"Capital Market Opportunities from a Western Canadian Perspective"

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Ladies and gentlemen…Good afternoon.

Almost a year ago, on your 100th anniversary, I had the pleasure of addressing this very active Chamber of Commerce. I am honored to be back in Saskatoon to speak with you once again. Today, I would like to talk about the strength of our capital markets, the opportunities they present and the real challenge that the push for regulatory change represents.

A lot has happened over the past year. The effects of corporate scandals have sparked an intense debate on a host of governance issues and there is a widespread call for more regulation like Sarbanes-Oxley.

While the focus remains on higher governance standards, I believe that Canada cannot afford such a deep layering of rules and regulations due to the fact that we have fewer companies over which to spread the cost. In fact, our capital markets are working very effectively; they are attracting capital globally and are very effective in raising capital for small companies. In the push for more regulation we must ensure that we don't damage a system that is working well.

Canada is a Small Cap Market

We are, after all, a small cap market. 39% of our largest TSX companies have a market cap of less than $1 billion, and 66% of TSX listed Canadian companies have a market cap of less than $200 million. Combined, our 20 largest companies are smaller than General Electric's, and our 10 largest companies are smaller in market cap than Exxon Mobil, Citigroup and Pfizer. We're good at what we do…we're just not that big.

Our small size—combined with the fact that we have thirteen regulatory bodies, often with different sets of rules—has made matters worse. It's led to three years of searching for one set of rules for securities matters—a search that has been both costly and time consuming. So now we find ourselves at a crossroads where the Wise Persons Committee, which was established by the Minister of Finance, and the Provincial Ministerial Committee will come forth with their recommendations to improve Canada's regulatory system later this month.

These initiatives are well intentioned and have generated momentum and ideas for reform, but there are also risks. The risk is that the various initiatives will move in different directions creating reform gridlock or, far worse, the risk of ending up with multi-layered regulation as a by-product of disagreement. We know from experience that the road to hell is paved with good intentions.

Differences are already beginning to emerge. The Ministerial Working Group is focused on making the provincial system work better through the introduction of a "passport system" for simplified access to the capital markets. This is something we need to adopt, but does not need to be conditional on the acceptance of the Uniform Securities Act proposal as some have suggested. Alternatively, the majority of testimony to the WPC advocates a national, single regulator as the answer to reform. The single regulator has obvious appeal—a new broom sweeps clean—but is it the best way to go?

There is already strong resistance from several large provinces, which makes Ottawa reluctant to press forward with wholesale reform. However, even if Ottawa shows the fortitude to move on the single regulator initiative, it will be time-consuming to reconfigure the existing system, further complicated by the need for a representative and responsive model. There is also no assurance that a federal commission will be responsive to regional capital markets' needs or be less expensive. Remember, were a small market.

More interestingly, the testimony suggests that those favoring the national model do so in the belief that it will lead to tougher enforcement. But in reality enforcement has little to do with the structure of regulation. Criticisms of law enforcement have merit, but the solution lies in addressing the need for clearer laws and tougher penalties for white-collar crimes. We also need more coordinated federal and provincial policing, and additional resources for more vigorous and proactive enforcement A single securities regulator will address none of these problems.

The best alternative may be right under our noses. The Charles River study released by the IDA this past June identifies the cost burden on market participants in complying with multi-jurisdictional registration. An efficient passport system for brokers and new offerings can alleviate the problem. The Canadian Securities Administrators (CSA) have suggested that the registration of brokers and securities firms can be streamlined through delegation to the home jurisdiction. The problems with the CSA approach are threefold. First, there is no certainty all provinces will opt into the system. Second, even with delegation, the system is needlessly complex and, third, brokers and firms face duplication, as they must register with a national self-regulatory body, the Investment Dealers Association (IDA) or the Mutual Fund Dealer Association (MFDA).

