

CERTIFIED SENIOR EXECUTIVES

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Dealers with an unrestricted practice	6,607	6,308	6,352
Dealers with an unrestricted practice (NASDAQ)	10	11	-
Discount brokers	99	95	92
Dealers distributing QBIC shares	30	33	-
Mutual fund dealers	-	-	297
Mutual fund dealers and investment contract dealers	-	-	55
Securities issuers	43	45	55
Other[1]	7	8	10
SUB-TOTAL	**6,796**	**6,500**	**6,861**
Advisers with an unrestricted practice	1,124	1,078	962
Advisers with a restricted practice	25	11	12
SUB-TOTAL	**1,149**	**1,089**	**974**
TOTAL	**7,945**	**7,589**	**7,835**

[1] *Desjardins Trust, RCGT Corporate Finance Inc. and Canada-Israel Securities Ltd.*

Self-Regulatory Organizations and Labour-Sponsored Funds

The *Direction de la conformité et de l'application* (Compliance and Enforcement Division), through its *Service des OAR et des fonds de travailleurs* (SRO and Labour-Sponsored Funds Department), also examines SRO requests to amend constituting documents, internal by-laws and operating rules.

Over the past year, the Division's staff completed the analysis of 49 files related to amending SRO rules (*Bourse de Montréal Inc.*, Toronto Stock Exchange Inc., Canadian Depository for Securities Limited, Canadian Derivatives Clearing Corporation), compared with 30 the previous year. At the end of the year, 29 amendment requests were still under review.

SROs AND LABOUR-SPONSORED FUNDS
Mandates processed

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Amendments to SRO rules			
Open	42	46	30
Closed	49	30	34
On-going	29	36	20
Other[1]			
Open	54	42	31
Closed	50	29	34
On-going	31	27	14

[1] *Mandates to inspect SRO and labour-sponsored funds and mandates not related to amending SRO rules.*

Enforcement

Although the *Direction des marchés des capitaux* (Capital Markets Division) and the *Direction de la conformité et de l'application* (Compliance and Enforcement Division) are primarily focused on specific clients – the former on issuers and the latter on dealers, advisers and representatives – in the end, it is investors who benefit from the activities carried out by the Commission under the Act.

Inspections and Inquiries

The *Direction de la conformité et de l'application* (Compliance and Enforcement Division) conducts inquiries in order to determine whether or not there have been any breaches to the provisions of the Act and Regulation. It also plays a preventive role by regularly carrying out inspections on dealers and advisers.

Over the past year, the Division restructured the *Service de l'inspection et des enquêtes* (Inspection and Inquiries Department) by naming contact persons to facilitate the coordination of main activities, namely inquiries, complaints and inspections.

With respect to inquiries, the Division currently carries out a pre-inquiry during which a selection process is initiated prior to beginning an actual inquiry, if any. This approach avoids overburdening investigators who are specialized in long-term files so that they can work more quickly on on-going inquiries. Furthermore, pre-inquiries accelerate the processing of new files, which are immediately forwarded to the appropriate investigators.

As part of its pre-inquiry process, the Division uses an assessment grid that takes into consideration a set of parameters to assist in sorting files. A few examples of evaluation criteria include the number of potential and identified victims, the amounts in dispute, the nature of the file, the need to freeze funds and the knowledge of probative facts.

This approach shortens reaction time given resource availability and enables investigators to better respond to urgent cases. This new method, combined with the increase in the number of investigators (4 investigators/inspectors were hired during the past year) proved very successful. Over the past year, the number of on-going inquiry files dropped from 215 to 164, despite opening 35 new files as opposed to the 19 files opened last year.

