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Secretary of the Commission,
Ontario Securities Commission,
20 Queen Street West,
Toronto, Ontario
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Comment Submission - Canadian Trading and Quotation System Inc.("CNQ")

Dear Secretary of the Commission,

I am pleased to provide the Commission with my comments on the July 16, 2002 Application by the Canadian Trading and Quotation System Inc. I would like to thank Commission staff for providing me with an extended period to comment beyond the originally published deadline.

Overview

Although I will set out some suggestions and raise some concerns regarding this Application, it must be clearly understood that I am delighted and fully supportive of someone at last coming forward to remedy the rather dreadful state of trading facilities for junior issuers in this Province. I commend the efforts of CNQ and trust that their Application will be approved in a timely fashion. The CNQ Application proposes a securities marketplace that should provide liquidity, transparency and visibility at a reasonable price.

Since the consolidation of all the junior stock exchanges in Canada into one, the CDNX, and perhaps even more so since its acquisition by the TSE (now the TSX), there has been no choice or alternative marketplaces for junior issuers in Canada. In an economic sense, choice is good by its nature as it leads to efficiency. In the case of CNQ, the choice that it would provide would be a very vibrant one - considerably more disclosure and somewhat less regulation. This may be very beneficial to Ontario's economy as it could help to stem the move by Canadian companies to foreign marketplaces and benefit more junior issuers who may not qualify for the TSX Venture Exchange.

The Canadian Dealing Network ("CDN") played a very useful role for junior issuers although it was not a perfect situation for investors. When the CDN was consolidated into CDNX and the Canadian Unlisted Board ("CUB") was born blind without transparency, the OSC did a grave disservice to the Province's junior issuers and their shareholders. Who would have envisioned that a securities regulator with the stature of the Ontario Securities Commission would have initiated the CUB marketplace with no visibility? Visibility is a key component in making a market viable and in protecting the investing public. All CDN-issuers that decided not to, or failed to, list on the CDNX were collectively punished by the OSC for the sins and potential sins of a few undesirable promoters and brokers. The OSC-enforced lack of visibility made it

impossible for legitimate CUB-issuers to do bona fide, arms-length financings. This in turn led a number of issuers to drop out and become, at least for the time being, issuers not in good standing.

The proposal by CNQ does provide for listing standards which are substantially higher than those of the former CDN market. Although the CNQ would benefit and be helpful to a group of junior issuers with cash and active businesses, it will not, as proposed, be of assistance to a group of issuers with active managements and assets that are lacking in cash or dormant at this time. Perhaps the TSX Venture Exchange's proposed J2, Junior-junior market, will address the needs of these companies. Another possibility would be to give issuers an initial period of 12-18 months after CNQ becomes operative to meet the financial-component of the CNQ's listing standards. This approach might require a re-consideration of CNQ's Fee Schedule particularly for a Fundamental Change. I realize that Commission staff may not be very receptive to this approach, however it should be considered, especially given the role of the CUB market in creating under-funded issuers. The two key criteria for a legitimate marketplace are the quality of management and the public distribution of shareholdings, not the size of a company's bank account. These two requirements should not be relaxed during this initial period. The additional potential quotations by issuers in this group would also help to provide CNQ with a larger critical mass, encourage the involvement of more member firms and thus may help to ensure CNQ's success. This all of course assumes that the CNQ would be prepared to accept this group of issuers.

Corporate Governance of CNQ

The extent of independentness of directors is an important consideration of corporate governance. CNQ's definition of independence is extremely narrow. I am not certain that it best serves the investing public to so severely limit the participation of the knowledgeable individuals associated with member firms and issuers as they do not have the direct conflict of an owner or manager of CNQ. Rather, it is likely more important to mandate some minimum level of board participation for each of member firms and issuers along with the totally independent.

Fees for Issuers

It is not inexpensive to operate a viable securities marketplace. Although a number of parties have expressed to me that they felt the fees for issuers were too high, none of them have been able to convince me of this. I do believe that the proposed fee schedule is fair and reasonable for the type of issuers envisioned by the listing requirements.

CNQ should be given the flexibility to stage the Initial Fee over time, should it so wish.

In the event that the listing requirements were relaxed for an initial period or permanently, the fee schedule should be re-examined certainly with regard to the Fundamental Change Fee. Perhaps the Initial Fee for this group of less active companies could be re-considered, as well, such as spreading it over 2 or 3 years with a penalty (ie 3 years @ $4000).

