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David A. Dodge
Governor - Gouverneur

20 October 2005

Mr. Thomas I.A. Allen
Chairman
Task Force to Modernize Securities
Legislation in Canada
121 King Street West, Suite 1600
Toronto, Ontario
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Dear Mr. Allen, *Tom*

The Bank of Canada appreciates the opportunity to provide input to the ongoing work of the Task Force to Modernize Securities Legislation in Canada. A solid legal and regulatory framework is required for enhancing the efficiency of the financial system, which is one of our objectives. Please find enclosed two of my recent speeches on the need for Canada to improve the efficiency of its financial system and the important contribution that regulation can make to achieve this goal.

Perhaps I could summarize the speech I gave in September. In our view, the regulatory framework for the financial system should promote healthy competition in markets and encourage innovation. It is important for regulation to adapt to new trading technologies and financial products in a neutral way in order to prevent regulatory concerns from distorting business decisions. To inform these decisions, investors need access to timely information about new financial products. That said, regulators need to recognize that the appropriate amount of information will depend on the nature of each market and its participants.

The regulatory framework should also establish incentives that encourage behaviour consistent with the underlying objectives of the regulation without necessarily imposing detailed rules to dictate how to achieve these goals. To that end, policy-makers should ensure that regulation passes rigorous cost-benefit analysis.

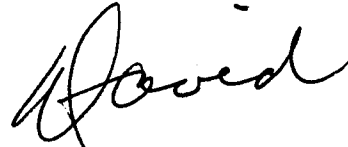
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This is particularly important in this era of market globalization. Canadian markets and institutions need to be competitive internationally, and the regulatory framework governing them needs to follow global best practices. However, Canadian regulation must also be tailored to domestic needs. While the principles behind our regulations must be as good as or better than those of countries, policy-makers should apply these principles in a way that allows Canada to develop a comparative advantage.

Once an optimal framework is designed, there needs to be effective, fair and vigorous enforcement of the rules so as to achieve the objectives of the regulation and to ensure the credibility of the framework. Authorities must punish those who do not act in accordance with the regulation and deter others from doing likewise. To improve this process, there should be better cooperation and coordination among authorities at a provincial, national and international level to investigate and punish fraudulent occurrences that span across jurisdictions.

Regulators should also work together on an ongoing basis to build a framework that fosters an efficient financial system. Cooperation among policy-makers requires discussion of new regulation throughout the development phase to better align objectives, where possible, learn about the experience of others, as well as identify key issues for future improvement.

Yours sincerely,

A handwritten signature in black ink, appearing to read "David". The signature is fluid and cursive, with a small dash above the 'i'.

Enclosures (2)

English

1. "Financial System Efficiency: Getting the Regulatory Framework Right"
<http://www.bankofcanada.ca/en/speeches/2005/sp05-13html>
2. "Financial System Efficiency: A Canadian Imperative"
<http://www.bankofcanada.ca/en/speeches/2004/sp04-14.html>

Français

1. "Un cadre réglementaire approprié, gage d'un système financier efficient"
<http://www.banqueducanada.ca/fr/discours/2005/sp05-13f.html>
2. "L'efficacité du système financier : une nécessité pour le Canada"
<http://www.banqueducanada.ca/fr/discours/2004/sp04-14.html>