

# Democratization of the Capital Markets



Presentation by:  
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# Why Broad Access to Public Markets is Important



- ❧ Funding new ventures
- ❧ Competing with monopolies
- ❧ Equal opportunity to invest and profit

# Derivatives and Futures Older than Stock Markets



## OLD HISTORY of Capital Markets:

- ❧ 1788 BC Hammurabi's Code
- ❧ Various business arrangements
- ❧ Partnerships, especially for shipping and trading
  - ❧ Mediterranean in Roman times
  - ❧ Caravan expeditions to the east by Venetian traders in high medieval times



# After 1500 AD



## The Dutch innovate...

- œ Standardized / unitized interests in trading expeditions allowed:
  - œ Broader participation by the business class
  - œ Trading of these units...
  - œ ...and the start of “pre-results” liquidity
- œ Thus, recycling of capital becomes far more efficient

# More Impacts of the Dutch Innovation



- ❧ The Dutch influence on NY
- ❧ The British learn a hard lesson (after losing a couple of naval wars to the much smaller Dutch Republic)
- ❧ The US grows stunningly in comparison with Latin America
- ❧ Today countries recognize that a reasonably functioning stock exchange, or access to one, is key to economic development

# Positing the Benefits of Democratic Capital Markets



- ⌘ More trusting capital results in better valuations, more investment, healthier capital markets, more startups, etc.
- ⌘ Less direct business-government reciprocal influence for personal or narrow agendas
- ⌘ Stronger society when all have a stake in wealth creation rather than redistribution

# Outline of Presentation



- ❧ Definition of Democratic capital markets
- ❧ Historical developments to approx 1995
- ❧ Developments since 1995
- ❧ Current status of Canada in perspective of the world
- ❧ Current issues
- ❧ Future issues, including National Commission

# Outline of Presentation



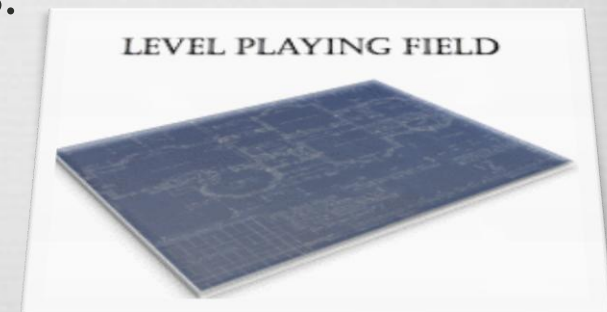
**NOT** Clearing Corporation, Sovereign  
Wealth Funds, International Capital Flows,  
Alternative Trading Platforms, Pay for Order  
Flow, Demutualization of Exchanges,  
Ongoing Electronification, Quants, Hedgies  
Algorithmic Trading, DMA...



# Defining Democracy in Capital Markets



- ❧ Broad participation and access by the citizenry and institutions
- ❧ Level playing field
- ❧ Competition throughout the vertical service delivery by financial institutions
- ❧ Competition in industry as a whole vs. oligopolies and monopolies



# Broad Participation



- ∞ Individual investors and their RRSPs, etc.
- ∞ Pension funds
- ∞ Other institutional investors
- ∞ Private wealth



# Playing Field



- ☞ Participants have equal access to company information and trading
- ☞ Regulation gives equal access to investors and to different ownership structures
- ☞ Taxation treats different ownership structures and owners equivalently



# Competition



- ∞ Diversity of Banks
- ∞ Investment dealers – mix and concentrations/control
- ∞ Number of public companies
- ∞ Degree of monopolies and oligopolies in both industry AND financial services
- ∞ **Secondary:** breadth of competitors in exchanges, legal, auditors, transfer agents, regulators etc.

