



Wolverton Securities Ltd.

17th Floor, 777 Dunsmuir Street
Vancouver, BC CANADA V7Y 1J5
Telephone: 604.622.1000
Fax: 604.662.5205
www.wolverton.ca
invest@wolverton.ca

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British Columbia Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, BC V7Y 1L2

Attention: Sarah Corrigall-Brown
Senior Legal Counsel, Capital Markets Regulation

Re: The Maple Deal

Dear Sirs/Mesdames,

If I were given a choice, I would vote against the Maple deal.

In the United States they have a set of laws called the anti-trust laws. These laws date back to the turn of the last century and were established by President Teddy Roosevelt. At the time, they were established to break up an effort by JP Morgan to roll up a number of industries, including the railways, into a single monopoly. The US government determined such a monopoly would not be good for the nation's economy. These laws have been used many times since to stop other anti-competitive efforts.

Why are we talking about doing exactly what others have determined over and over again is not beneficial?

Bank Behaviour

The Maple group will tell you "they will be different", but their track record does not bear this out.

Not so many years ago, small dealers could settle through CDS directly. In the name of "safety", even though there has never been a problem, CDS changed their requirements to mandate that all dealers must settle using a bank credit line, forcing most small dealers to have to park working capital at a bank as collateral. This has made them less competitive and raised costs.

CDS formerly maintained a settlement system called Access which allowed small dealers to settle US trades (the banks don't need it because they have US partners). For "safety" reasons, this system was terminated and small dealers were forced to deal directly with DTC in the

States and post individual collateral. Again, this raised costs and forced dealers to commit working capital to infrastructure making them less competitive.

In November of 2008, the Alpha alternative trading platform was established primarily by the banks. One of the features of Alpha allows the banks to hide a proportion of their orders and execute those orders against other orders they may generate internally rather than showing their order flow to the rest of the market. This undermines the open auction process and hurts small dealers whose clients may feel their chances of execution may be better at a bank since small dealers are not seeing the whole market.

Most banks today will only loan you money to make a contribution to your RRSP if you hold your account with their dealer.

I could list 20 more examples. The banks have no intention of playing fair or promoting a financial landscape in Canada which is not dominated by them.

The TSX

If the takeover of the TSX has to go ahead, then I would suggest a plan to continue to encourage alternative exchanges.

Specifically –

- Rules should be introduced requiring exchanges to show all Retail order flow and a minimum percentage of Institutional order flow in an open and transparent way. This levels the playing field for small investors and dealers.
- Rules should be introduced prohibiting the owners of the TSX from directing all of their order flow to their own exchange. They should be required to direct at least 25% to other non –owned trading venues. The rule should apply to all to be fair. This mimics the “tied house rule” widely used in the liquor business which keeps the big players from dominating.
- Exchanges should be required to jitney orders to the best bid or offer at a cost, in total, which does not exceed their own fees. This rule would apply to all exchanges to be fair. This rule prevents exchanges from making fee deals which advantage their owners and prejudice small dealers.
- One board seat (on the TSX) should be reserved for a Small Dealer candidate. This will allow small dealers to anticipate changes.

CDS

The roll-in of CDS seems like a change which would be difficult at best to manage for the regulators. As the only settlement system in Canada and given the degree to which the system

depends on the banks, I cannot imagine how any alternatives could be developed. Therefore, for the foreseeable future the only settlement system available would be dominated by a few predatory institutions. I cannot imagine how things would differ from the Canadian Payments Association; an organization the banks prohibited anyone else from joining until finally a court challenge pried the monopoly away from them.

In addition, where CDS differs from TSX is that its only mandate is protect the system from risk. This mission has, as mentioned above, resulted in changes over and over again which “protect” the system from the specter of small “risky” dealers. “Safety” will inevitably reduce CDS’s customer base to only the safest institutions – the banks.

Another good example of this is the recent push for tighter short selling rules. Canada has one of the best settlement systems in the world including our approach to short selling. Under the current system, short selling introduces a very low amount of risk to CDS. This is in direct contrast to the US where short selling is completely broken and causes huge systemic problems which the SEC is constantly trying to Band-Aid. In spite of this, it was decided that no risk would be better than small risk even if that resulted in significant lost revenues for the markets and increased complexity for small dealers.

Without a mandate to foster growth in the capital markets in priority to the need to be risk free, the trend at CDS will only continue and with the banks help, where it benefits them, grow.