INQUIRIES AND INSPECTIONS
Files processed

FISCAL YEAR	2001-2002	2000-2001
Pre-inquiries		
Opened	112	83
Closed	15	27
On-going	107	10
Inquiries		
Opened	35	19
Closed	86	58
On-going	164	215
Complaints processed by the Commission		
Opened	67	73
Closed	94	67
On-going	94	121
Complaints transferred to the *Bourse de Montréal Inc.*		
Opened	70	99
Closed	53	100
On-going	114	97
Complaints transferred to the IDA		
Opened	13	10
Closed	11	4
On-going	7	5
Assistance requests from other commissions		
Opened	9	3
Closed	5	5
On-going	16	12
Inspections		
Opened	50	27
Closed	34	36
On-going	45	29
Decisions		
Investigation orders	27	13
Other[1]	4	7

[1] *Repealed or amended investigation orders.*

Legal Services

The *Direction des services juridiques* (Legal Services Division) has many roles: it advises the other divisions on how to carry out their functions, in particular with respect to the interpretation of applicable legislation, and it represents the Commission at legal, quasi-judicial and administrative proceedings.

More specifically, it assists the *Direction de la conformité et de l'application* (Compliance and Enforcement Division) with inquiries conducted by this Division as well as assisting the *Direction des marchés des capitaux* (Capital Markets Division) with public offerings and takeover bids. It is also called on to represent these Divisions at hearings involving the Commission.

LEGAL SERVICES

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Statements of offence issued	29	15	23
Counts issued	110	214	57
Convictions	3	15	15
Counts resulting in convictions	12	56	44
Hearings before the Commission	51	23	18
Hearing days before the Commission	52	45	n.d.
Fines imposed - Offences ($)[1]	12,500	445,000	1,040,000[4]
Settlements before the Commission ($)[1]	2,828,907		
Settlements ratified by the Commission	12	n.d.	n.d.
Days in Court	34	n.d.	n.d.
Freeze orders	6	1	4
Freeze order extensions	2	3	1
Cease trading orders[2] and undertakings	15	2	3
Number of people under penalty imposed by the Commission[3]	20	2	2
Extraordinary recourses (contempts of court, injunctions, etc.)	11	-	2

[1] *These actions used to be grouped under "Judgements and Agreements".*
[2] *Cease trading orders issued by the Commission and prohibitions from carrying out the activity of securities dealer or adviser.*
[3] *Suspension, cancellation of registration, refusal, etc.*
[4] *During the 1999-2000 fiscal year, $1 million was paid as part of an administrative settlement in the Frein Newteck Inc. case.*

Investor Education and Information

One of the mandates of the *Service des relations publiques* (Public Relations Department) consists in coordinating the Commission's communications with the media and the public. It produces and publishes brochures and other free information documents for investors. Its also provides quality answers to investor questions.

PUBLIC RELATIONS
Requests received and documents distributed

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Telephone requests	19,003	18,684	20,322
Written requests	1,259	1,048	734
Documents sent or distributed	15,553	30,505	28,959

Interacting with Authorities from Around the World

The mandate of the *Service des relations internationales* (International Relations Department) consists in monitoring any regulatory changes taking place in foreign markets. It fosters cooperation and technical assistance, encourages the development of high-level international regulatory standards and disseminates information related to Québec's financial expertise. For example, during the past year, the Commission signed a memorandum of understanding with the Monetary Authority of Singapore. Generally speaking, this type of agreement establishes the parameters for mutual assistance and facilitates information sharing between the signing authorities.

The Department's participation in various international forums, such as the International Organization of Securities Commissions (IOSCO), the Council of Securities Regulators of the Americas (COSRA) and the North American Securities Administrators Association (NASAA), promotes the Commission's contribution to international discussions pertaining to normative content and ensures that Québec's regulatory actions remain in keeping with those of the major markets around the world.

This year, the impact of the tragic events of September 11th, first and foremost on a human level, and to a lesser extent on the world's financial markets, cannot be overlooked. These sad circumstances showed the importance of regulatory authorities from around the world working in close collaboration. Thanks to a well-established network of contacts, IOSCO members were able to react in a concerted and appropriate manner to the consequences of these attacks. As a result, the IOSCO created a special project team to explore possible actions that securities regulators should take. Three areas have been specified: contingency planning, the importance of expanded cooperation and information sharing and client identification of market intermediaries in order to determine the origin of funds invested in the markets.

In an entirely different vein, a few months later, IOSCO members set up a committee to look into issues raised by the bankruptcy of Enron and other similar cases.

These issues primarily deal with the tightening of accounting principles in effect. In addition, the means of ensuring the auditor's independence, especially when consulting services are offered by the same accounting firm, are also examined.

