JOINING FORCES

A MONTHLY UPDATE ON THE CANADIAN CAPITAL MARKET RESTRUCTURING, AUGUST 1999

# Corporate finance harmonization combines best practices

The new junior equities exchange represents a fresh, new market for emerging companies in Canada, but its business environment shouldn't seem strange to members and listed companies launching new deals. Using a "best practices" standard to assess and adapt existing rules and policies, corporate finance executives from Calgary, Montreal, Toronto and Vancouver are finding more congruence than variance among the exchanges.

There is no reason for member firms to delay the launch of new business in anticipation of a significantly different corporate finance regime. With the new exchange's corporate finance binder populated by much the same policies and rules as those already in effect in Alberta and Vancouver, members can plan to sustain, and even intensify, their new business dealings as opening day approaches.

Corporate finance policies for the three-tiered market will comprise best-of-class policies from each market, with listed companies that fall below the new standards being "grandfathered" with respect to entry requirements. Already resolved through the clause-by-clause review are listing and maintenance requirements, member sponsorships and reporting letters. Policies for each tier will be essentially the same with the exception of initial listing requirements. In brief:

- Tier 1 consists of minimum listing requirements comparable to those in effect on the TSE until last November. Many VSE advanced companies and senior ASE issuers will migrate directly to Tier 1.
- Tier 2 listing requirements are a composite of those in effect for ASE and VSE venture companies, with Vancouver's mining standards and Alberta's oil & gas standards transferred directly in consideration of their proven efficiency. Current ASE, VSE and ME junior listings will go directly to Tier 2, along with some qualifying CDN companies.
- All other companies will start on Tier 3 (a dealer-quoted market).

Issues surrounding harmonization of capital pool programs, foreign issuer standards and escrow policy are under review.

All issues are scheduled for resolution by the end of August when the CFS harmonization working group will put the first iteration, in the form of policy summaries, before securities commissions in B.C., Alberta, Ontario and Quebec.

For more information about corporate finance harmonization, please contact Gerry Romanzin, executive vice president, at (403) 974-7400.

# Trading and Rules Harmonized

ASE and VSE staff had already considered issues related to sharing a single trading platform when the Canadian market restructuring was announced in March. So while the timetable for reviewing system functionality and each of the exchanges' 100-plus trading rules was accelerated, the merger proposal brought no change in direction for the eight-person working group comprised of ASE, VSE and member firm representatives.

An early step was the creation of a matrix of ASE, VSE, TSE and NASDAQ rules to analyze the primary issues that would affect Canada's junior market. The matrix indicated a high degree of similarity. As a result, trading rules for the new exchange reflect only minimal changes to those already familiar to ASE and VSE market participants. Aside from eliminating duplication and editing to reflect the new junior market's identity, only six rules required changing to achieve the working group's "best practices" objective.

Of the six, including board lots and quotation spread, put throughs and odd lot premiums and discounts, the uptick versus last sale rules for short selling received the most attention. The uptick is being adopted as it is consistent with the CSA's recently published recommendations.

Trading system functionality is also important to the new exchange. Given that VCT is an interim solution, the working group considered only two types of upgrades: ones that would ensure market efficiency from the outset, such as open optimization; and an enhancement to provide system support for the client-pro rule. Open optimization is designed to ensure capacity for handling a much busier opening and has been in effect since July. The introduction of further enhancements will begin once the Y2K freeze is lifted, sometime in March 2000.

Trading rules for the new exchange were endorsed by the ASE/VSE Merger Steering Committee in July and will be presented for ratification to the Boards of Governors of both exchanges on August 19.

For further information, please contact Marc Foreman, vice president of trading, at (604) 689-3334.

# Strategic Planning Underway

Strategic planning and effective implementation by the new junior exchange is required to ensure that we provide listed companies and investors with the service levels that fulfill our mission statement to "provide emerging growth companies with effective access to capital while protecting investors."

This fall, new exchange management and nominee board members will participate in an integrated strategic management planning process to develop cohesive, coordinated strategic and business plans. Consultation with member firms, listed companies, investors and other industry participants will provide input to ensure the strategic directions are properly prioritized and meet the needs of the market.

The strategic planning process is now underway. To provide input, raise issues or concerns, please contact Jeff Meyer, vice president of strategic planning, at (403) 974-7400.

## MEMBER REGULATION

The Merger Steering Committee agreed July 19 to request that the Investment Dealers Association (IDA) assume responsibility for member regulation of the 18 members in the VSE's prime audit jurisdiction and the 8 members in the ASE's prime audit jurisdiction.

The goal is to simplify the existing two-tiered regional/national regulatory regime with a uniform national system operated by the IDA. The transfer is subject to Alberta and BC securities commission approval.

Approval for the proposal would result in some staffing changes — examiners, member registration and some other compliance staff would transfer to the IDA. The new exchange will continue to have market regulation responsibility, including surveillance.

For more information, please contact Mary Beck, vice president of compliance, at (604) 689-3334.

## TRADING SYSTEM PARTITIONING STRATEGY

To facilitate an orderly transition and independent conversion of the four trading environments onto VCT, a partition strategy was developed.

Winnipeg trading is currently hosted in a partition on VCT, and Alberta and Montreal trading will be converted in the fall. While trading of the ASE, ME, VSE and WSE will be consolidated, each exchange will maintain its own revenue flow, order and trading history, market information and compliance roles until the amalgamation (the day for completion of all legal transactions required to effect the merger and create the new exchange).

Once the exchanges are amalgamated, technology staff will dismantle the partitions so that trading on the new exchange will begin promptly at 6:30 a.m. on the first day of operations.

The partition strategy is just part of the readiness plan for upgrading the key systems, hardware, applications and networks needed to handle the consolidated trading of the new market. Open optimization, introduced in July, has reduced the time it takes to open the market by two-thirds.

For more information about VCT partitioning, please contact Lloyd Costley, executive vice president, at (604) 689-3334.

### NEWSLETTER AVAILABLE ONLINE

To view this issue of *Joining Forces* online, please visit the ASE or VSE websites at www.ase.ca or www.vse.ca, respectively. The websites also contain the July issue of this newsletter as well as other market restructuring information, including press releases and frequently asked questions.

# CVMQ SUPPORTS MARKET RESTRUCTURING

The Commission des valeurs Mobilières du Québec (CVMQ) made public its unanimous support of the Canadian capital market restructuring on June 29, in a report released following the CVMQ hearing. While all six CVMQ Commissioners supported the reorganization plan, they outlined six minor conditions that address concerns voiced by a small number of Québec securities industry participants. The six conditions include:

- Approval of members
- Approval of the ancillary agreements by the Commission
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- Establishment of regional offices in Montreal
- Recognition of the exchanges as SROs
- Transfer of listings (in an equitable manner)
- Québec representation on the boards of the exchanges

ASE and VSE executives noted that most of the CVMQ's conditions were anticipated and can be easily met. In fact, a majority of the issues have already been addressed.

While approved in principle by the CVMQ, the Montreal Exchange's participation in the Canadian capital market restructuring also requires approval from the Québec government.

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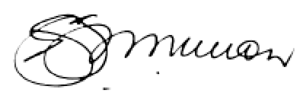
*Joining Forces* is a monthly newsletter published by the ASE/VSE Steering Committee. The newsletter is designed to update industry participants on the Canadian capital market restructuring.

For more information, please contact the Steering Committee Co-Chairs Chris Lay or Jim Sorenson at (604) 687-2699 or (403) 265-4000, respectively.



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