Québec
focus on jobs

Shaping an innovative economy

Action Plan to Promote the Development of the Financial Sector

An economic development strategy for job creation

Gouvernement du Québec
Ministère des Finances

TABLE OF CONTENTS

TABLES

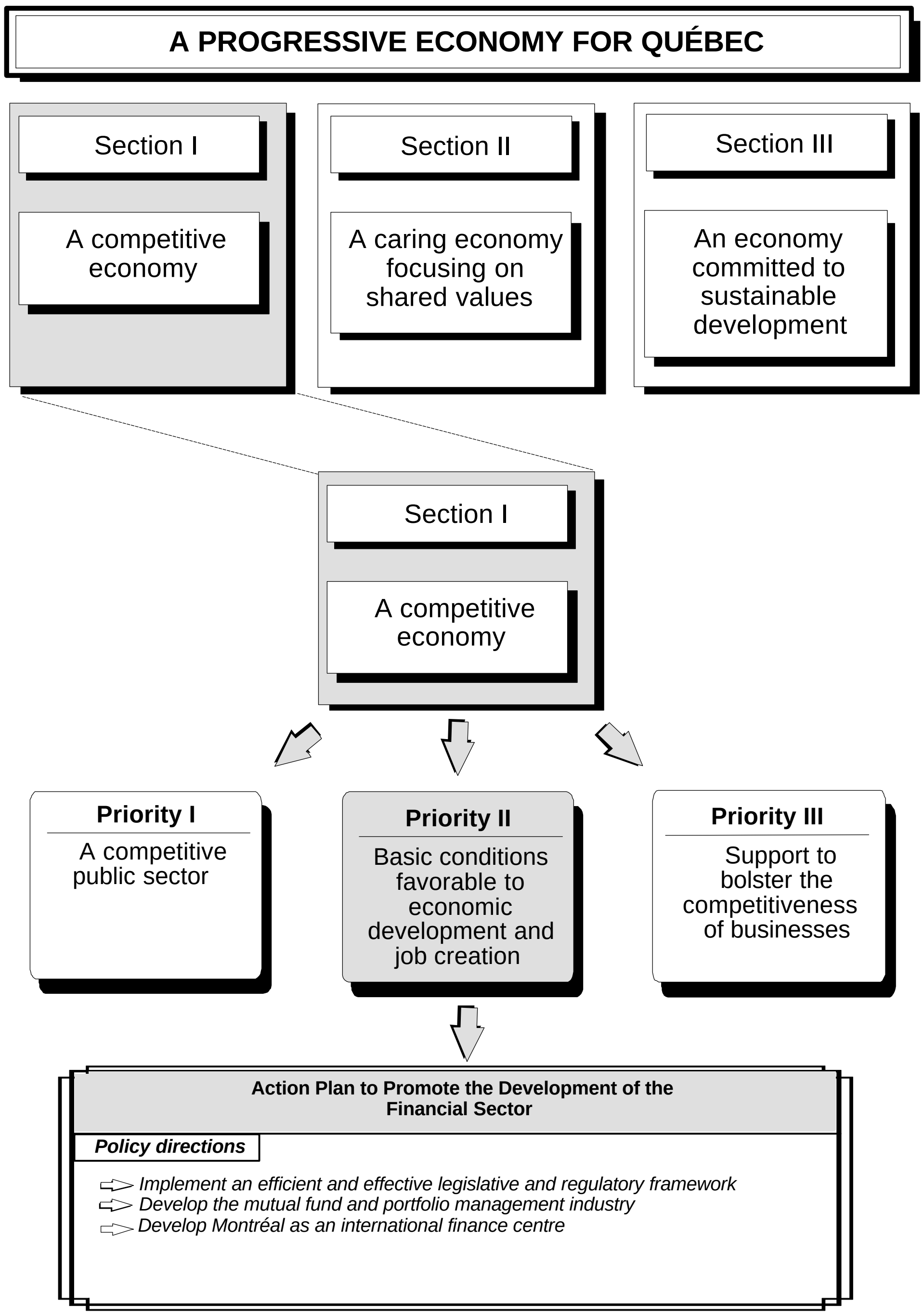
GRAPHS

APPENDIX

FOREWORD

The *Action Plan to Promote the Development of the Financial Sector* is part of the *Economic Development Strategy for Job Creation* made public at the time of the 1998-1999 Budget Speech.

It focuses on Priority II of this strategy.



PRINCIPAL MEASURES

INTRODUCE AN EFFICIENT AND EFFECTIVE LEGISLATIVE AND REGULATORY FRAMEWORK

- Tabling in the National Assembly of three bills that modernize and streamline the regulatory framework governing savings and credit unions, securities dealings and the distribution of financial products and services.

- In this draft legislation, adoption of rules on the protection of the interests and privacy of the consumers of financial products and services.

DEVELOP THE MUTUAL FUND AND PORTFOLIO MANAGEMENT INDUSTRY

- Financial assistance for companies that create new mutual funds that are to be promoted, administered and managed in Québec.

- Tax credit to assist portfolio management companies while young portfolio managers are being trained.

DEVELOP MONTRÉAL AS AN INTERNATIONAL FINANCE CENTRE

Major revision of the international financial centre (IFC) program:

- Adoption of a specific law on IFCs.

- Inclusion of new operations under the program, including:

  - back office operations pertaining to international financial transactions;
  - the promotion, administration, management and distribution of mutual fund units sold to foreigners or, when such units are sold to residents of Canada, units made up of foreign securities;
  - financial engineering services and the cash management operations for activities carried on outside Canada;
  - the issuing and acceptance of letters of credit for the purpose of importing and exporting;
  - financial leasing services;
  - factoring services;
  - fiduciary services;
  - the operation of a clearinghouse handling international operations.

- Guarantee of the tax benefits granted to companies operating an IFC until at least December 31, 2008.

- Extension from two to four years of the income tax exemption for foreign specialists.

- Tax credit to support IFCs during the training of young employees specializing in international financial transactions.

- Implementation of a promotional, reception and canvassing strategy to develop Montréal as an international finance centre.

- Various administrative measures aimed at simplifying and facilitating the management of the program.

TRAINING AND RESEARCH

- Establishment of an international training and research institute devoted to mathematical finance and financial intermediation.

1 Overview of the Québec financial sector

1. OVERVIEW OF THE QUÉBEC FINANCIAL SECTOR

The financial sector plays an essential role in the economy and the creation of wealth. In addition to ensuring the operation of the system of payment and settlement for transactions in the trade in goods, services and financial instruments, it collects and aggregates savings, which are then transferred to the users of capital in the form of loans, bonds or shares. The financial sector also makes possible the redistribution of risk according to individual preferences through various financial products and fosters efficiency in the production sector by apportioning resources between the regions or sectors and by supplying an information system on the value of resources. The financial sector performs six key functions, briefly described in an appendix to this chapter.

It is, therefore, important to take stock of the Québec financial sector and to examine its overall development in terms of its contribution to the economy and job creation. This chapter also focuses on each of the components of the financial sector in late 1996.

1.1 Overall development of the financial sector

Aside from its strategic role in the economy, the financial sector[1] is in itself important because it contributes directly and significantly to economic activity. In 1996, the financial sector accounted for 7.3% of Québec's total output (GDP). Moreover, many people work in the sector: 170 000, according to the Statistics Canada *Labour Force Survey*. Employment in the sector has increased strikingly since 1970, when 83 000 people were employed by it. The job-creation rate in the Québec financial sector has been nearly double that in the economy overall, i.e. 2.2% per year compared with 1.2%.

Furthermore, employment in the Québec financial sector has increased at an average annual rate comparable to that in Ontario, between 1970 and 1975 and since 1976, as Table 1.1 shows. The periods 1970-1975 and 1976-1996 must be considered separately because of the major changes effected in 1976 in the methods used to conduct the *Labour Force Survey*. Growth in employment was more rapid in British Columbia than in the other Canadian provinces.

1 For the purpose of this analysis, the financial sector includes financial intermediaries, notably deposit institutions and insurance companies, and market intermediaries, including real estate brokers but excluding other real estate services. As a result of this exclusion, the number of jobs is set at 170 000 instead of 192 000, the figure generally put forward in respect of the financial and real estate sector.

TABLE 1.1
EMPLOYMENT IN THE FINANCIAL SECTOR
(in thousands)

	Québec	Ontario	British Columbia	Other provinces	Canada
1970	83	134	36	59	312
1975	101	163	47	76	387
1976	110	193	53	87	442
1980	136	225	66	119	545
1985	142	231	69	125	566
1990	157	316	82	137	691
1995	164	311	94	134	703
1996	170	296	95	133	694
Average annual growth rate (%)					
– — 1970 to 1975	4.0	4.0	5.5	5.2	4.4
– — 1976 to 1996	2.2	2.2	3.0	2.1	2.3

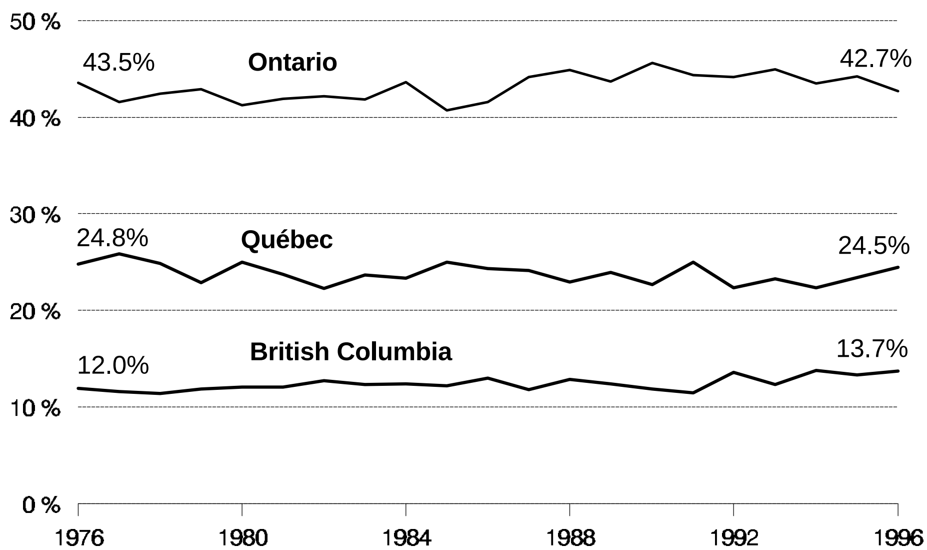
Note: The periods 1970-1975 and 1976-1996 must be considered separately because of the major changes effected in 1976 in the methods used by Statistics Canada to conduct the survey.

Source: *Labour Force Survey*, Statistics Canada. Data have been adjusted to remove employment associated with real estate services other than brokerage.

As Graph 1.1 reveals, the financial sector's relative share of overall employment in each of the provinces considered remained stable between 1976 and 1996, i.e. roughly 24% in Québec, 43% in Ontario, and between 12% and 14% in British Columbia, where it rose slightly.

This situation may seem surprising given that financial decision-making centres have tended to shift from Québec to Toronto and western Canada during the same period. However, it illustrates the vitality that the Québec financial sector has displayed despite the displacement of economic activity to the West and the South in North America.

GRAPH 1.1
EMPLOYMENT IN THE FINANCIAL SECTOR
(as a percentage of the Canadian total)



Sources: *Labour Force Survey*, Statistics Canada, and ministère des Finances du Québec.

An analysis of the financial sector's contribution to economic activity (GDP) reveals the same trends in Québec. The Québec financial sector's share of output in relation to the financial sector in Canada as a whole remained fairly constant between 1984 and 1996, decreasing slightly from 21.7% to 21.3%.

1.2 The financial sector in 1996

1.2.1 Players in the financial sector

Broadly defined, the financial sector comprises the following players:

- private financial intermediaries, such as banks, savings and credit unions, trust companies, savings and loan companies, insurance companies, mutual funds, venture capital companies and public financial intermediaries such as the Société de développement industriel and the Federal Business Development Bank;

- market intermediaries, i.e. deposit, life and health insurance, property and casualty insurance, buildings insurance and mortgage insurance agents and brokers, financial planners, claim adjusters, and securities brokers, advisors and representatives;

- Québec public supervisory agencies, i.e. the Inspector General of Financial Institutions and the Commission des valeurs mobilières du Québec, and Canadian supervisory agencies such as the Office of the Superintendent of Financial Institutions, and the Bank of Canada;

- private agencies exercising delegated supervisory powers, such as the Conseil des assurances de personnes, the Conseil des assurances de dommages, the Montreal Exchange, and the Canadian Depository for Securities Limited;

- public surety or compensation agencies such as the Régie de l'assurance-dépôt du Québec and the Canada Deposit Insurance Corporation, and private sector agencies such as the Canadian Life and Health Insurance Compensation Corporation and the Property and Casualty Insurance Compensation Corporation.

1.2.2 Institutions active in Québec by origin of charter

At the end of 1996, there were 1 762 financial institutions active in Québec. Of this number, 1 427 possessed a Québec charter, including 1 332 member institutions of the Mouvement Desjardins.

TABLE 1.2
BREAKDOWN OF FINANCIAL INSTITUTIONS ACTIVE IN QUÉBEC, BY ORIGIN OF CHARTER, 1996

	Origin of charter			
	Québec	**Federal**	**Other**	**Total**
Deposit institutions				
Canadian banks	-	8	-	8
Subsidiaries of foreign banks	-	18	-	18
Savings and credit unions[1]	1 332	-	-	1 332
Trust companies	8	19	2	29
Savings companies	-	11	1	12
Insurance				
Personal	23	61	68	152
Damage	63	63	79	205
Personal and damage	1	–	5	6
All institutions	1 427	180	155	1 762

1 Including local savings and credit unions, federations of such institutions and the Caisse centrale Desjardins.

Source: Inspector General of Financial Institutions, *Le système financier 1996*, December 1997.

Canadian banks, the subsidiaries of foreign banks and savings companies were all incorporated under a federal statute. Only 24% of trust and insurance companies possessed a Québec charter.

1.2.3 Deposit institutions active in Québec

In 1996, roughly 54% of employment in the Québec financial sector was concentrated in deposit institutions (93 000 jobs). Deposit institutions include banks, savings and credit unions, trust companies and savings companies.

Three of the leading deposit institutions maintain their decision-making centres in Québec, i.e. the National Bank, the Mouvement Desjardins and the Laurentian Bank. With their trust, insurance and securities subsidiaries, these institutions represent three diversified financial groups that are firmly based on the Québec market.

Savings and credit market share in Québec

The Mouvement Desjardins, the National Bank and the Laurentian Bank alone maintain a strong presence in the conventional personal savings market (62%). However, they have only a limited share of the market for other types of savings, including just 11% of mutual funds. All told, they account for 26% of the accumulated savings of individuals in Québec.

As for credit, the market share of these three institutions ranges from 39% in the case of commercial and industrial loans to 62% for residential mortgage loans. All told, they account for 53% of the Québec credit market, as against 27% for Canada's top five banks.

TABLE 1.3
QUÉBEC SAVINGS AND CREDIT MARKETS
(assets as at December 31, 1996)

	Total Québec market	**Mouvement Desjardins, National Bank and Laurentian Bank**	**Top five Canadian banks**
	(in billions of $)	%	%
Financial assets of individuals			
Conventional deposits	103.3	61.8	27.4
Mutual funds	42.5	11.3	16.7
Securities	47.1	31.3	47.7
Other	129.9	NA	NA
Total savings[1]	**322.8**	**26.2**	**17.9**
Credit market			
Consumer credit	26.6	50.5	33.6
Residential mortgages	66.3	61.9	26.6
Commercial and industrial	42.9	39.2	25.2
Farm credit	4.9	60.2	19.3
Other	0	NA	NA
Total credit	**140.7**	**52.8**	**27.2**

NA: not available
1 The total includes other forms of individual savings, such as insurance policy redemption values, non-registered individual and group annuities, savings bonds and pension funds.
Source: Mouvement Desjardins, *En perspective*, March 1997.

Size of deposit institutions active in Québec

The Mouvement Desjardins, the National Bank and the Laurentian Bank are modest in size compared with the major Canadian banks.

As Table 1.4 indicates, the banks and their affiliated companies account for nearly 90% of the total assets of all deposit institutions active in Québec. The bank assets of the five leading Canadian banks account for 72.1% of this total, while the consolidated combined assets of the Desjardins cooperative network, the National Bank and the Laurentian Bank account for 9.4% of total assets.

