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Introduction

I want to warmly thank our hosts, but also the experts who presented over the last two days the results of their research. I hope this workshop is meeting your expectations.

This year's workshop raises fundamental questions, such as the merits and risks of fostering diversity in financial systems. I have been invited to talk about the regulatory challenges in coping with such diversity.

In a nutshell, here's what I think:

- Diversity is a reality and is here to stay.
- There are no simple answers to the complex issues of the world we live in.
- There are no "one size fits all" solutions either.
- And as the saying goes: there are many roads leading to Montréal (even if a few of them are still under construction...).

The same could be said about financial regulation: there are many possible ways to achieve policy objectives (even if a few of them are still under construction...).

Diversity in itself is not the real issue. It's more about how you deal with diversity that should be looked into. And there are a few key challenges that have to be kept in mind for any possible safety net design to work well and deliver the desired outcomes of financial stability and sustainability.

I would like to take the next few minutes to flesh out those ideas by exploring those four sources (or forms) of diversity:

- Political and legal systems across jurisdictions.
- Concentration level and crisis frequencies in the financial systems.
- Status, roles and powers of the safety net players.
- Business models of the financial institutions.

Political and legal systems across jurisdictions

I think I won't need to spend much time to make my first point: there are simply no two countries perfectly alike.

And often within countries, there is more than one order of government having jurisdiction over matters pertaining to the financial sector. Or supranational arrangements or governing bodies, like in Europe, that also have the capacity to develop regulation in a coordinated fashion.

This is a very important and sustainable source of diversity, because you cannot change the core arrangements, the constitution or the main laws of the land in the blink of an eye. Many things will stay as they are for a long time, either you like them or not.

Just a few quick facts about Canada:

- We are a federation made of 10 provinces, 1 federal government and 3 territories.
- We have two co-existing "legal traditions": civil code in Québec, common law in the other jurisdictions.
- Many laws and regulations from both the federal government and the provinces apply to both the federally and provincially chartered financial institutions.

So when you have a job like mine, in a rapidly evolving, complex and interconnected financial world, it is important to remain pragmatic about the things that you can improve on a day-to-day basis, versus the things that would require more fundamental changes to historically, politically and culturally entrenched institutions.

Hence, the diversity of political and legal systems around the world will always generate a diversity of regulatory solutions and approaches in order to reach similar goals.

There will always exist local specificities, but they are not in my mind a threat *per se* to the overarching goal of financial stability, as long as you are able to adapt yourself to those realities, and as long as one doesn't hide behind local specificities in order to avoid putting efforts to implement sound policy objectives.

Concentration level and crisis frequencies in the financial systems

Another legitimate and long-lasting source of diversity for regulators is the concentration level and the frequencies of failures in your financial system.

A smaller number of large institutions allows potentially for a better, closer understanding of each of those players by the regulators, than having to oversee thousands of institutions, where you will more likely rely on big data analytics and off-site tools to oversee the players in your system.

However, the smaller the number of institutions, the lower is your capacity to benchmark and compare risk management and governance culture of each institution.

This is a challenge especially for us in Québec, having basically one deposit taking institution to supervise, which is of systemic importance and the only cooperative group of this size in the Americas. But there are ways to deal with this challenge. I will revert to that.

And if you have to orderly manage the failure of dozens, if not hundreds of financial institutions each year, you obviously face different challenges than if your system has not known a single bankruptcy in the last 20 or 30 years.

The flip side of lasting financial stability, for a country like Canada, is the challenge to maintain operational capacity within and among your safety net agencies.

As time goes by, the staffs you hire have never dealt with a failing institution in their professional life. Take me for instance: the last time Québec's deposit insurer intervened in an institution, in 1996, I was just finishing my master degree.

And the lessons learned from a crisis that occurred some 30 years ago may not be that much useful to deal with those that will happen in the future. But again, there are ways to deal with that challenge and I will talk about them a bit later.

The point is: the different features of a financial system, all other things being equal, should also lead to a diversity of regulatory solutions and approaches in order to reach similar goals.

Status, roles and powers of the safety net players

Now let's turn to that diversity of regulatory solutions and approaches.

Just within Canada, you will find a quite complete inventory of the possible status, roles and powers you can think of for safety net players.

At the federal level and in most provinces, a number of independent agencies share the various functions needed to put in place a complete safety net. But in four provinces, like Québec for instance, the various regulatory and supervisory mandates pertaining to the financial sector have been put under a single, integrated agency.