Policy 2 - Qualification For Quotation

Shareholder Distribution - Items 1.3-1.5

As I indicated earlier, I view adequate shareholder distribution as one of the two keys to ensuring a legitimate marketplace. Generally, I consider the effort made in this regard in Items 1.3-1.5 quite favourably. However I do have some concerns.

How would the minimum public float of $50,000 be calculated for an issuer that is not currently trading, trading on the CUB or not undertaking a public financing ?

It is reasonable that management should know of shareholders holding 10% or more of an issuer's shares but is it reasonable that management should be aware of "any person or group of persons acting jointly or in concert holding more than 5% of the issued and outstanding"? This collective investment could have a value of as little as $25,000. This is a very low threshold for an investor to be considered in essence an insider. However, it would clearly be desirable to know for instance if there were 5 somewhat related holders each with 9.9% of the shares outstanding, but I am uncertain if this requirement is the best way to get the desired outcome. My suspicion is that people of this type will be just marginally inconvenienced to create 10 somewhat related holders each with 4.9% while some truly legitimate arms-length investors holding 6% to 9%, with money-wise a relatively small investment, will get caught in this definition. The best natural way to foil a "Stock Promotion" is to have independent sellers of a stock and this should be the essence of any listing requirement pertaining to distribution. In this regard, truly arms-length investors holding 1% to 9% of the outstanding shares are the best candidates.

I like the concept of a "thin float issuer" warning. However, I would much prefer the fixed criteria be increased from 10% to 15%, perhaps even a bit higher, and eliminate the "Target % freely tradeable shares". Many of the prospective quotable companies will have few registered shareholders and it will be difficult to establish the number of beneficial holders held in brokerage accounts. Normally management would approach only the major brokers holding stock and add to their list of brokers until the sum of 200 holders was achieved. Using the "Target % freely tradeable shares" would require an inquiry of virtually all intermediaries, perhaps 4 to 8 times as many inquiries. On top of which none of these intermediaries are under any obligation to respond. If these intermediaries start receiving 5 times as many requests and most of them pertain to what would seem to be small irrelevant holdings, these intermediaries may well stop responding to distribution requests. In addition, issuers which might appear to have ideal flat distribution comprised of several hundred, small, registered shareholders are most likely former promotions by broker dealers that would have the balance of the shareholdings highly concentrated and in fact would not provide distribution that would be beneficial to the investing public at all.

In any event, the "thin float issuer" warning is a good idea which will lose its effectiveness if the criteria are such that too many issuers bear this warning.

Issuer Operating Requirements - Items 1.6-1.7

Generally these operating requirements seem reasonable, however they are too restrictive for my preference and, as indicated earlier, will not be attainable for a large group of existing issuers.

Issuer Cash Requirements - Item 1.8

Given that to attain a quotation a considerable amount of funds would already be expended, I believe the cash requirements are too high. The Province would be best served if this marketplace provided broader and enhanced access to capital for entrepreneurs and junior enterprises. Being able to provide liquidity to investors is clearly a significant advantage in the capital formation process. Accordingly, I would suggest minimum working capital requirement be reduced and perhaps set at $50,000, except for operating companies when this amount would appear to likely be inadequate.

Quality of Management - Items 1.9-1.11

The quality of management is the essential ingredient in creating a legitimate marketplace of issuers. The proposed restrictions on management appear to be tough and clear. Regrettably I have no suggestion on how to further bolster them other than suggesting that the Commission strive to give the CNQ the widest possible latitude in this matter.

One possible half-thought-through idea might be for CNQ to have a web page that would publish the names of issuers that are contemplating applying for quotation along with predecessor corporate names, if any, and a list of its officers and directors. Given the stage of pre-quotation issuers, it is unlikely that this information could be used in any promotional way that would harm the investing public while it would provide notice or reading of the bands of an intention to be quoted. CNQ would then have to occasionally deal with and ascertain the validity of any negative comments made about any of the parties associated with an issuer contemplating quotation. This could alternatively be undertaken by a formal or informal CNQ committee.

