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The Response of
Lafferty, Harwood & Partners Ltd.
to the "Discussion Paper"
of the Task Force on
the Future of the Canadian
Financial Services Industry
and the
Distinction Between Capitalism
and
Free Enterprise

*"In order to safeguard
the flowering and further
development of society,
it becomes necessary to
master the selfishness of
the individuals and to
compel them to sacrifice
their egotistic designs to
the benefit of society."
Ludwig von Mises*

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APPENDIX - Including a Memorandum on "The Correct Role of the Stock Exchange in a Free Enterprise Economy", published in September 1964.
For publishing this memorandum, Richard Lafferty was placed on a charge by the Governors of the Montreal Stock Exchange and found unanimously guilty of acting in a manner unbecoming a member of the Montreal Stock Exchange and severely reprimanded.
(Capitalism at its best).

INTRODUCTION

One cannot conceive of a design for a financial services industry until one first defines the social philosophy the design is intended to serve.

If the social philosophy is to be communism, then one would design the financial services industry accordingly. Similarly, one would redesign it if it were intended to serve a socialist doctrine.

There has never been in Canada a well-defined social philosophy which was acceptable to the majority of Canadians. A social philosophy is necessarily governed by political leadership but the interests of the two main political parties in Canada has largely been governed by the pursuit of patronage for the benefit of the members of the two parties. There has been a collective resentment to this which has manifested itself in a third political party, namely the National Democratic Party. But the concept of socialism is not a tenable doctrine for the majority of Canadians who by disposition wish to live in a democratic society. More recently there has developed a Reform Party which seeks to introduce a correctness to the two major parties of patronage but it has failed to develop a tenable social philosophy.

At the provincial level, most of the political parties reflect the pursuits of individual politicians. The deficiencies which prevail with respect to the political system in Canada result from its history and its evolution from a colonial society to one where the local residents have adopted the privileges and powers of the earlier imperial regime.

It has evolved this way because the institution of government has been based on the Parliamentary System which was never designed to serve a democracy. It was a compromise between the Monarchy and those who paid the taxes. These were the landowners, merchants and bankers and so they largely made the rules to serve their own interests.

This issue is a separate debate but the explanation is necessary to bring into perspective the views of Lafferty, Harwood & Partners Ltd. (hereinafter LH&P) who have been strong activists for change since the firm's inception in 1962.

The activities of LH&P have tended to be controversial within the Canadian financial services sector but this is to be expected because the philosophical orientation of the sector is one of capitalism whereas the social philosophy of LH&P is one of free enterprise.

LH&P believes that free enterprise better serves the majority of Canadians and that capitalism, as it has been practiced in Canada for the past 100 years or so, has exploited the wealth of the country for the benefit of the few at the expense of the many.

In a capitalist society, the ownership of capital and the accumulation of money is the revered pursuit. How it is achieved and under what circumstances is secondary. Capitalists believe that they are privileged to engage in whatever business they can which will make them money and this is their end pursuit. The more money they make regardless as to the manner and means, the greater respect they receive from their confrères. There are now across the country several large pools of capital owned by certain families amounting to billions of dollars and they work in association with the six largest Canadian chartered banks.

There is within this group collusion and the use of money to exercise an abnormal influence largely to protect and strengthen their own interests. The counter reaction they create is the orientation by governments to the welfare state sponsoring numerous social programs such as Medicare, Old Age Pensions, Unemployment Insurance and the like. This political orientation ostensibly caters to the deprived masses and results in extensive abuse.

Given the opportunity, the individual and the family, are better able to take care of themselves than a collection of bureaucrats and pseudo politicians.

In a concept of free enterprise, the consumer is king. It is government's role to ensure that all consumers have equal access to the marketplace and that there are no conspiracies on the part of the suppliers to artificially rig supplies or enter into price agreements against the consumer.

The government's role is not to be a participant in the marketplace but to ensure that there is free open competition with fair and full disclosure. It is from this freedom to choose on the part of the consumer and the freedom of the supplier to serve the marketplace that there develops the creative process of free enterprise.

As soon as one has outside dominant interests governing the marketplace, which at present are the six largest Canadian chartered banks or the dozen or so family dynasties controlling billions of dollars, then the interests of democracy are damaged. They are exercising an influence beyond that of the majority of voters. They will also by nature seek to accumulate additional powers of influence and to resist change.

The rich and owners of wealth and property, who are a small minority of the population, have no interest in maintaining free competition. In fact, they are averse to it and will use their wealth to oppose it usually through political channels. Their interest is in preventing newcomers from challenging their position.

It is the entrepreneurs of tomorrow who invent and create who will make life of coming generations more agreeable.

The consumer, by choosing, attracts innovation and new ideas.

In a free enterprise economy, there is no advantage to the consumer in engaging in collusion. He makes his own decisions as to what he believes are his beneficial interests.

In contrast, capitalists thrive on collusion. They will conspire to defeat that which jeopardizes their interests and they will finance and use political channels to achieve this.

The consumer has no power or influence through political channels except his vote. His principal interest is to have good and fair administration and a political orientation that preserves his freedom to choose.

Those then are the distinctions between free enterprise and capitalism.

Capitalism allows the politicians to govern the lives of the greater majority whereas free enterprise empowers the consumer to be free of government manipulation and to exercise his own choice.

Capitalism breeds socialism. Free enterprise stimulates the choice of the majority and constantly challenges and explores as to whether there is a better alternative.

It is the role of the population to challenge and not to be dominated by self perpetuating politicians.

The governing principles to free enterprise are as to whether the opportunities are equal and there is the freedom of choice.

The background to the members of the task force is not given but it appears that the majority of them have engaged in careers based on a capitalist philosophy. The concept of a free enterprise philosophy is strange to most Canadians, particularly those in the financial services industry.

THE BANKS

We need banking to mechanically implement our decisions but we do not need bankers whose interests are to exploit our personal resources.

L.H.&P. submitted their first brief to the House of Commons Committee on Finance, Trade and Economic Affairs in 1965 concerning Bill C-102 commonly referred to at that time as the Decennial Revision of the Bank Act. The theme at that time was very similar to the theme of this presentation.

These are four of the leading paragraphs from that submission.

One of the secrets of the efficiency in the U.S. economic system is its highly competitive nature, whereby the producer of goods and services must cater to the demands and requirements of the consumer. This requires a greater vitality and output than the alternative system under which the producer decides the services and products that will be available to the consumer.

The vitality and entrepreneurship of U.S. industry and business can be directly related to the vigorous anti-combine and anti-trust legislation that is continuously being enforced in all areas of the economy. It is this action that provides the consumer with the widest range of choice and prevents those seeking to provide the goods and services of colluding in order to save themselves the efforts of initiative and innovation, and moving with the changing desires and needs of the consumer.

The Canadian banking system has developed into a nationwide, monolithic structure with the participants being governed by manuals and regulations designed to hold the system into a cohesive form that responds to a narrow management structure surrounded by interlocking directorates.

It is, in effect, a banking machine designed to respond to the policies of the hierarchy and not to the desires and choice of the consumer. Eventually, if these desires are registered strong enough, modifications permeate through the system, but it is a long reflective process.