TABLE 1.4
SIZE OF DEPOSIT INSTITUTIONS
(assets as at December 31, 1996)

	ASSETS (in billions of $)	%
A. BANKS WITH FEDERAL CHARTERS[1]	**1027.8**	**77.2**
Royal Bank	235.3	17.7
CIBC	227.1	17.1
Bank of Montreal	187.9	14.1
Scotia Bank	169.8	12.8
Toronto Dominion Bank	139.0	10.4
National Bank	55.8	4.2
Laurentian Bank	12.6	0.9
Manulife Bank of Canada	0.3	0.0
Sub-total, top five banks	959.1	72.1
B. SUBSIDIARIES OF FOREIGN BANKS[2]	**56.5**	**4.2**
Hongkong Bank of Canada	21.4	1.6
Citibank of Canada	6.3	0.5
Other banks	28.8	2.1
C. SAVINGS AND CREDIT UNIONS[3]	**57.1**	**4.3**
D. TRUST COMPANIES	**46.1**	**3.4**
- affiliated with chartered banks	20.5	1.5
- not affiliated with chartered banks	25.6	1.9
E. SAVINGS COMPANIES	**144.4**	**10.8**
- affiliated with chartered banks	103.0	7.7
- not affiliated with chartered banks	41.4	3.1
TOTAL	**1331.9**	**100.0**

1 Worldwide assets of Canadian banks.
2 Canadian assets of the subsidiaries of foreign banks.
3 Cooperative network of the caisses Desjardins (savings and credit unions, federations, Confédération, Corporation de fonds de sécurité, Capital Desjardins and Caisse centrale). This figure excludes other assets representing roughly $13.5 billion of the Mouvement Desjardins, notably in trust and insurance companies.
Sources: Bureau de la statistique du Québec and Inspector General of Financial Institutions.

Over the past decade, the banks in particular have acquired a number of enterprises in all segments of the financial sector, notably securities and trust companies. The banks have thus formed large conglomerates and are emerging as the dominant institutions in the financial sector.

1.2.4 Life and health and property and casualty insurance companies

In 1996, 158 life and health insurance firms were operating in Québec and held total assets of $200 billion. Roughly 14% of employment in the financial sector was concentrated in this segment, equivalent to some 24 000 jobs.

The 24 life and health insurance firms operating under a Québec charter occupied an important place on the Québec market, accounting for 39% of the premiums collected. Among these companies, the three leading ones are Assurance-vie Desjardins-Laurentienne, the Industrial Alliance Life Insurance Company, and the SSQ-Vie, which have a market share on the order of 30%.

TABLE 1.5
LIFE AND HEALTH AND PROPERTY AND CASUALTY INSURANCE IN QUÉBEC
(as at December 31, 1996)

	Assets		Direct premiums collected	
	in $M	%	in $M	%
Life and health insurance firms				
- Québec charter	13 166	7	2 261	39
- Federal charter	162 405	81	2 651	46
- Other	24 798	12	875	15
Total	**200 369**	**100**	5 787	**100**
Property and casualty insurance firms				
- Québec charter	3 017	7	1 698	40
- Federal charter	28 997	62	1 960	46
- Other	14 398	31	569	14
Total	**46 412**	**100**	4 227	**100**

Source: Inspector General of Financial Institutions, *Le système financier 1996*, December 1997.

In the realm of property and casualty insurance, the market share of insurers operating under a Québec charter accounted for 40% of all premiums collected in Québec. In recent years, control over major Québec companies has been relinquished to big multinationals. However, the decision-making centres of the enterprises acquired have been maintained in the Montréal area.

The Groupe Commerce, owned by ING, a Dutch firm, Boréal Assurances of the Groupe AXA, a French firm, and Assurances générales des Caisses Desjardins are the three main companies in this sector. They account for 26.5% of the premiums collected.

Insurance companies are facing competition from within the industry and from other financial institutions. Several insurance companies are mutual companies whose expansion is being hampered by limited sources of financing, notably self-generated revenues. In order to keep pace with the financial services industry's rate of growth, they need broader access to capital markets. Several mutual insurance companies have undertaken a demutualization process, e.g. the Mutual Life Assurance Company of Canada and Manulife. Sun Life and the Industrial Alliance Life Insurance Company have also announced their intention to demutualize.

A new trend toward the concentration of insurance portfolios is now apparent in the distribution of insurance. At least two major insurance companies have set as their objective the conclusion of concentration agreements with a significant number of brokers. Under such agreements, the companies would like the brokers to handle between 60% and 70% of their business with them, with a minimum 50%.[2]

1.2.5 Mutual funds and portfolio management

Other players in the financial sector include investment managers, notably mutual funds, pension funds, portfolio managers, securities firms and the Montreal Exchange, along with finance companies, especially venture capital firms. In 1996, nearly 54 000 Quebecers were engaged in the foregoing activities.

Mutual and segregated funds

A major development in recent years has unquestionably been the dramatic growth in the mutual fund industry.

In Canada as a whole, the assets of mutual funds rose, according to the Investment Funds Institute of Canada, from $24 billion in September 1990 to $283 billion in December 1997.

Quebecers have taken more slowly to mutual funds. However, over the past two years, the assets in the mutual funds held by individual Quebecers have grown by about $21 billion.

---

2 See the *Journal de l'assurance,* October 1997.

In November 1997, there were 1 261 mutual funds in Canada. Of this number, only 151, or 12%, were managed by corporations whose decision-making centre was located in Québec. Taking into account the segregated funds of insurance companies, the number of funds managed by corporations whose decision-making centre was located in Québec totalled 179, equivalent to 10.9% of the Canadian total (1 623 funds).

TABLE 1.6
ASSETS OF QUÉBEC MUTUAL FUND COMPANIES, NOVEMBER 1997
(in millions of dollars)

Leading companies	Total assets[1]
National Bank Investments[2]	3 078
Fiducie Desjardins	2 670
Gestion Financière Talvest	1 740
Fonds des professionnels du Québec	775
Laurentian Bank[3]	707
Ordre des ingénieurs du Québec	545
Fonds des Omnipraticiens du Québec	236
SSQ Mutuelle	137
Société financière Azura	131
Cote 100 inc.	116
Standard Life Mutual Funds	105
Other Québec companies	385
Total assets of Québec companies	**10 626**
Total assets of companies in Canada	**297 876**
Share of the Canadian market held by Québec companies	**3.6 %**

1 Excluding insurance company segregated funds and labour-sponsored funds.
2 The Invesnat and General Trust of Canada funds.
3 Includes the TPR and Cornerstone funds.
Source: Bellcharts, November 1997.

The size of the funds of Québec companies in relation to those of Canadian companies were modest, i.e. $70 million on average as against $236 million. The industry is highly concentrated in Canada as a whole, since the 25 leading firms account for 92% of the market.

As Table 1.6 reveals, there are few major companies in Québec. Only two companies have more than $2 billion in assets under management. National Bank Investments, the leading company, has only one tenth the assets of Investors Group, the leading Canadian firm. The assets under management of all Québec mutual fund companies account for only 3.6% of Canadian assets.

Growth in the mutual fund industry has been accompanied in recent years by an increase in the segregated funds offered by insurance companies. Such funds differ from mutual funds, notably because a proportion of the capital, usually 75%, is guaranteed under certain circumstances. These funds, which are still not well known, should, according to the experts, experience marked growth in the coming years.

In November 1997, three Québec companies, i.e. Desjardins Laurentienne, Industrial Alliance Life Insurance Company and the Standard Life Assurance Company, offered some 27 segregated funds, with assets totalling $2 billion. The assets of Québec companies accounted for 8.6% of the cumulative assets of the 362 segregated funds offered by Canadian companies, i.e. $24 billion.[3]

Pension funds

Québec accounts for roughly 15% of the pension funds in Canada, i.e. 169 out of 1 111. Its share is, however, more significant from the standpoint of very big pension funds, i.e. those with assets over $1 billion. It accounts for 24.2% of such funds, which reflects Québec's demographic weight in Canada (Table 1.7).

TABLE 1.7
RELATIVE SHARE OF PENSION FUNDS IN CANADA, QUÉBEC, ONTARIO AND THE OTHER PROVINCES
(as at December 31, 1996)

	All pension funds		Assets of $1 billion or more	
	Number	%	Number	%
Québec	169	15.2	16	24.2
Ontario	590	53.1	25	37.9
Other provinces	352	31.7	25	37.9
Canada	1111	100.0	66	100.0

Source: J. Roy, *Rapport sur le développement du secteur financier*, École des Hautes Études Commerciales, 1997.

Portfolio management companies

As Table 1.8 shows, portfolio management companies based in Québec manage assets totalling $181 billion, including $133 billion in Québec.

3 Generally speaking, the assets of segregated funds have not been considered in the tables, such as Table 1.6, dealing with mutual funds.

In Canada as a whole, the assets managed in Québec account for a share of roughly 23.6%. However, mention must be made of the predominant position of the Caisse de dépôt et placement du Québec, which has $57 billion under management, equivalent to 10% of the Canadian total, making it the country's leading management company.

When the Caisse de dépôt et placement and the Fonds de solidarité de la FTQ are excluded, the percentage of Canadian assets managed in Québec falls to 15.4%.

Portfolio management companies based in Québec manage only a small percentage of mutual funds, i.e. approximately 8.5% of Canadian assets (see Table 5.4).

TABLE 1.8
ASSETS MANAGED BY FUND MANAGERS BASED IN QUÉBEC, 1996
(in billions of dollars)

Company	Total assets[1]
Caisse de dépôt et de placement	57.2
Les Placements T.A.L.	29.9
Conseillers en placement Gryphon	11.9
Jarislowsky, Fraser et Cie ltée	10.7
Canagex (Mouvement Desjardins)	10.0
Montrusco et Associés Inc.	7.5
Conseiller en gestion globale State Street ltée	7.5
Natcan (National Bank)	7.4
Bimcor inc.	7.0
Bolton Temblay	3.2
ING Investment Management	3.0
Gestion de portefeuille Standard Life ltée[2]	2.6
Baker, Gilmore et Associés inc.	2.4
Fonds de solidarité (FTQ)	2.2
Trust Prêt et Revenu (Laurentian Bank)	1.4
Gestion Pembroke ltée	1.4
Valorem gestion de placements	1.3
Les Conseillers financiers du St-Laurent inc.	1.1
Other companies	13.0
Total, funds managed by Québec-based companies	**180.6**
Total, funds managed in Québec by these companies	**132.8**
Total, funds managed in Canada	**563.0**
Funds managed in Québec as a % of Canadian total	**23.6**
excluding the Caisse de dépôt and the Fonds de solidarité	15.4

1 Includes, in particular, mutual funds and pension funds.
2 Active management only.
Source: Survey conducted by the ministère des Finances du Québec.

Securities firms

Since the second half of the 1980s, the chartered banks have acquired a number of securities firms. Today, the Canadian industry is dominated by half a dozen companies affiliated with various financial groups. In addition, several smaller firms offer services adapted to their particular market segment. The leading Québec securities firms are small in relation to the leading firms in Canada.

TABLE 1.9
LEADING SECURITIES FIRMS ACTIVE IN QUÉBEC[1]
(in 1996)

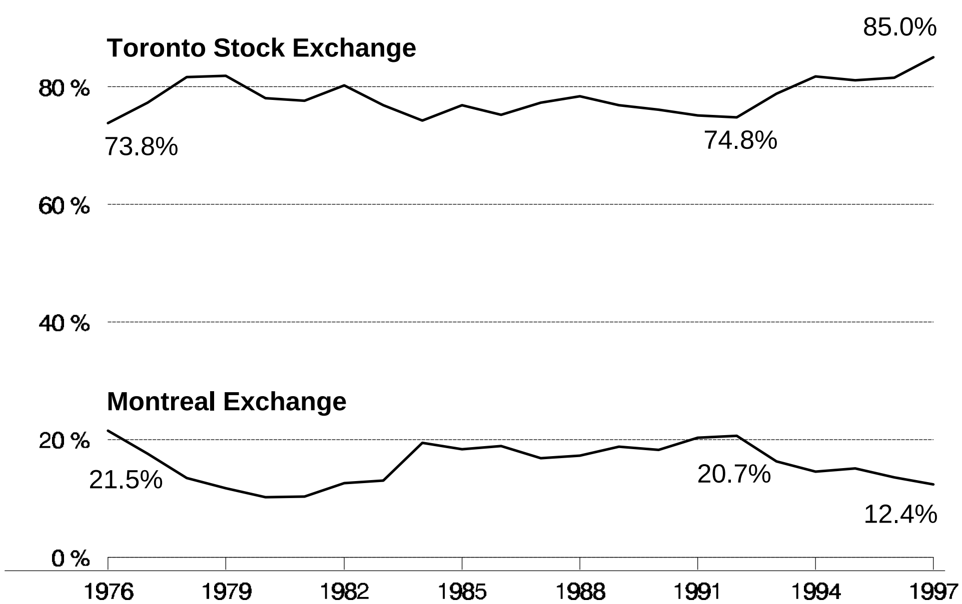
	Jobs in Québec	Gross worldwide revenues (in millions of $)
Leading Québec firms		
Lévesque, Beaubien, Geoffrion	1 220	310
Valeurs Mobilières Desjardins	339	45
Tassé et associés	135	14
Whalen, Béliveau et associés	127	22
Groupe Option retraite	107	6
Valeurs mobilières Marleau Lemire	67	32
Sub-total	**1 995**	**429**
Leading Canadian firms		
RBC Dominion Securities	600	1 506
Nesbitt Burns	411	959
Midland Walwyn	300	723
Scotia McLeod	289	790
CIBC Wood Gundy	163	677
Sub-total	**1 763**	**4 655**

1 Firms with 100 or more employees in Canada.
Sources: Inspector General of Financial Institutions, *Le système financier 1996*, December 1997 and *Le Journal Les Affaires*, “Les 500 plus grandes entreprises”, 1997 edition.

Montreal Exchange

Despite striking growth in the value of the shares traded, from $21 billion in 1992 to $62 billion in 1997, the Montreal Exchange's share of the Canadian market declined markedly during the same period, from 20.7% in 1992 to 12.4% in 1997, to the benefit of the Toronto Stock Exchange. Part of the downturn is attributable to growth in mutual funds. The management of such funds and the attendant trading operations are concentrated by and large in Toronto.

GRAPH 1.2
MARKET SHARE OF THE MONTREAL AND TORONTO STOCK EXCHANGES IN RELATION TO CANADIAN STOCK EXCHANGES OVERALL
(according to the total value of stocks traded in Canada)



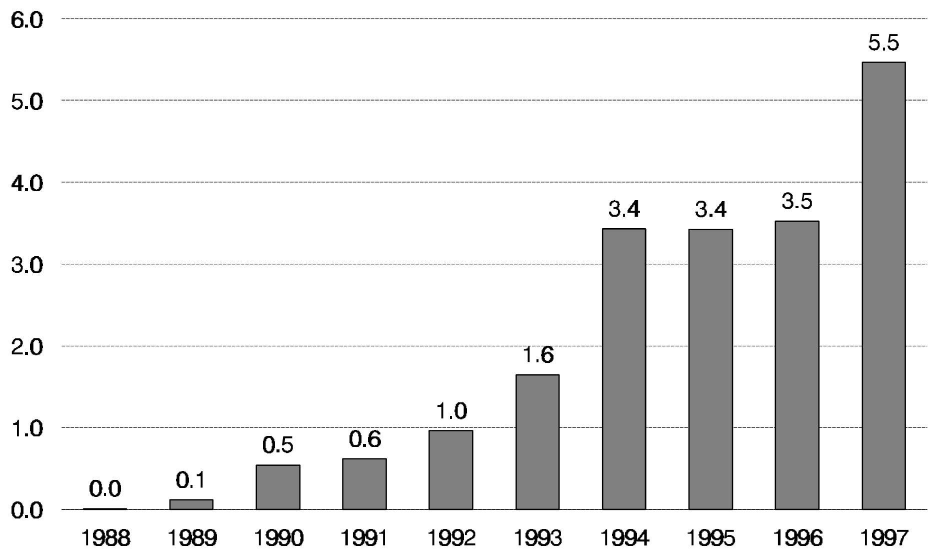
Sources: Montreal Exchange and ministère des Finances du Québec.

With over 5 million contracts traded in 1997, the Montreal Exchange accounts for 94.2% of the futures contract market (according to the total volume of futures contracts cleared by the Canadian Derivatives Clearing Corporation (CDCC). The Toronto Stock Exchange accounted for the remainder of that market, i.e. 5.8%, with over 300 000 contracts in 1997. The Montreal Exchange ranks 27th among the 40 leading futures exchanges.[4]

4 Source: *Futures Industry Association*, February 1998 edition.

Graph 1.3 indicates changes in the volume of futures contracts traded on the Montreal Exchange since 1988.

GRAPH 1.3
VOLUME OF FUTURES CONTRACTS TRADED ON THE MONTREAL EXCHANGE
(in millions)



Source: Montreal Exchange.

1.2.6 Venture capital companies

Québec has innovated extensively in the realm of venture capital and has become a bastion of the venture capital industry in Canada. Québec possesses the biggest pool of venture capital among the provinces. Since 1992, the assets under management of Québec venture capital companies have never accounted for less than 44% of the Canadian total. This situation can be explained by the presence of major institutional players, such as the Caisse de dépôt et placement du Québec and the Fonds de solidarité des travailleurs de la FTQ, the implementation in the early 1980s of tax incentives and, more recently, private sector involvement.

The Fonds de solidarité de la FTQ is the main source of venture capital in Québec. Through its incorporating act, the Fonds is obliged to invest at least 60% of its net average assets in Québec enterprises with assets totalling under $50 million or with net equity of not more than $20 million. Nearly 15 years after its establishment in 1983, the total assets of the Fonds stand at $2 billion, making it Canada's biggest labour-sponsored fund.