We also have a few industry led, self-regulatory organizations that develop and enforce rules on their members in the insurance and investment businesses, especially for representatives and brokers.

The deposit-insurance schemes vary across the country. While the federal and Québec's schemes cover deposits for an amount up to \$100 000, some provinces will offer unlimited coverage for the deposits in credit unions under their jurisdiction.

And while the deposit-insurance schemes put in place by the provinces and the federal government are ran by public sector agencies, we also have in our safety net some non-for-profit, privately-managed protection schemes for insurance and some investment products.

I guess this is not the very sophisticated and diverse system one would have spontaneously in mind when thinking about Canada's rather enviable reputation in the world, in terms of financial regulation. How could this even work, might you ask?

Well it's not perfect. And it's not easy. But it's possible to make it work.

In circumstances like ours, I think we have two particular challenges to deal with.

The first one is of course the risk of consumer confusion. Who insures my deposits in that given institution? Who do I call if I have a problem with my broker or my insurance company?

This risk can be mitigated by providing consumers with clear, simple information made available by the various players. At the AMF, we have a public calling centre and a capacity to help consumers with any financial matters, including if necessary putting him or her in contact with the right agency if the issue is outside of our mandate.

At the end of the day, it's up to the safety net players to make it work in a simple and transparent manner for the consumer, and not for the consumer alone to try to understand all the complex structures and nuances we find in the financial system. So we are also working on that. You will find that concern in our current strategic plan.

The second and probably most important challenge is to reach the appropriate level of cooperation and exchange of information among the players of the safety net.

Inadequate collaboration could obviously impede optimal crisis prevention and cause a lack of operational agility, would an institution fail. This is actually one of the important lessons learned from the last financial crisis, especially for large institutions doing business in many jurisdictions. It is hence something that is now formally expected from all safety net players of any kind and role, under the international principles that we strive to comply with.

In 2014, in its last thorough evaluation of the financial sector in Canada, the International Monetary Fund (IMF) specifically recommended enhanced and more formalized co-operation between federal and provincial safety net players.

So we have of course been working on that since 2014, and there is still room for improvement. However, there is fundamentally a long standing history of coordination and exchange of information among safety net players in Canada.

I will give you just three examples from my own organization, out of so many more I could have put forward:

- The AMF is actively involved in the Credit Union Prudential Supervisors Association (CUPSA), a pan-Canadian association of provincial deposit insurers and prudential supervisors which aims to maintain the stable and sustainable nature of the Canadian credit union industry. My colleague Gouro Sall Diagne, Senior Director for supervision of deposit taking institutions is our representative in that association.
- My CEO, Louis Morisset, chairs the Canadian Securities Administrators.
- I am the Chair of the Canadian Council of Insurance Regulators.

In our federation, there are also many institutionalized, formal meetings of ministers and civil servants in charge of developing policy and laws pertaining to the financial sector.

Although sometimes challenging, the importance of cooperation and exchange of information, while respecting the roles and mandates of each players, is quite well entrenched in our culture.

So the point here is that, based on my experience, diversity of structures, roles and status of regulators is not a fundamental issue in itself, as long as you communicate well among players and to the public.

Business models of the financial institutions

Last but not least, there are some fundamental differences in the business models of the financial institutions. This may lead to some justified adaptation in the means used to aim toward a level playing field in the markets.

When you look at the cooperative business model for instance, given the capital and ownership structures of those institutions, discussions around convertible debt and bail-in tools become quite interesting and challenging puzzles to solve.

The governance model of those institutions is also very different from what you will find in a privately or publicly owned financial institution. How do you make democratic, representative governance objectives comply with international guidelines designed primarily at achieving independence and suitability of the senior management and members of the board of directors of financial institutions?

The first step in my opinion is to cease seeing an inherent contradiction between the two sets of objectives. You can be democratic and suitable at the same time. It's not necessarily one or the other.

So the diversity of business models should not be a fundamental concern in terms of being able to implement adequate regulatory and supervisory approaches.

At the AMF, we developed I would say a certain specialization in finding ways to modulate some of the regulatory requirements to the reality of the cooperative and mutualist business models, that are highly represented in our markets, while keeping the overarching objectives of level-playing field and financial stability well in sight.

The AMF's international contribution

Before I conclude, a lot of what I said so far may seem to rely on the assumption that the international standards have to be taken for granted. Or that they fall on us, local regulators, like snow in winter.

Well, not really — or not necessarily, should I say.