At that time, three of the Canadian chartered banks controlled 70% of the assets of the Canadian banking system. They, in turn, directly or indirectly through their interlocking directors effectively dominated the three largest trust companies who in turn at that time, through their orbit of influence, controlled something like 50% of the market value of all Canadian-owned industrial stocks listed on the combined Toronto and Montreal Stock Exchanges.

There were 148 directors on those three banks and 20% of them were lawyers. This is the exercise of the capitalistic philosophy in its true form. It is the pursuit of power and the acquisition of power to make money.

Such a banking approach as this must seek uniformity in its policies, otherwise authority cannot be effectively exercised over such a vast network. The system thereby imposes conformity on the customer, irrespective of differences in regional areas and the different ideas that constantly motivate the millions of Canadians who use the banking system because there is no practicable alternative. The one exception is that the service accorded to a customer is graduated, depending on his importance to the bank in the overall scheme of things. Friends of the bank, that is to say friends of the hierarchy, receive special accommodation, special rates and special favours.

The Canadian banks at that time were busy seeking to sell Canadian businesses to U.S. investors. They were using inside information owned by their customers and not themselves to make themselves profits.

The next two pages illustrate the advertising of Canadian banks in U.S. newspapers, particularly the Wall Street Journal and the New York Times.

L.H.&P. also included in that report an excerpt from the Memoirs of Mr. Herbert Hoover. Members of the task force may not be familiar with the history and activities of President Hoover. He took the brunt of the blame for the 1929-1933 Depression. In his Memoirs, he gave nine reasons for the causes and this was one of them:-

“Nor was our financial weakness solely in the banks. Throughout the whole business of providing capital for our economic life there ran a pollution - the habit of making money by manipulation and promotion of securities. And that promotion too often disregarded the merits of the goods it sold. In addition, the financial world, instead of providing merely the lubricants of commerce and industry, had often set itself up to milk the system. Worse still, instead of being financial advisers to commerce and industry, the financiers had, in many cases, set themselves up to dictate the management of it.”

To our knowledge, L.H.&P. was the only member firm from the financial services industry which submitted a brief to that Committee. The banks were angry with the firm for doing this and sought to punish the firm for this activity.

That is the kind of response which still prevails today against those who criticize the system and seek change. They are ostracized by the large dominant interests. That is how capitalism preserves the system. They will not engage in an intellectual debate on the differences of viewpoint.

They immediately attack anything or anyone who may deem to be trespassing on their preservation of power. Today there is no intellectual morality in the Canadian financial community. There is a lot of networking and collusion but there is only one single pursuit and that is to make money the capitalistic way.

The banks now dominate the financial marketplace. They argue that they have to be big to enable them to compete. One Canadian bank advertises that it serves 6 million customers. It is obvious that their customers cannot have equal opportunity under these circumstances. The enormous conflicts are self-evident.

It is still the banks that exercise political pressures so that they must be allowed to acquire more assets to be competitive.

Money is not power; knowledge is power in the financial markets and what the banks want is additional knowledge and control of what is happening. Then they can more effectively manage assets and protect their assets from competition. But this concentration of power denies the equation of equal opportunity to other Canadians.

The banks now control the government's debt, the marketing and the distribution of that debt, and they thereby exercise unusual leverage on the Canadian political scene which is in itself an autocracy because of the Parliamentary System.

THE STOCK EXCHANGES

The proper concept of a stock exchange is to provide a facility that enables citizens to resolve their natural conflicts or differences of viewpoint by either disposing or acquiring ownership interests in those public companies serving the community.

Access should be open to all and participants should have the rights to anonymity to prevent collusion by other interests from their acting. Transactions need to be handled by agents who preserve the confidentiality of the transactors and who do not use the information for their own purposes. Not all participants in the market place are intellectual scholars. There are many participants acting to exploit others or promote activities to serve their own interests. This is quite normal in any human society. There are also extensive emotions and other stimuli involved.

Why there should be criminals in the human race is another issue. They are prevalent in the financial markets and are enabled to a greater degree to cover their tracks and remain behind the vale of secrecy.

The stock marketplace must, therefore, be designed to realistically recognize this and to protect the greater majority of other citizens from theft and exploitation. It is a similar principle to the policemen on the street.

The stock exchanges in North America have progressively evolved. Those in Canada have adapted in part from the New York Stock Exchange and in part, from the London Stock Exchange.

There is a document going back to May 17, 1792 signed by two New York dealers acting in public stock who met together and signed their names on an agreement of a protective nature. The document read:-

“We the subscribers, brokers for the purchase and sale of public stock, agree to do business with customers at not less than 1/4 of 1%, and to give preference to each other in all transactions.”

The history of most of the stock exchanges and the activities which have taken place there would not bare public scrutiny in terms of gentlemanly behaviour.

The largest exchange in Canada is the Toronto Stock Exchange which, in its last publication, reported that it listed 1,323 companies offering over 1,626 issues but it has subsequently expanded considerably beyond these numbers.

The banks have always been major lenders of money to the brokers. Now they not only lend to the brokers but they act as competitors against these same brokers to whom they lend their money.

The Montreal Stock Exchange was for many years governed by regulations which the governors could interpret as they wished. The largest and most powerful firms manoeuvred to get themselves elected to the board. The regulations into the 1950's read like the Queen's Regulations governing the army which would be read in many different ways by the commanding office.

The Canadian financial markets were always anti-Semitic in their early days. This flowed from the banking system and was in strong contrast to the stock markets in Paris, London and New York. The concept of designing a stock market is relatively simple. It should be governed by five principles.

1. That all citizens wishing to transact should have easy access to the market place.
2. That all entrants should have the freedom to choose.
3. That membership to act as agent on the Exchange should be open to anyone who qualifies in terms of financial resources and knowledge.
4. No individual or group should be a member of the exchange if they are in conflict elsewhere in serving the consumer.
5. That transparency is the most effective regulator of the market place.

All the stock exchanges to date have evolved around the philosophy of capitalism. The major intent is to make money at the expense of someone else. Inevitably the stronger and more cerebral win. But in a society based on free enterprise, the principal to making money or accumulating wealth is not by expropriating the assets of others but rather through the creation of new ideas and innovation that appeal to the consumer market.

Today members of the stock exchanges have a greater political influence than most citizens. Many of the member firms are dominated by strong personalities and know where the capital is located and are able to exercise an influence on that capital.

The Toronto Stock Exchange is still recognized by the Ontario Securities Commission as being a private club. This immediately raises the question as to whether this privileged position equates to one of equal opportunities for all Canadians.

In the early history of the exchanges, and particularly in London, there were both jobbers and brokers. The specialist of the New York Stock Exchange was the equivalent of the jobber in London.

Until negotiated commissions, the members largely acted as agents but now they act as both agent and principal and members of the task force must address this critical issue as to whether or not this transgresses the principle of equal opportunity and whether or not it creates a conflict of interest.