TABLE 1.10
ASSETS MANAGED BY THE VENTURE CAPITAL INDUSTRY
(in millions of dollars)

	Québec	Canada	Québec/Canada (%)
1992	1 486	3 272	45.5
1993	2 094	4 013	52.2
1994	2 475	5 500	45.0
1995	2 668	5 980	44.6
1996	3 211	7 100	45.2

Source: K.G. Assoé, *L'industrie du capital de risque*, École des Hautes Études Commerciales, 1997.

Launched in 1995, the Fonds Fondaction de la CSN is a new player in the financing of Québec enterprises.

The Caisse de dépôt et placement du Québec is also a major player in the venture capital industry, either directly or in collaboration with other private and public financing institutions. The Caisse has set up several venture capital subsidiaries, including the Société financière d'innovation (Sofinov), specializing in leading-edge technologies, in addition to a network of regional offices, the Accès Capital network, with an initial capital of $60 million, which serves all regions of Québec.

The Québec government also intervenes with respect to the venture capital market through other agencies, such as the Société de développement industriel and, more recently, the three Innovatech corporations, i.e. Innovatech Grand Montréal, Innovatech du sud du Québec, and Innovatech Chaudière-Appalaches.

For several years, the banks and the Mouvement Desjardins have also displayed growing interest in venture capital. Most of these institutions have set up subsidiaries specializing in the financing of businesses operating in the information technologies, biotechnology, telecommunications and pharmaceutical industries.

For example, Investissement Desjardins, a portfolio management firm that is part of the Mouvement Desjardins, participates in venture capital through three funds: Tremplin Desjardins, Capital Desjardins and Gestion Desjardins. In December 1996, the ownership interests of Investissement Desjardins in companies whose main place of business is located in Québec exceeded $200 million.

The Royal Bank has also set up a venture capital subsidiary, the Royal Bank Capital Corporation, with assets of over $150 million.

The National Bank is engaging in venture capital investments through specialized funds, including Technocap, Telsoft and Novacap.

One of the strengths of the Québec venture capital industry is unquestionably the presence of local and regional funds, which make financing more readily available to entrepreneurs in the regions. A number of venture capital companies are aware of the importance of venture capital in the development of businesses in the regions and the extent of demand, and have set up, alone or in collaboration with other public or private institutions, regional venture capital networks in Québec. The biggest of these networks are the Sociétés locales d'investissement et de développement économique (SOLIDE), the Fonds régionaux de solidarité, and the Accès Capital network of the Caisse de dépôt et placement du Québec.

Mention should be made of the initiatives of the venture capital industry since the early 1990s to draw closer to entrepreneurs and enhance prospecting and project assessment.

As noted earlier, several networks have been set up to facilitate contacts with entrepreneurs in the regions, whose projects often require not only financial assistance but management assistance and support from the business community.

Moreover, a number of specialized funds have been set up in the leading-edge technologies sector. The assessment of these projects is demanding increasingly sophisticated technical knowledge combined with a knowledge of management and financing. Specialized funds have at their disposal the resources necessary to better assess risk and help match financing companies and technology firms.

1.2.7 A brief conclusion

One key observation arising from the foregoing analysis is that, while decision-making centres have tended to shift over the past 20 years from Québec to Toronto and western Canada, job creation in the Québec financial sector has been very significant during this period, with the result that Québec’s share of employment in the sector has remained constant.

The three leading deposit institutions that maintain their decision-making centres in Québec occupy a predominant place on conventional Québec deposit markets (62%) and credit markets (53%). These institutions are nonetheless of modest size if their assets are compared with those of their Canadian competitors. Moreover, they account for only 11% of the Québec mutual fund market, 31% of the securities market, and 26% of the accumulated savings of individuals in Québec.

Québec has shown itself to be especially innovative in the realm of venture capital.

APPENDIX 1.1
FUNCTIONS OF THE FINANCIAL SYSTEM

From an economic standpoint, the role of the financial sector is to provide all economic agents with the following systems and mechanisms:

1. A transaction payment and settlement system

The payment system consists of various arrangements used to trade goods, services and financial instruments. These arrangements include, aside from the system of payment by cheque, payments effected by credit card, the electronic transfer of funds, direct deposits, smart cards, and so on. The payment system also includes other components such as the payment and settlement mechanisms necessary to facilitate securities trading and exchange operations. The payment system was for a long time the preserve of the banks and is now opening up to other players.

2. Savings aggregation and allocation system

The financial system makes it possible to collect and aggregate savings, which are then transferred in the form of loans, bonds or shares to the users of capital. While the suppliers of capital, in particular individuals and foreign sources, are noteworthy for their large numbers and the limited size of their savings, the main users of capital, i.e. businesses and governments, are fewer in number and need large amounts of capital.

3. A system to transfer resources in time and space, and between sectors

The financial sector makes it possible to distribute the resources of individuals in light of the needs that arise throughout their lives, i.e. loans for studies or to acquire a home, investments and savings, and the withdrawal of funds for retirement.

Similarly, the financial system makes it possible to transfer resources between regions and sectors, thus diversifying investment possibilities and facilitating the financing of activities offering greater growth opportunities.

4. A risk management mechanism

Not all economic agents are willing to assume the same level of risk. The financial sector, through insurance policies, the mutualization of risks and derivatives, for example, makes it possible to manage risk according to individual preferences.

5. An information system on the value of resources

The secondary financial markets make available to individual investors and businesses a widespread, instantaneous information system on the value of shares, bonds and derivatives, thus facilitating the reallocation of resources and the efficiency of the actual financial sector.

6. A mechanism that minimizes the imbalance of information and agency costs

The imbalance of information and agency costs are two types of obstacles to financial contracts.

Several mechanisms in the financial system, such as the quotation of issues of securities and the production of individual and corporate credit records make it possible to reduce the imbalance in information between lenders and borrowers. Other functions of the financial system seek to reconcile the occasionally divergent interests of business directors and shareholders, designated as agency costs.

2 *Changes in the financial sector*

2. CHANGES IN THE FINANCIAL SECTOR

Economic observers the world over agree that few economic sectors have undergone over the past 15 years as many changes as those observed in the financial sector. The same changes have occurred in Canada and Québec. Several factors have come into play and continue to affect the sector. The revolution in information and communications technologies and the globalization of the economy are key factors.

2.1 New technologies

New computer and telecommunications technologies have made it possible to reduce the cost of transmitting information and to set up large-scale electronic communications networks.

Today, these networks have eliminated physical barriers in the financial sector and are making it possible, notably for foreign financial institutions, to intervene on our markets, through the Internet for example, without maintaining business premises here.

These changes are separating and opening up to competition three functions traditionally assumed by banks. First, the vast majority of common financial transactions are now performed electronically, through automated teller machines, debit cards, call centres, virtual banks, Internet financial services, and smart cards. These innovations have led to the complete reengineering of back office operations and encouraged the consolidation of such operations and outsourcing to subsidiaries or specialized enterprises.

Moreover, the new technologies have radically altered the way in which credit is obtained and the place where a loan is obtained. Aside from the possibilities offered by credit cards and lines of credit, a number of financial services have been introduced recently that allow consumers to obtain credit directly at sales outlets. For example, the Mouvement Desjardins concluded an agreement with several retailers in the furniture and services sectors to enable customers to obtain credit services directly in the store. It is also possible to obtain credit by telephone or through the Internet.

In a broader perspective, institutions are offering new service outlets. For example, last February, the Loblaws chain announced the introduction, in collaboration with CIBC, of a new service that enables customers to obtain various products (bank accounts, smart cards, credit and so on) either directly in stores, by telephone or through the Internet.

Fewer and fewer employees of financial institutions have direct contact with customers, except to provide financial advice. Increasingly, such advice is offered in multi-service centres that bring together several experts. The proliferation of service outlets and distribution channels and the reorganization of financial advisory and back office services have profoundly altered the role of the traditional bank branch.

The financial services industry now makes intensive use of information technologies.

2.2 The globalization of financial markets

The globalization of markets has become pervasive, including in the financial sector. To keep abreast of this trend, financial institutions and securities firms are establishing infrastructure that allows them to operate on several international markets and to be competitive there, either by directly establishing a subsidiary or branch, or by resorting to alliances with local partners.

The major Canadian banks are now widely present on foreign markets. For example, the Bank of Montreal owns a bank in the Chicago area. In addition, in 1996 it acquired a 16% interest in Bancomer, Mexico’s second biggest bank. Over 50% of the Bank of Montreal’s revenues are derived from its operations outside Canada. The Bank of Nova Scotia also made a foreign acquisition. In 1996, it concluded an agreement to take a majority interest in Inverlat, Mexico’s fourth largest financial group. The National Bank now owns a subsidiary in Florida.

At the same time, foreign financial institutions are setting up operations in Canada, partly as a result of free trade agreements such as the North American Free Trade Agreement (NAFTA) and, on a worldwide scale, the General Agreement on Trade in Services (GATS), concluded under the aegis of the World Trade Organization. In addition to foreign institutions well established in Canada, such as the Hongkong Bank, institutions such as Wells Fargo, MBNA Capital One Financial, ING ABN-Amro and GE

Capital have recently set up operations in Canada. It should be noted that, under GATS, starting in 1999, foreign banks will be allowed to directly open branches in Canada for wholesale banking operations without establishing subsidiaries.

Financial firms must now compete the world over, which has exacerbated competition. Increasingly, such firms are facing competitors with worldwide operations, which can offer an extensive, varied range of financial products. For example, Wells Fargo, an American bank, offers small Canadian businesses credit by mail, without maintaining offices in the country.

In order to compete with other financial institutions in such an environment, some Canadian institutions believe that they must group together. On January 23, 1998, the Royal Bank of Canada and the Bank of Montreal, Canada’s largest and third largest banks, announced their intention to merge their operations, subject to authorization from the federal Minister of Finance, the federal Superintendent of Financial Institutions and the Competition Bureau. The merger would rank the new institution 10th in North America and 22nd in the world, which would probably enable it to play a more important role on the world market, notably among big companies.

Federal authorities are in the process of reviewing government financial policy, notably the policy prohibiting mergers between major Canadian banks.

Should the federal government approve the merger, the move could merely mark the beginning of extensive consolidation among Canada’s banks. Such a move could also put pressure on the federal government to allow new players to enter the banking sector in order to revitalize competition. As a brief from the Canadian Bankers Association recommended recently, the federal government could in the near future authorize insurance companies to accept deposits and participate in the Canadian payment system. These companies could then become banking institutions and rely on their networks of brokers and representatives to offer the entire range of banking and insurance products and services.

2.3 Deregulation and consolidation of financial operations

2.3.1 Deregulation at the federal level

Prior to the 1980s, the Canadian financial sector was subject to extensive protectionism. The concentration of financial institutions was also impeded by a regulatory framework that favoured the division of operations in four broad financial segments, i.e. banks, trust companies, insurance companies and securities firms.

In 1980, the federal government amended the *Bank Act* to allow the establishment in Canada of the subsidiaries of foreign banks, subject to certain restrictions concerning the extent of their assets and the establishment of their branches. In 1987, Ottawa authorized federally chartered banks to acquire securities firms.

However, it was only in 1992 that Ottawa proceeded to veritable deregulation, in conjunction notably with the revision of the *Bank Act*. The amendments allowed, in particular, the acquisition by banks of insurance and trust companies and the broadening of the range of products offered by bank branches.

2.3.2 Deregulation in Québec

In 1983, Québec initiated the deregulation of the financial sector under its jurisdiction by allowing financial institutions to acquire securities firms. The deregulation was extended to the insurance sector in 1984, then to trust companies in 1987. In both instances, legislative amendments resulted, notably, in the broadening of the array of financial products that such institutions could offer.

In 1989, the new *Savings and Credit Unions Act* came into force. The legislation significantly altered the financial and institutional structure of the Mouvement Desjardins by remodeling the capital base of the caisses populaires and the federations, and by allowing the establishment of holding companies through which the Mouvement could own subsidiaries. These new provisions have allowed the Mouvement Desjardins to maintain a presence in the four main segments of the financial sector.

Moreover, in 1989 Québec adopted the *Act respecting market intermediaries*, which deregulated the operations of market intermediaries, i.e. insurance agents and brokers, insurance adjusters, financial planners and securities brokers, and securities advisers and representatives, to enable them to engage in activities in more than one discipline or to associate among themselves for this purpose.

It was thus that the multidisciplinary firm, made up of intermediaries possessing the necessary permits and offering a wide range of financial products, e.g. mortgages, life and health, property and casualty insurance, certificates of deposit, mutual funds, securities, saw the light of day.

2.3.3 Concentration of financial operations

The deregulation of the financial sector has been accompanied by a significant degree of consolidation in the industry, marked by the concentration within major institutions, usually banks, of several types of assets characteristic of the entire range of financial operations.

In the Québec securities brokerage sector, for example, several major firms have merged, then been taken over by banks. Greenshields, McNeil Mantha, Molson Rousseau, Geoffrion Leclerc, Brault Guy O'Brien, René T. Leclerc and Lévesque, Beaubien, Geoffrion come to mind.

More recently, several trust companies, victims of the vagaries of the real estate market, have also been taken over by banks.

Some examples:

- The Laurentian Bank of Canada acquired Guardian Trust, North American Trust, the Ontario subsidiary of General Trustco and the Société Nationale de Fiducie.
- The National Bank created the Natcan Trust and acquired General Trust of Canada.
- The Bank of Montreal acquired almost the entire portfolio of mortgage loans and the deposit liabilities of Household Trust and, following the example of the Bank of Nova Scotia, set up its own trust company.
- The Royal Bank acquired the Société de Fiducie internationale, which became RBC Trust, Royal Trust and the Banker's Trust.
- The Hongkong Bank of Canada acquired the Metropolitan Trust Company of Canada.

- The Canadian Imperial Bank of Commerce acquired Firstline Trust Company.
- The Bank of Nova Scotia acquired Montréal Trust.

The same trends appeared in the insurance sector and saw the disappearance or integration of certain players such as Les Coopérants, La Laurentienne and London Life. There are still numerous institutions in this sector, a number of them small, which suggests that consolidation is likely to continue in the future. The demutualization undertaken by several leading insurance companies could also facilitate acquisitions and consolidation in the sector.

According to analysts, this concentration has enabled certain Canadian institutions to achieve the necessary size to compete with foreign institutions.

As for Québec institutions, they will likely stay small despite the mergers and acquisitions in which they engage. They will seek to modernize their operations on the Québec market and pinpoint niches that enable them to expand and remain competitive. In the short term, they will endeavour to take the fullest possible advantage of demographic changes and changes in consumer preferences.

2.4 Aging of the population

Baby boomers, most of whom will retire starting in 2010, are now busily accumulating capital. The relatively high incomes they enjoy now and the assets they are inheriting from previous generations are making substantial capital available to them, on which they are seeking to maximize the return.

The accumulation of financial assets is also strongly influenced by the tax incentives governments have implemented to encourage the financial autonomy of future retirees (RRSPs) and reduce pressure on the cost of public programs.

This situation, along with low interest rates, explains the shift observed in recent years in Québec from savings through conventional deposits to new investment vehicles.

As Table 2.1 shows, the proportion of individual savings in Québec invested in conventional deposits fell from 35% in 1993 to 28.4% in 1997, a reduction of nearly seven percentage points in only four years.

TABLE 2.1
BREAKDOWN OF PERSONAL SAVINGS IN QUÉBEC[1]
(in billions of dollars, unless otherwise indicated)

Main investments	1993		1995		1997	
	$	%	$	%	$	%
Conventional deposits	97	35.0	101	33.8	93	28.4
Mutual funds	**19**	**6.9**	**25**	**8.4**	**46**	**14.1**
Securities	59	21.3	58	19.4	52	15.9
Other savings vehicles[2]	102	36.8	115	38.5	137	41.9
Total	277	100.0	299	100.0	327	100.0

1 Data have been established for December of each year. The 1997 figures are a forecast. Mutual funds exclude life insurers' segregated funds.
2 Other types of savings: trusteed pension funds, life insurance, savings bonds (Canada and Québec) and insurance companies' segregated funds.
Source: Mouvement Desjardins, Direction des études économiques, October 1997 and January 1998.

During the same period, the proportion of savings invested in mutual funds more than doubled, from 6.9% to 14.1%. Over the past two years, this type of savings has increased by $21 billion.

2.5 A better informed, more demanding clientele

In recent years, individuals have become familiar with an increasingly diversified array of financial products, such as the QSSP, RRSPs and mutual funds. They are now at ease using new transaction methods, e.g. automated teller machines, debit cards and telephone services, and are more receptive to new technologies.

Financial information is now more accessible through specialized newspapers, television programs and electronic networks.

Consumers are also expressing varied preferences in respect of the products on offer. Many of them wish to benefit from a broad range of financial products and services and want to obtain them from a single outlet, while others prefer to deal with several intermediaries.

The foregoing factors will help define the range of financial products offered in the coming years. Given an increasingly competitive market and increasingly diversified products, better informed consumers will become more critical and will demand better value for money. Players in the financial services industry will have no other choice than to adapt to these changes and to satisfy consumer preferences.

3 *Québec's financial sector: current situation and objectives*

3. QUÉBEC'S FINANCIAL SECTOR: CURRENT SITUATION AND OBJECTIVES

Québec's financial sector has many strengths that have enabled it to grow vigorously in recent decades. Since the early 1970s, it has created a very large number of jobs. However, it has certain weaknesses that must be overcome.

