

FAIR

Canadian Foundation for
Advancement of Investor Rights

FAIR Canada works with Quebec Coalition for the Protection of Investors

FAIR Canada met in Montreal on May 26, 2009 with 11 senior members of the Coalition for the Protection of Investors. The two organizations discussed working together on some of the key issues described below. Coalition co-founder and spokesman Robert Pouliot has since joined the FAIR Board of Directors. The list of participants can be found in the [full story](#) on our website.

Origins and Focus of the Coalition

Following the Norbourg and Portus hedge fund scandals, a group of prominent consultants, academics, (mostly retired) investment and finance executives and retired politicians from all major parties in Quebec came together informally in October, 2006. They shared a common goal of improving the protection of investors in a fast-changing financial world.

The Coalition is self-funded and concentrates on intervening at the institutional level with regulators, legislators, and professional associations. Members of the Coalition also engage in educating the public about financial and pension issues.

The Coalition focuses on lobbying for investor rights and frequently partners with other groups, especially pensioners. A recent submission to a House of Commons committee the Coalition received the backing of organizations with 1.8 million members.

Other organizations linked to or allied with the Coalition

MÉDAC, Mouvement d'éducation et de défense des actionnaires, now has 2,000 members paying annual dues of \$35 each. MÉDAC focuses on corporate governance and was instrumental in pushing "say on pay" resolutions at the annual meetings of major Canadian publicly-traded companies. The President of MÉDAC, Claude Béland, is also one of the two official spokespersons of the Coalition.

GIREF, Groupe Internationale de Recherche en Éthique Financière et Fiduciare, provides objective, independent research on ethical issues, governance questions and fiduciary responsibility. It has affiliations with universities in Canada, France and the UK.

FidRisk is a joint program of a group of pension fund sponsors and endowment funds for an independent assessment of investment managers, affiliated with investment consultant Morneau Sobeco. Starting this summer, FidRisk will provide voluntary measures of fund managers based on objective principles and international best practices.

Indemnity Fund - the Coalition's Highest Priority

The Coalition has devoted much time and effort to advancing the idea of an industry wide, inclusive indemnity fund. The following is a summary of the Coalition's thoughts on an indemnity fund.

Why the Fund is Needed

The current system for compensating victims of investment fraud or negligence in Canada is underfunded, confusing and inadequate.

- It varies from province to province and is often decided on a case to case basis. In crucial issues like the Asset Backed Commercial Paper collapse, investors were left to fend for themselves, without support from the regulatory authorities.
- Ever-increasing numbers of more complex products are penetrating the consumer savings markets, often coming from insurance companies or virtually unregulated hedge funds.
- The Canadian Investor Protection Fund provides coverage (limited to \$1 million per account) if a member dealer of the Investment Industry Regulatory Organization of Canada goes bankrupt. CIPF returns investor assets and has paid out \$36 million since its founding in 1969. Recent scandals like Portus, Norbourg and the Toronto \$60 million Ponzi scheme were not covered by CIPF.

Fund Basics and Areas for Future Study

Mandatory, industry-wide participation. The fund should cover all collective investment plans from pensions to mutual funds. All participants in the financial industry should be required to provide funding - including financial advisors, money managers, insurers, fund originators such as mutual funds companies and hedge funds, and investors.

Independence. To succeed, this fund should be a public/private partnership. It should be run by a truly independent board with representatives from the regulators, fund managers, financial advisers, investor associations and trade unions. Potential conflicts of interest could undermine the Fund's credibility were it to remain in the hands of regulators.

Based in Montreal. A public consultation should be held with interested parties including the press. The fund should be based in Montreal to cover Canada first and then open up to other regions in North America.

Specific duties of the fund would include establishing the level of premiums; receiving the premiums and investing the assets; taking over any litigation from investors; and studying/implementing international best practices.

Issues to be addressed include the nature of losses to be covered; possible caps on coverage amounts; differential costs based on varying risk levels; the use of insurance and re-insurance to reduce cash demands; and weighing the advantages and drawbacks of restricting the initial mandate to fraud rather than including negligence as well.

Other important Coalition goals

The Coalition proposed the creation of a **national institute of savings and investment** to monitor trends and capital flows across the country. The Coalition considers that the current debate about the state of savings has no ability to reach consensus, and Statscan's figures are too vague.

The savings and investment institute would unite representatives of governments, regulators, financial service firms, non-profit agencies, investor advocates and labour unions to agree on methodologies and common figures. The institute would also measure regional variations and the situation of groups with special needs - single parent families, handicapped citizens, seniors, young couples, and others.

Stronger custodians protecting investors. The Coalition advocates restructuring the model of all managed funds to greatly strengthen the powers of the custodian along European lines. The Investment Review Committee's role in mutual funds should be supplemented to give the IRCs a broader mandate and some teeth.

Mandatory fiduciary benchmarking of managers. The FidRisk program to assess investment managers should be rolled out across sectors. The program will start off on a voluntary basis; the backing of its large pension and endowment sponsors should aid its penetration. Eventually the Coalition hopes to make this program mandatory, with an annual review of all asset classes.

Note: The Expert Panel Report on Securities Regulation recommended the establishment of an investor compensation fund funded by the industry to allow the securities regulator to directly compensate investors for a violation of securities law.

FAIR Canada Welcomes New Director Robert Pouliot

Robert Pouliot is a co-founder of the Coalition for the Protection of Investors, with a life-long interest in investor representation and advocacy. He has 26 years of experience as a financial consultant specializing in credit, corporate governance and risk ratings.

Mr. Pouliot now serves as the managing partner and board member of FidRisk Investor Services, affiliated with investment consultant Morneau Sobeco. FidRisk aids pension funds and endowments to assess investment managers and to promote best fiduciary practices.

Before FidRisk, Mr. Pouliot managed the Geneva office of Rating Capital Partners and served as an investment consultant in Europe for 20 years. He founded and acted as CEO for Capital Intelligence Ltd., the first bank credit rating agency for emerging markets.



Mr. Pouliot has published four books on Canadian and international taxation and an upcoming work about fiduciary risk to be published by Thomson Reuters. He has degrees from the Universite de Montreal (B.A.) and the University du Quebec a Montreal (Economics), and lectures on fiduciary risk and pension fund governance at UQAM and the College des Administrateurs.

Mr. Pouliot began his career as a financial journalist for La Presse in 1970 and spent the next 12 years reporting from Montreal, the Middle East and Europe. He has lived in Cyprus, Geneva and Toronto, and is now based in Montreal.

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