MEMORANDUM OF CONFERENCE

DATE: August 31, 1954

PLACE: Office of O. E. Lennox, Chairman, Ontario Securities Commission in Toronto

PRESENT: O. E. Lennox, Chairman, Ontario Securities Commission
Messrs. Cameron, Collins and Wetmore, Staff Members of the Ontario Securities Commission
George L. Jennison, President, Toronto Stock Exchange
A. J. Trebilcock, Executive Manager, Toronto Stock Exchange
Beverley Matthews, Counsel, Toronto Stock Exchange
Earl Robertson, Chairman, Broker-Dealers' Association of Ontario
W. M. Wismer, Executive Secretary, Broker-Dealers' Association of Ontario
Jack Kingsmill, Investment Dealers' Association
Commissioner Adams and Messrs. Woodside and Barlock of the SEC

Mr. Lennox opened the afternoon conference by reviewing generally the discussions had in the morning. He referred specifically to the South Canada Uranium case (the "Delaware corporation" problem) and stated that in his opinion the solution to the problem would be to impose upon American companies using Regulation D a condition requiring them to qualify the issue in the province of origin. He thereupon called on Commissioner Adams to state the position of the SEC in the matter. Commissioner Adams, however, called upon the members of the industry to state the problems and concerns which motivated the request for an amendment of Regulation D.

Mr. Trebilcock expressed a fear that cases like South Canada Uranium are going to have (1) a bad influence on the reputation of Ontario and (2) a bad influence on the American investing public. He made it clear that he was speaking from the standpoint of the Stock Exchange. He stated that Mr. Lennox has done a good job in Ontario and that the formulae worked out by him with respect to vendor stock and escrow agreements had worked out

very well. In connection with the problems of the Toronto Stock Exchange, he referred to registration statements filed with the SEC covering securities which are listed on the Toronto Stock Exchange and where the regulations of the Exchange have not been complied with. At one time, he said, he had suggested to Mr. Kroll that issuers of securities listed on the Exchange should be required to meet the requirements of the Exchange. He inquired whether there was not some way whereby the SEC could advise registrants that the requirements of the Stock Exchange must be met. He requested that the Toronto Stock Exchange be advised whenever an issuer whose securities are listed on that Exchange has filed a registration statement under the Securities Act of 1933.

Commissioner Adams said that we could advise the Stock Exchange whenever we receive a filing by an issuer whose securities are listed thereon, or we could send to the Exchange a copy of the preliminary prospectus filed with us. Mr. Trebilcock stated that the second alternative would be preferable and it was agreed that the Division of Corporation Finance would send to the Toronto Stock Exchange a copy of any prospectus which indicates that the securities are listed or proposed to be listed on that Exchange. (Mr. Trebilcock pointed out that it would be a violation of Stock Exchange rules if an issuer represented that the securities are to be listed on the Exchange.)

Mr. Robertson was called upon next and stated that the biggest troubles facing members of The Broker-Dealers' Association were (1) legal fees involved in getting an issue qualified under Regulation D, and (2) the length of time it takes to effect factual changes in the offering circular and to clear advertising material. Referring specifically to the filings under Regulation D

by Delaware corporations, Mr. Robertson stated they are unfair to Toronto dealers and constitute "unfair competition." He said, too, that Regulation D has not worked too well from the standpoint of The Broker-Dealers' Association since the members have found it necessary to "hire" American dealers to "complete the deal."

Mr. Woodside pointed out the problem of large legal fees in connection with Regulation D filings was obviously outside the scope of the SEC's control and would have to be solved by the persons attempting to use the Regulation. When pressed by Mr. Robertson to name a figure which he (Mr. Woodside) thought would be reasonable, Mr. Woodside stated that, in the ordinary case involving no undue complications, a fee of $1,000 to $2,000 would, in his opinion, be reasonable.

With respect to the second problem raised by Mr. Robertson, Mr. Woodside noted that Regulation D was still in its experimental stage and that, under such circumstances, processing generally is slow. He frankly admitted that the processing of Regulation D filings had been assigned to one Section of the Division of Corporation Finance and indicated this might be a possible reason for delays in clearance. On the other hand, he pointed out that much delay has resulted from the fact that many filings are poorly prepared and require extensive and time consuming correspondence between the Division and the issuer. In any event, he stated that he would take steps to expedite as much as possible clearance of these filings.