Policy 4 - Corporate Governance and Miscellaneous

Transfer and Registration of Securities - Item 4.1

The City of Toronto, post municipal amalgamation, covers a very large area and as a result transfer facilities should be available downtown within the “financial district”. I do not mean to sound cute but when a major bank moves its retail cage from King & Bay to mid-town Bloor Street, you begin to wonder if Keele & Steeles might be next.

Policy 5 - Timely Disclosure and Posting Requirements

Disclosure of Changes in Future Earnings - Item 2.5

CNQ issuers are primarily envisioned as being small/micro cap companies which may often be at an early stage of development. As a result their level of earnings may be highly erratic, difficult to predict and difficult to estimate until their financial accounts are finalized. In addition there will unlikely be an analyst's nor any consensus forecast of earnings. Accordingly I strongly urge Item 2.5 to be amended to encompass only companies that have made forecasts and/or to more limit the requirement of disclosure to that found in Item 2.3(11) which requires "firm evidence of significant increases or decreases in near-term earnings prospects" rather than just an "indication".

Would either of Items 2.5 or 2.3(11) require a resource company which has previously disclosed, perhaps initially a year or two ago, disappointing results from a property, to give disclosure of its intention, in the normal course, to review its property portfolio and the outlook for commodity prices and that such review could lead to a write off which could potentially affect its earnings/loss position materially? Current practice would normally be to not disclose the potentiality of this situation. If it is meant to be intended to give early-warning disclosure in this situation, then perhaps Item 2.3 should specifically include it.

Dissemination of News - Item 6

Broad dissemination of the full text of news releases across the country is a wonderful goal. However it will be an expense for issuers to use news wire services that will provide little or no benefit. The competition for space in the financial press is fierce and in my experience small/micro cap companies receive virtually no media coverage as a result of news wire services.

It is critical that the investing public have timely access to corporate news, especially when there is no or little analyst coverage. It is also critical that valuable shareholders' funds not be wasted. In this day and age investors and brokers in small/micro cap stocks use two sources for information - the internet and stock quotation services. It should be sufficient for CNQ issuers to be required to file/post news with SEDAR, the CNQ website and each of the major stock quotation services. In this proposal either CNQ would automatically forward news posed on its website to the stock quotation services or it would maintain, for use by issuers, a list of email addresses of stock quotation services that carry CNQ data feed. Normally I would only suggest the latter approach but as CNQ is proposing a "disclosure model" perhaps the former method is appropriate. Under the policy, issuers would be encouraged to provide additional dissemination of news when warranted, appropriate or it makes sense, but the use of news wire services would not be a mandatory requirement.

Documents Required to be Posted - Item 13.1(g)

I believe that "inaccurate" is of a much higher standard than "misleading" and as corporations are living, constantly changing entities the use of "inaccurate" in this item is too restrictive and should be deleted.

Policy 6 - Distributions

Raising Capital - General

Ontario's economy needs a healthy and dynamic capital formation process for small/micro cap companies. I urge the Commission to examine other jurisdictions to try to enhance this process for all small/micro cap companies regardless whether they are quoted on CNQ. I also urge the management of CNQ to request, in the future, whatever blanket orders from the Commission that they may feel would remove impediments from or enhance the potential of this process which is so essential for economic growth.

Efforts by the Commission and CNQ in this regard should emphasize private placements which are so essential to small/micro cap companies.

Private Placements - Price Protection Time Limits - Item 2.1 & 2.4

Price protection for a private placement requested on a confidential basis is limited to 45 days to closing in Item 2.4 . On a non-confidential basis, under Item 2.1, no limitation is set out. Given the difficulties in financing small/micro cap companies, I would suggest 60 days as being appropriate.

Incentive Stock Options - Item 5

I do appreciate that CNQ's model is one of disclosure as opposed to excessive regulation. I normally am generally supportive of this concept, however incentive stock options have been an area of excessive corporate abuse since the 1990's. I believe incentive stock options should have limits on their term, the aggregate total amount and total amounts for each individual. I hate to be a dinosaur in my thinking, but I like the old rules where incentive stock options were limited without exception to 10% of the outstanding capitalization with any one person limited to 5% . Perhaps early-stage small/micro cap companies could have a bit higher aggregate limit as they do not normally have very large capitalizations and the need for the provision of services without cash compensation is greatest.