# Metrics



- ∞ Number of public companies per capita
  - ∞ And their size / industry distribution
- ∞ Breadth of participation
- ∞ Lack of oligopolistic control



# What Affects Democratic Participation?



- ⌘ Economic development
- ⌘ Taxation and government policies
- ⌘ Bad recessions producing poor earnings and losses
- ⌘ Series of great successes and oft-associated Frauds
- ⌘ Regulatory response, costs and benefits

# History to 1920s



- œ East India Company, 1711 - 1720 South Sea Bubble, and British Government
- œ Wild cyclicality
- œ Limited regulatory controls
- œ Periodic banking crises
- œ Good growth... Some democracy in capital markets far better than none



# 1929 CRASH and Insider Trading



∞ Insider trading rules

∞ Disclosure rules

∞ Glass Stegall

∞ SEC

∞ Nov 1929 – Mark's Grampa, R.W. Richards, spends 3 weeks writing, recalculating, and reissuing margin calls





# 1930s to 1990s



- ❧ Glass Stegall
- ❧ Formalized disclosure rules
- ❧ Insider trading
- ❧ Prospectus filings
- ❧ Information circulars
- ❧ Takeover rules
- ❧ Proxy fights
- ❧ Electronification of information
- ❧ EDGAR, SEDAR, SEDI



# 1930s to 1970s



**Mark's Grampa has a storied investment career, and learns to detest:**

- ❧ Insider trading
- ❧ Governments borrowing
- ❧ Governments debasing the currency
- ❧ Unscrupulous sleazy promoters
- ❧ Politicians' agendas
- ❧ Governments getting involved in business
- ❧ Governments in general
- ❧ Preferential treatment of some shareholders
- ❧ Corrupt self-serving corporate directors
- ❧ Non-voting shares

**“Remember, son, your government is your enemy”**

# Continuous Regulatory Improvement



...SEC led



# 1980s (Greenmailing)



- ⌘ Tougher takeover rules
- ⌘ Proxy fight changes



# Also in the 1980s



Mark's Grampa and Mark go on many 5 mile walks, while Grampa relates:

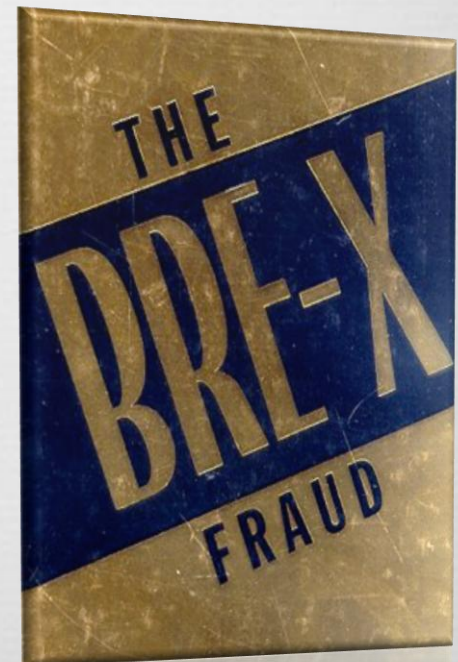
- ⌘ Need for 4 Pillars
- ⌘ Risk of unlisted derivatives
- ⌘ Virtues of agency vs. principal trading...
- ⌘ ...among much other wisdom!



# 1990s BRE-X Fiasco



- ⌘ Very dramatic and public, within context of numerous previous successes and buyouts
- ⌘ Actually 4 major Cdn co. mining frauds, but interestingly all related to gold mineralization
- ⌘ How worsened by the Bank Dealers (they missed out on DiaMet, DiamondFields, Arequipa, and others, and couldn't bear to be left out again)



# Regulatory Response – Resource Industry Only

43-101, 51-101



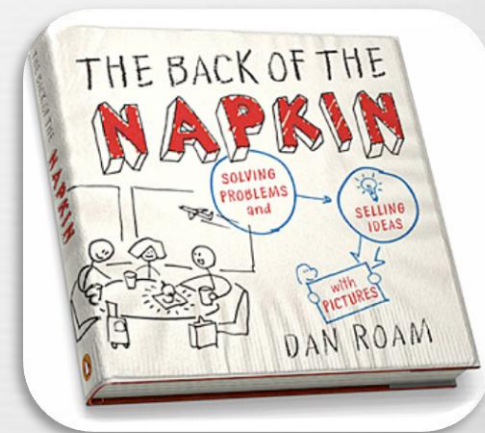
- ❧ Positive and negative
- ❧ Higher cost impact on juniors
- ❧ Varying impact, benefits vs. costs, exploration vs. reserves
- ❧ Some aggressive geos claim to be experts in a range of mineral types and targets
  - ❧ Can regulators consider the expertise of P. Geo's in sub-categories of technology?
- ❧ In some cases, such as REEs, current prices in 43-101 estimations don't and can't reflect impact on price of substantial new production
- ❧ The more complicated, the more difficult to regulate