L.H.&P. have never traded for their own account and have also taken the position that they should not be members of the Exchange and at the same time, be underwriters. If they are going to be agents acting for other parties, they should be absolutely neutral and not abuse the information which they necessarily become privy to when they receive certain instructions from certain parties. The agent functioning in the marketplace should be absolutely neutral. It is the participants outside the marketplace who are pursuing their own ideas which may be in conflict with others pursuing either parallel or opposing ideas.

In London, the underwriting was always done through merchant banks who were not members of the exchanges. This same pattern of behaviour prevailed in Canada until the middle 1950's and the major firms such as A.E. Ames and Company and Wood Gundy who were closely related to their respective banks, did not act as agents on the exchange. They went through another member firm.

The design of a stock exchange should, therefore, be to serve the community and not the members. The activity of agents on the exchange should be open to any individual or group who qualify and should not necessitate elections.

The regulatory process of the exchanges should be, how transactions are executed and settled. There should also be a regulatory process for listing the shares of new companies that should protect the marketplace from misrepresentation and exploitation.

The question of fixed commissions and negotiated commissions has been a major issue in the last 25 years. There is, of course, no negotiation of commissions today. The financial institutions impose as to what they think is a suitable commission and the broker either executes at that price or loses the business to a competitor.

The entire concept is ridiculous. It is like taking a taxi and arriving at the destination and negotiating with the taxi driver as to what fare should be paid.

At the time negotiated commissions were adopted in Canada, L.H.&P. submitted a brief to the Ontario Securities Commission arguing that commissions should remain fixed but that they should vary in relation to the volume on the exchanges and they should be calculated on a basis that only 80% of the members should be profitable so that there was a constant necessity to create and innovate on the part of the membership.

The commission failed to understand the principals.

The Ontario Securities Commission has largely dominated the regulation of the financial security business in Canada. Most of the chairmen have been political appointees and their philosophy has been entirely orientated towards capitalism and not free enterprise. The chairmen have usually been lawyers with little understanding of the marketplace and free enterprise.

The federal authorities, in three volumes, outlined extensive proposals for a securities market law for Canada in 1979 but the proposals never got off the ground. This is obviously an area which requires careful analysis by the Task Force.

It is the view of L.H.&P. that the number of securities being traded in one dominant marketplace is now so congested with confusion that the activities are beyond the comprehension of a major proportion of the Canadian population. And further, that the permutations and variations as to the types of transaction for each security such as options and futures adds further complications to the marketplace and strengthens the exploitive role of the inside operators.

The end result has been that the savings of Canadians are now flowing into mutual funds but the capital has become highly concentrated in relatively few hands. This is obviously not desirable and the time will come when a force majeure will occur and that capital and those savings will no longer be liquid.

The views of L.H.&P. are that individual Canadians should exercise a stronger influence on Canadian corporate life in keeping with the concept of free enterprise that the consumer or user is king. This would be similar in many respects to an ATM machine in every community with a local broker as a member of the regional exchange in the same way as one has a lawyer or funeral director in every community.

To achieve this, L.H.&P. would advocate that each province would have a stock exchange which would be open to membership to any individual or firm qualified under reasonable regulations.

It would be a federal law that any business or enterprise seeking public funds and shareholders should initially be listed on the provincial stock exchange where its principal base of business is located. This has the advantage of moving towards a creation of equal opportunity. It would decentralize the marketplace and business would be subject to closer scrutiny by those who lived in the area.

The provincial exchanges would be subject to provincial jurisdiction but the coordination would be through federal jurisdiction.

Members of the exchanges could only act as agents and those who wished to trade for their own account should be outside the exchanges. After a company had achieved various degrees of national prominence, it could under a formula process be permitted to inter list with other exchanges. There would be no national firms with members on all exchanges. The development would be local, designed to stimulate the regional growth and activity.

The present concentration and centralization of activities does not serve the principles of equal opportunity.

There then comes the question as to whether all the various trading permutations which prevail should be permitted because these largely serve the operators rather than the consumer who is exploited by them. It is a separate issue which needs to be addressed. The complexities of the issue and the time to understand them is beyond that which is available to the average consumer and the principles of equal opportunity is once again destroyed.

With a population of 30 million in Canada, it is obvious that the market facilities for trading shares should be spread across the country and not concentrated in a private club in Toronto. There are many casualties as a result of the capitalist philosophy. In recent years they include:-

The Canadian Commercial Industrial Bank, Northland Bank, Royal Trust Company, British Mortgage Stratford Ontario, Kemper Corporation, Dome Petroleum, Olympia and York, Central Capital Corporation, Central Guarantee Trust Corporation, Sovereign Life, Coopérants, Société Mutuelle D'Assurance-Vie Trust Company, Guardian Trust Company, Prenor Trust Company, North American Life, Principal Group.

THE DESIGN FOR REGULATION

The strongest lobbying group in Canada and the most powerful is the Canadian Bankers Association. The second one is the Investment Dealers Association of Canada. L.H.&P. would not be eligible for the Canadian Bankers Association and has always resisted membership in the Investment Dealers Association because it believes in a free enterprise philosophy whereas the two former cartels are structures in the capitalist philosophy.

The Canadian Bankers Association now controls the Investment Dealers Association of Canada and so the dominance is even stronger, particularly when governments are dependent on both groups for the funding of their debt. L.H.&P. made representation to the Competition Bureau following the joint association of the two groups but the Bureau contended that they had no jurisdiction in this relationship.

For a number of years now the Investment Dealers Association has been lobbying to get itself anointed as the self-regulating authority for the industry and it appears to have been successful in this regard. It is also seeking to extend its authority over the stock exchanges.

The major investment dealers and the largest brokerage firms are all members of the Vancouver Stock Exchange. In the global scene, this stock exchange has one of the worst reputations for sleaze, manipulation and corruption and over a 25-year period these member firms have made no effort to clean the situation up. If they cannot clean that situation up, how can they act as the regulators for the industry?

L.H.&P. have always refused to be members of the Vancouver Stock Exchange for this reason and they resigned from membership of the Alberta Stock Exchange because of the manner in which business was conducted on that Exchange.

The Investment Dealer's Association thinks self-regulation is best achieved by having everyone in the industry taking courses and exams. The investment philosophy taught by the Investment Dealer's Association is essentially capitalism, the pursuit of power and money, which is contrary to the interests of the majority of Canadians. In reality, the courses and exams are exercised as a restraint of trade.

Entrepreneurship, which creates the innovation of change and stimulates ideas, does not flow from tutored minds. It flows from those who foresee a discrepancy and then act to close that discrepancy. If the investment dealer's exam approach is deemed to be necessary and successful, how come the Bre-X promotion and scandal transpired?

The Investment Dealers Association has always been a bullying organization. The bigger firms control the scene and they harass and bully the smaller firms and raid their personnel. In this manner, they build up their clients' accounts. The Investment Dealers Association should disallow this.

No person serving clients in one firm should be allowed to join another firm in the financial service industry with the intention of taking the clients of one firm to another without a six-month waiting period before joining the new firm - unless there was common consent from the two firm's involved.

The Ontario Securities Commission does not have a respected record as a regulator. It has been too politicized over the years and has preserved the Toronto Stock Exchange as a private club.

It is operated by the Rule of Man rather than the Rule of Law.