This chapter begins by identifying the strengths and weaknesses of Québec's financial sector. The government's objectives are then noted, as well as the areas in which action will be focused.

3.1 Strengths

3.1.1 A large contingent of financial institutions

To meet the needs of the public and the economy, Québec has a large contingent of financial institutions. There are three diversified financial groups, i.e., the Mouvement Desjardins, the National Bank and the Laurentian Bank, which, with their subsidiaries in the trust, securities brokerage and insurance sectors, have their decision-making centres in Québec. These institutions are an asset for Québec, since they provide the public with fast, easy access to a full range of financial products, in every region.

The presence in Québec of large cooperative or mutual groups also contributes to maintaining the specific character of Québec's financial sector, particularly in terms of the availability of services in the regions and members' control over these institutions. For example, the Mouvement Desjardins has a vast distribution network and the largest number of ATMs in Québec.

Québec's financial sector also features a strong network of life and health and property and casualty insurers of varying sizes, operating in various segments, where they are well established.

3.1.2 An innovative financial system

Québec has innovated a number of times in the financial sector. These innovations help produce favourable conditions for the development of the financial sector and the economy in general. The following examples illustrate these innovations.

The venture capital industry

Today, Québec enjoys a strategic position in the venture capital industry thanks to the presence of a substantial institutional network which, apart from the Caisse de dépôt et placement du Québec, includes labour-sponsored funds, the Fonds de solidarité de la FTQ, the Fonds Fondaction de la CSN, regional venture capital funds, the Société générale de financement, the Société de développement industriel and the Innovatech corporations. In addition, there are a large number of private business financing corporations.

The Montreal Exchange active on the derivatives market

In spite of strong competition from the Toronto Exchange, the Montreal Exchange remains an important asset for Québec's financial sector. Since 1974, the Montreal Exchange has demonstrated great vitality by establishing itself on the derivatives market and, in 1997, it held 94.2% of the Canadian market in futures contracts.

An international financial centres (IFC) program

In the mid-1980s, Québec took major steps to foster Montréal's development as an international finance centre. In 1986, it created a program granting tax benefits to international financial centres (IFCs) establishing themselves in Montréal. These centres carry out transactions dealing with foreign securities or involving non-residents.

Emerging expertise in the management of international securities

Over the past few years, a number of portfolio management firms based in Montréal have developed expertise in managing international securities and have obtained excellent results. For instance, portfolio managers based in Montréal have achieved results with Asian securities as good, if not better, than managers based in Asia.

3.1.3 Dynamic regulation of the financial sector

Québec has demonstrated leadership and a spirit of innovation in the regulation of the financial sector. It was the first government in Canada to eliminate institutional barriers in this sector, thus enabling the formation of conglomerates combining deposit-taking, insurance, trust and securities brokerage activities.

Québec is also the only province to occupy the three fields of action available to government in the financial sector:

- regulation covering all the activities of the financial institutions and market intermediaries under its jurisdiction;

- a complete monitoring, supervision and regulation structure;

- a deposit insurance agency offering compensation in the event of the failure of deposit-taking institutions.

3.1.4 A deposit insurance plan in excellent financial health

The deposit insurance plan that Québec introduced in 1967 has always been in excellent financial health. In spite of financial intervention by the Régie de l’assurance-dépôts du Québec over the last 30 years, the deposit insurance fund has always been positive. Starting from zero in 1967, the deposit insurance fund stood at $118.4 million as at December 31, 1996.[5] More than 1 357 institutions were registered with the Régie, with insured deposits amounting to more than $54 billion. In 1996, the deposit insurance fund had the second-best capitalization rate in its history.

The performance of the Québec plan compares well with that of the federal plan. According to its 1996-1997 annual report, the accumulated deficit of the Canada Deposit Insurance Corporation (CDIC) at March 31, 1997, amounted to $1.2 billion, while its outstanding borrowings totalled $865 million. This result is attributable to the intervention of the CDIC since the early 1980s following the collapse of major financial companies subject to federal regulation, such as Fidelity Trust Company, in 1983, the Canadian Commercial Bank and the Northland Bank in 1985, the Bank of British Columbia, in 1986, and the Central Guaranty Trust Company, in 1992. The full list of financial interventions by the Régie de l’assurance-dépôts du Québec and the CDIC is given in Appendices 3.1 and 3.2.

---

5 Source: *Les trente ans d’histoire de la Régie de l’assurance-dépôts du Québec*, Régie de l’assurance-dépôts du Québec, 1997.

3.1.5 Significant comparative advantages

Québec, especially Montréal, has many comparative advantages that help promote the development of the financial sector and attract financial institutions. For instance, there are institutions with a high level of expertise, specialized bilingual, if not multilingual, manpower, which is competitive from the standpoint of wages, a large number of research centres and a telecommunications industry and computer systems consulting services at the cutting edge.

3.2 Weaknesses

3.2.1 A legislative and regulatory framework that is still too restrictive

In spite of the regulatory streamlining undertaken in the early 1980s, the legislative framework of the financial sector is still too restrictive and complex. It must be modernized in order to streamline the regulatory burden borne by businesses and better protect consumers.

3.2.2 Federal encroachment on supervision of the financial sector

With the concentration of financial activities that has occurred in Canada and Québec over the last 15 years, federally-chartered institutions, generally the banks, now carry on activities – trust activities, securities brokerage, financial counseling – which fall within the shared or exclusive jurisdiction of the provinces.

The powers of diversification granted to federally-chartered institutions and the consolidated supervision approach advocated by the federal government have increased the influence exercised by federal regulations on institutions operating under a Québec charter.

In addition, the federal proposal to create a Canadian securities commission would, if carried through, expand the federal government's supervision to this field of activities, which comes under exclusive provincial jurisdiction.

Québec is often isolated in Canada in promoting provincial jurisdiction and dealing with this encroachment by the federal government, since many provinces have already formally transferred to the federal government a significant portion of their power to regulate the financial sector.

Furthermore, this federal incursion often leads to costly duplication and overlapping which partially undermines the efforts of the Québec government to reduce the regulatory burden on the financial sector.

3.2.3 Significant concentration in Québec of the activities of Québec financial institutions

The activities of Québec financial institutions are essentially concentrated in Québec. This is due in part to a combination of legislative and/or cultural factors.

Savings and credit unions may not, for instance, do business in the other provinces directly. Cooperative and mutual financial institutions are also impeded by structural difficulties in raising capital.

In addition, for socio-cultural reasons, Québec financial institutions generally have more difficulty penetrating the market of other provinces than vice versa, resulting in higher development costs for Québec institutions and a slower, more laborious penetration of the market in other provinces.

Being concentrated in Québec, these financial institutions are, as a result, of relatively modest size compared to their main Canadian competitors. For example, the assets of Québec's largest financial institution, the Mouvement Desjardins, amount to some $71 billion, less than one third of those of the largest Canadian bank.

Accordingly, Québec's financial institutions are more vulnerable to the effects of economic fluctuations in Québec than Canadian or international financial institutions. In addition, since one of the features of Québec's economy is the large number of SMBs, the performance of our financial institutions is, to a greater extent, tied to their success or failure.

3.2.4 The shift of decision-making centres outside Québec

The concentration of financial activities within the large Canadian banks and phenomenal growth in mutual funds, a very small proportion of which are managed in Québec, has encouraged an exodus of decision-making centres outside Québec. Toronto has become the hub of the management and allocation of savings in Canada.

Toronto has also benefited from a concentration of decision-making centres, activities and manpower specializing in credit arrangements for large companies and financial engineering.

This situation has resulted in the management, outside Québec, of a substantial portion of Quebecers' savings, and the risk of the erosion of the financial sector's role as a catalyst of economic development in Québec. It also accounts for a substantial portion of the decline of the market share of the Montreal Exchange.

3.2.5 Québec institutions have been less active in new investment vehicle market

Québec financial institutions have only a small share of the market in the investment vehicles with the strongest projected growth over the next few years, in particular, mutual funds.

This situation, in addition to limiting the profitability of the institutions concerned, could result in a situation where the securities of small-capitalization Québec companies are neglected by major fund managers because of a lack of information or interest. Accordingly, companies with good growth potential could be under-valued and unable to finance themselves at a competitive cost.

3.3 The government's objectives and strategic directions for the financial sector

A strong financial sector is essential to Québec’s economic development. Its development ensures the strengthening of many decision-making levers, fosters hiring and retaining the highly skilled employees many financial activities require, encourages the creation of financial products adapted to customers in Québec and makes it possible to better respond to the financing needs of SMBs.

The structural changes that the financial sector is undergoing are creating further opportunities for development and job creation.

The generalized automation of transactions, while resulting in the elimination of more traditional jobs, also leads to the introduction of more skilled positions, in particular with respect to asset management and certain back office operations, increasing the demand for professional resources.

The opening of markets allows financial institutions to develop their international business services considerably, export their services and expand their activities in other countries.

Accordingly, the government intends, to the extent allowed by international trade agreements, to take the steps needed to facilitate the development of the financial sector in Québec and support the creation of jobs in it, particularly for young people.

The Québec government’s economic development strategy is intended to encourage the growth of an innovative economy that can adapt to the transformations of the world economy. By making job creation its main goal, the government strategy seeks to enable all Quebecers to fulfill their potential.

As for the financial sector, the government’s strategy focuses on the following objectives:

- implement an effective and efficient regulatory framework;
- develop the mutual fund and portfolio management industry;
- develop Montréal as an international finance centre.

To achieve these objectives, the government will focus on the following areas.

3.3.1 Modernizing and streamlining the regulatory framework

Modernizing and streamlining the regulatory framework

Adapting the regulatory framework to the new context in which the financial sector operates is certainly an important way to encourage the financial sector’s development. In this regard, the burden imposed on financial enterprises can be reduced without compromising the protection of individuals’ financial interests. Regulation that is less onerous, but better targeted, can bolster protection of consumers while fostering the efficiency of the financial sector.

Defending Québec’s jurisdiction

The government will continue to defend its jurisdiction in order to maintain institutions essential to the development of Québec’s financial sector and economy, such as the Commission des valeurs mobilières du Québec, and to remove overlapping and duplication, whose costs are borne by financial institutions.

The government will also do everything possible so that Québec-chartered financial institutions can expand, without undue restrictions, their operations throughout Canada. For instance, federal legislation on insurance prohibits a federally-chartered insurer from transferring insurance policies to a Québec-chartered insurer, although transfers to another federally-chartered insurer or a foreign insurer are allowed. In a context of globalization and open markets, in which financial institutions must be in a position to grow outside their traditional market, such restrictions are totally unjustified and Québec will continue to demand that the federal government treat Québec financial institutions fairly.

Protection of individuals' financial interests

Along with the development of Québec's financial sector, the government must be concerned with the protection of consumers' interests in their dealings with financial institutions. In addition, in a context of development of technology and databases, the government must also ensure that privacy is protected.

3.3.2 Developing the mutual fund and portfolio management industry

Technological development and market globalization have increased capital mobility and enhanced the opportunities for diversifying investments not only for companies, but also for individuals. New investment vehicles, in particular mutual funds, are accounting for a growing portion of savings. Particular attention must be paid to this situation in order to ensure that the Québec economy derives the maximum benefit from it.

The expansion of Québec mutual fund and portfolio management companies

New financial products and the management of savings will expand rapidly, especially in Québec. Consequently, it seems advisable to rely on these sectors in order to offer young people quality, well paid jobs.

Measures will accordingly be taken to stimulate the development of Québec mutual fund and portfolio management companies.

The creation of a stock market specializing in the securities of small-capitalization companies

In the winter of 1997, the Deputy Prime Minister and Minister of State for the Economy and Finance, Bernard Landry, mandated a special committee consisting of representatives of Québec's investment sector to investigate the possibility of setting up a stock market, in Montréal, specializing in the securities of small-capitalization companies. Should the committee's conclusions be favourable, the government would act to have a new stock market specializing in the securities of small-capitalization companies set up in Montréal as soon as possible.

3.3.3 Developing Montréal as an international finance centre

Revision of legislation on international financial centres

Ten years after the introduction of legislation on IFCs designed to make Montréal an international finance centre, the results, though positive, are still too modest. Accordingly, a review of the provisions concerning IFCs seems needed to increase the economic impact of this fiscal regime.

Development of the back office operations industry

As part of the reorganization under way in the financial services industry, financial institutions are increasingly concentrating on their core functions, i.e. the supply of financial products and services, and are entrusting so-called back office operations to third parties. Québec, and Montréal in particular, has comparative advantages that must be exploited to attract and develop this type of activity.

Training, research and innovation

The financial system has become sophisticated and complex as far as mechanisms, products and technology are concerned. Management and staff of financial institutions must constantly update their knowledge to better serve their customers and keep their business competitive. Basic and applied research have also become key factors in the development of these institutions. The Québec government must therefore adopt certain measures to ensure that research and training are structured more effectively and respond to the needs of Québec's financial sector.

APPENDIX 3.1
FINANCIAL INTERVENTION BY THE RÉGIE DE L'ASSURANCE-DÉPÔTS DU QUÉBEC

Year of liquidation	Institution	Deposits reimbursed	Debts recovered	Net cost
		(in millions of dollars)		
1975	Caisse d'économie du Taxi de Montréal*	—	—	—
1979	Caisse d'économie des employés des Hôtels de Montréal*	—	—	—
1980	Le Prêt Hypothécaire	14.3	13.7	0.6
1981	Caisse d'entraide économique de Ste-Agathe	1.6	1.6	0
1982	Société d'entraide économique de La Tuque**	4.3	3.4	0.9
1983	Société d'entraide économique de KRT**	11.6	6.0	5.5
1984	Société d'entraide économique de Chandler	1.2	0.9	0.3
1984	Société d'entraide économique de Napierville-Laprairie	5.4	5.4	0
1985	Société d'entraide économique de Brôme-Missisquoi	5.3	5.3	0
1985	Société d'entraide économique de Dorchester	2.1	2.1	0
TOTAL		**45.9**	**38.5**	**7.4**

* Amounts below $25 000.
** This liquidation has not been completed. The amount represents the debt recovered as at March 31, 1997.
Source: Régie de l'assurance-dépôts du Québec, *Les trente ans d'histoire de la Régie de l'assurance-dépôts du Québec*, 1997.

APPENDIX 3.2
FINANCIAL INTERVENTION BY THE CANADA DEPOSIT INSURANCE CORPORATION (CDIC) FOLLOWING THE COLLAPSE OF MEMBER CORPORATIONS

Year	Institution	Total claims and loans	Recoveries as at March 31, 1997	Net cost
		(in millions of $)		
1970	Commonwealth Trust Company	5	5	0
1972	Security Trust Company Limited	9	9	0
1980	Astra Trust Company	21	19	2
1982	District Trust Company	231	216	15
1983	Amic Mortgage Investment Corporation	28	15	13
1983	Crown Trust Company	930	929	1
1983	Société de fiducie Fidélité	792	437	355
1983	Greymac Mortgage Corp. and Trust Co.	414	206	208
1983	Seaway Mortgage Corp. and Trust Co.	420	362	58
1984	Northguard Mortgage Corporation	28	20	8
1985	Continental Trust Company	113	113	0
1985	Pioneer Trust Company	201	172	29
1985	Western Capital Trust Company	77	74	3
1985	Canadian Commercial Bank	352	90	262
1985	CCB Mortgage Investment Corporation	123	109	14
1985	London Loan Limited	24	17	7
1985	Norbank-1985	321	203	118
1986	Bank of British Columbia	200	0	200
1986	Columbia Trust Company	99	99	0
1987	North West Trust Company	275	0	275
1987	Principal Savings & Trust Company	116	99	17
1990	Settlers Savings & Mortgage Corp.	84	60	24
1991	Bank of Commerce and Credit Canada	22	20	2
1991	Standard Trust Company	1 321	1 039	282
1991	Saskatchewan Trust Company	64	58	6
1992	First City Trust Company (NAT)	175	42	133
1992	Shoppers Trust Company	492	426	66
1992	Central Guaranty Trust Company	1 758	1 048	710
1993	Dominion Trust Company	431	353	78
1993	Prenor Trust Company	820	774	46
1994	Confederation Trust Company	680	604	76
1994	Monarch Trust Company	65	58	7
1995	Income Trust Company	193	51	142
1996	Security Home Mortgage Corp.	42	10	32
Total		**10 926**	**7 737**	**3 189**

Sources: C.D. Howe Institute, *Ensuring Failure Financial System Stability and Deposit Insurance in Canada*, 1994 and Annual Report of the CDIC, 1996-1997.

4 Modernizing and streamlining the regulation of Québec's financial sector

4. MODERNIZING AND STREAMLINING THE REGULATION OF QUÉBEC'S FINANCIAL SECTOR

As the Québec government reaffirmed at the October 1996 Summit Conference on the Economy and Employment held in Montréal, implementation of its policy to reduce administrative costs and cut red tape will favour the competitiveness of Québec companies. An efficient financial sector is a crucial component of a vigorous economy, so the government must modernize the regulation of this sector. Such regulation must protect consumers and the solvency of financial institutions, while allowing the sector to operate efficiently and dynamically.

