June 26, 2000

Purdy Crawford, Chair,
Securities Review Advisory Committee
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Re: Securities Review Advisory Committee - Five Year Review of Securities Legislation in Ontario – Requests for Comments

The Canadian Venture Exchange Inc. ("CDNX") is pleased to provide comments in regard to certain of the matters raised in the April 28, 2000 "Request for Comments, Issue List and Commentary and Additional Questions" of the Ontario Ministry of Finances' Securities Review Advisory Committee.

Effectiveness of Current Regulatory Regime

A number of changes in the capital markets have occurred since the introduction of the current securities regulatory regime in the 1980's. The most significant changes have been the globalization and democratization of the capital markets as a result of technological innovation. Technology has allowed widespread direct access to information and facilitated trading without the advice of an investment adviser. Technology has broken down the geographical and political barriers which formerly impeded access to information. The profile of the investor has also changed. Investment in stock markets is no longer the purview of the wealthy and sophisticated. Canada is now a nation of investors rather than savers.

CDNX is of the view that the current statutory regime needs to be reconsidered in light of the evolution in the securities market. While the primary purpose of securities regulation must continue to be investor protection, the regulatory standards by which that goal is attained must take into consideration the evolution of capital markets. The current statutory regime needs to recognize that information can and does flow freely across jurisdictional boundaries. The regulatory regime needs to respond to the fact that with mass participation in the capital markets, if investors are to be provided with the necessary tools to effectively participate, then there must also be mass education. Finally, regulation needs to refocus in response to the fact that, as captured by David Brown's observation, securities are now "bought not sold". With over 90% of trading

occurring in the secondary market, the focus must shift from the sale of securities by underwriters and issuers, to the trading of securities in the secondary market.

We encourage harmonization of Canadian securities law amongst the various provinces. In fact we recommend that the provinces work together to actually eliminate differences and inconsistencies in existing legislation and continue their existing efforts at adoption of identical new regulation.

We also encourage harmonization of Canadian provincial securities laws with those of the U.S. and other international markets in order to limit barriers that impede Canadian issuers from accessing international capital. However, we recommend that in harmonizing Canadian securities laws with international standards, Canadian regulators recognize and consider the composition of the Canadian securities market. The number of issuers listed on CDNX, Canada's junior market, exceeds the number listed on Canada's senior market, the Toronto Stock Exchange (the "TSE"). Furthermore, by international standards, a significant number of TSE issuers would be considered "smallcap". The preponderance of junior public companies is likely, at least in part, a result of the limited private venture capital within Canada which forces emerging issuers with financing needs to the public markets early in their growth cycle. We believe that the current statutory regime does not take into account the fact that the majority of the Canadian securities market is made up of smallcap or venture issuers and could better address the circumstances confronting these issuers. Junior issuers, like their more senior counterparts need the ability to access capital on a timely basis. However, the financial needs of junior issuers are often considerably more modest and do not always justify the costs of conducting a public financing. We encourage the adoption of regulation which will facilitate cost effective and timely methods for Canadian issuers, and particularly junior issuers, to access capital.

Without derogating from the importance of investor protection, we also recommend that in considering the current Ontario securities law regime, any proposed legislative amendments recognize the principle of fostering efficient capital markets. This efficiency must be measured by the standards imposed by the increasingly global and competitive environment in which Ontario businesses exist and allow them to survive and prosper. We recommend that the OSC's mandate recognize its role in securing Ontario's place in global securities markets.

CDNX recommends the following initiatives as methods of improving securities regulation:

(a) significant harmonization of provincial securities legislation and policy;

(b) harmonization, to the extent appropriate, of Canadian securities legislation and policy with that of the United States;

(c) reconsideration of the need for the concept of a provincial definition of "reporting issuer";

(d) reconsideration of the concept of a "closed system" and introduction of simplified and efficient methods of obtaining financing;

(e) simplification of securities legislation and policy, including the use of plain language;

(f) increased focus on and monitoring of the continuous disclosure regime; and

(g) enhancement of the policing and enforcement functions of the provincial securities commissions, including harmonization of efforts between provincial securities commissions and federal authorities.