The financial markets in Canada are now becoming increasingly concentrated because the banks have the visibility to see where the pools and the savings of capital are located. They also underwrite and trade for their own account. The investing public are now being swept into mutual funds - which is a further concentration of capital. This is a herd movement and highly undesirable. The present capitalist strategy is to gain control of these mutual funds and their management.

Eventually these mutual funds will destroy the capitalist system in Canada because they will result in locked-in savings with no liquidity and a force majeure will have to be called.

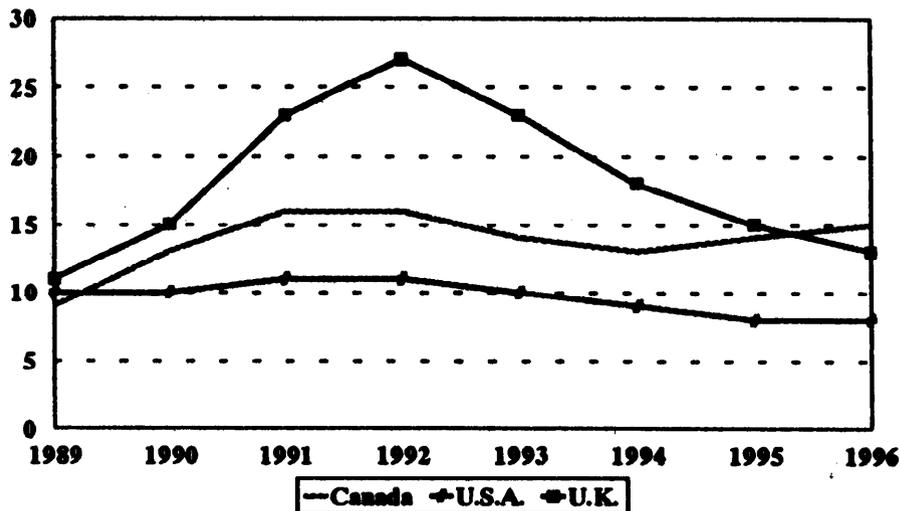
A further aspect which needs to be considered is that L.H.&P. have done an extensive analytical study which clearly establishes that the global banking system will collapse. The arguments are irrefutable but too elaborate to include in this presentation. However, we are making available to Members of the Task Force copies of this study

because the facts are there. One then has to focus on the next stage and that is, what is the Canadian government's position with the six major chartered banks which probably come within the doctrine of "too big to fail".

Unfortunately, this evolution of events cannot at this stage be prevented or reversed. They flow from political policies adopted in the 1960's which resulted in the creation of the Eurodollar markets and now better internationally known as the international credit markets. The base of this credit market has grown from \$60 billion in the early 1960's to a current level of approximately \$10 trillion. The activities in the stock markets at this time are largely a reflection of this condition. The task force should study and understand this condition before they develop their final recommendations.

As a reflection of our present conditions, it should also be pointed out that the business insolvency rate per 1,000 establishments in Canada has now risen above that of both the United States and Britain which suggests that the malaise in the financial markets of Canada results from poorly conceived and badly managed financial markets.

Business Insolvency Rate per 1,000 Establishments



COMMENTS ON THE REPORT OF THE TASK FORCE

It is obvious that one cannot design a financial services industry out of context to the political philosophy it is designed to serve. This is what the task force has so far attempted to do. Clearly, the architecture for the financial markets will commonly state, it would be different to that designed to serve philosophical concepts of capitalism as similarly, they would be entirely different if they were to serve the philosophical concepts of free enterprise.

In the view of L.H.&P., the members of the task force should seek instructions from their senior political authorities as to which philosophy the Canadian financial services is to be designed to serve.

If one is to serve the majority of Canadians who are consumers and wish to reserve to themselves the freedom of choice, then one can only think in terms of a political philosophy based on free enterprise.

The financial architecture designed to serve a political philosophy based on capitalism would not serve a free market system.

The concept of an ombudsman to resolve difficulties and conflicts is an avenue of escape from the fundamental principles based on the Rule of Law.

The political concept of having Schedule 'B' banks in Canada was a final concession by the chartered banks who have for years resisted any new competition entering the Canadian banking field.

The United States used to have something in the order of 15,000 banks. This has now been brought down to around 11,000. They have both state and federal banks.

Most of those banks have been around for a long time but if there was the same ratio in Canada, there would be a choice of 1,000 banks for Canadian citizens. It is true that the savings and loan banks got into a difficult situation but that was due to faulty legislation under the Reagan Administration.

For many years, the Honourable Salter A. Hayden, M.A., Q.C., LL.D., sat in the Senate in Ottawa. He was also a director of the Bank of Nova Scotia and in the period of the 1950's, he insured that no new charters were granted to any new banks because at that time such a charter had to be approved by the Senate in Ottawa. Hence, he protected the market for Canadian chartered banks.

Probably the best documentation of the history of the Canadian banks is that of Professor Tom Naylor with a forward by the Honourable Eric Kierans titled "The History of Canadian Business, 1867-1914."

The Canadian Bankers Association was incorporated in 1901 with the astonishing power to pronounce on the fitness of and defacto to block the entry of new banks seeking charters. In the legislative field, so successful were its operations that Sir Edmund Walker in 1913 could openly boast that every major change in banking legislation since the first Bank Act had been initiated by the bankers themselves.

In 1895, there were 202 private banks in Canada. This number was reduced down to 61 by 1914, largely through the use of provisions inserted in the Bank Act.

Anyone who believes that in the service industry, larger is better and more efficient will have had very little experience dealing with the bureaucracy in Canada or the major chartered banks.

There used to be a game played in children's parties where individuals sat in a row of chairs. Maybe there were 12 or more participants. At one end of the chairs, a short message was given and usually by the time it had been transmitted from one participant to another, the message was either garbled or entirely different from that which had originated from the first chair.

Human nature is different from one individual to another. This results from natural differences, differences of education and language, differences of religious origin, differences from the economic and social background environment of each individual.

When collective groups are put together within an organization where the pursuit has a single objective and they grow larger and larger, there develops natural conflicts as a result of these differences.

In an army, this is overcome by severe military regimentation that greatly reduces the freedom of the individual. But this is not acceptable in a civilian society.

