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The new case for a single regulator

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The recent turmoil in United States and global financial markets illustrates the frenetic pace of financial innovation; the development of new investment products and trading practices, sometimes even when risks are misunderstood and underestimated; the rapid spread of these products and market practices across increasingly integrated global financial markets; and the close linkages between leveraged financial instruments and developments in the real economy.

This crisis delivers an important message to regulators: Developments in global markets must be carefully monitored and understood so that a timely regulatory response can be implemented to mitigate market and systemic risks, when circumstances warrant.

The current financial crisis drives home the case for a single national regulator for Canadian capital markets that can closely monitor developments in national and global markets and make needed changes, when and if necessary. Regulators need to review transparency and disclosure rules, capital and margin requirements and other relevant rules, as well as monitor liquidity of markets and market participants, decisions of rating agencies and other responses to the introduction of new products and new trading practices.

A single common regulator would provide the perspective and resources necessary to facilitate timely and effective consultation with Canada's banking and insurance regulator, the Office of the Superintendent of Financial Institutions (OSFI), and with foreign regulators like the Securities and Exchange Commission (SEC) and Financial Services Authority (FSA). A single regulator would likely have close relationships with the Bank of Canada, the Minister of Finance and the federal government, and with multilateral financial organizations that could facilitate coordinated remedial action.

Our existing multi-jurisdictional regulatory system is focused on local markets, transactions between local investors and investment advisers and financing activity in local markets. But regulation needs to look both inward and outward to meet investor protection obligations.

Local investors are exposed to credit and liquidity risks inherent in new investment products and changes in trading patterns transmitted through national and global markets. The regulatory system must be both sufficiently centralized to focus on broad market developments and sufficiently localized to ensure the integrity of the investment process between investors and advisers.

A single common regulator can provide this multi-dimensional perspective. National organizations can be designed to be sensitive to regional and local markets. The TSX Venture Exchange, part of the national TSX Group, displaced regional stock exchanges in Western Canada several years ago. TSX Venture was organized with a strong regional focus. The success of this exchange in providing capital and liquidity for the shares of small and venture companies has been obvious and contradicts the nay-saying of many skeptics. There is no reason a single common regulator cannot be organized to provide regionally sensitive rule-making and enforcement.

A single regulator would bring a strong national and international focus to regulation to ensure that the regulatory framework in Canadian capital markets adapts to innovations in products and practices in global markets. A single regulator could also coordinate effectively with OSFI and the Bank of Canada to ensure comprehensive regulation across the financial sector, avoiding duplication and regulatory gaps.

The Ontario Securities Commission (OSC) and the Canadian Securities Administrators (CSA) are to be commended for moving quickly last Friday to shore up the prohibition on short selling financial equities imposed by the SEC and FSA. However, the OSC order followed the SEC's order by a day, while the other Canadian securities regulators declared their support for the OSC decision and their intent to take similar action either the same day or subsequently.

The debate on regulatory structural reform for Canada has brought to light many good reasons to displace our existing multi-jurisdictional system with a single common regulator for Canada. The recent traumatic events in global markets have given us one more.

-Ian Russell is president and CEO of the Investment Industry Association of Canada, the national association of the Canadian securities industry.