Three bills were tabled in the National Assembly in the fall of 1997. These bills are part of the process of streamlining and modernizing Québec regulation of the financial sector.

4.1 The *Act to amend the Savings and Credit Unions Act*

4.1.1 A competitive legal framework

The environment in which savings and credit unions operate has changed substantially in recent years, especially because of technological changes and market globalization. The legislation of many competing financial institutions has been reviewed and modernized to enable them to compete more effectively not just in Canada, but in other countries as well.

This was the backdrop for the tabling in the National Assembly of the report on the *Savings and Credit Unions Act* in the fall of 1997 and of Bill 167 amending the Act. Accordingly, pursuant to the draft legislation, savings and credit unions will be able to offer a range of financial services and products as extensive as their competitors, provided they are authorized to do so by the other laws governing specific activities such as the distribution of financial products and services. Furthermore, savings and credit unions will be able to do business, as an ancillary activity, with non-members, which will enable them, for example, to directly offer credit on the premises of automobile dealers. This opening will doubtless help make savings and credit unions more competitive, in particular in the consumer credit market.

4.1.2 Capitalization requirements based on international standards

The regulatory framework was reviewed taking into consideration, among other things, certain Canadian or international standards, particularly for investment and capitalization.

As amended by Bill 167, the *Savings and Credit Unions Act* will subject a network of savings and credit unions, namely the federation and its affiliated savings and credit unions, to more modern capital requirements, based on those used by the regulatory authorities of most developed countries. Since these international rules change quickly, the Act will make the Inspector General of Financial Institutions responsible for encouraging adaptation to them by authorizing him to issue orders and guidelines. This regulatory flexibility will benefit savings and credit unions as well as depositors.

4.1.3 Access to capital

In addition, the *Act to amend the Savings and Credit Unions Act* contains provisions to facilitate access to capital. Accordingly, it will be possible to purchase permanent and preferred shares by instalments, to issue shares in series and to issue, as dividends, shares to a fund created for this purpose for the benefit of members. A confederation will also be authorized to create a degree of liquidity, i.e. a secondary market, for preferred shares from the fund established to purchase and resell permanent shares.

4.1.4 More flexible investment policies

Pursuant to Bill 167, like the large Canadian financial institutions, savings and credit unions would have to adopt prudent investment policies. They would no longer be confined to a list of authorized investments no to quantitative limits on various types of investments.

4.1.5 Streamlining and clarification

Many changes will foster the efficiency of savings and credit unions since administrative procedures will be streamlined, some provisions of the law will be clarified and constraints that no longer serve a purpose will be eliminated.

A confederation will be authorized to set up services for its subsidiaries and conclude agreements with third parties in which these subsidiaries will be able to join. It will also be able to invest, on a temporary basis, elsewhere than in the shares of holding companies as well as in subsidiaries which carry on activities it is authorized to carry on itself, such as extending credit, providing surety for third parties and offering such services as management and computer systems.

Information on legal persons, except personal information, will be allowed to circulate within a group of savings and credit unions and federations overseen by a confederation.

Surplus earnings can be freely allocated by the general meeting of members of the savings and credit union once the requirements of sound financial management have been satisfied.

Various streamlining measures, clarifications and technical changes, such as the possibility of storing documents on computer media or registering shares issued by a savings and credit union in an account, will also reduce the regulatory burden without affecting the degree of depositor protection.

4.1.6 Protection of depositors

Bill 167 strengthens the rules on conflicts of interest. Control of conflicts of interest is particularly important in this sector because of the large number of officers in savings and credit unions. Accordingly, it seems appropriate not only that such officers be required to disclose their interests and abstain from discussions concerning those interests. These requirements would be extended to the spouses and children of these officers.

In order to protect depositors, Bill 167 broadens the powers of the Inspector General of Financial Institutions to enable him to order the audit and ethics board of a savings and credit union or of a federation to correct certain practices and to entrust a special monitoring or inspection mandate to a confederation.

4.2 The *Act to again amend the Securities Act*

4.2.1 A more flexible regulatory process

Bill 187, the *Act to again amend the Securities Act*, proposes granting the Commission des valeurs mobilières du Québec the legal authority to enact regulations. The purpose is to legally establish the power of the Commission to regulate the market, as the other provinces with a significant organized market have done.

4.2.2 Harmonization with other jurisdictions

The bill also introduces various measures in support of harmonization with Canadian and international regulations. Québec has always favoured this method for developing its market, reducing the costs associated with various securities regulations, and maintaining an adequate level of investor protection. The implementation, in early 1997, of the System for Electronic Document Analysis and Retrieval (SEDAR), a system that enables the issuer to file a single prospectus for all Canadian securities authorities, is a striking example. The bill allows the Commission to cooperate more extensively with Canadian and international securities authorities.

4.2.3 Streamlining the regulation of conflicts of interest regarding investment

When the banks acquired the largest Canadian securities firm, the Canadian securities authorities proposed rigid and costly rules on conflicts of interest regarding issues, such as the requirement that an independent broker be associated with the investment in various cases where the issuer was affiliated with a broker. Now that responsibilities have been introduced, in particular the responsibility that persons involved in an investment act “at arm’s length”, Québec’s securities regulations can be reviewed and streamlined to reduce costs significantly in the case of many investments, while maintaining an adequate degree of protection.

4.2.4 Protection of depositors and investors

A number of measures to protect depositors have also been included in this bill. The Commission will be able to impose an administrative penalty for violations of the *Securities Act* and its regulations. The power to impose administrative penalties will help provide the Commission with a sufficiently varied range of sanctions to be able to react in accordance with the nature and severity of the infraction.

In addition, the Commission, acting in the public interest, will be able to ask the courts to award punitive damages or order a person who has contravened the *Securities Act* or its regulations to pay back the profits resulting from the contravention.

4.3 The *Act respecting the distribution of financial services and products*

The financial sector has been buoyant in recent years and there is no sign of the pace of change and innovation letting up.

4.3.1 Streamlining the regulatory framework

In view of the importance of this sector for Québec's economy, the government has tabled in the National Assembly Bill 188, the *Act respecting the distribution of financial services and products,* which seeks to complete the elimination of barriers between the financial services and products distribution networks, and reduce the costs inherent in the regulatory framework of the distribution of financial services and products. The bill also seeks to simplify and standardize the supervisory framework of market intermediaries and strengthen consumer protection.

Market intermediaries have been pressing for a streamlining of their regulatory and supervisory framework since, to obtain a series of permits, they must submit to regulation and supervision by a complex and costly group of agencies. The regulatory and supervisory functions of the Conseil des assurances de personnes, the Conseil des assurances de dommages, the Association des intermédiaires en assurance de personnes du Québec, the Association des courtiers en assurance de la province de Québec and the Institut québécois de planification financière, together with certain responsibilities of the Inspector General of Financial Institutions and the Commission des valeurs mobilières du Québec, will be consolidated and entrusted to a single regulatory and supervisory agency. As a result, the efficiency of distribution networks will increase, while costs to the industry and prices for consumers will decline.

The bill also proposes the creation of two chambers, the Chambre de la sécurité financière and the Chambre de l'assurance de dommage, which will be responsible for the code of ethics and the training of their members.

4.3.2 Intersectoral regulatory consistency

A single agency will be able to ensure intersectoral regulatory consistency. The elimination of certain irritants arising from inconsistencies and uncertainties between regulations concerning market intermediaries and those concerning securities, where the requirements now differ, will facilitate the development of efficient networks.

4.3.3 Completing the elimination of barriers

In a context where consumers are increasingly demanding and want to select for themselves the networks that best meet their needs in terms of cost and accessibility, it seems advisable to provide suppliers of services and products with opportunities to organize distribution networks to satisfy the expectations of consumers insofar as possible. Fair treatment among networks is the basis of healthy competition in this industry.

4.3.4 Protecting consumers

Streamlining the regulatory framework in this sector provides consumers with a measure of protection since it will eliminate the maze of agencies with which consumers must deal, if only to obtain information on their rights or file complaints.

The addition of rules for the distribution of certain financial products and services, which was completely outside the scope of the *Act respecting market intermediaries*, will improve the protection of depositors.

On the other hand, the creation of vast distribution networks, where information can circulate among representatives holding various permits and among various companies related to the same financial group, and the possible consequences regarding the protection of privacy of consumers, are matters of concern to the government.

Rules on the collection, storage, protection and circulation of personal and other information in the distribution of financial products and services will also be adopted to complement the rules of the *Act respecting the protection of personal information in the private sector* and reflect the specific features of this activity. The government will incorporate them directly into the *Act respecting the distribution of financial services and products*, or apply them indirectly by approving rules proposed by the Bureau des services financiers.

As far as the financial protection of the consumer is concerned, the government will maintain the prohibition on tied sales and will ban the use of undue pressure to sign a contract. In addition, it will ensure that consumers have recourse to the supervisory agency and the courts in cases of non-compliance with the *Act respecting the distribution of financial services and products*.

5 *Development of the mutual fund and portfolio management industry*

5. DEVELOPMENT OF THE MUTUAL FUND AND PORTFOLIO MANAGEMENT INDUSTRY

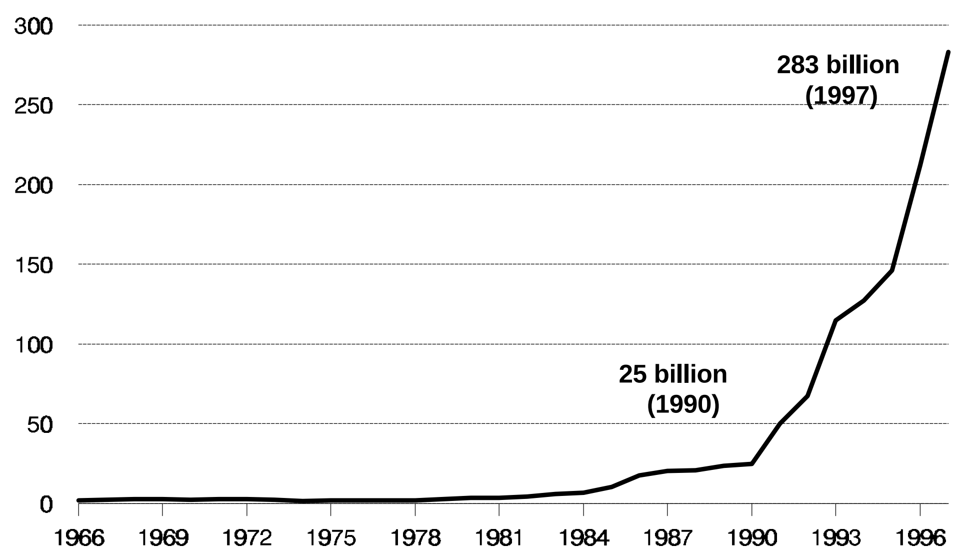
5.1 Mutual fund and segregated fund industry

5.1.1 Spectacular growth

Since the early 1990s, mutual funds have experienced spectacular growth.

In Canada as a whole, the net assets in mutual funds rose from $25 billion in December 1990 to $283 billion in December 1997, equivalent to an average annual growth rate of nearly 42% for the period in question. Graph 5.1 clearly illustrates this change.

GRAPH 5.1
NET ASSETS OF MUTUAL FUNDS IN CANADA
(in billions of dollars)



Source: Investment Funds Institute of Canada.

The segregated funds offered by insurance companies have also grown markedly in Canada in recent years. According to Investors Economics, such funds rose in volume from nearly $2.7 billion in December 1990 to $17.4 billion in June 1997.[6]

---

6 Source: *Journal Les Affaires*, February 14, 1998, special report on RRSPs.

Growth factors

Several economic, demographic and cyclical factors explain this growth:

- low interest rates in recent years;
- the intensive accumulation of savings by baby boomers;
- government measures aimed at encouraging retirement savings (RRSPs);
- the possibility of diversifying investments, facilitated by new technologies and the openness of markets. Against a backdrop of freer trade and the development of new financial products and services, investors have displayed in recent years growing interest in more internationally diversified portfolio management strategies.

5.1.2 Mutual funds gain in popularity with Quebecers

Mutual funds have been slower to gain popularity in Québec. However, it should be noted that, over the past two years, the mutual funds held by individual Quebecers have grown appreciably. By December 1997, they had invested nearly $46 billion in such funds, up $21 billion over December 1995.

Despite this striking growth, the net assets of individual Quebecers in mutual funds accounted for only 16.2% of the Canadian total in December 1997.

TABLE 5.1
NET ASSETS INVESTED IN MUTUAL FUNDS[1]
(billions of dollars, unless indicated otherwise)

	1993	1994	1995	1996	1997
Individual Quebecers	19.0	21.7	25.0	33.6	45.9[F]
Individual Canadians	114.6	127.3	146.2	211.8	283.2
Québec/Canada ratio as a %	16.6	17.0	17.1	15.8	16.2

1 In December of each year. The data exclude life insurers’ segregated funds.
Sources: Investment Funds Institute of Canada and Mouvement Desjardins.
F: Forecast

5.1.3 Growth prospects

According to the experts, the mutual fund industry should continue to grow rapidly in the coming years.

The Mouvement Desjardins anticipates that the assets held by individual Quebecers in these funds will grow by 15% in 1998, bringing the total net assets held to $58 billion at the end of 1998.

A CIBC-Wood Gundy forecast suggests that the assets under management in the Canadian mutual fund industry could reach $427 billion by 2001 and $634 billion by 2005. If such were the case, the assets held by Quebecers in mutual funds would be on the order of $90 billion in 2001 and nearly $133 billion in 2005.

5.1.4 Valuable spinoff

Growth prospects in the mutual fund industry are excellent in the coming years. Québec must be in a position to take advantage of spinoff from the industry's development.

Mutual funds account for a growing proportion of Quebecers' savings (from 7% in 1993 to 14% in 1997 - see Table 2.1) and, consequently, a growing portion of the capital available to finance businesses and develop the Québec economy. Moreover, growth in the mutual fund sector will be accompanied by the creation of specialized, well paid jobs from which Quebecers can benefit, especially young people.

5.1.5 Obstacles to be overcome

Québec will have to overcome certain obstacles in order to participate fully in the industry's development.

Limited market penetration by Québec deposit institutions

The three leading deposit institutions whose decision-making centres are located in Québec, i.e. the Mouvement Desjardins, the National Bank and the Laurentian Bank, account for only a limited portion of Quebecers' investments in mutual funds, i.e. 11% as at December 31, 1996. The share of Canada's top five chartered banks is 16.7%, as Table 1.3 in Chapter 1 indicates.

A limited number of mutual fund companies have set up operations in Québec

In November 1997, there were approximately 20 mutual fund companies established in Québec, only two of which had assets in excess of $2 billion. As noted in Table 1.6 in Chapter 1, at that time, the assets of Québec companies accounted for only 3.6% of the overall assets of companies established in Canada.

Furthermore, as Table 5.2 indicates, only two Québec companies, National Bank Investments and Fiducie Desjardins, which rank 22nd and 24th, respectively, are included among Canada's top 25 mutual fund companies. It should be noted that the assets under management of the 25 companies account for 92% of all mutual fund assets in Canada.

A small proportion of mutual funds in Canada

Data for November 1997 reveal that only 151 of the 1 261 mutual funds in Canada are managed by corporations that maintain their decision-making centres in Québec, equivalent to only 12% of the Canadian total.

Furthermore, the funds managed by Québec companies are of modest size, averaging $70 million per fund, compared with $236 million for Canada as a whole.

TABLE 5.2
LEADING MUTUAL FUND COMPANIES IN CANADA, DECEMBER 1997

		Total assets (in billions of $)
1	Investors Group	31.8
2	Trimark Investment Management Inc.	27.3
3	Royal Mutual Funds Inc.	24.9
4	Mackenzie Financial Corporation	21.3
5	Templeton Management Limited	16.3
6	TD Asset Management	13.3
7	AGF Management Limited	12.7
8	Fidelity Investments Canada Limited	11.8
9	CIBC Securities Inc.	11.6
10	CT Investment Management Group Inc.	10.2
11	Bank of Montreal Investment Management Ltd.	9.2
12	AIC Limited	7.3
13	MD Management Limited	7.0
14	C.I. Mutual Funds	6.9
15	Scotia Funds Group	6.7
16	Dynamic Mutual Funds	6.1
17	Spectrum United Mutual Funds Inc.	5.9
18	Phillips Hager & North Ltd.	5.6
19	Altamira Investment Services Inc.	5.4
20	Global Strategy Financial Inc.	4.9
21	The Mutual Group	3.7
22	**National Bank Investments**	3.1
23	BPI Capital Management Corporation	3.1
24	**Fiducie Desjardins**	2.8
25	GT Global	2.6
Total, assets of 25 companies		261.5
	Share of total assets in Canada, as a %	92.3

Source: Investment Funds Institute of Canada.

Table 5.3 reveals that the mutual funds offered by Québec companies are, broadly speaking, less diversified. For example, 35% of the net assets of the funds managed by Québec companies are invested in balanced Canadian funds, compared with 17% for Canada as a whole.