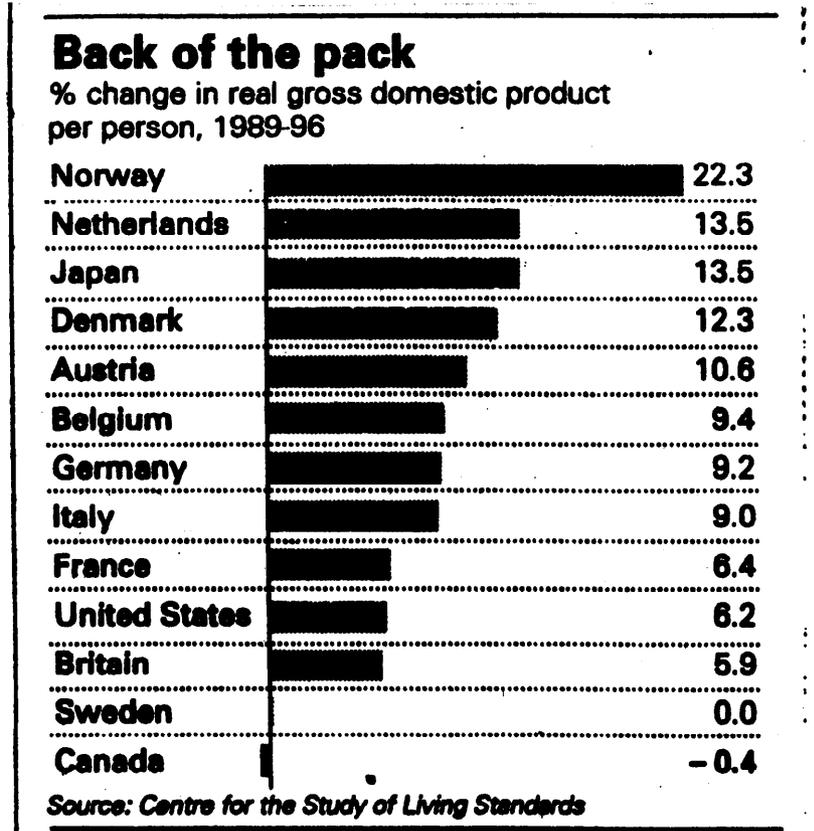
The largest six banks now say they must be allowed to take over each other if they are large enough to compete. Really what they want is power.

Twenty years ago the top largest banks in the world were primarily American. Then the Japanese banks greatly expanded their assets using the facilities of the Eurocredit markets. They became the world's largest banks.

Today, they are in disarray and Japan as a result has a severe economic problem with most of the major Japanese banks having major credit problems.

Another example is the Crédit Lyonnais Bank from France which the French government has had to support because it is too large to fail. The French government has injected to date more than \$10 billion and this is still not sufficient to turn around the Bank and put it back on a profitable basis.

Because the media is highly concentrated in Canada, it tends to respond and serve to the principles who are the capital interests, and provides most of the advertising revenue. The concept is disseminated that Canada has one of the richest economies in the world. This is not true. This chart is from the Centre for the Study of Living Standards in Ottawa shows a more correct position.



The ownership of Canada's assets are now largely foreign. Canadians have no creative or innovative vitality and they are essentially conformists who work out their differences not by principle but through compromise. This results in a gradually declining standard of living and Canadians are overtaxed and over governed. There are no free financial markets as there should be and there is no spirit of free enterprise as there should be.

The principals of Osler Inc., a member of the Toronto Stock Exchange, engaged in fraud. They subsequently were unable to meet their commitments and the firm went into bankruptcy. L.H.&P. were assessed to reimburse those who were adversely affected by the bankruptcy.

L.H.&P. challenged this issue in the courts. They lost before the Quebec Securities Commission but on an appeal to an administrative court in Quebec, they won with three appeal judges voting in their favour and zero against the Stock Exchange. The Stock Exchange then appealed to another court and the situation was reversed with the decisions of three judges in favour of the Stock Exchange and zero in favour of L.H.&P.

Something is wrong with the laws of the land with these kind of swings.

L.H.&P. have no way of protecting themselves if another firm enters bankruptcy and trades for its own account and fails. They have no access to the assets of another firm and there is no insurance protection for these kind of failures. L.H.&P. does not trade for its own account and is opposed to member firms trading for their own account.

The onus is on the consumer as to whether he is dealing with a firm that does not trade for its own account or whether he is dealing with a firm that will exploit. In a free enterprise system, the consumer is king but he also bears the penalties if he misjudges situations or does not adequately investigate them before engaging in a business relationship.

On page 1 of part 1 of the introduction to the task force report, it is stated that, "In our society it is accepted that ownership of a regulated financial institution is a privilege and not a right." In a free enterprise society, there are no privileges. All who qualify have equal opportunity and equal rights.

On page 2 of the task force discussion paper, there is a focus on policy recommendations. In a free enterprise society, it is not the role of government to intervene in a market economy. As is pointed out on page 9 of this submission, it is the government's role to see that all citizens have equal access and opportunity in the marketplace. That they have the freedom of choice. No individual or collective has the right to transgress the interests of others. The marketplace must be free.

As soon as government intervenes to influence a situation in the marketplace, it is violating those principles. The consumer left to his own ability and initiative will develop and pursue the opportunities or fail.

Further on that same page, paragraph 1.4, it is not the financial institutions' role to accumulate and allocate credit and capital. It is their role to provide facilities for those who wish to accumulate credit and capital. It is the role of the consumer to exercise the judgement as to how he can best move to protect his resources. Banking facilities are necessary but bankers are not.

With respect to paragraph 1.7 in the task force report, these issues have been dealt with in this report. If Bre-X is an example of the high quality of services Canadians receive today, L.H.&P. submits that this is an over-exaggerated scene.

Paragraph 1.10 of the task force report suggests that the financial institutions have a role to assist government in the implementation of wider public objectives. Financial institutions will only initiate and further policies which serve their own purpose. Why should they do otherwise and why should a non-elected financial institution have the privilege of creating public policy?

Section 1.15 of the task force report talks in terms of functional analysis. There is only one regulation which needs to be imposed here and that is as to whether the party offering a service is engaged in an activity which is in conflict with those he is serving.

With respect to the questions raised in paragraph 1.17 of the task force report, LH&P believes it has clearly set out in its submission what the framework should be for the financial services industry and the manner in which the consumer should be free to exercise his choice without any pervasive regulatory influences.

With respect to paragraph 2.8 of the task force report, it is the view of L.H.&P. that this is not only a highly dangerous situation but that it will destroy our society and the freedoms which we currently enjoy.

The global financial scene is based on fiat money. On the back of the U.S. dollar bill it says, "In God We Trust". Historically, that has not been sufficient to ensure that creditors meet their obligations.

When the global banking system collapses, as it will, there will be no credit except of the highest quality. Whether one likes it or not, we'll revert back to gold. Gold is the only asset which is not the liability of another party and which cannot be duplicated except through its natural origin.

There will be no other credit available and the stock markets will largely collapse and the concentration in mutual funds will be totally illiquid. The savings of the majority of Canadians will have been destroyed. It is not difficult to visualize the social upheavals which will flow in that set of conditions. One cannot time these events but the governing principles can be analyzed and the consequences projected.

Paragraph 2.12 of the task force report should not be an issue. No person or institution acting in a custodian or fiduciary capacity has the right to disclose to any other party what the ownership interests of that party may be.

Paragraph 3.1 of the task force report raises the question of structure and the powers and ownership of financial institutions. It is quite clear that no institution should be engaged in an activity where the interests of the consumer are in conflict with the interests of the institution and where his privacy is not protected. Once that architectural design has been achieved, there is no necessity for regulation. The consumer will make his own choice as to whether the services offered are in his interests or less preferable than the alternative services offered in the marketplace. Who owns the facilities has no bearing on the services offered.

Ministerial discretions in the marketplace has no place. The marketplace should be governed by the Rule of Law and not by the Rule of Man.