Simplification of Securities Regulation

Securities legislation and policy is very complicated and technical. In an attempt to understand it, market participants often significantly oversimplify the rules and various misconceptions arise. It is somewhat ironic that compliance with this complicated regime is largely self-policing. The unfortunate result is that individuals often do not fully understand their obligations and a significant degree of inadvertent non-compliance occurs. The recent reformulation of Ontario regulation and Ontario Securities Commission policies may have added a further layer of complexity. As the reformulation had to be accomplished under artificial deadlines, there was unfortunately, insufficient time to conduct the detailed review and substantial rewrite necessary to make certain of the rules relevant and understandable. Except for the more experienced securities lawyers, it appears that many individuals are experiencing a great deal of difficulty following and understanding the interplay among these new rules with the existing legislation and regulation. With the mass participation in securities markets, the need for easy to understand regulation is intensified. The regulation must be capable of being understood not only by the market participants who are required to comply with the regulation but also by the new style investor who is directly engaged in assessing issuer performance, including the corporate governance performance of the issuer's insiders.

We encourage the adoption of legislation which sets out clear statements as to the goals and purpose of securities regulation and which identifies in broad terms the obligations imposed by securities regulation and the prohibited actions. The details of securities regulation should be set forth in plain language rules. We encourage the adoption of rules that provide clearly stated, plain language safe-harbour provisions from the prohibitions imposed by securities regulation and which provide similar details regarding the method of compliance with the general obligations.

Mandate and Role of Commission

The commission was granted rule-making powers in order that regulation could respond to market developments. However, the procedure has proved to be unnecessarily slow. Publication periods need to be reduced. In addition, the additional time for ministerial approval does not does not appear warranted. We note that it is not part of the rule making procedure in either Alberta or British Columbia. Provided the Minister is

informed throughout the public review period and the government retains the ability to override rules, then that should be sufficient.

As for the specific issue as to whether republication of rules is necessary for "material change", we recommend retention of that restriction; however, suggest that it needs to be precisely defined as it has been interpreted by staff in a very conservative manner.

We believe that regulators both in Canada and globally should have the enforcement power to levy monetary penalties. We also believe that following a hearing, commissions should have the ability to make public interest orders to compel compliance, to require profits to be disgorged, to set aside transactions and to otherwise make orders similar to those that a court can make under section 128(3) of the Act.

Harmonization of Securities Regulation

The complexity in the current regulatory regime is considerably exacerbated by the differences in regulation between provinces. Slight variations in the regulation between provinces may at first seem to be relatively insignificant but these slight differences act as a trap for issuers, their insiders and advisers. In order for an issuer or its insiders to avoid these pitfalls, they must incur additional legal and other advisory costs. For junior issuers, these additional costs create hurdles that can deter them from seeking financing beyond provincial boundaries. The complication also deters foreign issuers from accessing the Canadian markets.

We strongly encourage the Ontario government, and each of the other provincial governments to provide a strong directive to their respective provincial securities commissions to work together to create a standardized set of securities rules which can be adopted in each province. Although there may occasionally be a need for certain local initiatives, we submit that such differences should be the exception. We recommend that the Ontario Ministry of Finance and each of the other comparable provincial ministries discourage the introduction of unique provincial securities regulation except where there is clear evidence of circumstances distinct to a particular region which require a local initiative.

We note that often the local differences have been justified on the basis of accommodating small business financings; however, we believe that challenges in this area are not regional and a more consistent approach nationally will improve the access to capital. We believe the initiative by the OSC to subject policy to economic analysis, which we hope will be adopted by all regulators, will discourage inefficient regional differences.

We strongly support the recent trend towards inter-provincial cooperation and harmonization in the administration of securities regulation across Canada. We support the mutual reliance system. However, the current model of mutual reliance has significant weaknesses, varying with the aspect of the capital market being regulated. The model works reasonably well in the context of prospectus review because securities legislation

does not require the regulator in issuing a receipt, to take an active position. A receipt for a prospectus is issued unless there is a reason not to. In most cases, it is the responsibility of staff in the principal jurisdiction to conduct the review and to determine whether there is any reason not to issue a receipt. In those circumstances where one jurisdiction does not agree with the decision of the principal jurisdiction, there is at least a safety valve for the issuer in that it can choose not to proceed with the offering in that jurisdiction.