# Tech Fiascos and Financial Engineering

DotBomb – Enron – WorldCom – Global Crossing – Nortel

## Regulatory Response

- ⌘ TSX-V business case vetting
- ⌘ CEO and CFO certifications
- ⌘ Stock-based compensation regulation
- ⌘ Class action lawsuits – Secondary market liability for continuous disclosure, Bill 198
- ⌘ Information circular clutter
- ⌘ IFRS
- ⌘ Disclaimers and forward looking statements (hahahaha!)



**Costs vs. benefits?**



# Information Circular

## INCENTIVE PLAN AWARDS

### Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth information in respect of all share-based awards and option-based awards outstanding at the end of the financial year ended September 30, 2009 to the Named Executive Officers of the Corporation.

### Outstanding Share-Based Awards and Option-Based Awards at the end of the Financial Year Ended September 30, 2009

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Navjeet (Bob) Dhillon President and CEO	318,700 750,000	15.02 5.51	Feb. 14, 2012 March 10, 2019	Nil 1,792,500	Nil Nil	Nil Nil
Johnny C.S. Lam, CFO & COO	25,000	5.51	March 10, 2019	59,750	Nil Nil	Nil Nil

MIKE-I AM NOT SURE WHAT IS THE VALUE OF UNEXERCISED IN THE MONEY OPTIONS

# Disclaimer

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Forward-Looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We use words such as "expects", "intends", "believes", "may", "will" and "anticipates" to indicate forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including, but not limited to, those risks and uncertainties detailed in the Company's periodic reports filed with the Securities and Exchange Commission. We caution that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict these new risk factors, nor can we assess the effect, if any, of the new risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ from those expressed or implied by these forward-looking statements.

# Canadian Changes



- ❧ Implications of bank takeover of investment industry
- ❧ Mutual funds, fees, and centralized control of underwriting and influence on regulators
- ❧ Strong small cap market not in the banks' interests
- ❧ More individual control
- ❧ Government employee pension funds
- ❧ Income trust rollback: hurts individuals, benefits big capital

# Canadian Regulatory Competition and Innovations

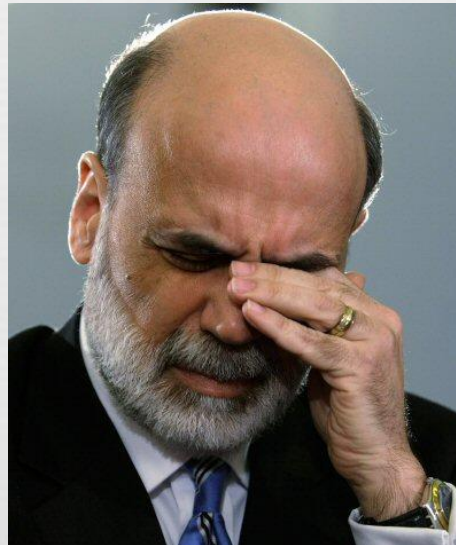
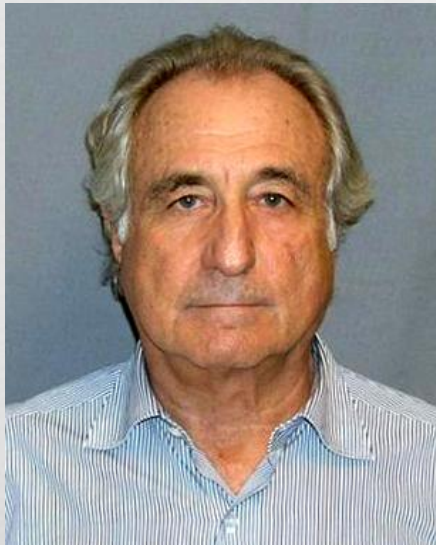