Paragraph 3.3 of the task force report raises the question as to whether foreign-owned organizations should be permitted to offer services in the Canadian marketplace. The answer is quite straightforward. The first is as to whether the country of that foreign ownership offers reciprocal freedom for our Canadian organizations who engage in similar activities in that country. Secondly, so long as it abides by the architectural laws of the Canadian marketplace and whether the ownership is Byzantine or is from some remote island in the South Pacific makes no difference. The consumer will elect as to whether he wishes not to use the services offered.

With respect to paragraph 3.5 of the task force report, the issue of foreign ownership does not come into question if the financial marketplace is designed to serve a free enterprise system. The only purpose and interest by a foreign institution to control financial institutions in Canada is for the purpose of exercising power. In a free enterprise economy, it is the consumer who exercises control and power. It is unlikely that a foreign-owned institution can provide the same services to a Canadian consumer with the same efficiency to that which is locally owned and organized.

The rest of the issues raised by the task force report are largely irrelevant in a free enterprise economy. Things like payment systems are types of operations to which any group or qualified person should have access. Accounting presentations should naturally be standardized so that the consumer can make intelligent comparisons. All organizations in the financial services industry seeking to serve the consumer should regularly publish their financial statements on a quarterly basis, whether private or public, so the consumer can intelligently observe how the affairs of each business are conducted.

THE RECOMMENDATIONS OF L.H.&P.

Every architectural design in a financial services industry must be subject to a test as to whether in the activity all citizens have equal access and opportunity to do their business there if they so wish.

Secondly, that the consumer has the freedom of choice.

Thirdly, that the services being offered do not in any way conflict with the interests of the consumer and lastly, that the activity is fully transparent.

Obviously the six large Canadian chartered banks do not meet these specifications. They should be required to divest their investment dealer activities. They should be regulated against trading for their own account or from acting in a fiduciary capacity for the consumer. They should not own other interests which may conflict with the interests of the consumer.

Maybe there are better ways of broadening the market participation than having a stock exchange in each province. It is the knowledge and interests of the local consumer who should provide the regulatory discipline for local businesses. At the same time, the consumer who lives in a regional area can be far better able to judge the quality of the operation and the ability of its management than having this communicated to him by a third party who is remote from the area of activity.

Such exchanges should be free and open to all who meet regulatory qualifications such as liquid capital, experience in their ability to handle the technical aspects. Members are an essential part of such a system combined with the stipulation that those who wish to trade for their own account are restricted from acting as agents for other parties.

Similarly, those who wish to engage in the financing and underwriting of new businesses and enterprises should not be permitted to act as agents on the exchanges. They should be free to offer their products to the consumer and once a percentage of distribution has been achieved it should be mandatory that securities so offered should be listed on the regional exchange.

There should be no security transactions outside those of the exchange. The issue of the bond markets should be addressed separately. Currently, these are dominated by a monopoly held by the Bank of Canada.

Persons acting in a fiduciary capacity in the financial services industry should not be permitted to move to another organization in the field without a six month waiting period unless there is common consent in the group from which the individual is moving and the group which is planning to employ him.

Clearing facilities across the country should be a non-profit utility regulated by the federal authorities in the same manner as the postal services.

Agents on all exchanges should be required to publish their financial statements for the consumer to see regularly each quarter.

The federal authorities should liaise and coordinate with the provinces the activities of the regional exchanges across the country and those exchanges themselves should be operated as a non-profit organization by the provincial government authorities.

Security regulation should be federal jurisdiction if a security concerned is listed on one or more regional exchanges. It is a specific requirement that every security should be listed on the regional exchange where its principal business activity takes place.

There should be a central depository system as at present and the agents functioning on the exchanges should place the securities of the consumer in safe custody with this system. The consumer maintains the right to transfer those securities at any time that he so wishes to another agent who is a member of the exchange.

Commissions for executing a transaction on the regional exchanges should not be subject to negotiation. There should be a fixed tariff which rises and falls in relation to the volume of activity on the exchanges in the previous three months. This commission should be designed so that not all agent or member firms of the exchanges will necessarily be profitable.

There should not be member firms sitting on the exchanges who are members of more than one exchange. Transactions between exchanges should be by correspondents so that there are no member firms which are dominant on any exchange.

Member firms should not have to reside or have their premises in the city where the regional exchange is located. There should be the freedom to have a member firm located in any community within the province.

Underwriters should be free to network from one province to another with branches in as many provinces as they wish, but only to work outside the exchange.

The role of banks should be that of depositories with the freedom to make loans but not to engage in activities which would conflict with the consumers they serve. They should be free to have as many branches as they wish across the country.

The insurance industry is a separate industry. A bank is in conflict with those they serve if they also engage in insurance.

There are many other facets to the financial services industry which is designed solely to serve the consumer. These can be quite easily developed and designed with progression. All they have to do is to meet the basic covenants of equal access, combined with the freedom of choice for the consumer. Transparency, should be the principle regulatory process.

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APPENDIX

This Appendix contains a letter written by L.H.&P. to the Honourable Jim Peterson, Secretary of State for Financial Institutions.

The letter gives the history of a small firm seeking to work in a capitalist society. Of particular interest is the dissertation of L.H.&P. written in 1964 outlining "The Role of a Stock Exchange in a Free Enterprise Society" and the anger it roused.

A copy of the letter was sent to the Honourable Paul Martin, the Minister of Finance of the Federal Government in Canada.

Neither of the Ministers had the courtesy to acknowledge the letter and this reflects on the Canadian political system under the philosophy of capitalism. Once the politician is elected, in the majority of cases, he regards himself as the master of the people and not the servant of the people.

* * * * *

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APPENDIX-1
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July 14, 1997

The Honourable Jim Peterson
Secretary of State for
Financial Institutions
Ottawa, Ontario
Canada

Dear Mr. Peterson:

We have observed from the press that a federal task force has been established to report to the Federal government on financial-services reform.

We wish to protest strongly that our views on this issue were never sought and that we have not received a preliminary copy of the task force report.

You may or may not know who we are. We are a small group who have been in the financial business since 1950. I, as a partner, was thrown out of a firm by the name of C.J. Hodgson and Company at the instigation of one of the senior officials of the Royal Bank of Canada (W. Earle McLaughlin) because in a research report which I published, I identified that the Steinberg family, who at that time controlled Steinberg stores, acquired locations for their new stores in Montreal. If their location worked out well, it was transferred to the family and if it did not work out well, it was transferred to the listed company on the Montreal Stock Exchange, Steinbergs Ltd., for which the public held 'A' shares which were non voting. At that time, Mr. Sam Steinberg was on the board of the Royal Bank of Canada.

This was 1962. As a consequence, we started our own firm with few resources and we only gained election to the Montreal Stock Exchange by one vote. The then president Mr. Eric Kierans threatened to resign unless the Chairman of the Governing Committee cast his deciding vote in our favour.

We received 60 proxies supporting us for membership with 12 blackball votes against us and each blackball vote had 5 votes. The remaining 73rd seat was in an estate and could not be voted on at that time.