TABLE 5.3
MUTUAL FUNDS BY CATEGORY IN QUÉBEC AND CANADA, NOVEMBER 1997

	Québec				Canada			
	Fund		Assets		Fund		Assets	
Category of fund	Number	%	$M	%	Number	%	$M	%
Canadian shares	28	18.5	1 602	15.1	180	14.3	69 385	23.3
American shares	15	9.9	233	2.2	123	9.8	15 377	5.2
International shares	12	7.9	260	2.5	125	9.9	43 120	14.5
European shares	2	1.3	69	0.7	35	2.8	5 057	1.7
Far East shares	3	2.0	112	1.1	63	5.0	5 173	1.7
Dividends	5	3.3	424	4.0	45	3.6	15 632	5.2
Emerging Latin American markets	—	—	—	—	46	3.6	3 653	1.2
Balanced international	3	2.0	106	1.0	35	2.8	2 493	0.8
Balanced Canadian	24	15.9	3 662	34.5	147	11.7	49 972	16.8
Mortgage	9	6.0	1 395	13.1	46	3.6	15 193	5.1
Canadian money market	19	12.6	1 785	16.8	98	7.8	32 003	10.7
International money market	1	0.7	16	0.1	21	1.7	1 206	0.4
International bonds	5	3.3	89	0.8	62	4.9	4 133	1.4
Canadian bonds	16	10.6	573	5.4	90	7.1	17 314	5.8
Small capitalization	5	3.3	250	2.4	58	4.6	11 595	3.9
Specialized	4	2.6	48	0.5	87	6.9	6 660	2.2
Total	151	100.0	10 626	100.0	1 261	100.0	297 876	100.0

1 Excluding the segregated funds of life insurers and labour-sponsored funds.
Sources: Bellcharts, November 1997, and ministère des Finances du Québec.

A limited presence in brokers' distribution networks

Over 50% of mutual funds are distributed by brokers' networks, 30% by banks, and the remainder through direct sales.

Virtually no Québec funds are distributed by brokers' networks. The products usually sold by brokers involve a 5% commission. Such fees can represent a considerable outlay for the companies issuing the funds, which can only recover them over a period of five to six years. For example, the establishment of a $75-million fund distributed exclusively by a brokers' network would engender an expense of roughly $3.8 million in the form of commissions. Québec mutual fund companies, which are modest in size, do not generally have at their disposal the capital necessary to seek distribution through brokers, who thus have no other alternative than to distribute products from outside Québec.

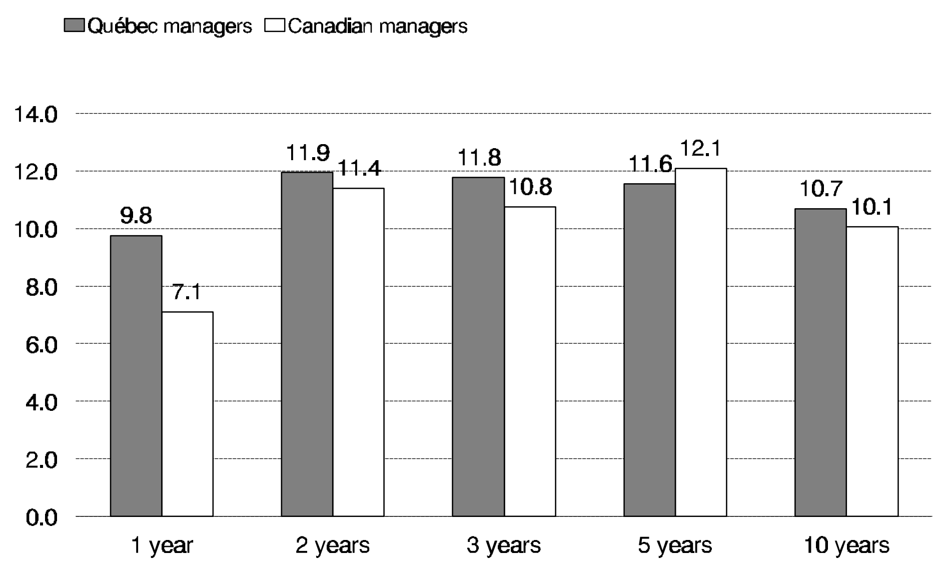
A negative perception of the yields obtained by portfolio managers in Québec

A negative perception has developed in recent years of the yields obtained by mutual fund portfolio managers in Québec. According to a study conducted by the ministère des Finances focusing on roughly 1 650 mutual funds in Canada, of which 215 are managed in Québec, there is no statistically significant difference between the yields achieved by managers in Québec and those in the rest of Canada.

As Graph 5.2 indicates, the yields of Québec managers are higher than those achieved by managers in the rest of Canada over periods of one, two, three and ten years.

Moreover, these findings are valid for most categories of mutual funds.

GRAPH 5.2
PERFORMANCE OF QUÉBEC AND CANADIAN MUTUAL AND SEGREGATED FUND MANAGERS
(average yields for all funds, as a %)



Source: "Évaluation comparative de la performance des gestionnaires québécois et canadiens de fonds communs de placement et de fonds distincts", ministère des Finances du Québec, February 1998.

The results achieved by Québec managers are also noteworthy when account is taken of their relative performance, i.e. the yield obtained per risk unit. Over periods of three, five and ten years, Québec managers have achieved returns of 4.41%, 4.94% and 3.83%, compared with 3.67%, 4.92% and 3.80% for managers in the rest of Canada.

5.1.6 Portfolio management industry

Québec occupies a significant place in the portfolio management industry in Canada. As noted in Chapter 1, the assets managed in Québec by fund managers based in Québec accounts for nearly 24% of the Canadian total. However, when the funds managed by the Caisse de dépôt et placement du Québec and the Fonds de solidarité de la FTQ are deducted, this share is reduced to 15.4%.

A small share of mutual fund management

Furthermore, mutual fund management lies largely outside the purview of portfolio managers based in Québec. There are 15 or so such managers, who oversee roughly 8.5% of all mutual fund assets in Canada. Four managers oversee mutual funds in excess of $2 billion.

TABLE 5.4

LEADING PORTFOLIO MANAGERS OVERSEEING MUTUAL FUNDS BASED IN QUÉBEC (NOVEMBER 1997)

	Assets under management ($M)[1]
Les Placements T.A.L.	13 418
Montrusco Associés	3 496
Natcan (National Bank)	3 130
Canagex (Mouvement Desjardins)	2 442
Fonds des professionnels du Québec	687
Trust Prêt et Revenu – Banque Laurentienne	620
Gestion Pembroke ltée	383
Van Berkom et Ass.	194
Jarislowsky et Fraser	184
Les Conseillers financiers du St-Laurent	164
Valorem	145
Gestion de placements Trust-Royal	143
Cote 100 inc.	116
Gestion de portefeuille Standard Life Ltée	105
Bolton Tremblay	26
Other	6
Total, assets managed by companies based in Québec	**25 259**
Total, assets managed by Canadian companies	**297 876**
Relative importance of the assets managed by companies based in Québec, as a %	**8.5**

1 Excluding the segregated funds of life insurers and labour-sponsored funds.
Sources: Bellcharts, November 1997, and ministère des Finances du Québec.

5.2 Measures

The Québec government wishes to introduce a number of measures to support Québec financial enterprises with a view to enabling them to take their place in the mutual fund and portfolio management industry.

5.2.1 Involvement of the Caisse de dépôt et placement du Québec

A new subsidiary

It should be noted that the Caisse de dépôt et placement du Québec recently announced the establishment of a subsidiary, Services financiers CDPQ, with the mission of becoming a key partner in the financial services and mutual funds sector.

Services financiers CDPQ will conclude alliances with various partners, notably in the fields of the distribution, promotion and management of mutual funds. The new subsidiary will acquire interests in such enterprises, equivalent to up to 30% of their capital stock. The objective is for these businesses to have $15 billion under management within five years.

5.2.2 Financial assistance for the establishment of new mutual or segregated funds

The establishment of a mutual fund can engender significant costs, ranging from $150 000 to $250 000 per fund, notably in respect of research, marketing, registration with securities commissions, and promotion among distributors. The companies issuing mutual funds must make provision for substantial outlays to cover brokers' commissions. Such expenses can be an important impediment to entry into the industry.

To assist the start-up of new mutual funds and their distribution, through their own networks or brokers' networks, the government will grant financial assistance to companies establishing new mutual funds that are administered and managed in Québec. The assistance will also be offered in respect of the establishment of new segregated funds that are administered and managed in Québec. To be eligible, the funds must be created before March 31, 2000.

The issuing corporation may benefit from a refundable tax credit equivalent to 50% of eligible research, marketing, promotion and distribution costs incurred in respect of a new fund, up to a maximum of $125 000 per fund per year, during the first two years.

In addition, revenues derived from the administration of eligible funds will be exempt from income tax for a period of five years.

5.2.3 Support for the training of young portfolio managers

A number of portfolio management firms based in Québec are having problems recruiting and keeping fund managers, although such jobs offer relatively high remuneration. Some financial centres outside Québec, such as Toronto or New York, are able to attract managers with proven track records. Québec firms may be affected, which can hamper their competitiveness and expansion.

The training of fund managers requires an investment that may be spread over several years. Consequently, the government will grant financial assistance to help train the upcoming generation and retain portfolio managers, and help businesses cover this expense. The assistance, valid for three years, will be granted to fund management firms that are active in Québec and that employ young fund managers.

The assistance will take the form of a refundable tax credit equivalent to 40% of the salary paid, up to a maximum of $25 000 per year per eligible employee. The employee must have completed his academic training less than four years prior to registering in the tax credit program. This measure will initially apply during a four-year period.

In addition to helping young people to accede to quality, well paid jobs, this measure will broaden the pool of managers trained in Québec. As a result, such managers should be more inclined to pursue their careers here.

APPENDIX 5.1

STRUCTURE AND OPERATION OF THE MUTUAL FUND INDUSTRY

As contemplated in the *Securities Act*, **a mutual fund** is a fund made up of amounts pooled by virtue of collective investments managed on behalf of the holders by a person who, upon demand, redeems the units at their settlement value.

There are four groups of players in the mutual fund industry:

- **Promoters** of mutual funds design the products and market them. There are several categories of promoters in Canada, including financial institutions, specialized firms (independent promoters, direct-sales specialists, captive sales forces), insurance companies and associations. In 1997, the assets under management of Québec mutual fund companies totalled $10.6 billion (Table 1.6, Chapter 1).

- **Administrators** of mutual funds are responsible for administering customer accounts.

- **Managers** are responsible for the management of portfolios and their performance. In 1997, the total mutual fund assets managed by Québec's leading portfolio management firms totalled some $25 billion (Table 5.4, Chapter 5).

- **Distributors** are responsible for reaching individuals and selling them the funds. They may do so through internal networks (a bank or a mutual fund company, for example) or an external network (networks of mutual-fund or insurance brokers, for example).

Several firms combine these four functions internally, while others limit themselves to one function and rely on third parties to assume the other functions. Most banks assume all four functions themselves, except for the management of international funds, often entrusted to specialized foreign firms. Promoters such as Altamira and the Investors Group also integrate all four functions. However, other independent promoters, such as Trimark, Mackenzie or Templeton, assume responsibility for promotion and management but rely on market intermediaries' networks (stock and mutual-fund brokers) to sell their products.

It should also be noted that most banks distribute the mutual fund products of other promoters in addition to their own, given the worthwhile commission income to be gained.

APPENDIX 5. 2

THE MUTUAL FUND AND SEGREGATED FUND INDUSTRY IN QUÉBEC

Mutual fund company	**Mutual fund or fund family**	**Portfolio managers**
Anchorage Management Ltd.	ABAX	Les Conseillers de placement Albert Lambert
Société Financière Azura	Azura	Gestion placements TR-Trust Royal
BNP (Canada) valeurs mobilières	BNP	Gestion placements TR-Trust Royal
Corporation financière St-Laurent	Batirente	Conseillers financiers du St-Laurent inc.
COTE 100 inc.	COTE 100	COTE 100 inc.
Cormel Fonds de placement	Cormel	Bolton Tremblay inc.
Fiducie Desjardins inc.	Desjardins	Canagex inc.
FMOQ Fédération des Médecins	FMOQ actions canadiennes	Placements T.A.L.
Sogefonds MFQ inc.	Ficadre	Trust Prêt et Revenu — Banque Laurentienne
Lévesque Beaubien Geoffrion	Fonds d'investissement REA inc.	Natcan — Banque Nationale
Fonds des professionnels du Québec	Fonds de professionnels	Fonds de professionnels du Québec
L'Industrielle Alliance	Industrielle Alliance	L'Industrielle Alliance
Placements Banque nationale	InvesNat	Natcan
Corporation financière LaSalle	LaSalle	Bolton Tremblay inc.
Ordre des ingénieurs du Québec	O.I.Q. férique	Montrusco
Optimum Placements inc.	Optimum	Conseillers financiers du St-Laurent
Orbit Mutual Fund Management	Orbit	Magna Vista Capital magt.
Montrusco Associés Inc.	Québec croissance inc.	Montrusco
SSQ Mutuelle	SSQ	Valorem
Pierre Lapointe	Select croissance	Jarislowsky et Fraser
Compagnie d'Assurance Standard Life du Canada	Standard-Vie	Gestion de portefeuille Standard Life ltée
Gestion financière Talvest	Talvest	Les Placements T.A.L.
Placements Banque nationale	Trust Général du Canada	Natcan
Trust La Laurentienne du Canada	Trust Prêt et Revenu	Trust Prêt et Revenu — Banque Laurentienne
Fonds Valorem	Valorem	Valorem
Insurance companies offering segregated funds	**Segregated fund family**	**Portfolio managers**
Assurance-vie Desjardins la Laurentienne	Desjardins Laurentielle	Canagex
L'Industrielle Alliance	Fonds Industrielle Alliance	L'industrielle Alliance. Templeton. Goodman and Company Investment Counsel
Compagnie d'Assurance Standard Life du Canada	Standard-Vie	Gestion de portefeuille Standard Life ltée

APPENDIX 5.3

PEFORMANCE OF QUÉBEC AND CANADIAN MUTUAL FUND AND SEGREGATED FUND MANAGERS: AVERAGE YIELD PER FUND, BY CATEGORY,

as a %

Category of fund	Funds managed in Québec					Funds managed elsewhere in Canada				
	1 yr	**2 yrs**	**3 yrs**	**5 yrs**	**10 yrs**	**1 yr**	**2 yrs**	**3 yrs**	**5 yrs**	**10 yrs**
Money market	2.5	3.5	4.5	4.5	7.2	2.4	3.3	4.3	4.4	6.8
International money market	4.5	4.4	4.5	3.7	---	4.1	4.2	4.2	4.0	5.3
Canadian bonds	6.2	9.6	12.4	9.6	10.6	6.1	9.4	12.0	9.3	10.1
International bonds	6.4	5.6	7.5	8.6	---	4.3	5.9	7.4	7.1	7.2
Canadian shares	**10.0**	**18.7**	**18.2**	**14.8**	**10.3**	**10.7**	**19.1**	**16.8**	**15.3**	**10.5**
American shares	24.1	21.0	24.5	15.0	13.9	26.2	22.2	23.1	15.9	14.2
International shares	11.7	11.6	10.5	10.9	10.9	12.1	13.5	11.2	13.1	10.4
European shares	24.6	22.9	18.5	16.4	---	20.8	21.1	16.8	15.6	9.0
Far East shares	-4.4	1.8	-7.5	---	---	-23.0	-10.1	-8.9	1.2	0.8
Balanced	8.4	13.3	14.7	11.9	10.8	9.2	14.6	14.6	12.4	9.8
Balanced international	9.1	9.6	5.7	10.7	8.5	10.3	11.5	11.2	10.5	8.2
Dividends	15.9	22.7	19.2	12.2	11.2	16.5	23.1	19.8	15.6	11.0
Mortgages	3.6	6.5	7.8	7.2	8.8	3.4	6.5	8.4	7.3	8.8
Small capitalization	22.3	25.8	21.9	16.9	14.7	10.0	21.0	19.6	18.6	10.8
Emerging Latin American	12.2	---	---	---	---	5.7	10.0	-0.9	10.9	---
Specialized	-1.0	2.1	6.9	5.8	5.6	-5.1	5.7	5.1	9.8	3.8
Overall average yield[1]	**9.8**	**11.9**	**11.8**	**11.6**	**10.8**	**7.1**	**11.4**	**10.8**	**12.1**	**10.1**

1 To make a comparable calculation of the overall average yield obtained by Québec and Canadian managers, only the average yields of the fund categories for which information is available concerning both groups of managers have been considered.

Sources: Bellcharts, November 1997, and ministère des Finances du Québec.

6 Montréal, international finance centre

6. MONTRÉAL, INTERNATIONAL FINANCE CENTRE

6.1 Infrastructure of Montréal's financial system

Montréal has all the attributes needed to develop an international finance centre. It has a full range of public and private financial institutions, including several international financial centres (IFCs) engaged in offshore operations.

The key institutions on the Montréal financial market are the major Canadian chartered banks such as the Laurentian Bank, the Bank of Montreal, the National Bank of Canada and the Royal Bank, which maintain their head offices in Montréal, and the Mouvement Desjardins. Many other financial institutions, including the subsidiaries of foreign banks, are also highly active there.