- ❧ BC – small caps and efficient services
- ❧ AB – JCPs and then CPCs
- ❧ MB – 91B
- ❧ SK – local offerings, eg. inland grain terminals
- ❧ Private placement – accredited investor exemption
- ❧ Regulatory co-operation (CSA)
- ❧ Passport System

# 2008 MELTDOWN



- ⌘ US, even with SEC, had extensive frauds
- ⌘ Canada, ABCP? Insulated and protected executives?
- ⌘ Mark gets lucky (financially)



# Current Situation in Canada



**More public companies in Canada per capita than in any other country in the world!**

**Not even including...**

☞ Employee Share Ownership

☞ Credit Unions & Co-Ops

☞ Mutual Organizations (Insurance)

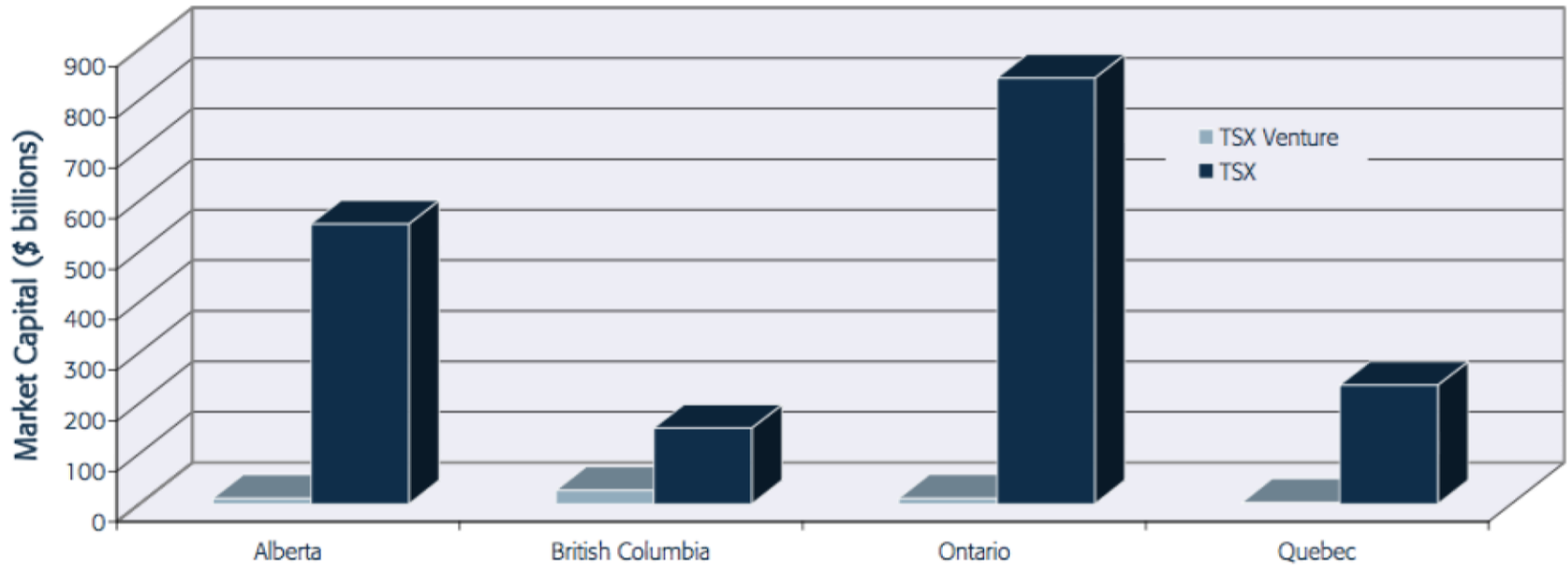
☞ Localized Ownership Companies (SK's Inland Grain Terminals)