Surely it makes sense for the provinces to delegate responsibility for registration to the IDA and the MFDA, which regulate the sales practices of brokers and mutual fund advisors and the financial soundness of firms. Turning over responsibility to the IDA and the MFDA achieves consistent and streamlined registration, and, with proper oversight, is an approach that should be palatable to the provinces. It will end unnecessary duplication and leave the provinces power to intervene if necessary. So far, only Alberta and BC have delegated registration of firms and employees to the IDA.

Those who say a passport system for issues will not work need to remember that what most people want inter-provincially, is the same mutual recognition system that we have for some issuers internationally, particularly with the United States. Inter-provincial barriers in the securities industry, like in other industries such as beer and dairy, are simply out of date; they are damaging our productivity and they are hurting us competitively.

To streamline our new offering approval system, the CSA has made great strides in constructing a more harmonized and simplified regime for the registration of new offerings and approval of exempt financings. The Uniform Securities Act Project (USL) is promising further steps in this direction although there are fears that it will be driven by a central Canada agenda. The CSA has introduced the Multilateral Instrument 45-103, which provides uniformity in key exemption categories. This saves issuers time and money. For example, many issuers take advantage of the private placement exemption that reduces the required hold period to four months, conditional on filing an Annual Information Form (AIF). The AIF is a cost to the issuer, but a relatively modest

one and certainly less than a prospectus. We have come a long way in harmonizing our system on many fronts without losing the regulatory competition that has brought us so many important capital market innovations.

Canada can be proud of the fact that we are a world leader in mining finances with the TSX having 1,090 listed mining companies. That is more than the rest of the world combined. In 2002, according to the Mining Association of Canada, Canada outranked all other major exchanges around the world for raising equity capital, with approximately $2.6 million coming through the TSX and $570 million through the Venture Exchange. A combined 48% of global mining equity offerings were financed through Canadian exchanges. The TSX maintains the largest peer group of mining companies in the world, the best access point to equity capital for exploration and mine development and it represents a global destination for financing international projects. We may be small but we're efficient.

Year to date, Canadian mining companies listed on the TSX have raised $2 billion, involving 133 issuers, for projects around the globe—and the majority of these deals were done through private placements. There is a similar story to be told in the oil and gas sector, where, of the $2 billion raised, 75% of financings were done through private placements. In addition, of the 1,480 financings on the TSX Venture Exchange, 94% were private placements for the year to September 2003, a 31% increase over 2002. A little known fact is that most of these private placement issues were cleared for trading after a four-month hold period without the costly preparation of a prospectus. Regulatory competition is a good thing.

There is a hidden virtue in our existing system. Individual regulatory commissions often present different proposals for reform, setting-up competitive tension and debate that promotes timely and innovative policy. An example of this kind of innovation is the development of something I referred to a moment ago called Multilateral Instrument 45-103. Its key provisions were originally developed and proved effective in BC and Alberta, and were eventually adopted in other provinces. The result of this innovation is lower costs to the issuer. For example, Salman Partners recently lead a $28 million transaction for a mining company using this private placement exemption where the estimated total cost to the issuer was $120,000 including the AIF filing. Prior to BC and Alberta developing this exemption, the cost would have been over half a million dollars.

The pressure to reduce costs on prospectus filing has also been evident in the CSA initiative of incorporating by reference, which has allowed certain qualified issuers to use a short-form prospectus, thereby also reducing costs. For example, two mining companies NovaGold and Dynatec recently raised $35 million and $55 million respectively, with issuing costs of less than $250,000. Without this option, a long-form prospectus would have cost these issuers double that amount.

Burden on Market Participants

The lesson here is that the regulatory competition we have in this country has produced a vibrant capital markets system that is able to accommodate and take advantage of a changing global capital markets landscape. What we must avoid at all costs are additional rules that provide little benefit except to serve a specific political agenda. More rules are not the answer to healthier markets. In fact, BC has taken the refreshing

approach arguing that we must reduce the rules and regulations we already have and become more principal based in our approach to market regulation. I would argue that the BC approach, while considered radical by some provinces, is really an example of regulatory competition at work and over time we may see aspects of the BC approach adopted nationally. I can tell you that, privately, many bureaucrats and politicians agree with this.