With respect to exemption applications, the mutual reliance system does not work nearly as well. Each separate commission must make a positive decision that the application is not contrary to the public interest based on reliance restricted to staff review by the principal jurisdiction. As a result, there is both less efficiency and increased opportunity for opting out. In addition, the safety valve exists in fewer of such circumstances. Many applications cannot be pulled from a dissenting province especially if they relate to mergers or corporate reorganizations.

Oversight of exchanges is an area that the current model of mutual reliance would not work at all. In regard to oversight, not only are positive decisions required but there is no safety valve. An exchange would be in an impossible position if two recognizing regulators make inconsistent decisions. Other problems exist as well, for example, a person affected by a decision of an exchange would potentially have the opportunity to appeal to each recognizing regulator.

The efficiencies that can be achieved by mutual reliance under the current legislative framework are limited. It is essential that securities legislation permits and governments encourage delegation to other securities regulators in order that reliance is complete in appropriate circumstances.

Rethinking "Reporting Issuer" and "Closed System" Concepts

We believe that it is perhaps time to rethink concepts such as "reporting issuer" and the "closed system". The current regime whereby an issuer may be a reporting issuer in one Canadian jurisdiction but not another, fails to recognize that disclosure documents, once filed on SEDAR are available nationally, and beyond. There does not appear to be any regulatory purpose for imposing resale restrictions within certain provincial boundaries because an issuer is not a "reporting issuer" in the jurisdiction when investors have access to substantially the same information that they would have if the issuer were a reporting issuer in the jurisdiction.

The concept of a "reporting issuer" works to the extent that it triggers the obligation to provide continuous disclosure. However, confining the concept within provincial boundaries no longer makes sense. Continuous disclosure obligations should be entirely uniform across the country and. continuous disclosure filings be required to be made in a centralized system, such as SEDAR. One filing should be adequate to satisfy the obligations of all provincial and territorial securities commission. We have assumed in this recommendation that the issue of fees will be addressed and that the extension of reporting issuer status in all jurisdictions would not simply increase the fees being paid

by the issuers. We do not believe that the concept of reporting issuer needs to be nor should it be tied to the requirement for compliance with unique local securities regulation. We discourage the adoption of securities rules and policies that are not adopted on a national level. However, to the extent such rules or policies are adopted, we strongly recommend that compliance with them should be triggered by certain connecting factors the issuer has to the jurisdiction rather than by whether the issuer has continuous disclosure obligations.

If issuers are complying with a national standard of continuous disclosure, the need for a "closed system" which provides for a "seasoning period" diminishes considerably. Hold periods could be eliminated in many circumstances and significantly reduced in the remaining situations.

New Financing Alternatives

Integrated Disclosure System

As you are likely aware, the Canadian Securities Administrators have recently published for comment a proposal for an Integrated Disclosure System (the "IDS"). The proposal would improve the quality of continuous disclosure provided by issuers and, provided that certain recommended amendments are made to the initial proposal, would allow widespread access to an efficient prospectus offering process, similar to the Prompt Offering Prospectus system. CDNX has commented on that proposal and believes that if it is modified to encourage broad participation, it will improve the Canadian capital markets. However, the improved prospectus offering process contemplated by the IDS will not completely address the financing needs of Canadian issuers, particularly junior issuers. First, the system does not alleviate any of the difficulties associated with an initial public offering. Further, notwithstanding that the system provides a faster method of accessing public markets, we believe that the financial and time costs associated with conducting an offering by prospectus will continue to deter some issuers from utilizing this method of financing.

Capital Pool Companies

For many start-up issuers the costs of going public can be prohibitive and unfortunately, the availability of private angel and venture capital within Canada is limited. It can therefore be very difficult for the start-up or junior Canadian company to obtain the equity capital that is necessary to fund its early stage growth. CDNX's Capital Pool Company program provides an alternative mechanism for junior companies to access venture capital. The program allows the creation of a clean "shell" public company, with a small pool of venture funds (up to $700,000). Up to $500,000 of the funds are contributed by at least 300 public investors, none of whose risk is significant and their investment is limited to 2% or $10,000. The business of a junior company is then sold to the public shell, in what is essentially a reverse take-over transaction. The program is closely monitored and regulated but nevertheless provides an opportunity for emerging companies to obtain a pool of venture capital and gain future access to the public

markets. The out-of-pocket initial costs of going public through a Capital Pool Company are significantly lower than the standard initial public offering, with the majority of the costs being able to be paid at later stages from the funds raised by the public.

