



JOINING FORCES



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

SPECIALIZATION ENHANCES MARKET EFFICIENCY

What began nearly four years ago as a side-bar discussion at a worldwide stock exchange conference has evolved into a memorandum of agreement—entered into by Canada's four major stock exchanges in March—to restructure the Canadian capital marketplace. Since then, the exchanges have been working to develop implementation plans and obtain necessary regulatory approvals.

A summary of the announcements to date follows:

EXCHANGES ANNOUNCE MARKET RESTRUCTURING

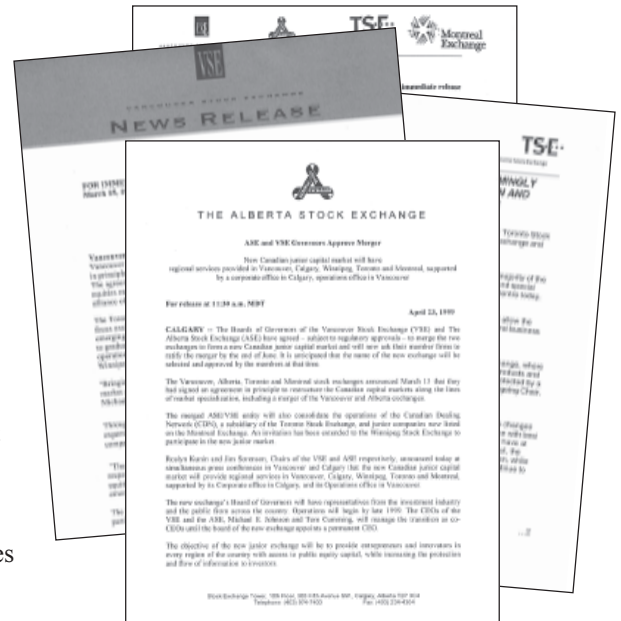
On March 15th the boards of governors of the Alberta, Montreal, Toronto and Vancouver stock exchanges announced an agreement, in principle, to restructure the Canadian capital markets along the lines of market specialization, with the TSE as the senior equities market, the ME as the derivatives market and the merger of the ASE/VSE to become Canada's junior equities market. The merged ASE/VSE will also include the junior listings of the ME and consolidate the operations of CDN.

An invitation has been extended to the Winnipeg Stock Exchange to participate in the new junior market.

The market restructuring will create stronger synergies among the exchanges. A vibrant derivatives market acts as a catalyst to strengthen the senior market, and similarly Canada's junior equities market will provide a strong source of listings that will graduate seamlessly to the senior equities market.

ALBERTA AND VANCOUVER MERGER APPROVED

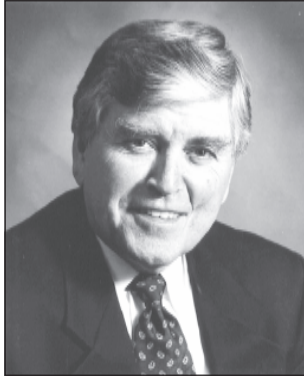
In late April, the boards of the ASE and VSE announced they had agreed—subject to regulatory approvals—to merge the two exchanges. They outlined the structure and core functionality of the merged entity, which includes a corporate office in Calgary, an operations office in Vancouver, and regional service operations in Calgary, Montreal, Toronto, Vancouver and Winnipeg.



TSE MEMBERS RATIFY MARKET RESTRUCTURING

At the TSE's June 10th annual general meeting, its members approved the realignment of the Canadian stock exchanges as well as the TSE demutualization.

For more information on the announcements issued to date, please contact Pam Whitworth, Director of Communications, at (604) 488-3126.



*Chris Lay,
Steering Committee Co-chair*



*Jim Sorenson,
Steering Committee Co-chair*

STEERING COMMITTEE PROVIDES ROADSIDE ASSISTANCE

A look at those behind the merger

In November, the boards of the Alberta and Vancouver stock exchanges established an ASE/VSE Steering Committee to explore opportunities for merging the two exchanges. This ad-hoc committee was formalized in March to oversee the merger of the two exchanges and the role the new junior market will play in the Canadian capital market restructuring.

