

220 Bay Street
9th Floor
Toronto Ontario M5J 2W4
T 416.572.2000
F 416.572.4160

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By E-mail

David Murchison
Executive Director
Expert Panel on Securities Regulation
Ottawa, Ontario
K1A 0G5

Dear Sir,

**Re: A Public Consultation Paper Issued by the Expert Panel on Securities
Regulation in Canada — Request for Submissions**

This letter is submitted in response to your request for submissions as noted above.

Canadian Trading and Quotation System Inc. is the operator of a recognized stock exchange which runs both a conventional exchange with listed companies (the CNQ Listed Market) and an alternative market for securities listed on other Canadian stock exchanges (Pure Trading).

We are recognized by the Ontario Securities Commission and have applied for and received exemptions in British Columbia, Alberta and Manitoba and we are approved to operate in Quebec by the AMF under a temporary order with the OSC as our principal regulator.

To qualify for listing on our exchange, a company must be a reporting issuer in at least one provincial jurisdiction and automatically becomes a reporting issuer in Ontario upon listing if they were not already.

Investment dealers participating in our market must be members in good standing of a Canadian SRO (i.e., Investment Industry Regulatory Organization of Canada "IIROC" or the Montreal Exchange) and traders wishing access to our markets must be registered in at least one provincial jurisdiction.

With this business background, we are familiar with the patchwork nature of the securities regulatory regime in Canada. While we have no issue as to the competency of the individual authorities we deal with from time to time, we submit that many benefits will accrue to participants in our marketplaces if a single regulator was created, provided that regulator is properly constituted and has appropriate and consistent authority across the country. The current system is by its nature complex and unwieldy compared with what could be achieved with a single regulator. The existence of multiple jurisdictions regulating what is effectively a national market creates attendant costs that could be avoided through a process of rationalization that goes beyond the passport model.



We don't believe however that a single regulator will solve all of the problems within the industry, nor do we believe that Canada is a regulatory backwater because of the current arrangements. We are of the opinion that Canada has a regulatory structure that is capable of responding to changing circumstances in the markets and that our current laws, rules and policies are comparable to those of other countries with highly developed capital markets. Because of this we are not anxious to see change for the sake of change, or a regulatory construct that cannot respond to market developments in a timely and effective manner. The efficiency of our capital markets is too important to be subjected to a new regime that is created out of political expediency or in response to media cries for emulation of other countries' regulatory regimes that have much greener grass when viewed from across the fence.

With respect to your requests for comment on particular matters we offer the following:

Principles-Based Securities Regulation

All securities regulation should be based on principles but not be restricted to statements of principles. There is often a need for clarity in rules that cannot be achieved by the espousal of principles. But it is equally important to ensure that rules are grounded in principles that are enumerated by the rule making authorities. This not only provides guidance to the regulators and the regulated alike, but also lends legitimacy to the rules by establishing them on a proper foundation. If the rules are not properly founded upon appropriate principles it will lead to a loss of confidence in the integrity of the regulatory system. Rules that are developed without reference to underlying principles will tend to be overly prescriptive and difficult to comprehend.

Within our own stock exchange we have been able to create a relatively simple rule structure that is comprehensible to listed companies and enables investors to see that the companies are in compliance. We do this by requiring enhanced disclosure online of the companies' activities in management-prepared progress reports, requiring the companies to certify that they are in compliance with our rules and those of applicable securities regulatory authorities, and posting this disclosure material on our website. We also have been careful not to introduce rules in areas that overlap with the rules of other regulators; instead we adopt them by reference or defer to them so as to simplify the overall regulatory environment for the listed companies.

Maximizing disclosure without creating an onerous burden on the listed companies benefits investors in those companies in two ways: the company is not pre-occupied with regulation to the detriment of their businesses and the investors are more informed. Better informed investors are generally acknowledged to be better equipped to make investment decisions.

Proportionate Securities Regulation

The CSA members currently impose proportionate regulation to a greater or lesser extent and this is a practice that should continue. While there is a belief in some quarters that accommodating smaller companies is not worth the perceived risk, because their market capitalization in aggregate is dwarfed by fewer than two hundred large companies, we believe that this would be a serious mistake.

Canada has a very well developed junior capital market that should continue to be encouraged and nurtured by the regulators. Investment capital has and always will be a scarce commodity and it is capital that small companies need in order to develop and

create employment and wealth. Small companies are important engines of innovation and growth and it is important to provide them with access to capital and to give investors the ability to make informed choices as to whether or not they are reasonable investments. Market forces are the best mechanism for determining which companies should get capital and which should not. It is therefore not preferable to have the regulators decide, for instance, what is an "appropriate stage of development" for a company to become a public company, nor how much capital a company should raise when it does go public. Regulators provide the framework within which the companies can raise capital and investors can make informed decisions in which companies to invest.

It is also true that in some instances proportionate regulation can be achieved best by applying the same standards to companies of all types and sizes. This not only reduces complexity, it eliminates the question of where to draw the line between them. It is not always necessary to have different regulations based on company size. It is necessary to weigh the costs and the benefits of all regulations on an ongoing basis to ensure that they are commensurate. This will mean that in some cases different requirements must be imposed to ensure that the regulatory costs are not out of proportion to the desired economic benefits.

In order to achieve the appropriate balance it will be necessary for regulators to not lose touch with the junior markets. This will likely necessitate some form of distributed effort throughout the locales where market participants are active. A single regulator, if established, should not be an overly centralized regulator. The junior capital markets are by nature more likely to be affected by local issues and trends. By maintaining some form of local presence the regulator will be more aware of the likely impact of regulations on a local investment community. While the globalization of capital markets is a real phenomenon that Canadian regulators must be responsive to, it is not the only trend that regulators must recognize when developing and enforcing requirements for market participants.

In conclusion, we are supportive of the concept of a single regulator to reduce overlap, simplify the securities regulatory environment and reduce costs to market participants. We appreciate that political and constitutional issues must be addressed and we hope that they do not result in compromises that would counteract the benefits that should be attained. Given the relative importance of the junior capital markets to Canada we trust that you will consider the impact on this sector when weighing the net benefits of proposed changes to the regulatory regime.

We thank you for this opportunity to comment and wish you the best in your momentous task. Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

CANADIAN TRADING AND QUOTATION SYSTEM INC.



President