We strongly encourage the adoption of CDNX's Capital Pool Company program in Ontario. The program reflects the reality that most junior companies seeking access to public funds are forced to "go public" through a reverse take-over process because they cannot generate sufficient interest to support a typical initial public offering. Their financing needs are then met through private placements. As discussed below, to the extent possible, we believe that a widespread retail financing is preferable to the private placement regime. The Capital Pool Company program significantly improves upon the reverse take-over process currently existing in Ontario by providing to the emerging company, a clean shell and a pool of funds. From a regulatory perspective, there is improved disclosure, improved public distribution (including considerably less risk of boxed distributions and boiler room antics) and a closely monitored, well regulated vehicle.

Short Form Offering Document

The October, 1996 OSC Task Force on Small Business Financing recommended the widening of investor access to securities distributed in the private placement market. CDNX goes one-step further by promoting wide-spread retail participation in equity financings as preferable to private placements. However, financing by way of public offering is often not possible on a cost-effective and timely basis. Retail offerings by prospectus can be very expensive and the financing requirements of many issuers, particularly junior issuers do not justify the expense of the prospectus offering. Issuers are therefore forced to conduct a private placement. Unfortunately, securities legislation frequently limits participation in private placements to persons who have a relationship with the issuer or who are sophisticated. A public perception of a conflict of interest often arises as it then appears that only a special elite group is given access to participation.

CDNX presently has a short form offering document regime in place for use in British Columbia. This regime is, in many ways, similar to the IDS offering process. It permits an existing listed issuer that is filing continuous disclosure documents, including an annual information form, to conduct a simple financing consisting of only common shares or units comprised of common shares and warrants. The issuer can raise a maximum of $1,000,000. The offering is something of a hybrid between a short form prospectus and a private placement. The issuer certifies the full, true and plain nature of the disclosure, including the continuous disclosure base incorporated by reference. Although the offering must be conducted by a registrant so that each purchaser can seek advice from the registrant in regard to the merits of the investment, the registrant does not certify the document as it would a prospectus. Instead, the registrant provides only a negative assurance that it is not aware of any untrue statement or omission to state a material fact. The lower certification standard on the part of the agent allows the financing to proceed in an expedited fashion, similar to a private placement. The risk to purchasers is off-set by limiting the maximum subscription of any one person to 2% of

the offering or $10,000. Retail investors obtain free trading shares. Insiders, those in special relationships with the issuer and the underwriting group are permitted to subscribe beyond the 2% or $10,000 threshold but are then subject to a four month hold period.

This system has been utilized by a number of junior issuers in British Columbia and has provided a financing mechanism by which issuers can attain the benefits of quick access to capital markets without the burdens of a prospectus offering. CDNX is currently assessing whether the short form offering system is the best way to address this issue and will be consulting with securities regulatory authorities.

New Prospectus and Registration Exemptions

We acknowledge that notwithstanding the initiatives described above, there will continue to be situations where private sales of securities will be necessary and we encourage the reduction of regulatory burden for issuers by allowing broader participation in the private placement markets. The staff of the OSC proposed reforms to the exempt market, recommending the introduction of a closely-held exemption to permit small companies to raise capital from "angels" and to permit sales to "accredited" investors. Although we applaud the efforts of the staff of the OSC, unfortunately, their proposal only addresses the issue of financings conducted for cash. The reality in the junior market is that securities are often used as direct method of payment for services or assets. Rather than conducting a private placement from which funds can be raised to pay creditors, the issuer uses its securities as currency. We recommend therefore that the Ontario securities legislation incorporate additional exemptions, such as those currently available under British Columbia securities law for "exchange issuers". The term "exchange issuer" refers to a reporting issuer in British Columbia that is listed on CDNX. Exchange issuers are required to provide certain enhanced disclosure in connection with its interim financial statements which consists of such things as the inclusion of management's discussion and analysis, a balance sheet and notes to the financial statements. British Columbia issuers listed on CDNX appear to make use of such exemptions quite frequently and their counterparts in other provinces have commented frequently on their desire that such exemptions be available for their use also. We encourage the incorporation of similar additional exemptions into Ontario securities law. Consideration might be given to allowing issuers to use such additional exemptions only if they were providing additional continuous disclosure perhaps by tying the availability of such exemptions to the issuer's participation in the IDS.