The international work is by and large open to any jurisdiction that would want to contribute. Be it in the field of insurance regulation, securities, market conduct, and others, if your organization meets some minimal requirements, you could become a member of an international standard setter.

The main exceptions would of course be the G7 or G20 forums, or regional associations, limited by their nature to certain members. There are also some more exclusive banking standard setters, but there is always a way to communicate major concerns if needs be.

So international work is also a part of what we do at the AMF. And we do it for many reasons, straight in line with our mission and strategic objectives.

First, it allows us to see things coming and to prepare the potential adaptation work required to implement the new standards, but also to provide early indications to our industry in order to smooth the transition. This is especially appreciated when there are large financial investments required (IT systems for example).

Second, international cooperation is also a very efficient way to build and update your operational capacity, in terms of dealing with the failing of an institution, when you've had none in your own jurisdiction for many decades. You then have access to the expertise of people who are currently managing those situations.

It also allows the benchmarking of your supervision programs or levels of staffing with other regulators, for example, when you have a limited number of institutions on your territory.

Third, we are able to participate actively in the research and drafting leading to new standards and guidance, particularly in fields where we have a niche expertise. On this, even a relatively small market like Québec can have a significant contribution on the world stage.

My CEO Louis Morisset is a member of the Board of the International Organization of Securities Commissions. He sits there with people like the chair of the SEC (US), FCA (UK), FSA (Japan) and AMF (France), overseeing the work of this important standard setter.

My colleague Julien Reid, Senior Director for financial institutions oversight, resolution and deposit insurance, was the chair of the market conduct committee of the International Association of Insurance Supervisors when this committee introduced new core principles on the fair treatment of consumers. Those core principles are now used everywhere around the world, when the IMF proceeds with its financial sector assessment program (FSAP).

Mr. Reid and I are also quite involved in the work of the International Association of Deposit Insurers (IADI). Please allow me to spend a few minutes to explain what is this association and what do we do there.

IADI's main objective is to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance. It provides to its members training and educational programs. It produces research, core principles and guidance on matters related to deposit insurance, which are also used by the IMF for the purpose of the FSAP.

As we speak, IADI has 105 Members, Associates and Partners, including the World Bank and the IMF.

Over the years, the AMF's expertise in financial services cooperatives has generated a growing interest within the IADI membership. We clearly found a shared desire to increase knowledge and awareness of the specific issues many of us were facing locally in dealing with the specifics of the cooperative business model in possible times of crisis.

So in June 2014, at our suggestion, the IADI set up the Subcommittee on Resolution Issues for Financial Cooperatives, a working group chaired by my colleague Julien Reid.

This committee has 17 members including Brazil, India, Italy, Japan, Kenya and the UK. It is interested in issues related to the adaptation to financial cooperatives of typical bank resolution tools.

The AMF leads the drafting of a research paper entitled "Overview of Distinctive Features and Current Resolution Tools". The paper received input from members of the subcommittee, but also many other members and partners of IADI. It is based on the survey results of some 130 deposit insurers or resolution authorities (IADI members and non-members) and 16 case studies.

The paper shall be released for public consultation probably later this fall or early next year. We believe this paper will be a first reference dedicated to matters related to the resolution of financial cooperatives.

It will also lay the foundations on possible new international guidance about the adaptation of bank resolution tools to financial cooperatives. This is the second step of the mandate we consider for this committee.

The AMF participates in several other committees of IADI.

I have the honour to serve on IADI's executive council, which is the association's main governing body, and on the Core principles and research committee. The latter is where all the policy work done by IADI is oriented and approved.

We also engaged ourselves in a working group on the role of the deposit insurers in financial crisis preparedness and management, that shall be delivering his first preliminary findings in 2018.

So these are concrete examples of my earlier point that international guidance and collaboration is accessible and reachable to everyone who is ready to put in the effort.

Conclusion

To conclude, I am also proud to tell you that the AMF has been chosen last year to host the next Annual General Meeting and Annual Conference of IADI, which will be held in Québec City in October 2017.

This conference will coincide with the 50th anniversary of the establishment of deposit insurance in Québec, as well as at the federal level.

We chose the following theme for this international conference: “Deposit Insurance for All — Adapting the Core Principles to Different Structures, Mandates and Types of Institutions”.

So as you can imagine, at the AMF, we have been thinking about diversity issues for quite some time now...

I really appreciated to have the opportunity to share those thoughts with you today.

Merci!