

13.1.5 CNQ – Repeal of Rule 10-105 – Risk Disclosure Statement – Summary of Comments

CANADIAN TRADING AND QUOTATION SYSTEM INC. (CNQ)

REPEAL OF RULE 10-105 – RISK DISCLOSURE STATEMENT

SUMMARY OF COMMENTS

CNQ thanks each respondent for providing comments on the proposed repeal of Rule 10-105. As all comments were in support of the repeal, CNQ has not made any amendments to the proposal in response to individual comments.

From	Comment	CNQ Response
Larry Martin, Branch Manager and Director, Leede Financial Markets	<p>1. Risks apply to all small cap stocks, not just CNQ.</p> <p>The disclosure statement...explains the risks associated with trading any micro-cap stock, or stocks with a small float.</p> <p>2. Rule creates administrative confusion</p> <p>The rule, essentially, discourages potential dealers because it creates problems with respect to tracking whether the client has signed a disclosure statement...</p> <p>3. Rule duplicates existing requirements</p> <p>IDA rules govern same activity:</p> <p>The disclosure statement works to cover grounds already covered by securities laws and IDA rules, which provide a comprehensive protection regime.</p>	<p>We agree the risks are not specific to CNQ Listed Companies.</p> <p>We agree the Rule addresses issues already covered by IDA requirements.</p>
Robert Matheson, CEO, Glenbriar Technologies Inc.	<p>4. Current Measures Exist</p> <p>We concur that Rule 10-105 does not serve any useful purpose at this point in time. The other measures that have been put in place by CNQ, the OSC and IDA are more effective...</p>	
Vanessa M. Gardiner, Director, Senior VP and Chief Compliance Officer, Research Capital Corporation	<p>5. Participants already bear responsibility:</p> <p>...the disclosure, in and of itself, does not diminish the responsibility of a market participant to adequately advise and caution a client on the risks involved in any security purchased, regardless of the market in which it trades. These protections are provided to the client in both securities law and in IDA suitability rules, which makes the disclosure a redundancy that provides no actual public benefit.</p> <p>6. Rule does not apply to all Participants</p> <p>...the rule provides no actual public protection given the differing requirements between CNQ members and non-members....Given that any IDA member can jitney orders through a CNQ member effectively demonstrates that disclosure is not provided to all market participants, thus making the rule ineffective overall.</p>	<p>We strongly agree that investor protection is a priority, and other existing rules are sufficient to provide that protection.</p> <p>This has created confusion and additional obligations for participants.</p>

David Gurvey, CMA	<p>7. Rule discourages participation</p> <p>Requiring the risk disclosure statement be signed for the first solicited order has resulted in Investment Dealers either declining to participate in CNQ or requiring the statement for all orders. It also discourages the investors. By holding back the CNQ market, the individual companies and their minority shareholders are also being harmed. Repeal of this rule should be approved.</p>	This is consistent with our view that the rule has created barriers to access and confusion among participants and investors without providing any additional benefit.
Rick Brown, Chairman, Grandview Gold Inc.	<p>8. Risk is not market-specific</p> <p>CNQ's rule requiring a blanket risk statement, specific to the market, acts as a deterrent to investors by inaccurately painting all issuers as very high risk simply because they are listed on CNQ. The risks of investing in any company listed on CNQ are specific to the company and the business sector in which the company operates, just as they are on other exchanges.</p> <p>9. Risk is reduced by full disclosure</p> <p>It is in the best interests of all market participants to be well informed, and to have access to information that provides the disclosure of identified and potential risks specific to an investment. On CNQ, disclosure specific to each Listed Company is readily available to investors and their advisors...</p> <p>10. Sufficient regulatory regime currently exists</p> <p>...the Investment Dealers Association, Market Regulation Services and the provincial securities commissions have an established regulatory regime that includes rules to protect investors on all of the Canadian exchanges.</p>	<p>Please see our response to Comment 1. above.</p> <p>CNQ's enhanced disclosure model was designed to provide all relevant disclosure documents to investors and their advisors in one location. This allows assessment of risk on a stock-by-stock basis.</p> <p>Please see our response to Comment 3. above.</p>
Christopher Gulka, CA, CFA, Working Capital Corporation	<p>11. Risk is greater for Capital Pool Companies</p> <p>...the requirement that a risk disclosure statement be signed by investors is detrimental to junior markets... It falsely signals that CNQ-listed companies are riskier than other similar companies. Capital Pool Corporations (CPCs) are essentially a blind pool and go public with no project and the very real risk of being delisted if no project is found within a tight timeframe. This is a greater risk than faced with CNQ-listed companies, yet no risk disclosure statement is required once a CPC's shares are trading in the secondary markets.</p>	This is consistent with our view that risk should be assessed on an issue-by-issue basis rather than by market.
Douglas G. Reeson	<p>12. Rule presents a barrier to competition</p> <p>Rule 10-105 is prejudicial to the CNQ and its future development as it creates the impression that its listed securities are de facto and inherently more risky and that there is something wrong with them. This is an uneven playing field. Because of a general compliance chill at investment dealers, investors in CNQ companies are often forced to sign a risk disclosure statement on trades of their own initiation.</p>	We agree that the risk disclosure statement creates general perception of inherent high risk, rather than encouraging investors and participants to take advantage of an enhanced disclosure model to assess actual risk.