# Current Situation in Canada



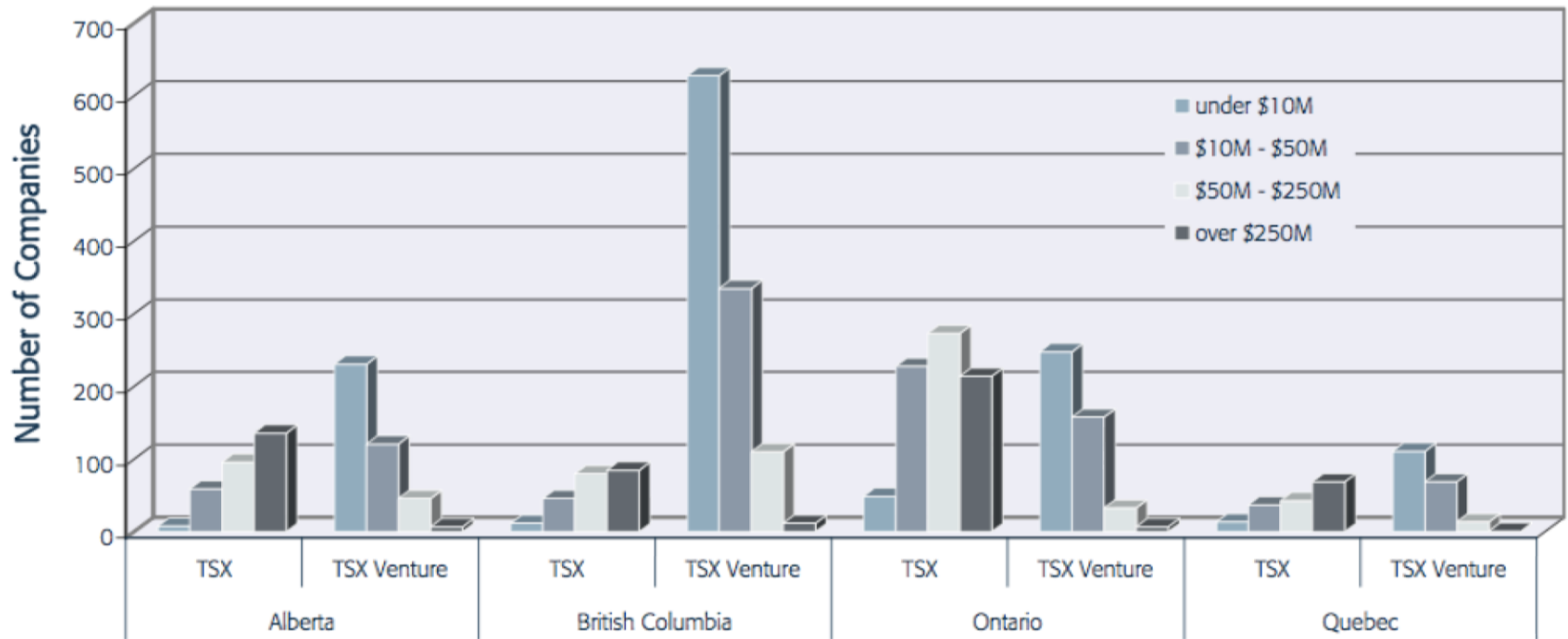
- œ Regional changes – West's rise in quality and quantity
- œ Oil patch – 1990s vs. now
  - œ Public can't access new oil deals
- œ Mining – the great boom
- œ Internationalization of Cdn resource juniors
- œ Tech financings – underperforming, except Angel deals
- œ Financial engineering cool down
- œ Efficiencies in small pubco operations and service providers

