



PETER M. BROWN, OBC, LL.D.  
CHAIRMAN

June 23, 2008

Thomas Hockin  
Expert Panel on Securities Regulation  
Ottawa, Canada  
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Dear Tom:

I found our meeting useful and the mandate of your Committee to put content ahead of structure is an approach which we at Canaccord Capital have advocated for over a decade. If the discussion of a National Securities Commission opens the door for real and necessary regulatory reform, then it is an opportunity.

I think we can all agree that the principal purpose of a domestic capital market is to finance the country's industry and engines of growth while setting standards for both the participants in the industry and the issuers that provide a fair market for the investor. It is hard to maintain the balance where regulation does not interfere with market efficiency and market timing, while adding to the cost of capital. At the same time, it is important not to regulate in such a manner that it crushes innovation by trying to eliminate risk. While we would like to do a more detailed submission in the future, I might summarize the points we discussed at the meeting and that represent the low hanging fruit that should be the least contentious.

If we were to set our minds to having the most efficient and fair regulatory system it would be a national asset and a global business attraction. To get there it is necessary to look at the whole regulatory framework – not just the role of the Canadian Securities Commission. Others that impact on regulation – IIROC, CIPF, CDS, TSX and TSX Venture along with the Federal Government in terms of money laundering legislation. To get it right your Committee should consider reviewing the whole regulatory framework which includes these other rule making organizations.

There needs to be a clear definition and delegation of responsibilities between the role of a National Securities Commission and the other rule making bodies or SRO's. At present the lines are blurred and the commission's authority to approve all changes and regulations made by the SRO has proved to be an impediment to the SRO's own opportunity for regulatory reform. The SRO's need to be given a clear mandate and ability to deliver with the NSC having clearly defined oversight and tight approval times to accept or reject changes.

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It is our belief that there has developed a bias in the rule making industry towards the asset gatherers, financial planners and money management side of the business and a bias against trading, transactional business and small cap issuers. We believe it to be important that the rules be neutral to all market and investment strategies as was emphasized by the FSA.

I believe there is general agreement that the Commission's regulatory hearings should be heard by an independent body. In addition, as the penalties are becoming more significant in terms of both fines and career interruption, there should be a review of the procedures to make the process more judicial. For example, there should be some principal of innocence until proven guilty rather than balance of probabilities and there should be some adherence to established rules of evidence. There should also be a clear path for appeal.

An investment advisor should be able to receive a national registration that allows him to offer his services across the country without boundaries. This regulation should be for a term of five years, instead of one year, to be updated electronically. This would be a similar term to a passport and drivers license. If an investment Advisor transfers from one registered dealer to another it should be a matter of notification not a license renewal. If his termination questionnaire would indicate that disciplinary action is required it should be instigated as a separate action with due process.

There is a growing trend in the business today for IA's to work in teams and thereby provide better service to their clients. For these reasons and to allow for their own tax, business and succession planning, we believe it is important that IA's be allowed to incorporate which has been approved by the Board of IIROC but rejected by the OSC.

The Crawford Committee has made the point for the need for regional representation but does not adequately emphasize the need to delegate the authority to make regional decisions locally (without constant referral to head office which creates duplication and time delays). This may also include keeping some of the regional expertise that has been developed in different parts of the country.

We would encourage a further extension of the continuous disclosure model where we reduce or eventually eliminate the expensive, time consuming and out-dated prospectus requirements. The Annual Information Form developed in B.C. is a good example of the innovation that came out of regulatory competition.

There is an urgent need to examine the whole area of electronic delivery of documents, statements, confirmations and electronic signatures. Clearly the regulations have not kept pace with the technology and as a result are stifling the benefits and efficiencies of working in the electronic age while we have assumed many of the costs.

In general, a substantial portion of compliance and enforcement time is being consumed by mindless paperwork, victimless crimes or actions that have no public detriment. The



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excessive prescriptive regulation has created box ticking police forces and diverted both the regulatory enforcement staff and investment industry compliance staff from real compliance work in a manner that is very demoralizing to them. In addition, the small issuers estimated in a survey that 30% of their G and A expenses are on regulatory requirements and compliance. Unfortunately, much of the problem is in the minutia of regulation that was developed without framework or guiding principals over time and with no measurement of benefit to the public or cost benefit analysis. It is prudential and pays little attention to systemic risk and long ago failed to achieve the right balance between regulatory restrictions and the benefit of market freedom. Our present system does not provide sufficient policy and regulatory review and has demonstrated little ability to innovate in a rapidly changing environment.

As stated at the outset, this is intended to be a summary of the main points we brought to your attention in a preliminary meeting in Vancouver and I hope it is helpful. We will submit more detail information to you in the future. We hope you agree that regulatory competition has provided the benefits of choice, innovation and fostered regional priorities, expertise and service. A new or different system will need to either replace these features or compensate for the loss of them with greater efficiencies.

Thank you again for your interest.

Yours truly,

A handwritten signature in black ink, appearing to read "Peter M. Brown", written in a cursive style.

Peter M. Brown  
Chairman

cc: David Murchison