Rights Offerings - General Requirements - Item 6.1

I am very supportive of Rights Offerings as they are conceptually the least dilutive of financings. However they are not favoured in large part to the market risk over time period from their announcement to their expiry. It has been some considerable time since I have personally been involved with a rights issue but as I recall it is not essential to price the rights as required in Item 6.1(b) 7 trading days in advance of the record date. If possible this period should be shortened.

Piggy-back Warrants - Item 7.3

I do concur with the principle that the total number of shares that can be potentially issuable as a result of providing a sweetener to a financing should not exceed the total number of shares issued in the financing. However given this principle, I do not recall a previous problem with piggy-back warrants and would suggest, otherwise, they be allowed.

Policy 7 - Significant Transactions and Developments

Related Person Transactions - Items 1.1(a), 1.3 & 1.5

It is important to disclose all related party transactions. However the $10,000 criteria in Item 1.1(a) is a very low threshold, especially as a series of transactions, for undertaking some special action. I also suggest consideration be given to re-drafting Items 1.3 and 1.5, as I find it difficult to easily grasp their meaning.

Investor Relations Compensation - Item 2.1

I do understand the potential problem this item is trying to address.

It seems strange to expect the management of issuers to always be prudent with shareholders' funds and to expend monies only when contracted services have been satisfactorily provided ie "pay for performance" while specifically restricting management from doing so in the case of investment relations contracts.

The investor relations industry is full of companies and people who are incapable of delivering on their promises. Accordingly, it is especially important that management ensure that investor relations contracts have some type of performance criteria or they are not protecting their shareholders' interests. These restrictions on payment for market performance may lead, in many cases, to this practice being undertaken on a highly undesirable, underground and non-disclosed basis.

Policy 10 - Schedule of Fees

Kindly note my prior comments.

Rule 4 - Trading of Quoted Securities

Fair Markets - General

As best as I can follow the proposed CNQ Trading Rules and my limited understanding of the UMIR, it appears that most or all of the serious trading problems found on the USA's Bulletin Board, a marketplace driven by market makers, have been addressed.

In general terms my concerns about trading are as follows.
A) Market makers should not be able to extract compensation for acting as principal where there are matching buy and sell client orders.

B) Market makers honour their posted bids and offerings and that the size of these orders be reasonable.

C) The best bids and offers should be posted in order to provide for the narrowest bid-offering spreads.

D) Short selling should be regulated and always subject to disclosure and visible reporting.

Minimum Price Variation - Item 4-103

I commend CNQ for providing 1/2c quotation increments for securities trading at prices below $0.50 . The Commission should encourage the TSX Venture Exchange to do likewise.

Mark-Up Policy - Commentary Item 4-108(2)(b) The Price of the Security

Being a frequent trader of low-priced shares for many years, I have confronted the conception put forth in this item on many occasions. I have never found any person knowledgeable about the securities industry that could actually justify this belief that the number of shares in a trade should truly affect its cost although it historically has been an industry practice. Perhaps someone can explain how much it costs to print a couple of extra zeros and store this information for each trade? .....I am certain that with computers in this day and age, it cannot add up to too much.

Trading at the Opening - Item 4-109(2) - Special Terms Orders

I am uncertain if this is just industry practice, as I recently saw bad fills result from this same situation on the TSX Venture Exchange, or something that would be a great impairment to opening trading in a quotation/listing or a major expense to resolve in terms of software. Most small/micro cap stocks are not regularly big volume traders. So when and where it is possible to include special terms orders in the opening trades, they should be included. Special terms orders are equally valid orders and they, especially "All or none trades", may be very much prejudiced if they are not included in what may be the largest volume transactions on the opening.

Market Makers - Quotations - Item 4-113(2) Minimum Size

If Market Makers receive any benefits in this trading system as a result of or in return for their role in providing liquidity to the investing public then these benefits should be commensurate with the minimum amount of liquidity they are obliged to provide - one Board Lot.

Market Makers - Limit Order Protection - Item 4-114(2)

Should Market Makers be entitled to a fee in this situation? Should not any expenses of the Market Maker in this situation not just be part of his/her obligation and in return for the benefit from order flow ? If a fee is allowed in this situation, what would be considered "reasonable"?

Additional Requirements - Item 4-115

If not otherwise provided for, I am not conversant about UMIR, there should be controls upon as well as clear visibility and reporting of all short selling.