We also recommend that consideration be given to the introduction of certain additional prospectus and registration exemptions in Ontario. Although we encourage the adoption of an "accredited" investor concept similar to that utilized in the U.S. and that proposed by OSC staff, we recommend that the definition of accredited investor not be tied to an arbitrary financial test such as assets or income. We encourage adoption of a test which relates to the experience and education of the investor and requires a certification from the investor that because of its level of sophistication it does not require the advice of an investment adviser. Consideration might also be given to the establishment of a registry of accredited investors.

We encourage reconsideration of the exemptions available to issuers in connection with asset acquisitions. Exemptions are available to facilitate acquisitions pursuant to share purchase and mergers and oftentimes permit such acquisition free of any hold period. However, acquisitions pursuant to asset purchase are limited to (i) those in regard to which the fair market value exceeds a certain prescribed amount ($150,000) or (ii) those where securities are issued in consideration for mining or oil and gas claims and the issuer either enters into a pooling or escrow agreement or only releases the securities according to the criteria in OSC Policy 5.2, Junior Resource Issuers. The provision prevents a non-resource issuer from structuring a small acquisition as an asset acquisition. The requirement for a minimum fair market value of the assets purchased does not ensure any level of sophistication on the part of the seller and imposes an unnecessary impediment to issuers. The fair market value test also requires an assessment of the value of the asset, which in some cases can be difficult, particularly when the costs of commissioning a valuation may not be commercially reasonable in relation to the estimated cost of the assets. We also suggest that consideration be given to the introduction of an exemption which ties into the Integrated Disclosure System, permitting an offering to a broader base of investors provided that investors are provided with some form of short form offering memorandum which incorporates by reference the continued disclosure base.

In regard to each such registration and prospectus exemption referenced above, we recommend the imposition of a hold period, not to exceed four months

Sales from Control Blocks

Rules regarding sales from control blocks also need to be harmonized. We agree that disclosure to the market needs to be made of sales from control blocks; however, the current disclosure regime adds little value. In response to the difficulties and delays that surround a sale by a control person, the practice has developed that control persons often file a report indicating that they may sell all or a majority of their holdings. They then maintain this report on file by making the necessary update reports. This is done regardless of the fact that there may not be any actual sale currently contemplated. This is the only method to effect a sale in a timely manner. However, the effect is that the filing of a report gives the market no real information. We recommend therefore that the system be revised. Sales from control persons might be treated much the same as purchases under the early warning systems, with the introduction of a press release requirement immediately prior to the sale, with a follow up report disclosing what in fact was sold.

We also recommend reconsideration of the purpose of the additional six month hold period on control persons. Given the current ability to provide widespread dissemination of information quickly, the necessity of a six month hold period is questionable. If the purpose of the additional hold period is to prevent the sale based on potentially undisclosed information, then consideration should be given to why control persons are distinguished from other insiders, such as management.

Regulation of Registrants

We recommend that the requirement to be a registrant should be imposed where a person is advising another party in regard to trading or has been given discretionary authority over trading on behalf of another person. We agree with the suggestion that the requirement to be registered should extend to both persons engaged in the business of advising and persons holding themselves out as being as advisers. It must be recognized, however, that there are situations where the advice being given is isolated and purely incidental to other professional advice that is being given.

Self-regulatory Organizations ("SROs") and Other Market Intermediaries

We encourage the adoption of legislation and rules which would improve the enforcement abilities of SROs, such as a subpoena power. We also encourage information sharing between SROs and securities commissions. However, we do not believe that SROs should have responsibility for enforcing securities laws. The goal of securities laws and the goals of SROs, although overlapping, are not identical. Securities laws, as a type of consumer protection legislation, focus on the adequacy of disclosure as the method of protecting investors. SROs, such as stock exchanges have a considerable interest in ensuring the integrity of the capital markets; however, their concerns extend beyond the adequacy of disclosure. Stock exchange rules attempt to focus on the fairness of transactions. Furthermore, stock exchanges have a significant interest in encouraging a vibrant securities market, which is not necessarily a primary goal of those formulating securities laws. It is important to recognize the distinction between the roles of securities laws and the roles of SROs. We submit that these different roles provide different perspectives which improve the overall regulatory framework and benefit the market.