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2nd

July 14/97

The Honourable Jim Peterson

We knew which 60 votes we had because we had their proxies and so were able to identify the 12 blackballs. They were from the leading underwriting houses at that time, namely A.E. Ames, Wood Gundy, Pitfields, Nesbitt Thomson and so forth. They had nothing against us personally but they did not want research in the marketplace nor were we ever considered qualified to belong to their incestuous group.

At this point in time Mr. Frank Case, responsible for the investments of the Royal Bank of Canada, proclaimed to the personnel of his bank that there should be "no truck or trade with Lafferty". As a result, we had to move our account to the Bank of Montreal.

In 1964, the financial industry was socially colluded. It largely comprised sons of rich fathers, most of whom had been to school together and they lived off the system with an arrogance and contempt for the investing public which was hard to believe.

Because we were so uncomfortable in this environment, we published a document titled "The Correct Role of the Stock Exchange in a Free Enterprise Economy". A copy of that document is attached. As you will see, it is quite innocuous and quite straightforward and just based on rational common sense.

Nevertheless we were put on a charge by the Montreal Stock Exchange and were summoned before the full board of governors, of which there were 13, and in attendance with them as legal counsel was J. Angus Ogilvy, Q.C., one of the senior partners at that time of Howard, Cate, Ogilvy, Bishop, Cope, Porteous and Hansard. This was probably the largest legal firm in Montreal.

I, as the elected member of the Montreal Stock Exchange, was not permitted to have legal counsel in attendance. I was found unanimously guilty and given a severe reprimand and threatened with suspension if I did not toe the line. They were just like a bunch of bully boys at a school. If we were suspended, we were out of business and of course the rumour that we had been charged by the Montreal Stock Exchange made starting a new business against a cartel more difficult.

In 1965, we put a brief up against the Canadian Chartered Banks at the time of the revision of the Bank Act. At that time, the Canadian banks were advertising in the New York newspapers that they could assist American investors in buying Canadian companies. In effect, they were using their privileged information to sell the assets of Canada.

Amongst our recommendations, we proposed the dissolution of interlocking directors, particularly those between the banks and the trust companies and the insurance companies. There were a number of other recommendations intended to protect the Canadian public from the banks using privileged and confidential information against them.

3rd

July 14/97

The Honourable Jim Peterson

We attended and made our presentation to the Committee of the House of Commons dealing with banking and finance and were treated with proper courtesy. The only recommendation that was taken from our report was that of interlocking directors but it was not adopted until some time later.

It is reported that a copy of our submission to the Parliamentary Committee came into the hands of Mr. Ian McKinnon, at that time Chairman and President of the Canadian Imperial Bank of Commerce which indirectly effectively controlled the Toronto Stock Exchange because of the loans to members. Instead of countering our brief which would be the normal approach in a democracy if one disagreed with the viewpoints of other, he effectively blocked our membership in the Toronto Stock Exchange.

All sorts of trumped-up charges were placed against us led by Donald A. Macintosh, Q.C. of Fraser and Beatty. We were accused of deceiving the stock exchanges. We were accused of being in contempt of court. And numerous other trumped-up charges. Without being members of the Toronto Stock Exchange, it was very difficult for us to serve the financial institutions with research which was the principal market which we served.

The Toronto Stock Exchange today is still legally recognized as a private club and if the governors do not like the colour of your eyes, regardless as to your qualifications, they are free to deny membership.

It took about 7 years in the courts to get this situation cleaned up with finally, the partner of Price Waterhouse admitting - he was our auditor - that there was no deception on our part. The courts also rejected the concept that we were in contempt of court and took the view that the Toronto Stock Exchange had no business dabbling in this area.

Later in the 1970's when there was a hearing by the Parliamentary Committee on the Banks with respect to profits, we submitted a brief to that committee. We attended before the committee. Mr. Richard W. Pound, Q.C. was in attendance with us as counsel.

After the committee hearings David Berger, who was a member of that committee, came up to me and said that we would never be invited to attend a committee hearing again. It has always been our understanding that the parliamentary committee hearings are for the purpose of hearing representations from the public. Obviously, Mr. Berger was not of that view.

4th

July 14/97

The Honourable Jim Peterson

To our knowledge, we are the only financial firm who has ever put up a brief against the Chartered Banks. We are one of the few independent firms in the country. We resent that we were not asked to participate in this inquiry because we have been one of the pioneers in seeking change within the industry. Mr. James Baily, Q.C., when he was Chairman of the Ontario Securities Commission, did not even deign to respond to correspondence from us. What one has is a tightly knit colluded group with their hands in each other's pockets who have literally raped the investing public in this country.

As one of the most prominent leaders in the field seeking to correct this, we should have been asked and invited to attend the inquiry of the task force and we should have been given the preliminary report.

I am now asking you to correct this deficiency by arranging to have sent to us a copy of the preliminary report of the task force and to examine the submissions we have made over a 35-year period in the industry which had no other motivation than seeking equitable and fair financial markets in Canada so that the country could convert from capitalism to free enterprise.

Yours truly,

R. G. D. Lafferty

RGDL/sf
Encl.

c.c. The Honourable Paul Martin
 Minister of Finance

September 2, 1964.

THE CORRECT ROLE OF THE STOCK EXCHANGE IN A
FREE ENTERPRISE ECONOMY

In an open economy such as Canada there can only be one tenable political philosophy. This is the responsibility of the government to ensure that the opportunities are equal and open to all participants in the economy.

As soon as a society moves towards a concept based on equal opportunities for all participants there is set in motion a natural conflict of interests as each seeks to satisfy his own ambitions, aims and desires. These are largely expressed in the acquisition of wealth, economic security and influence as a means of exercising power.

The great challenge to any democratic society is as to how these conflicts of interest which may be direct or indirect, conscious or unconscious - are to be resolved on an equitable basis. It is obviously impractical to set up a body of people in this role, since it immediately gives them an authority which usurps that of government. On the other hand a government cannot arbitrate without compromising its position to others in the economy whom it is also elected to serve. In the final analysis there is only one rational arena where this arbitration can take place. This is of course the market place in which any participant in the economy can exercise his judgment through an equation of price as to the values he is willing to give up to pursue his own convictions and judgment.

It is not government's function to divide and rule. Government's role is to administrate and bring legislation up to date in keeping with the times. Economic decisions that provide equal opportunities for all can only be made in the open market place where they stand and fall in open competition based on their merit.

Direct government intervention in the economy in the commercial role as supplier or producer, however idealistic the original motives, can eventually only lead to favors and compromise made at the expense of other participants in the economy. The equality of opportunity is thereby negated.

It is however government's role to see that the open market place where the exchange of values takes place between citizens is properly administered under sound principles so that all participants in the economy have access and confidence that they can deal without being unfairly restricted by others who might fear their competition.

The stock exchanges and the capital markets are where the exchanges in value take place. The values are expressed in currency which is the convenient means of settlement.

The Canadian constitution places the stock exchanges under provincial government jurisdiction. This is the responsible public authority to see that they are correctly organized and functioning properly without discrimination against any sectional interests.

The stock exchanges as they presently function are private corporations. In Canada they have evolved from what might be termed the concept of an English Private Club. (The Montreal Stock Exchange still has a bar and a license to operate one.)