The Steering Committee is made up of four members of the ASE, four members of the VSE and an observer. ASE committee members include: Wiley Auch of FirstEnergy Capital Corporation; Ian Brown of Goepel McDermid Inc.; Joanne McLaws of Nesbitt Burns Inc., and Jim Sorenson of Merrill Lynch

Canada Inc. VSE committee members include: Dennis Burdett of Canaccord Capital Corp.; Chris Lay of CIBC World Markets Inc.; John McCoach of Yorkton Securities Inc., Norm Thompson of Union Securities Inc.; and observer Gord Medland of Goepel McDermid Inc.

Also participating in committee meetings are ASE President and CEO Tom Cumming, VSE President and CEO Mike Johnson, and staff liaisons Lloyd Costley, Vice President and CFO of the VSE, and Gerry Romanzin, Executive VP of the ASE.

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

MEMBER UPDATES

*Newsletter launched to
provide updates during
market restructuring*

The ASE/VSE Steering Committee will provide members of the ASE and VSE with a monthly update on the progress and development of the Canadian capital market restructuring through this newsletter, *Joining Forces*.

We welcome your comments and questions. Most articles contained in this newsletter will conclude with contact information on the topics addressed.

For more information, please visit the ASE and VSE websites at www.ase.ca or www.vse.ca.

Steering Committee Co-chairs

Jim Sorenson, ASE

Chris Lay, VSE

DECENTRALIZING OPERATIONS TO PROVIDE REGIONAL SERVICING

While the Canadian capital market restructuring is designed to strengthen the market for all participants, it is clear that the biggest beneficiaries will be listed companies.

The junior capital market will play a unique role in the restructured capital markets, providing broader access to capital for emerging growth companies. Under the new Canadian junior equities market structure, listed companies will have access to a Canada-wide trading environment through regional service points across the country.

With approximately 3,000 listed companies to service—1,000 from the ASE, 420 from CDN, 140 from the ME, 1,300 from the VSE, and 12 from the WSE—the new junior market will provide corporate finance, surveillance and marketing functions in regional service centres located in five cities; Calgary, Montreal, Toronto, Vancouver and Winnipeg. The regional services will be supported by a Calgary corporate office and a Vancouver operations office. The corporate office in Calgary will have overall functional control responsibility for corporate finance, the regional service operations through the

five centers, and certain executive and administrative functions. The operations office in Vancouver will provide functional control for trading, surveillance and MIS and their related technologies, as well as compliance and marketing.

Each of the regions will have decision-making authority, representation on the board of governors and various committees. Listed companies, for example, will apply to a regional office where marketing and corporate finance officers will process and accept filings for listing and trading, Canada-wide. The Montreal office will provide services in both French and English.

The junior equities market will operate with a three-tiered structure: Tier 1 and 2 will operate as a continuous auction market with a central order book, with Tier 1 for advanced companies and Tier 2 for venture and capital pool

companies. Tier 3 will be a dealer, quotation driven market that will host pre-listings, such as those currently on the CDN/OTC market, and special situation issuers.

The principle that listed companies choose the appropriate market for access to capital will be preserved. All companies participating in the Cana-



In the new Canadian junior equities market, listed companies will have broader access to capital and a Canada-wide trading environment through regional service points across the country.

dian capital markets restructuring will be treated in an equitable fashion in allocation to either the junior or senior equities markets. The TSE will be issuing new continuous listing requirement standards in September, which will outline the qualifications for eligibility on the senior equities market.

For more information on the regional service centres or listing requirements, please contact Gerry Romanzin at (403) 974-7400 or Lloyd Costley at (604) 689-3334.

THE MAKING OF THE MERGER

From building a new governance structure to seeking regulatory approvals to migrating onto a single trading system, the activities involved in creating a Canadian junior equities market are vast and the impacts will be far-reaching.

Listed below is a summary of the major initiatives that will occur throughout the Canadian junior equities market restructuring.

LEGAL STRUCTURE

Currently, the ASE and VSE are Special Act entities in their respective provinces. Both Special Act entities will be converted to business corporations (Alberta requires legislative change). Once converted, the VSE business corporation will be continued over to Alberta, and ultimately, amalgamated with the ASE business corporation to form the new exchange as an Alberta Business Corporation Act (ABCA) company.

The exchanges are striving to maintain their tax exempt status and to minimize tax consequences for members.

The ownership of the new entity will be through shares, following a seats for shares swap. The new company will allow for different classes of ownership and access to the trading system in

accordance with the memorandum of agreement between the four exchanges.

The legislation needed to establish the new Canadian junior equities market will be drafted in early fall and is expected to be passed at the November sitting of the Alberta legislature.