For years, Western Canada has resisted some of the more restrictive measures taken by Ontario and, with the demise of the Vancouver and Alberta stock exchanges, it is paramount that Westerns have a voice in the growth and direction of the capital markets.

The Capital Pool Corp (CPC) Program, the replacement of the Junior Capital Pool Program developed in Alberta, is important to Western Canada in developing junior companies. While some wish to debate the success of the program, since 2000, 43 companies have graduated from CPC's to the Venture Exchange to the TSX. Of these, ten have a market cap of over $90 million, four have a market cap of over $200 million, and one, Peyto Exploration & Development, has a market cap of $1.1 billion. Moreover, a number of mid-size oil and gas companies that were acquired over the last several years by major oil & gas companies and income trusts, were graduates of the CPC program.

In the current debate between Ontario and B.C., Ontario is arguing for more rules and regulations on governance. B.C. on the other hand is set to reduce the amount of rules we have to deal with, not only in securities but in all sectors. The Province plans to reduce 500,000 regulations across the board. Now I ask, do you think that British Columbians will be worse-off because of this?

Critics of the present systems point out that internationally Canada is at a disadvantage because we have thirteen regulatory bodies. Most global investors or issuers rarely mention the complexity of our system. They are looking to us for our expertise and a system that is cost effective and clear with respect to the rules. Given our position as world leaders in the financing of mining and oil and gas companies to name a few, it would seem we already have a system that is working. While it is necessary for Canada to have one voice internationally on securities matters, there is no reason why the CSA could not do that.

The real issue is how we grow our small and mid cap market base as an engine of economic growth for our country. Securities harmonization is only a small step toward seeing the number of successful Canadian companies grow.

Resist the Temptation to Centralize Our Capital Markets

As we move to increase our governance rules to create our own version of Sarbanes-Oxley, we have to be careful to ensure that our market does not draft new governance rules best suited for major companies who can most afford to implement them and, in many cases, must do so to comply with Sarbanes-Oxley.Canadian inter-listed companies total 180 in number where as the number of companies listed on the TSX and Venture that are not listed in the US market total approximately 2,686.

While the new Ontario Securities proposed rules on governance appear to allow for less onerous rules for small companies, the danger in this is only the tip of the iceberg. The tendency to create a one-size-fits-all solution is a temptation that is often difficult for regulators to resist. As the U.S. system has shown us, it is almost impossible to change rules once they are in place.

My concern is that we are drafting governance rules for an ever-shrinking universe of big cap companies when, in fact, the goalposts have moved over the past twenty years.

The largest issue facing the Canadian Capital Markets is their integrity. We seem to have a great deal of difficulty as a nation prosecuting high-profile insider trading cases and putting some sort of closure to cases like BreX. The answer is not a simple one but it is clear that our courts need more powers to pursue white-collar crime. Creating more rules and regulations taxes our entire system, which in effect penalizes the vast majority of our companies that have a culture of high ethical standards and guidelines.

In the book *"Good to Great"*, Jim Collins suggested that companies pick a sector in which they can be best in the world, no matter how small.

We as a nation must develop our capital markets, particularly in sectors where we are world leaders such as mining, oil and gas, and energy, to name a few. Our government, universities and other education institutions need to play an ever larger role in supporting our capital markets as this is the foundation for wealth creation for today and the future.

I believe we are on the right track when we view our current capital market system as a system that works. It's not perfect and it needs constant improvement…but the heart of the matter is that it works. As our provincial and federal politicians work towards improving the system I would urge them to recognize our current and historical strengths and not adopt changes for the sake of change.

In this we all have a voice because we all have an interest as healthy capital markets create jobs and a vibrant economy. I would urge you all to voice your concerns to your local members of parliament. If we don't we may find that we end-up with a system that takes away the best of what we have and leaves us with an overly complex and costly regulatory system…and that will be of benefit to no one.

Thank you.