The rules of SROs should be broad enough such that a breach of securities legislation would also constitute a breach of the SRO rules. However, it is not appropriate to delegate responsibility for enforcement of securities legislation to SROs. In regard to enforcement actions, SROs, not being government bodies, have different burdens of proof, different evidentiary standards and different procedures than do securities commissions. It is possible for an action to constitute "conduct unbecoming" a member of an SRO and yet not be a breach of securities legislation. If SROs were required to enforce securities legislation, these different standards could be eliminated and thereby reduce the ability of an SRO to prohibit the involvement of a person in its market. We submit that it is important to the proper functioning of the capital markets that the roles of the SROs and the securities commissions not be blurred.

Necessity of Recognition Process for SROs and Others

We agree that an SRO, quotation or trading reporting system or clearing agency should be required to be recognized in order to operate within Canada. However, as discussed above, we submit that a system of mutual reliance should be adopted such that recognition in one jurisdiction is sufficient to permit to operations in another jurisdiction.

We recommend that the provincial securities commissions be given the authority to delegate the recognition and oversight process to another securities commission.

Oversight of SROs

We recommend that the statute contain general principles setting out the purposes of recognition and oversight. Any detail in regard to that function should be capable of expeditious amendment and should therefore not be contained in the statute. We recommend that the Act provide specific authorization for the securities commissions to delegate the responsibility for oversight. We submit that the various provincial securities commissions should adopt a coordinated approach to oversight.

We submit that any oversight model adopted must not be so burdensome as to adversely effect the efficient operation of the SRO. Administrative and house-keeping amendments to rules, policies and by-laws should be subject only to a post-publication review. We concede it is appropriate for significant changes to be subject to securities commission review prior to publication. However, certain exceptions should be permitted for emergent issues. It must be recognized that for some SROs, particularly stock exchanges, it is at times necessary to react quickly to changes in the market place in order to prevent abusive conduct. There needs to be flexibility in any oversight model to allow for temporary but immediate publication of policies and rules designed to respond to these concerns. There must be an ability to deal with significant issues on a timely basis. During the period of delay while securities commission approval is sought, the market is operating under a policy which may be unclear, procedurally unwieldy, or be silent on a critical issue. This is detrimental to the market and the public interest.

We submit that an appropriate oversight model should focus on whether proposed amendments to an SRO's rules, policies by-laws or practices are prejudicial to the market or the public interest and whether they represent a significant deviation from past rules, policies and practice. The experience and expertise of SROs in dealing with and understanding their market must be recognized. In the absence of a proposed amendment that is prejudicial to the market or a significant deviation from past practice, we strongly encourage securities commissions in considering such amendments to defer the SRO's expertise. It is important that any oversight model not be used as a means of imposing securities law through SRO rules and policies. It is important to maintain the distinction between the goals and roles of securities laws versus those of SROs.

Any oversight model should recognize that Canadian investors are free to invest in foreign securities traded on markets which the Canadian securities regulators have little or no jurisdiction over. Furthermore, Canadian issuers are free to seek listing or quotation on exchanges or trade or quotation systems over which Canadian securities regulators have no jurisdiction. Any oversight model adopted should not be so burdensome as to put the Canadian SRO, exchange, market or custodian at a material disadvantage relative to its foreign counterparts.

CDNX strongly objects to any proposal that would permit ATSs to operate outside of the SRO system as we believe that this would result in a further fragmentation of market regulation and negatively impact the integrity of the Canadian markets, particularly junior markets. The challenge of a regime which permits ATSs is to avoid further fragmentation of an already fragile market.

We recommend that, as in the United States, ATSs should operate either as a member of an exchange or as an exchange. Existing commission oversight and the appeal process should be able to deal with any real or perceived conflicts of interest that might arise with respect to member ATSs. ATSs that do not consider this adequate protection would be able to seek recognition as an exchange. In our view it is fair that an ATS, by choosing not to be regulated by an exchange, should have the same responsibilities and regulatory costs as an exchange.

Continuous Disclosure Obligations

The current Canadian regulatory regime and the current monitoring and policing of the existing regime could be considerably improved to enhance the protection provided to the secondary market. CDNX strongly supports the introduction of the IDS. We believe that the IDS will both improve the quality and timeliness of continuous disclosure and create a system that allows faster access by issuers to capital markets.