In addition to large securities firms operating there, Montréal is the home of the Montreal Exchange, where shares and other securities are traded, including the derivatives for which the Exchange has achieved an international reputation. The Commission des valeurs mobilières du Québec oversees the Montreal Exchange. The CVMQ is responsible for administering the *Securities Act* and has its head office in Montréal.

The financial industry in Montréal can rely on efficient computer and telecommunications services that meet the most stringent international standards, and a specialized, bilingual labour force, whose wages are highly competitive. Property prices are also fairly low and Montréal offers an excellent quality of life.

6.2 Historical overview of the international financial centre program

The Montréal business community took the initiative to make Montréal a major international finance centre. In the early 1980s, it saw in the establishment of an offshore banking centre a means of revitalizing banking operations in Montréal.

The Québec government officially indicated for the first time in the May 10, 1983 Budget Speech its interest in the creation in Montréal of international financial centres. The Minister of Finance announced at that time that he was willing to grant significant tax advantages to IFCs as soon as Ottawa announced the implementation of similar tax incentives. The concept was confined to banking transactions and reflected the notion of international banking centres, i.e. loan and deposit transactions involving non-residents.

The purpose of creating such centres was to repatriate to Montréal a considerable portion of the foreign exchange operations of Canadian banks involving non-residents, conducted through their foreign subsidiaries, which benefited from important tax benefits in other countries. A second objective was to encourage foreign banks to use their Canadian subsidiaries to conduct offshore financial transactions.

However, these objectives proved to be too limited. Spurred by the globalization of financial markets, the project's promoters sought to adopt a broader vision for Montréal. The development of international operations in Montréal meant being able to compete with existing international centres. The promoters therefore broadened the concept to include, among other things, securities transactions.

In his April 23, 1985 Budget Speech, the Québec Minister of Finance announced that, as of January 1, 1986, important tax benefits would be granted to international financial centres that set up operations in Montréal and to certain of their employees, whether or not the federal government went ahead with the project.

The Minister of Finance indicated at that time that the operations eligible for fiscal measures pertaining to IFCs must involve non-residents and that the funds must be used outside Canada.

He also announced that additional analyses would be carried out to examine the possibility of extending the range of eligible transactions of an international financial centre. In the wake of these analyses, it seemed necessary to establish a core of operations to further the pursuit of the objective sought, i.e. to attract to Montréal international transactions realized outside Canada. For this reason, in the Minister of Finance's Budget policy statement of December 18, 1985, the eligible activities were broadened to include, in particular, transactions realized on behalf of residents but in respect of foreign securities.

The amendments formally introducing in the *Taxation Act* the provisions pertaining to IFCs in Montréal came into force on May 27, 1986. British Columbia adopted similar legislation on May 10, 1988.

Federal legislation governing international banking centres came into being with the adoption of Bill C-64 on December 8, 1987 and the regulation setting out the relevant criteria, on April 1, 1989. It was subsequently possible for financial institutions to take advantage of the legislation, in addition to Québec legislation concerning IFCs. As noted earlier, the concept of an international banking centre was much more restrictive than that of an IFC, since it covered only those financial transactions intended to grant loans to non-residents and accept their deposits, under highly restrictive conditions. The City of Toronto nonetheless launched legal proceedings against the federal government under the pretext that the federal legislation violated the *Canadian Charter of Rights and Freedoms*. As a result, despite Québec's repeated requests, the federal program was never enhanced.

In November 1993, Québec announced a measure aimed at broadening the international transactions effected by IFCs in the realm of insurance. Generally speaking, the operations that were added centred on the services provided by an insurance broker with respect to a property and casualty insurance contract for which the premium was wholly attributable to the realization of a risk outside Canada, and certain reinsurance operations related to the realization of a risk outside Canada.

6.3 Brief description of the IFC program

An enterprise or part of an enterprise may be recognized as an IFC when:

- all of its operations are related to the prescribed international transactions (stock broker, clearing house, securities adviser, loans and deposits for non-residents, letters of credit, exchange operations, financial engineering, insurance operations);
- the management of operations that allow for the execution of such transactions is carried out in Montréal;
- separate accounting is carried out in respect of these operations; and
- it holds a certificate issued by the Minister of Finance.

Two types of tax benefits may be granted, i.e. those granted to a corporation operating an IFC and those granted to the employees of an IFC. The corporation is entitled to:

- a Québec income tax exemption in respect of the profits derived from prescribed international transactions;
- an exemption from the tax on capital;
- an exemption from the obligation to contribute to the Québec Health Services Fund.

As for the employees of an IFC, non-residents who are specialists in international financial transactions benefit from an exemption from Québec income tax for two years. Other employees, including non-resident specialists employed for more than two years, are entitled to a deduction of up to 33 1/3% of their total remuneration.

6.4 Evaluation of the results

Since the early 1990s, a number of studies have been conducted in order to evaluate the results of the IFC program. The studies have concluded that the program has enjoyed “relative success”.

First, the studies reveal that the IFCs are only truly active in the following fields:

- foreign exchange operations (primarily);
- banking transactions with non-residents;
- securities dealings.

Moreover, the studies note that expectations have not been entirely met. Despite the 50 or so IFCs established since the program was implemented and the 400 related jobs, Montréal has not achieved the volume of financial operations originally contemplated, nor has it succeeded in achieving a critical mass of expertise in the realm of international financial transactions.

However, the IFCs have undoubtedly helped curtail the shift of operations to other financial centres. Moreover, they are enhancing Montréal’s visibility. The international financial centres’ operations keep them in constant contact with international financial markets and market participants. In this way, the IFCs benefit from expertise and information from which the Québec economy as a whole can benefit. This increased visibility can help Montréal benefit from its advantages, such as the presence of efficient, well developed markets and the proximity of major North American markets, especially in light of free trade agreements such as NAFTA and the General Agreement on Trade in Services (GATS) concluded under the aegis of the World Trade Organization.

However, competition from other finance centres the world over is fierce. It would be advisable to seek to develop efficient tools to revitalize the IFC program and differentiate it from other international centres. Such a move is necessary if Montréal is to build on its past achievement and attract new financial enterprises, thus bolstering the vitality of its financial sector.

6.5 International competition

Vancouver

Following Québec's example, British Columbia adopted tax legislation on IFCs in 1988, with a view to developing Vancouver as an international finance centre.

The BC legislation offers tax benefits similar to those in Québec legislation, but offers other advantages in that the conditions under which an employee qualifies are less restrictive and its scope of application is broader. To be entitled to the tax benefits stipulated in the BC legislation, an employee only has to devote 70% of his work time to the operations of an IFC, while in Montréal, the same employee must devote 90% of his work time to the operations of such an establishment. The BC legislation also applies to a broader range of operations and services, including the acceptance and issuing of letters of credit for the purpose of importing and exporting, fiduciary services, financial leasing services, and factoring services.

Dublin

In 1987, Ireland adopted legislation on international financial centres with a view to developing Dublin as an international finance centre. To date, the International Financial Services Centre program has clearly been a success, having attracted some 350 enterprises, which, in 10 years, have created roughly 6 000 jobs.

Features of the Dublin program are:

- a corporate tax of 10%, guaranteed until 2005;
- no source deductions;
- a considerable range of eligible operations, including back office operations;

- strong political support and, through the Industrial Development Agency, coordinated government action concerning the promotion of the program abroad and the establishment in Dublin of foreign financial companies.

Considering that fiscal powers are shared with the federal government, it is impossible without Ottawa’s cooperation to offer in Montréal a program equivalent to the one in Dublin. The tax benefits offered in Montréal cannot rival those in Dublin particularly without a drop in the federal corporate tax. However, it is possible to broaden the range of eligible operations pursuant to Québec legislation.

6.6 Measures

In light of the studies conducted and the comments of various industry players, it is apparent that the development of IFCs is important not only for Montréal but for Québec as a whole. However, in order to revitalize this program, improvements must be made. The following measures will therefore be implemented.

6.6.1 Adoption of specific legislation on IFCs

The legislation governing IFCs now consists of various provisions found primarily in the *Taxation Act* and its implementing regulations. The adoption of a specific statute encompassing, as far as possible, all of the provisions pertaining to IFCs is necessary in order to simplify their administration by the government and their understanding by the industry. The promotion of the IFC program could also be enhanced by the adoption of better structured, more accessible legislation.

The objectives of the legislation will be clearly defined and will stipulate that its purpose is first and foremost to encourage and promote Montréal’s development as an international finance centre.

CFI Montréal, a corporation constituted pursuant to Québec statutes, is now acting on a de facto basis to promote the IFC program and formulate recommendations for submission to the Minister of Finance. Its status, role and functions will be stipulated in the legislation.

6.6.2 Inclusion of new eligible operations

The scope of application of the legislation will be broadened to cover new operations, services and types of transactions:

- back office operations for international financial transactions, such as the registration of transactions, the custody of securities, accounting of transactions, the processing of cheques and credit card transactions, the transfer of securities and funds, the printing of bank statements, the recovery of debts, and the handling of claims;
- promotion, distribution and administration of mutual funds, sold to non-residents or residents in the case of foreign securities, and the resulting portfolio management. Such operations are defined as follows:
    - fund promotion designates all activities related to the design and creation of mutual funds, notably including research, marketing and the organization of distribution, registration with securities commissions, the preparation and dissemination of prospectuses;
    - fund administration consists primarily in the management of customer accounts;
    - fund management designates activities related to the management of the assets of a fund;
    - distribution of fund units represents all operations related to the sale of mutual fund units to investors;
    - under certain conditions, any of these activities may be entrusted to a third party.
- financial engineering for a project to be carried out almost entirely outside Canada;
- treasury management operations, such as market, foreign exchange and interest rate risk management, or the management of financing operations and fund transfers in regard to operations, almost all of which are conducted abroad;
- operations related to the issuing or acceptance of letters of credit for the purpose of importing or exporting on behalf of a person not residing in Canada and the payment of which is incumbent upon a person not residing in Canada;
- the operation of a clearing house involving a person residing in Canada and one or more persons not residing in Canada, or solely persons not residing in Canada;
- financial leasing services for non-residents for use of goods outside Canada;

- factoring services when the accounts are receivable from a person not residing in Canada;
- fiduciary services on behalf of a person not residing in Canada.

Furthermore, regarding mutual fund operations, the *Securities Regulation* will be amended to enable a restricted-practice securities broker or adviser to set up an IFC provided his activities comply with the other conditions in the legislation on IFCs.

The broadening of the scope of application of the legislation respecting IFCs in order to include these new operations, services or types of transactions will encourage the establishment of greater numbers of IFCs in Montréal and the development of the operations of existing IFCs.

6.6.3 Tax benefit guaranteed at least until 2008

The tax benefits granted corporations operating an IFC are not guaranteed for a set period of time. Given that the establishment of an IFC in a specific location usually represents a long-term investment, guaranteeing the tax benefits granted under the legislation for a minimum period could bolster the confidence of foreign investors and encourage them to set up operations in Montréal. Such a move would demonstrate that the measures adopted are not temporary but reflect a genuine desire to make Montréal a leading international finance centre. Ireland took such a stance by guaranteeing a corporate tax rate until 2005 under its International Financial Services Centre program. The Québec legislation governing IFCs will therefore now provide a 10-year guarantee that will apply until December 31, 2008, or any subsequent date determined by the government.

6.6.4 Extension of the tax exemption for foreign specialists

Foreign specialists now enjoy a two-year exemption from Québec income tax for a period of two years. Given that the establishment of foreign specialists in Montréal is essential for the success of the IFC program and Montréal's development as an international finance centre, the appropriate incentives should be effective in order to attract such specialists. A two-year exemption is too short to make cost-effective the investments that an IFC undertakes to recruit and establish such specialists. The first two years are spent establishing a new clientele and it is the subsequent years that are the most profitable for the company. The exemption will therefore be extended to four years.

6.6.5 Training assistance for employees specializing in international financial transactions

The training period for specialized employees in the field of international financial transactions may be spread over several years and incur significant costs for the employer. In order to encourage IFCs to train specialized employees in Montréal and to help them offer more competitive wages to such employees, tax assistance equivalent to 40% of an eligible employee’s salary and valid for three years for each such employee will be granted to IFCs. This assistance may not exceed $25 000 per year per eligible employee. The program will target young people who have completed their academic training less than four years prior to registering in the program. This measure will initially apply for a period of four years.

6.6.6 Relaxation of requirements governing work time

To be entitled to the tax benefits prescribed in legislation governing IFCs, an employee must devote 90% of his work time to the operations of an IFC. This requirement is overly restrictive since certain employees cannot qualify for these benefits although they devote a considerable part of their time to the operations of an IFC. In light of the recommendations made by the industry, this proportion will be reduced to 75%.

6.6.7 Implementation of a promotion, reception and canvassing strategy

Competition is keen at the international level with respect to the establishment of financial institutions in a given city or urban centre. The quality of the reception a city offers and promotion of the latter and the involvement of the most senior leaders are important. The Québec government will assume clear leadership in promoting Montréal as an international finance centre and welcoming financial institutions that are contemplating setting up operations or consolidating their operations in a North American city.

To facilitate the promotion of Montréal at the international level, a twofold promotional strategy will be implemented.

Support for the canvassing operations of IFCs

Canvassing, which focuses essentially on the search for new clients or new operations, is of vital importance for the development of IFCs in Montréal, in addition to benefiting from Montréal’s influence abroad as an international finance centre. Dublin, for example, employs some 15 canvassers full time.

They crisscross Europe with a view to attracting enterprises to the city's international financial centre.

The government believes that Montréal financial enterprises can effectively promote themselves and Montréal as a finance centre. However, promotional efforts engender significant expenses for IFCs. Given the pivotal role played by promotion in the attainment of the objectives of the IFC program, a refundable tax credit will be granted to IFCs in respect of canvassing expenses incurred abroad and which enable them to attract new operations to Montréal. This measure, centred on results, relies on winning enterprises, i.e. those most likely to generate growth in international financial operations in Montréal.

Initially, this measure will apply for a period of four years. The tax credit will cover the lesser of up to 25% of the value of a new contract related to new IFC operations, or 50% of canvassing expenses incurred during the previous two years. Eligible expenses will be capped at $150 000 a year per IFC.

Elaboration of a promotional strategy

In the coming months, CFI Montréal will elaborate, in collaboration with the other parties concerned, a promotional strategy, including the development of promotional material and the organization of specific promotional activities. It will receive a $100 000 annual grant to assist it in this respect.

6.6.8 Measures intended to simplify and enhance the management of the program

33 1/3% tax deduction for the specialized employees of an IFC

The existing legislation stipulates that a Québec resident working for an IFC may deduct when calculating his taxable income an amount equivalent to the lesser of 50% of his eligible salary or all eligible allowances received, which in practice is equivalent to a maximum of 33 1/3% of his total remuneration. This measure poses problems in respect of its application. The legislation will be simplified in order to maintain a single criterion that is easy to apply, i.e. the establishment of a tax deduction based on a set percentage of an employee's total eligible remuneration, i.e. 33 1/3%.

Moreover, this tax deduction now applies to all of the employees of an IFC, without exception. Staff assigned to purely administrative duties that have no particular bearing on the conduct of eligible international transactions are now entitled to the tax deduction allowed. This does not seem to reflect the objectives of the legislation on IFCs, which seek to grant tax benefits to persons directly involved in conducting eligible international transactions, notably advisers, managers and brokers. It is these individuals who must be drawn to and encouraged to stay in Montréal in order to attain the objectives set by the IFC program and to whom tax benefits must therefore be granted.

Consequently, the tax deduction for the employees of an IFC will only be granted to the directors of such a centre and to those who conduct eligible international transactions or assist through specific skills in the realm of international financial operations those who conduct eligible international transactions. The tax benefits granted to current employees who are no longer eligible will nonetheless be maintained.

The employees of an IFC that focuses primarily on back office operations will not be eligible for the deductions provided for employees.

Exemption from source deductions for employees specialized in international financial transactions

An employee who is entitled a tax deduction under the legislation governing IFCs and who wishes to benefit from an exemption from source deductions tax may submit a request to this effect to the ministère du Revenu du Québec.

This administrative formality is a needless irritant that should be eliminated. An automatic exemption will be granted to an eligible specialized employee of an IFC.

Contracting out one or more operations of an IFC

The outsourcing of certain operations is in keeping with the current trend in the financial industry whereby institutions are increasingly assigning certain types of operations, for example back office operations, to specialized firms in the field. As a result, they are able to concentrate on financial operations and maximize the profitability of such operations. Under certain conditions, IFCs will therefore be authorized to outsource their operations.

Procedure for the issuing and revoking of certificates

Since its implementation, the IFC program has been managed rigorously. However, existing legislation does not make provision for a specific procedure for the issuing and revoking of certificates by the Minister of Finance. In order to ensure greater transparency in the process of issuing and revoking these certificates, it would be advisable to make provision in the legislation for such procedures.

6.6.9 A measure to promote the establishment of banking operations

The banking industry is undergoing sweeping changes. Reengineering in the industry is encouraging the consolidation of back office operations, which has significant consequences on the location of banking operations and job creation.

Since taxation is a decisive factor when decisions are made on the location of banking operations, the taxation system will be adapted to enable Québec, and Montréal in particular, to take the fullest possible advantage of the trend toward consolidation in the banking industry. From now on, a bank may deduct $500 million in the calculation of its paid-up capital for the purpose of the application of the tax on capital. This deduction will apply to any bank whose worldwide assets consolidated with those of all associated corporations for the purpose of Québec tax legislation is less than $100 billion.