I have to ask the question, when faced with the proposition that it is safer, how will the regulators not get drawn into changes which stifle entrepreneurial growth?

If it has to happen then the following measures might help –

- Reserve a seat on the CDS board for a small dealer.
- Require CDS to have a separate committee to review changes and their effect on maintaining a diverse and competitive market. The committee should always be chaired by a small dealer.
- Change CDS’s mandate to include fostering a robust and diverse capital market with a specific mandate to support the role in the markets of small dealers.
- Create a rule change mechanism which allows the committee to draw in the Commission as an ally.

The Big Picture

The role of small dealers is critical to Western Canada.

If one looks at the industrial bases of Eastern and Western Canada they are very different. Unlike the manufacturing Eastern Canada specializes in, Western Canada has firmly established a reputation for entrepreneurship. Whether it be resources like mining or oil, high tech like the

gaming industry or other new fields like alternative energy, Western Canada is seen as a world leader. The money to underwrite this reputation does not come from the banks, the national securities dealers or the TSX. Outside of private investors, it is invested by junior public companies that raise funds through Canada's small dealer network.

It is a commonly known fact that no major mining discovery has ever been made in Canada by a TSX senior board company. It is also a fact that almost all the new junior listings in Canada were generated by small dealers. Are we really talking about handing over the facilities primarily responsible for generating money for new businesses to people who don't like risk? What are we doing to support the dealers in Canada who are playing the most important role in growing our economy?

Banks outnumber small dealers.

One of the issues which plague the business is the imbalance of voting amongst the constituents. Small dealers are just that – small. They are like any other small business where everyone works hard, does two jobs and keeps an eye on the bottom line. Small Dealers do not have tens of extra staff to spare.

Voting on important issues happens in three ways –

- Votes are cast by representatives on various boards.
- Feedback and recommendations are generated by working committees.
- Feedback is generated by comments sent in.

Small dealers simply do not have the manpower to serve, populate, study and make comment. As a result, even though large dealers make up a small minority of the dealers in Canada, they occupy most of the available board positions, they dominate the working committees, and they have the time to write endless commentary. The feedback regulators get is simply heavily biased and does not serve the greater majority. In addition, should regulators attempt to monitor or create fairness through these same mechanisms, the banks will simply use the same methods they have had success with to sabotage efforts at leveling the playing field. This will undoubtedly also be true for the Maple transaction.

A good example of this is IIROC.

When IIROC was originally established I asked the current president, given that he was holding the organization out as a national regulator, what senior departments would be run out of locations other than Toronto. He chuckled and told me, "None". This puts Western Canadian small dealers at a significant disadvantage. How can Western Canadian firms play a significant role if every board meeting, every working committee, and most symposiums are held in Toronto? Are we surprised that changes in industry practices more often than not ignore the needs of small dealers? The Maple deal will be no different. It will be located in and focused on Eastern Canada and the owners' (bank dealers) interests.

Regulators' Hesitancy to Act

I am going to be blunt in the hopes of providing a wakeup call. The way our system works in Canada is that every dealer must follow the most stringent rule. The result is that when one commission decides on a new rule it becomes the standard in all provinces.

The OSC has in the past shown no hesitancy when it comes to forcing their views on the rest of Canada. "We think this is best so everyone needs to do it." The BCSC has been far more polite (you are, after all, from BC). An example is the OTC 51-509. This rule was clearly a good rule for all dealers in Canada. It was also an issue that needed to be dealt with in an even handed way.

If it was an OSC initiative we would all be doing it, but in the end the BCSC only applied it to BC. I am sorry if this sounds bad, but this is a provincial attitude. The Maple transaction needs to be a break from this pattern. BC needs to apply conditions that benefit BC and that probably will not be in the best interests of the bank-owned dealers. BC and Alberta need to recognize that Western Canada is thriving on the backs of entrepreneurs and their small businesses. BC and Alberta need to recognize that, when it comes to sourcing public money, only the small dealers in Canada are acting to support these businesses.

If the Maple Deal goes through, we need to find a path to make sure that small dealers, and the economic benefits they bring are not excluded from the critical infrastructure they need or that the infrastructure does not become so expensive that it drives the same result.

Yours,

A handwritten signature in black ink, appearing to be 'Brent Wolverton', written in a cursive style.

Brent Wolverton