In connection with this discussion, Mr. Woodside gave the following summaries of the filings under Regulation D since March 6, 1953:

Received		63
Cleared	42	
Pending	17	
Withdrawn	3	
Suspension Order	1	
		63

Nature of the Enterprise:

Mining	50
Oil and Gas	9
Lumber	1
Commercial	1
Industrial	1
Mining and Oil and Gas	1
	63

Province or State of Incorporation:

Ontario	30
Quebec	8
Alberta	8
Delaware	10
British Columbia	3
Saskatchewan	1
New York	2
Dominion Companies Act	1
	63

With respect to the Delaware corporation matter, Mr. Woodside stated that insofar as the SEC is concerned, grave problems of power and policy are involved in making the use of interstate commerce in connection with the sale of securities of American corporations dependent upon getting the approval of some foreign jurisdiction. He noted, too, that the inability of the Toronto broker to complete a distribution is an economic problem and proves only that it is preferable to have "a dealer on the ground."

Mr. Wismer stated that members of the Broker-Dealers' Association are ready, willing and able to abide by the laws of the United States. However, he said, they were lead to understand that Regulation D was promulgated on the assumption that all the provinces would cooperate. He referred specifically to the Montreal situation; stated that this presents unfair competition to the Toronto broker and that, in addition, Toronto brokers are being blamed by residents of the United States for the Montreal solicitations. He asked specifically what the Commission intends to do about recent solicitations and sales from Montreal. Commissioner Adams expressed the view that the Montreal situation is pretty well under control at this time. He referred to the recent cancellation of several broker-dealer registrations by Quebec authorities and expressed the hope that certain extradition proceedings arising from a fraudulent stock selling campaign from Montreal would have a salutary effect on the over-all situation.

Mr. Wismer referred to the Delaware holding company problem and stated that this too constitutes "unfair competition" insofar as Toronto brokers are concerned. Mr. Woodside stated that the first filing of this kind had come to his personal attention, that questions had been raised at that time as to whether or not Regulation D was available, and that he had advocated a lenient construction of the Regulation in the hope that development of Canadian resources would be facilitated thereby. He stated that the matter could probably be handled administratively and expressed the thought that a strict construction might be a step in the right direction.

A general discussion was had concerning the disclosure required by the Commission in the Tidelands Copper case. Commissioner Adams noted that the Securities Act of 1933 is a full disclosure statute and stated that the Commission thought it had gone a long way in requiring a disclosure of the type therein made. When Mr. Lennox expressed his general disagreement with this method of handling the problem (although he stated it was better than nothing), Mr. Matthews suggested that, as an interim measure, the SEC might invite the Ontario Securities Commission to state whether any such issues would be qualified in the Province of Ontario and require that the reasons for the inability to qualify be disclosed in the offering circular. Mr. Lennox apparently was not too happy with this suggestion, feeling that it would put him directly "on the spot." Commissioner Adams suggested that Regulation D could be restricted to a greater extent. He pointed out that it would probably not be too difficult to write into the Regulation provisions limiting vendor shares and requiring that funds and securities be subject to escrow agreements. Mr. Lennox referred to the morning discussion on this point and stated that any such provisions might be difficult to administer. He did feel, however, that a provision requiring the escrow of vendor stock would be better than a provision requiring funds to be escrowed until an amount sufficient to meet the initial requirements of the company have been obtained.

Mr. Trebilcock inquired with respect to the SEC's position on the so-called "black list". He was advised by Commissioner Adams that the list is still in effect, that no additions have been made since June, 1953, and that absent an outbreak of illegal solicitations, the list would probably

die a natural death. Pursuant to Mr. Trebilcock's request, Commissioner Adams gave him a copy of the latest list. In this connection, Mr. Trebilcock stated that he would communicate with issuers whose securities are listed on the Toronto Stock Exchange and would endeavor to get those issuers removed from the list.