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## CANADA

### Canada's regulatory system weak: Author

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MONTREAL - During the Great Recession of the 2000s, Canada's financial system was considered a paragon of strength and excellence while its Western counterparts collapsed or received taxpayer bailouts.

More recently, the World Economic Forum ranked Canadian banks as the soundest in the world in its 2010-11 Global Competitiveness Report. It's the third consecutive year the Canadian banking system received the honour.

However, the country has a dirty secret, according to author and investigative journalist Bruce Livesey: Its regulatory system, particularly with regards to investment banking, is a national embarrassment.

Livesey, author of *Thieves of Bay Street: How Banks, Brokerages and the Wealthy Steal Billion from Canadians*, told QMI Agency in an interview Friday that Canada's regulatory system discourages foreign investment, attracts foreign fraudsters and is considered a joke internationally.

He said Canadians should think twice before investing their money in stocks and other securities products sold by Canada's financial institutions.

"Canadians should be worried," he said. "I think there is a good chance they'll lose their money."

According to an estimate by independent financial analyst Diane Urquhart, who spent two decades working in Toronto's financial industry, Canadians are losing big time.

She told QMI Agency in an interview Saturday that over the last 20 years, Canadian investors have lost, on average, about \$20 billion per year to fraud.

And when Canadians get victimized, they are largely on their own, according to Livesey.

He cited a 2006 study by Utpal Bhattacharya, associate editor of the *Review of Financial Studies* and the *Journal of Financial Markets*.

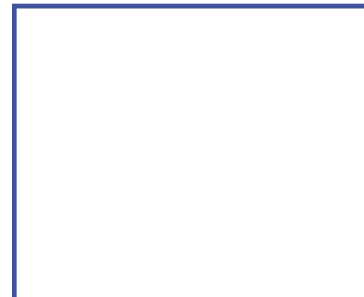
The study was commissioned by the Task Force to Modernize Securities Legislation in Canada. It concluded that when scaled to the size of the stock market, America's securities regulator prosecutes 10 times more cases for all securities laws violations and 20 times more insider-trading violations than Ontario's financial watchdog - which is tasked with supervising Canada's financial capital, Toronto.

Livesey said the problems stem from the fact that Canada does not have a national securities regulator, but 13 separate provincial and territorial watchdogs.

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The Conservative government tried to combine all the country's regulators, but there was significant push-back, especially from Quebec and Alberta, and the case went to the Supreme Court. The court ruled the federal government's plan unconstitutional last December.

Urquhart said the regulators have strong ties to the industry.

"The problem is structural," she said. "Through that capacity of being in that power leadership structure, (regulators) are in a position to influence who gets investigated, the issues that are determined to be in violation and ultimately what the remedy is."

Livesey said the 13 separate commissions are inefficient and the country's regulatory structure concerns foreign investors.

"There is this perception that we are very weak," he said. "And the big problem is that corporations and countries don't invest in Canada; they think that in the event that the money goes missing, they'll never see it again."

Moreover, Livesey said that foreign corporations are increasingly using Canada as a "flag of convenience" for raising money for fraudulent activities.

An example is the recently collapsed forestry company, Sino-Forest Corp., which raised hundreds of millions of dollars on the Toronto Stock Exchange, he said.

Ontario's securities regulators alleged the company "appear(ed) to have engaged in significant non-arm's-length transactions which may have been contrary to Ontario securities laws and the public interest."

"There are a number of other Chinese companies who also might be in the same boat," Livesey said. "Not only is (our financial regulatory system) a hindrance, but we attract people who think we won't do our due diligence."

The solutions to the problem, Livesey said, must focus around reforming the regulatory system and Canadian attitudes.

Part of the problem is that Canadians are embarrassed when they lose their investment money and don't want to go public about it, he said.

"They are middle-class and educated," he said. "They tell themselves: 'How could I be so stupid?'"

There are exceptions, he said, such as the victims of Earl Jones, the Montreal-based financier who was convicted in 2010 for stealing \$50 million from about 150 investors, mostly elderly people.

However, it wasn't the victims, but their children who organized and eventually won \$17 million in a class-action lawsuit against the Royal Bank of Canada, where Jones did some of his banking.

"The only way white-collar crime is policed in this country is when victims and their supporters get the media on the story," Urquhart said. "And only then does the priority get raised and it's the regional police fraud squads that gets on the story. The RCMP is hopeless."

She said there has never been a prosecution in Canada of a high-ranking investment banker in the regulated financial industry, "other than a rogue broker such as an Earl Jones."

Urquhart said a national securities regulator is a must. Additionally, she said, "there need to be a complete retrofit of citizen, police and government attitudes to what constitutes a criminal, white-collar offence. Just because people with suits are in a boardroom doesn't spare them from being considered criminals."

And as for the majority of Canadians who are looking to invest their money, Urquhart has some advice: "If you own your own business stay in your own business."

She said Canadians should do what they know and what they have had success doing.

Don't be fooled by an investment that promises high returns because there is high probability of risk and potential for fraud, she said.

And if you must invest, she said, stick to stocks that pay dividends and place your money with large banking institutions, "because they have the deep pockets to pay for the damages and can be held to account."

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