REGULATORY APPROVALS

The market restructuring requires a number of regulatory approvals and the exchanges are working closely with the Canadian Securities Administrators to identify and resolve the regulatory issues surrounding implementation of the MOA. The ASE, ME, TSE and VSE meet twice a month with the CSA to address issues such as jurisdictional recognition of exchanges, registration of member firms and their employees, and reporting issuer status in multiple jurisdictions.

The ASE and VSE will continue consultations with the Alberta and B.C. securities commissions to address the necessary regulatory approvals, harmonization of JCPs and VCPs, exchange vetting of prospectuses on behalf of the commissions, and member registration.

Not all issues require approval to launch the new junior exchange but are

desirable in the near future to create a uniform, harmonized regulatory environment. The appropriate regulatory approvals will be sought in the fall to coincide with Alberta's legislative session.

SYSTEMS

The new junior equities market's trading system will need to accommodate up to 500 trader workstations, 3,000 listings, 40,000 trades per day, and market makers for Tier 3 securities (CDN/OTC). Some of the junior market's key systems include:

- *Trading System*
Vancouver Computerized Trading will be the trading engine for an interim period of 2-3 years. In the long term, there are several alternatives that will be considered for the strategic trading system, including: an enhanced version of ACE II, a system presently used by the ASE; the TOREX system, developed by the TSE as its next trading engine; or, a redeveloped version of the VSE's VCT.
- *Market Information Systems*
A new website will be developed combining attributes of the ASE and VSE websites in both French and English. A successor of VC INFO will be the standard for listed company information on the new market, and will be accessible through the website. The Document Manage-

ment and Imaging System—the core system for storing and retrieving corporate finance documents—will interface with the new website and SEDAR.

▪ *Indexes*

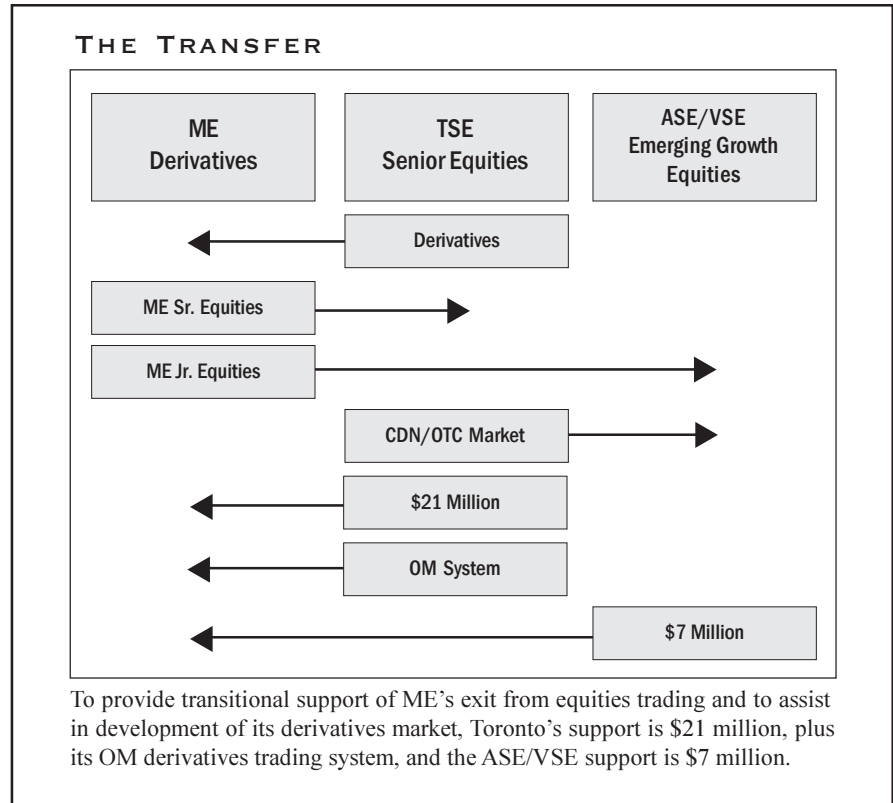
The ASE and VSE’s indexes are being analyzed to develop an appropriate index methodology for the new junior market. Indexes for the overall junior market, as well as sector indexes for mining, oil and gas, high technology and biotechnology are under review.

▪ *Technology Infrastructure*

An inter-region network will be established to connect Calgary, Montreal, Toronto, Vancouver and Winnipeg.