**Chart 5 Aggregate Market Capital by Province and Exchange**





**Chart 6 Distribution of Companies by Market Capital, Province and Exchange**



**Chart 7 Distribution of Companies by Province and Market Capital**

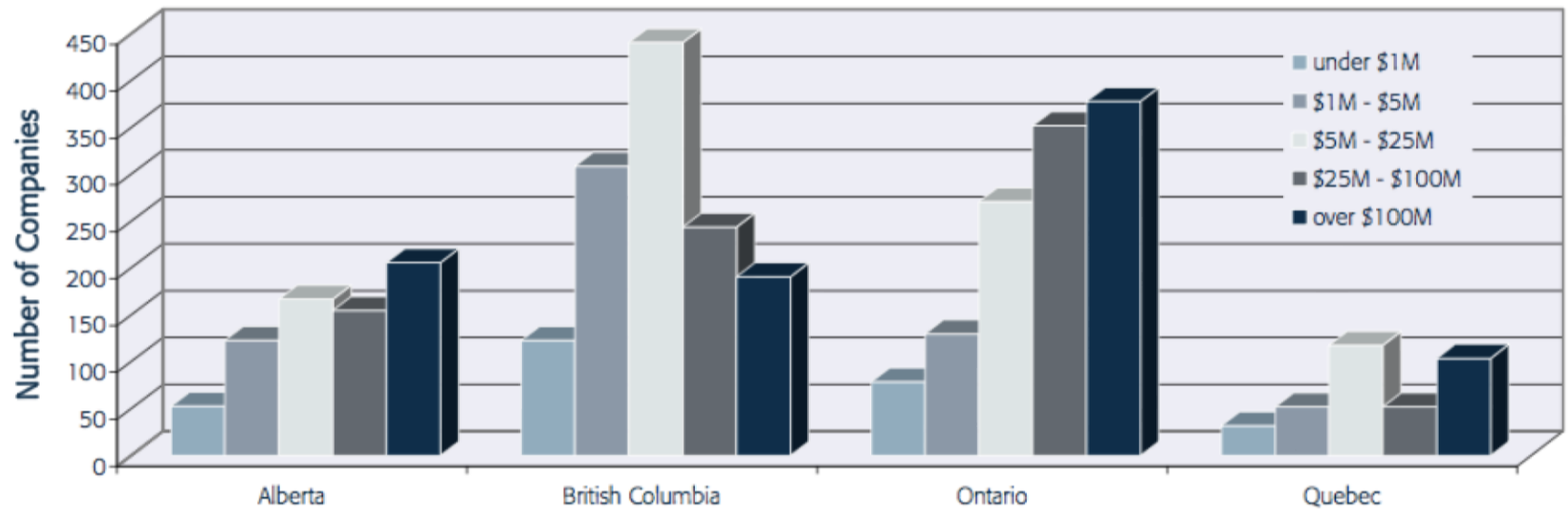
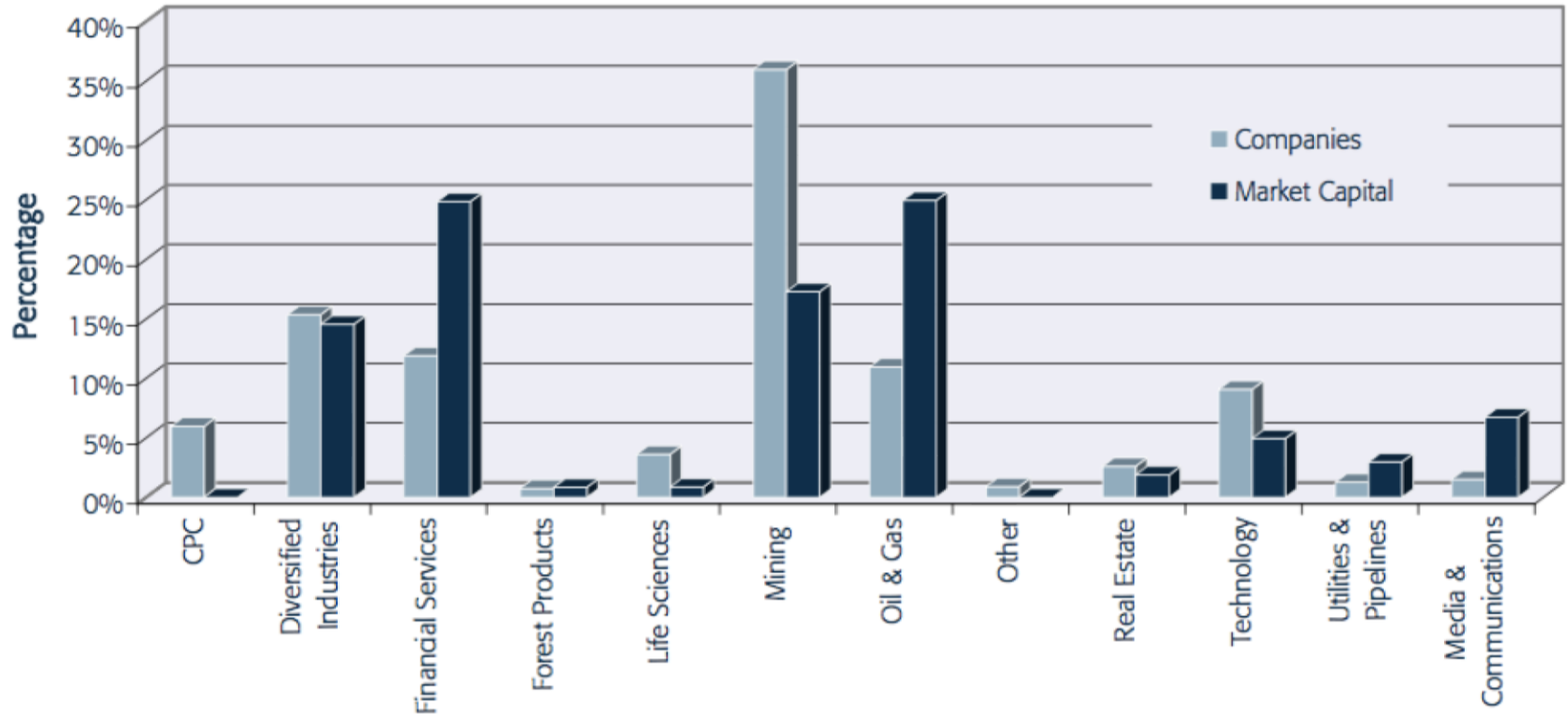