7 Back office operations

7. BACK OFFICE OPERATIONS

Economic pressures and the accelerated development of information technologies, teleprocessing and virtual organizations are factors that are significantly transforming the financial services industry. More and more businesses are streamlining and consolidating their operations and are engaging in alliances in order to shift to subsidiaries or specialized suppliers their back office operations. This reorganization is usually aimed at achieving economies of scale.

The trend toward the consolidation of back office operations has been noted in Europe and Asia, but above all in North America, where the movement began a few years ago. The consolidation now under way will be achieved partly to the advantage of North American processing centres, which makes the location of such centres a key issue for Québec. The creation of thousands of jobs in Québec is at stake.

7.1 Nature of back office operations

There is no formal definition of back office operations, which encompass the entire range of operations that do not imply direct contact with the customer. However, the operations are essential and must be carried out as quickly as possible and without mistakes. The most obvious example is probably cheque processing. When a customer deposits a cheque, he immediately generates back office operations. Once the cheque has been deposited to the customer's account, the deposit institution must obtain reimbursement from the issuing institution. Every day, deposit institutions must send these cheques to their processing centre in order to reconcile cash flows. If a bank processes its cheques only one day late, it could lose millions of dollars in interest.

TABLE 7.1
CERTAIN BACK OFFICE OPERATIONS IN FINANCIAL INSTITUTIONS

- Cheque processing	- Debt collection
- Printing of bank statements	- ATM maintenance and management
- Credit card transaction processing	- Issuance and management of insurance policies
- Credit approval	- Processing of claims
- Credit checks	

7.2 Trends in the financial services industry

7.2.1 At the international level

Accelerated development of information technologies

The new information technologies have enabled non-banking institutions to enter the financial intermediation market and led to a proliferation of distribution channels for financial services, which has rendered partially obsolete the traditional organization of financial enterprises into networks of branch outlets. In recent years, automated teller machines, interactive telephone services and the virtual bank have appeared, accompanied by the gradual reduction in paper-based transactions. Spending by financial institutions on information technologies is therefore considerable. For example, it is estimated that American banks and insurance companies spend over US$60 billion a year on such technologies.

Globalization of markets

Trade liberalization agreements in Europe and North America are opening up to foreign competition the domestic markets of the leading financial institutions. In recent years, the world's biggest financial groups have:

- broadened their operations to the continental or international level, spurred by the globalization of markets and the need to follow customers;
- broadened the array of products and services they offer consumers and elaborated strategies aimed at enhancing customer loyalty;
- returned to their core operations, with the result that many operations traditionally carried on by financial enterprises have been outsourced to specialized suppliers;
- consolidated back office operations in order to maximize economies of scale. This consolidation may take the form of outsourcing when an institution does not have the size necessary to fully benefit from economies of scale, or internal development when the enterprise is able to consolidate its operations and achieve a volume that allows it to lower costs.

Reduction of operating costs

Globalization and the development of information technologies, the change factors noted earlier, have exacerbated competition and exerted enormous pressure on costs and profit margins.

Back office operations account for a considerable proportion of total staff, e.g. 75% in banks. Consequently, the banks are seeking ways to streamline such operations with a view to preserving market share or developing new markets, while remaining competitive. Table 7.2 indicates the main savings to be achieved with respect to back office operations.

TABLE 7.2
KEY SAVINGS WITH RESPECT TO BACK OFFICE OPERATIONS

- Economies of scale are considerable as regards cheque processing, credit card transactions and the printing of bank statements.
- Reductions in the cost of acquiring equipment can be achieved through the purchasing power of suppliers of specialized services.
- Increase in the utilization rate of equipment.
- Rapid access to new technologies.
- Reduction in technological risks.
- Reduction in the cost of developing applications.
- Reduction in costs related to personnel.
- Access to specialized human resources.

7.2.2 In Canada

Banking sector

The Canadian banking system is heavily concentrated, with five major banks dominating the market. For the time being, it appears that Canadian banks have adopted a prudent strategy concerning back office operations whereby they are maintaining the ownership of their assets while pooling certain operations in order to achieve additional economies of scale. Internal consolidation has become apparent among Canada's key players. Two major groups were recently established in the realm of back office operations.

First, the Canadian Imperial Bank of Commerce and the Bank of Nova Scotia have set up a joint venture to manage their back office operations, mainly in the realm of cheque processing. Moreover, this joint venture is also managing the banks' information and telecommunications systems. It is also responsible for maintaining their computers and automated teller machines. Over 6 200 employees have been affected by this reorganization. The 13 CIBC processing centres have been transferred to the new organization. The joint venture has signed a $1.6 billion agreement with Finserv, a leading American supplier of services to financial institutions. Finserv, which serves over 500 American banks, will be responsible for managing the joint venture, although the latter is majority owned by the banks. The agreement is valid for 10 years.

The Bank of Montreal, the Royal Bank of Canada and the Toronto Dominion Bank have established a joint venture to process certain documents, i.e. cheques, invoices and some credit card payments, the printing of reports and monthly statements. This association will make it possible to attain a critical mass that generates economies of scale. The banks involved have indicated that they will be in a better position to reduce costs to compete with big American banks, some of which are 10 times their size. At the time the joint venture was launched, the participating banks expected savings on the order of 15%.

Moreover, the Bank of Montreal recently announced its intention to create with Citibank, one of the leading American banks, a joint venture to manage a broad range of domestic and international custodial services aimed at Canadian and foreign investors. The combined portfolio value of the securities in the custody of these two institutions will exceed $160 billion.

There is also a trend toward internal consolidation of back office operations in many other Canadian banks.

Insurance sector

There is not yet any apparent move in the insurance sector toward consolidation or outsourcing with respect to back office operations. However, it is worth noting that several insurance companies have begun to reorganize or relocate certain customer service operations. For example, Assurances-Vie Desjardins-Laurentienne has set up a call centre that groups over 100 agents. La Capitale conducts over 95% of its transactions by telephone and employs 15 agents in Montréal. Canadian General Insurance, AXA, La Prudentielle, Allstate and Blue Cross have all consolidated their call centres.

Major suppliers of specialized services have emerged. JetForm, a Canadian company, manufactures software that enables insurance companies to replace paper forms with electronic forms. The company intends to participate actively in the reorganization of the insurance industry in Canada.

In Québec, CGI is carrying out back office operations for other firms, such as savings and credit unions in other provinces and Canadian and American insurance companies.

Since it recently acquired Systèmes d'information d'assurance from Teleglobe, CGI counts among its clients 120 firms, including 14 of the 25 biggest insurance companies. It offers specialized computer processing services and application software for the property and casualty insurance industry.

In Canada, CGI's operations include the supplying of an array of processing services and information technology software and services to over 1 200 brokers and 70 property and casualty insurance companies. Its back office operations in the financial sector exceed those of certain Canadian banks. Furthermore, CGI recently announced the gradual merger of its operations with those of Bell Sygma Solutions Telecom and Bell Sygma International, thus bringing the number of employees to 7 000, including 2 700 in Québec.

Current trends point toward the outsourcing of back office operations. A number of initiatives are possible and Dublin is a noteworthy example in this respect.

7.2.3 The example of Ireland

Ireland has a population of 3.5 million. It has drawn to Dublin some 350 financial enterprises, most of them as a result of the implementation in 1987 of the International Financial Services Centre (IFSC) program. The operations of the firms established in the IFSC are divided into four major subsectors, i.e. banking, mutual funds, insurance, and corporate finance. Back office operations are among the eligible operations under the IFSC program and have played an important role in the development of the Irish financial sector.

Ireland's success has resulted from a structured initiative based on the following measures and benefits:

- a low taxation rate on profits guaranteed until 2005;
- an environment favourable to business and the creation of a real estate park dedicated exclusively to Dublin's development as a financial centre;
- young, qualified workers;
- wages that are lower than in other European capitals;
- advanced telecommunications infrastructure;

- logistical support from the Irish government, which has created and sustained support services for businesses wishing to set up operations in Dublin. The prompt of availability of the services also appears to be an asset.

7.3 Québec's comparative advantages

Québec enjoys considerable advantages from the standpoint of back office operations. In addition to those already mentioned, especially as regards the quality of human resources, the quality of life and advantageous production costs, mention should be made of:

- the proximity of many large US financial centres;
- a particularly significant pool of outstanding resources, notably in the realm of computer and information systems. Such resources are world class and highly economical in relation to those available in the US or Europe;
- the presence of eight universities, four of them in Montréal;
- a large information systems and computer engineering consulting services industry.

Hence, there is worthwhile potential for the development of such operations in Québec.

7.4 Development of international back office operations in the financial sector

As announced in the preceding chapter, the government is about to table specific draft legislation on the international financial centres that will make certain back office operations eligible. Specifically, these operations will focus on the registration of transactions, the custody of securities, the accounting of transactions, cheque processing and credit card transactions, the transfer of securities and funds, the printing of bank statements, the recovery of debts, the processing of claims, and the issuing and management of insurance policies. These operations may be related to the operations of an international financial centre or be conducted on behalf of Canadian or foreign financial enterprises in respect of transactions realized with non-residents or concerning foreign securities.

8 *Training, research and innovation*

8. TRAINING, RESEARCH AND INNOVATION

In the financial services sector, like the services sector in general, the competence of human resources is a critical factor in a firm's success. The environment in which financial enterprises must operate is also undergoing sweeping changes from the standpoint of the products and services offered and as regards organizational and structural factors.

To remain competitive, such enterprises must ensure that their specialized employees, notably managers, possess the appropriate knowledge in leading-edge fields such as the valuation of financial assets, mathematical finance, risk management, operational research and computer science, which demands the constant updating of knowledge.

Financial enterprises must also be able to rely on first-rate research focusing on new types of financial products and their distribution or use, and on organizational, institutional and technological aspects of these products. The establishment and development of research centres and programs that properly satisfy these needs is essential to enable Québec financial firms to remain competitive and to take the lead in some instances in the development of innovative niches.

This chapter takes stock of the current situation with regard to training and research in the Québec financial services sector and proposes measures intended to satisfy the needs pinpointed.

8.1 Training

8.1.1 Key components of changing training needs

Baby boomers are heading toward the peak of their ability to save, which means that they can invest more and create strong demand for mutual funds and other types of financial services the complexity of which continues to grow. As the baby-boomer generation ages, future training needs will likely focus more on the conversion of savings into annuities. The result will be strong demand for representatives who are able to offer these different types of financial services on an integrated basis, i.e. personal finance advisers.

This need for financial advisers will probably be met by individuals with an undergraduate degree that provides sufficient knowledge to satisfy the requirements of the Institut québécois de planification financière. Increasingly, financial institutions are imposing such hiring criteria, as they deem it the basic training that an individual needs to serve as a financial adviser in an institution and develop throughout his career.

As for financial institutions, through their operations they are assuming and managing a growing, increasingly complex array of risk pertaining to credit, interest rates, markets, exchange rates and technology. Their role as an intermediary between various economic agents demands that they make efficient use of mathematical finance to measure, break down and minimize risks arising from their transactions.

As a logical outcome of burgeoning technologies, financial institutions are turning toward the establishment and development of sophisticated call centres that enable consumers to deal at a distance with them. The staff of these centres must be able to offer consumers professional service when they seek advice and purchase financial services, such as insurance, credit and mutual fund products.

8.1.2 Recent changes in the availability of training

The key developments over the past five years in the realm of training in finance and insurance are presented here by type of training organization.

Six Cegeps, i.e. Montmorency, Vieux-Montréal, Joliette, Sainte-Foy, Jonquière and the Centre de formation à distance, have set up ongoing and short-term training programs leading to an Attestation of College Studies in property and casualty insurance. This program, which is aimed at adults on the labour market, offers three specialization streams: insurance agent or broker, claims adjuster and underwriter. A similar program devoted to life and health insurance is offered at the Cégep Montmorency.

At the university level, Université Laval recently established, in collaboration with the Institut québécois de planification financière, a certificate in personal financial planning offered through distance education. Télé-Université, in cooperation with UQAM, has set up a distance education certificate program leading to the title of financial planner. UQAM offers a certificate in insurance and financial intermediation. It also offers an MBA with a specialized profile in financial services, which in turn includes four fields of specialization: personal financial planning, SMBs, cash risk management, including financial engineering, and portfolio management. The École des Hautes Études Commerciales has created an option in financial engineering in conjunction with its MBA program. The Université de Sherbrooke offers an MBA, with a finance option. The four management schools at Montréal universities have also set up a joint doctorate in administration, which enables students to take courses, in the four universities concerned, in finance and disciplines related to risk management and mathematical finance.

As for professional organizations, mention should be made above all of the Institute of Canadian Bankers, which offers an extensive array of programs divided into four categories: individual consulting services, services for big companies and SMBs, management of financial services and the development of basic skills. In 1995, the Institute established two training programs in the realm of financial planning, one leading to the title of specialist in financial consulting (for clients with average incomes) and the other to the title of personal financial planner (for clients with high incomes). Mention should also be made of the initiatives of the Montreal Exchange, which is offering a series of specialized seminars in order to familiarize finance professionals with the features and uses of derivatives.

The financial companies themselves have developed in-house programs and on-the-job training to upgrade employees' skills in collaboration with the universities. These programs are offered to the staff of these institutions regularly. They are general, however, and do not cover certain very specialized topics, because the financial institutions do not have the resources to develop in-house cutting-edge training. The need is real, however, and will increase, owing to the growing sophistication of financial products and the environment in which the staff of financial institutions must work.

This overview reveals the wide range of players in the training field in finance. The training programs on offer are varied and noteworthy in terms of academic level, ranging from the Attestation of College Studies to the doctorate, the type of clientele covered, preparing for a career or already on the job market, and the type of training organization. However, some needs have yet to be satisfied and there are clienteles that could be better served.

8.2 Research and innovation

Technological progress, advances in mathematical finance and the globalization of financial markets are exerting pressure on financial institutions and compelling them to adapt extensively in order to remain competitive. In order to successfully make the shift, these institutions must have at their disposal highly skilled staff and invest in research and development.

Rapid technological change is at once threatening and a source of opportunity as regards the types of financial products possible and methods of distribution or internal management methods. This new environment is leading to a redefinition of the enterprise, the reorganization of work at all levels and indeed a review of the relationships between suppliers and competitors. Numerous options are available to enterprises and they must act rapidly. To make the right choices and continue to bolster productivity and competitiveness, the support of qualified research and development groups is important, indeed, essential.

Financial institutions are facing numerous risks related to credit, interest rates, exchange, markets and operations. Risk can be managed in various ways, through prevention, diversification and insurance, among others. More recently, recourse to derivatives, such as options and futures contracts, has grown in importance. The art of efficiently using these financial instruments is part of the new field of financial engineering. This field is now one of the most active in terms of research. The skills required in mathematics are demanding the intervention of specialists that Québec financial institutions need. There is every reason to make better use of the resources already available in Québec universities.

Globalization, technology and new financial instruments are compelling regulatory bodies at all levels to review legislation governing the institutions and, consequently, to consider the configuration of the financial system most likely to stimulate performance. Numerous, highly significant issues are at stake from an economic standpoint, especially the channelling of savings and the creation of jobs. Regulatory bodies and regulated institutions would benefit from research focusing on various regulatory avenues and their effect.

8.3 Establishment of a training and research institute in mathematical finance and financial intermediation

To meet training and research needs in the financial sector, an international training and research institute in mathematical finance and financial intermediation will be created. Its mission will be to provide upgrading courses for professionals and managers already on the labour market and to conduct targeted research. To support it in its mission, the institute will liaise with various parties in the financial sector, i.e. financial institutions, university researchers and financial specialists from Québec and abroad.

The establishment of an institute offering in particular to the managerial staff of financial institutions quality upgrading courses in highly specialized fields such as risk management and mathematical finance appears desirable. The institute could take as its model the Amsterdam Institute of Finance, established in 1990, which offers additional courses for periods of two to seventeen days, focusing on specific topics. The courses are aimed primarily at the specialized staff of financial institutions and are given by specialists from the industry and the universities.

The institute's training activities could take the form of intensive courses offered at regular intervals and dealing with specific topics. Occasional training seminars and symposia attended by internationally recognized specialists could also be contemplated.

As for research, the institute will concentrate on fields of outstanding importance for financial institutions such as risk management, mathematical finance, operational research, structural optimization and the optimization of the regulation of the financial system, and the use of technology. It could also conduct research into fund management in Canada and Québec. The institute will develop means for collaboration, coordination and promotion in order to facilitate research in these fields.

The institute could also finance various important research projects. Moreover, close ties could be established with other internationally renowned research institutes, such as the Wharton Financial Institutions Center or the International Financial Services Research Center at the Massachusetts Institute of Technology. Such contacts would make it possible, in particular, to collaborate on joint research projects, facilitate visits to Québec by foreign researchers and allow Québec researchers to reside or seek training abroad.

Given that the institute will ensure cooperation between the various parties in the Québec financial sector, representatives of financial institutions, the universities and the Québec government will take part in elaborating its strategies and its work.