CDNX is also strongly of the view that in order to be effective, the IDS must be supplemented by a strong monitoring and policing function. We believe that the quality of the disclosure provided in regard to prospectus offerings is primarily attributable to two factors:

1. the existence of statutory liability; and

2. the fact that a review is conducted by staff of the securities commissions.

In order to ensure the highest quality of disclosure in the secondary market, we recommend the introduction of statutory liability for misrepresentations and, perhaps more importantly, a vigorous monitoring and policing function by the securities commissions in regard to the disclosure that is provided. CDNX does not recommend that the standard for continuous disclosure be "full, true and plain" as this would be overly burdensome and the delay the release of information to the market. A negative assurance standard indicating that the issuer is not aware of any material misrepresentation or omission to state a material fact may be a more appropriate standard.

CDNX recommends that disclosure obligations continue to be triggered upon the occurrence of material changes but also be extended to situations where certain specified material information comes to light. We recommend that a general statement be provided as to the standard of disclosure that must be maintained, followed by a detailed non-exclusive list of items that are considered to fit within such parameters. Related party transactions, and most financings should constitute triggering events.

We agree that concerns in regard to selective disclosure must be addressed. Advances in technology are making more effective, the most basic of regulatory tools. Current legislation is founded principally on providing information to investors so that they can make informed investment decisions. Technology, particularly the internet has increased the power of disclosure and SEDAR and the proposed web based insider trading reporting system are two examples. CDNX's own web based InfoCDNX is another example of how improved disclosure, beyond that currently required by securities legislation, such as disclosure of pro group participation in private financings can be disseminated to the public. We therefore encourage any steps that can be taken to make use of technology and encourage full plain language disclosure to all investors.

In an effort to reduce the occurrence of selective disclosure consideration might be given to the introduction of regulation specifically placing responsibility on the board of directors to prevent selective disclosure. Consideration might also be given to charging the board of directors of an issuer or a corporate governance committee of the board with responsibility for reviewing and assessing the quality of disclosure.

Insider Trading, Fraud and Market Manipulation

CDNX submits that the current detection and disclosure provisions with respect to insider trading could be considerably improved. We recommend that significant additional resources be directed towards real-time monitoring of trading and the subsequent auditing of trading that has occurred prior to the public announcement of significant events. We encourage the adoption of electronic reporting obligations in regard to insider trading reports but discourage use of SEDAR for this purpose. SEDAR requires special software and generally requires that the person with the reporting obligation retain a filer. This system is too cumbersome for insider trading reports and will impose unnecessary burdens on the individuals. Accordingly, we support the adoption of a centralized web based reporting system for insider trading reports and believe that such website should provide the public with access to insider trading information. We believe that this will be beneficial in that it will allow the investing public to participate in the insider trading detection process. Finally, we recommend that the time periods for filing insider trading reports be shortened.

We support the proposal to make fraud and market manipulation specific violations of securities law. However, unless significant resources are allocated by securities commissions to detection, the provisions will not be effective. We encourage cooperation between the securities commissions and SROs in this regard.

Impact of Technology

CDNX agrees that amendments to the Act and rules are necessary to recognize the ability to disseminate information electronically. Issues of authentication and certification must be addressed. Furthermore, a system for ensuring the authenticity of electronic signatures needs to be developed. However, the method of delivery should not derogate

from the quality or timeliness of information provided. Issuers should continue to be obligated to deliver information to shareholders and the public. We do not consider it to be an effective method of timely communication if the public is required to search or poll for the information. At a minimum, the public should be alerted each time material information has been posted and where it is available. If information is permitted to be disseminated pursuant to the websites of issuers, then consideration must also be given to problems relating to the integrity of the information when there are links to other websites or webpages which may contain non-certified information.

The ability to hold shareholder meetings via the internet and for shareholders to vote via the internet would be a useful technological innovation. However, any amendment to securities regulation and corporate legislation to accommodate such an innovation must also recognize that there will continue to be individuals that do not have access to the internet and their needs must continue to be accommodated. It will be necessary to address issues of privacy, certification and authenticity.

We appreciate being provided the opportunity to comment on current Ontario securities law and to make recommendations in regard thereto.

Two original copies of this comment letter, together with a diskette will follow by overnight courier.

Should you have any questions in regard to this submission, please contact:

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Yours truly,

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