Furthermore, corporate governance rules are being reexamined, whether in terms of the role and the make-up of the auditing committee of the board of directors or the remuneration of senior executives. Finally, the regulatory regime related to the continuous disclosure of issuers is also being analyzed with regard to the disclosure of material facts and deadlines for filing and publishing financial statements.

Discussions concerning most of these issues had already begun before the Enron case. However, given the context, all the organizations concerned accelerated their work and draft amendments are already taking shape in several countries.

As for COSRA, this organization meets a more "regional" need by reuniting securities regulatory authorities from Baffin Island to Tierra del Fuego. The Commission organized COSRA's annual meeting in Montréal in October 2001. A few of the subjects discussed at that meeting included the impact of the events of September 11th on financial markets, transaction settlement systems, corporate governance and investor education.

It bears reminding that investor education month, which takes place every spring, is an initiative of COSRA.

The Commission's presence on the international scene is taking on increasing importance due to the fact that the supervision of the world markets involves close collaboration and cooperation between the authorities of the various countries, in particular in their efforts to fight fraud and money laundering. The Commission's sustained efforts in these activities led to the election of Carmen Crépin as Chair of COSRA and, in this capacity, to the IOSCO's Executive Committee. Ms. Crépin is also a member of the IOSCO's Technical Committee.

Developing a Regulatory Regime

The *Direction de la recherche et du développement des marchés* (Market Research and Development Division) monitors market fluctuations. It ensures that Québec regulations are adapted accordingly by creating and amending regulations when necessary in order to improve financial market efficiency and investor protection.

The Division also carries out financial and economic studies and analyzes statistical data on the securities sector, which enables it to detect trends that may influence current regulations while evaluating their relevance and efficiency.

The Division also provides advice and support to Commission staff and market participants, in particular with respect to accounting standards used in financial statements filed with the Commission.

Over the past year, the Division's staff have worked regularly with the other Canadian securities authorities in developing and harmonizing regulations. The projects that are in progress and the regimes in effect are listed on the Commission's website (www.cvmq.com)

Administration

The *Direction générale – Administration* (Office of the Director General – Administration) provides advice and services related to human resources, i.e. staffing, professional training of staff and work relations. It is also responsible for information resources (management of computer equipment, tool development and technical support), in particular the development of management information systems to support the Commission's staff.

Finally, the Division oversees the *Service des ressources financières* (Financial Resources Department), whose activities include accounting, financial statement preparation and verification, the *Services des ressources matérielles* (Material Resources Department), which is responsible for acquiring goods and services, managing the premises and documentation and the *Service de traduction* (Translation Department), which provides translation and linguistic advisory services.

In terms of human resources, over the past year, the Commission has hired 32 regular employees including 23 professionals divided primarily between the *Direction des marchés des capitaux* (Capital Markets Division) and the *Direction de la conformité et de l'application* (Compliance and Enforcement Division). In net terms, the Commission had filled 207 permanent positions on March 31, 2002 compared with 187 at the end of the previous year.

HUMAN RESOURCES

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Regular positions	230	195	182
Positions to be filled	23	8	21
POSITIONS FILLED	**207**	**187**	**161**
Upper management	3	3	3
Management	26	23	18
Professionals	109	97	76
Technicians and office workers	69	64	64
	207	**187**	**161**
Casual employees	19	3	3
Interns	1	2	1

Over the past year, the Commission's activities generated a surplus of $16.4 million, down $1.9 million from last year.

INCOME STATEMENT

FISCAL YEAR	2001-2002	2000-2001	1999-2000
Revenue	39,735,269	38,692,807	33,951,785
Expenses	23,336,674	20,373,862	17,269,538
Payment to consolidated fund	-	-	9,671,311
Excess	16,398,595	18,318,945	7,010,936

Following consultation with members of the securities sector, the Commission adopted a regulation, which was submitted to the government for approval, and is aimed at a 15% temporary reduction of fees prescribed by the Regulation. This measure will result in gradually eliminating half of the unappropriated surplus, up to $14.6 million realized over the last two financial years.

As for the other half, the Commission would like to use it to offer various services, in particular to increase its investor education activities.

Commission des valeurs mobilières du Québec

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