REGIONAL STRUCTURE

The new exchange will provide access to a Canada-wide trading environment through regional service centres in five cities across Canada; Calgary, Montreal, Toronto, Vancouver and Winnipeg. Each of the regional service points will provide corporate finance, surveillance and marketing functions. Supporting the regional centres will be a corporate office in Calgary and an operations office in Vancouver. (For more information on the new market structure, please see the article entitled *Decentralizing operations to provide regional servicing* on page 3.)



MEMBER ACCESS

Existing ME and TSE members who are not also members of the ASE or VSE will have trading privileges without purchasing shares. Existing CDN broker-dealers will be required to apply for access privileges.

TRADING HARMONIZATION

One of the junior market restructuring benefits will be a harmonized trading environment, with a common technology platform and one set of rules. A joint committee of traders from the ASE

and VSE met in May to synchronize the rules of the two exchanges. Some of the trading rules examined include: short selling; crossing; allocations; price increments; opening passes; and, dynamic board lots.

CORPORATE FINANCE HARMONIZATION

Also involved in harmonization efforts are exchange representatives from the ASE, CDN, ME and VSE, who met last month to align corporate finance policies and rules. A sampling of the topics covered include: minimum listing

requirements for the new three tier structure; continued listing requirements; harmonization of VCP and JCPs as well as reverse take-overs; and, members' sponsorship and reporting letters.

Following completion of a policy-by-policy comparison, consultations will be held with members, listed company groups, exchange committees and securities commissions to develop uniform corporate finance rules that ultimately will be applicable Canada-wide.

MEMBER REGCO

The merger to form a Canadian junior equities market presents an opportunity time to examine whether a concurrent initiative to transfer member regulation from the exchanges to the Investment Dealers Association should proceed.

MEMBERSHIP APPROVAL

Members will be asked to ratify the merger at Special Meetings to be held just prior to the mid-November (1999) amalgamation. Members will be updated monthly through *Joining Forces*. A full package of materials addressing the relevant issues will be distributed to all members approximately 30 days prior to the meetings.

For more information, please contact Gerry Romanzin at (403) 974-7400 or Lloyd Costley at (604) 689-3334.

WHAT'S AHEAD*

- June 8: ■ Legal Structure—Steering Committee approval
- July 20: ■ Montreal and Toronto regional servicing agreements
- July 31: ■ Member access agreement
 - WSE participation
 - CDN acquisition
- Aug 19: ■ Trading rules harmonization
 - Corporate finance policies harmonization
- Oct 1: ■ CDN operations assumed by ASE/VSE
- Oct 12: ■ ASE listings to VCT (under partition)
- Oct 15: ■ Regional service in Montreal, Toronto, and Winnipeg commence
- Oct 31: ■ ME listings to VCT (under partition)

AMALGAMATION

- Oct 18: ■ Members receive relevant materials re: amalgamation
- Nov 10: ■ Alberta—enabling legislation
- Nov 10: ■ Regulatory approvals
- Nov 12: ■ Member approvals
- Nov 12: ■ **Amalgamation**
- Nov 15: ■ New exchange operations commence
 - Removal of ME, ASE, WSE partitions on VCT
 - Trading and downstream systems integration
 - Y2K moratorium (Nov. 15, 1999 to March 31, 2000)
- May 31: ■ CDN quotations to VCT

* *Schedule represents anticipated dates for approvals and implementation.*

EXCHANGES MAKE PRESENTATION AT CVMQ HEARINGS

The CEOs of the Alberta, Montreal, Toronto and Vancouver stock exchanges attended the Quebec Securities Commission (CVMQ) hearings on June 3, 4, and 7, 1999, to provide an industry presentation on the Canadian capital market restructuring agreement. A number of other interested parties were also heard.

It is expected that the CVMQ report will be available to the Ministry of Finance no later than June 29, 1999.

COMPETITION BUREAU REVIEW

Prior to the March 15th Memorandum of Agreement (MOA) announcement, the VSE, ASE, TSE and ME—through their respective legal counsel—advised the Competition Bureau of the plans for the Canadian capital market restructuring, including the plans of the ASE and VSE to merge.

In May, a group of Toronto Futures Exchange traders made a complaint to the Competition Bureau. The Commissioner of the Bureau has indicated that it will be conducting a full review of the MOA including the ASE/VSE merger. The exchanges will cooperate fully with the Bureau during the course of the review.