Rule 6 - Clearing and Settlement of Trades

Corners - Item 5-107

Short selling can provide a highly needed and useful supply of stock in an over-promoted or over-heated quotation/listing. Clearly "Corners" in any market are undesirable and can result in "short squeezes". A short squeeze may also result from relentless and excessive short selling and is in fact a financial risk of undertaking this practice. When shorting battles occur, especially in small/micro cap stocks which by their nature are difficult to value and have no analyst following, it is important that regulators are even handed to all parties. Excessive short selling has caused the demise of many small/micro cap companies.

Rule 7 - Investigations and Enforcement

Powers and Remedies - Item 7-104 - CNQ Fines

I am uncertain if it makes sense that CNQ should keep the fines made by its own determination.

Rule 9 - Reporting Trades

Market Options - Item 9-101

As much as I dislike market makers taking what I would consider as an unjustified economic rent for acting in this role in a risk-free principal transaction, I do believe that they can enhance liquidity in a quotation/listing and narrow bid-ask spreads. I view this benefit as primarily accruing to the investing public generally and the issuer involved specifically, not just the buyer and seller in a current trade. Accordingly, I see no reason why issuers, rather than only the participants in a trade, should not be responsible to some significant extent for compensating market makers. As a result, I believe the Commission should allow issuers to award market makers a limited amount of primary options with the underlying securities being freely-tradable.

Rule 10 - Sales Practices

Risk Disclosure Statements - Item 10-105

This disclosure statement requirement for first trades in recommended CNQ-issues appears excessive to me and this situation could more appropriately be addressed by the CNQ Dealer's retail supervision and compliance operations. Perhaps this disclosure statement could be affectionately referred to as the "Don't Buy This" form. A disclosure statement of this nature will effectively stop the dealer recommendation of CNQ-issues and will likely result in limiting or precluding primary share distributions which ultimately is the primary justification of all equity markets.

Forms

I only made a brief examination of the various forms and my comments follow.

Form 1B - Quotation Application

News Wire Service - Item 1.18

Apparently CCN has acquired BCE Emergis.

Form 2A - Quotation Statement

Capitalization - Item 14

On the three distribution schedules some latitude should be given issuers and CNQ in simplifying the number of categories for the size of holdings. Clearly an issuer's stock price will materially affect the significance of these categories.

Form 2B - Quotation Summary

Ideally the lower left box should include long term debt and the lower right box should include

officers.

Form 3 - Personal Information Form

Please endeavour to make as consistent as possible to the various other PIF's - TSX, TSX.V, BCSC - currently in existence. In this regard, do not the other PIF's only require 10 years of residential history in Item 1(d) rather than 15 years.

Form 4 - Quotation Agreement

Transfer Fees - Item 2(c)

Every financial intermediary seems to charge handsomely for registering certificates. In this day and age of central depositories, why should an issuer, especially a small/micro cap one, not be able to charge a reasonable expense recovery fee for share transfers too?

Reimbursement to CNQ for Consulting Services - Item 4

CNQ should provide written notice to an issuer if CNQ is intending to obtain independent advice along with some type of estimate of the amount of the expense to be reimbursed.

Form 5 - Quarterly Quotation Statement

This form looks suspiciously like BC Form 51-901F. As outlined under the PIF's above, consistency would be most welcomed unless it is inappropriate. In addition, I would strongly urge the Certificate of Compliance be certified by two directors or senior officers.

In addition, cannot there be an exemption from this form if a Quarterly Report is prepared in another format provided it contains all of the elements required in Schedules A to C ?

Concluding Remarks

I have made a considerable investment of my time in making the comments above. Perhaps if I had of had more time available, I would have pared them down to a lesser number. I hope that

you will find some of these comments useful and beneficial in the creation of a new and much needed marketplace for junior securities issuers in this Province.

Although I have set out a number of suggestions and raised a number of concerns regarding the this Application, it must be clearly understood that I am fully supportive of CNQ and its approach. I commend the efforts of CNQ and trust that their Application will be approved in a timely fashion. The CNQ Application proposes a securities marketplace that should provide liquidity, transparency and visibility at a reasonable price. This in turn should help to improve the capital formation process for small/ micro cap companies which would be of considerable benefit to the economy of the Province of Ontario.

Respectfully submitted,

Douglas Reeson