Chart from The Alberta Capital Market: A Comparative Overview 2008 Report

<http://www.albertasecurities.com/news/ASC%20Publications/6116/The%20Alberta%20Capital%20Market.pdf>

### Chart 8 Distribution of Industries by Companies and Market Capital



# Canadian Capital Markets Battle



- ❧ Distributed capital vs. gorillas
- ❧ Small companies vs. the monoliths
- ❧ Tax (dis)parity
- ❧ Regulated access to deals
- ❧ CNSX disclosure vs. TSX-V heavy business review
- ❧ West vs. East

Of course you are welcome...



# Issues



- ❧ 31-103 – the hidden Bank squeeze
- ❧ Private placements – favouritism to investment industry – Is this a Civil Rights Issue? No opportunity to “learn” access?
- ❧ Bill 198 and different classes of investors
- ❧ Investors not reading all the fine print
- ❧ Plethora of regulation keeps regulators distracted
- ❧ Gov’ts treating Commissions like MilchKuehe
- ❧ Bill C300 – killing off the fairest and most even handed international players: the Canadian International Juniors

# Issues con't



- ❧ Gov't favoured Venture Capitalist Pools vs. Angels
- ❧ Crocus, LSVCCs, R&D Credits, Regulatory
- ❧ Private equity and institutional advantage over individuals
- ❧ Taxation, regulation
- ❧ Genuine transparency (e.g. dissemination vs. exchange based disclosure)
- ❧ Small cap entrepreneurs are not administrators – and they are dissipating energies ineffectively or leaving the game
- ❧ Tech and IP companies scared of public markets – don't have same depth of understanding of the issues as resource juniors

# National Regulator



- ❧ Illusions of protection in US
- ❧ US has more than one securities regulator
- ❧ Future bank influence?
- ❧ Genuine protection for small caps?





# Other Regulatory Alternatives



- ❧ Different (proportional rep) director selection
- ❧ CFO selection by minority shareholders/independent directors
- ❧ Continuous disclosure record – greater use and reliance
- ❧ Make a custom market: allow simpler regulation for following standard junior template
- ❧ Allow individual investors to “learn” to “accreditation”

# Thank You



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