The exchanges are themselves controlled by the members but since the members are all in direct competition with each other for business there has been very little recent planning to the operating approach as a whole. As a result all the stock exchanges in Canada suffer from weak management, poor administration and a high turnover of ill equipped and poorly trained staff.

To suggest that members should act as their own disciplining body when they are all in direct competition with each other is like asking a large group of politicians from different countries to re-draft a new constitution governing them all. It is beyond the boundaries of human reality except perhaps under duress. No member firm wants to become involved in the affairs of another member firm. Besides the natural competitive jealousies the business itself is highly complex and is bound to become increasingly so with the development of more rapid communications between different geographical areas. The management of a member firm cannot regard it as their responsibility to supervise the activities of another member firm; besides which for obvious competitive reasons they cannot have access to the necessary information to make such a judgment.

As a result extensive abuses have developed which are benignly tolerated because it is the path of least resistance but the net result is that the markets are not sufficiently well regulated that the majority of participants in the economy can conduct their affairs within them with confidence. This inevitably restricts the use and development of the arena to a very small proportion of the participants in the economy.

The net result is that the capital markets are not open to all participants in the economy on an equal basis. They tend to become dominated by groups who convert their dominance into an economic weapon of power to suppress competitive ingenuity, initiative, and energy so that they can maintain their position with the minimum of effort.

It is not necessary to enlarge on this because the conditions and conflicts of interest at play are known to most of those who have been in the financial business any period of time. The subjective conditions are not important. They are the result of the system. The important principle is how the stock exchanges should be correctly organized to fulfill their role effectively in a free enterprise economy.

We think the requirements are comparatively straight forward and simple. There are no major costs involved and the benefits to Canada of properly regulated and administered capital markets would be tremendous. They would unleash a vitality that would

eventually correct the sterility of Federal politics. The weak composition of political leaders in Ottawa is directly related to the present paralysis in Canadian capital markets. It can be traced through as a natural pattern of human behavior resulting from the present sociological conditions which in turn are directly the result of poor business vitality.

Since we are members of the Montreal Stock Exchange we will confine our proposals to this arena but from the recent activities of Windfall it is self evident that deep cancerous problems are at play in the Toronto market. It is not a question of an inquiry and disciplining some scape-goat. It is one of correctly aligning the fundamental principles.

The operating mechanics of the exchanges are not as important. If the principles are correct the mechanics will dovetail and adjust quite easily.

The basic problem of the Montreal Stock Exchange is that it lacks an up-to-date constitution. The one that exists is like the income tax act. It is a series of amendments and sub-amendments full of double talk which in effect means that the authority is open to policy interpretation. Where large sums of money are involved this means the structure is vulnerable to abuse. This combined with the operating principles which have not kept up with changes in the times have bred human obstructions and obstinacies in the market that prevent the uninhibited flow of capital in and out of the market under the exercise of its own freedom of choice.

Capital is highly sensitive. It represents the accumulated toils and energies of countless human hours. It will not therefore move where it is vulnerable to abuse. If the movement of capital does not take place the catalyst of change in response to the times and events does not take place. The human energies and initiatives become suppressed because there is no vitality on which to feed or opportunities for their expression.

The argument that Canada must be an importer of capital because it is not self-sufficient is without foundation. Capital is imported into Canada because it is easy and cheap to obtain from well organized and regulated markets and soundly policed tributaries that are able to feed into the main stream. The same flow from the tributaries does not take place in Canada because there are too many parasitic scavengers draining the flow.

The main remedies required are:

1. An up-to-date constitution for the exchange that embodies the correct principles so far as operations are concerned and provides the necessary public ventilation so that the natural checks and balances against abuse are in play. We think the responsibility for such a constitution lies with the provincial government and the legislature. The exchange should then be self-empowered under normal control procedures to make amendments as required, all amendments however being subject to approval by governor-in-council before becoming effective.
2. The constitution should embody the following principles:
 - (i) The president of the exchange should be the chief executive officer responsible for the administration and operation of the exchange in accordance with the constitution. He would serve at the pleasure of the governors/directors but while serving would be the responsible authority. The governors/directors would be elected from member firms on some kind of rotating procedure. Election would be by secret ballot with a time limitation before being eligible for re-election. The governors/directors would not as at present directly manage the affairs of the exchange. This would be the responsibility of the president and permanent staff as under normal corporate organization.
 - (ii) The exchange should have a strong permanent staff not subject to the whims of individual members. Senior members of the staff should have recourse to the Quebec Securities Commission in event of dismissal with the Quebec Securities Commission having the power to publicly recommend re-instatement.
 - (iii) The permanent staff would take a greater regulatory position in the activities and requirements of listed companies. All public companies domiciled in the province

(iii - cont'd) would be required to list and to conform to regulatory reporting practices in their financial statements. Officers, directors or those owning more than 10% of the stock would be required to report to the exchange any transactions in their own stock. This information to be published on a regular basis.

(iv) No member firms or their representatives on the floor who had any dealings with the public could trade directly for their own account on the floor. The argument that this provides breadth and depth to the market is weak justification. It is direct conflict of interest with an exploitation of the public being served.

(v) The president and permanent staff would have responsibility to seek and encourage the development of new member firms particularly in communities and areas not presently represented.

(vi) No public companies listed on the exchange would be permitted to do public financing of any kind except on a basis of competitive bids. The principle in this case is that management has a responsibility to all shareholders to finance at lowest cost.

These principles which are all quite straight forward would harm no one except those indulging in practices contrary to public interest.

It is properly regulated markets that attract capital. If the arena is operating correctly so that the participants can exercise their own judgment freely and without duress, and without fear of punitive reaction because they exercise judgment that may conflict with another participant, that market will develop a vitality that will draw capital from all areas of the world.

The impact of proper reporting by corporate management would progressively energize management to new ideas and developments since their activities become more openly exposed to public gaze.

Since 1956 Canadian markets have largely been energized and stimulated by the activities of foreign investors particularly from the U.S. This was never sound in principle but was the result of the narrow outlook of the participating principals in the Canadian financial markets. This in turn was the result of the system.

It has been this same equation that has led to the sale of so many Canadian assets to U.S. capital when there is all kinds of Canadian capital around seeking to move with confidence. The equation is not that Canadians are not natural investors. The equation is that Canadian capital markets are not sufficiently well organized, regulated and administered to provide the environment and confidence to attract the tributaries and flow of Canadian capital.

With the U.S. interest equalization tax now in effect Canadian markets will become increasingly narrow and the freedom of choice more and more restricted. With this development there will be a further loss of initiative, energy and vitality in the economy as a whole unless the Canadian capital markets are re-organized to function correctly.

If this re-organization does not take place the loss of vitality in the economy will be offset by further political aspirations to "get the economy moving" by grandiose schemes initiated and organized by governments. Despite the good intentions that may lie behind these they will increasingly convert the economy from free enterprise to social planning with greater political emotional snarls and tangles than are presently in play. Eventually it breaks the currency and reduces the standard of living of the majority which in turn leads to further social unrest.

LAFFERTY, HARWOOD & CO.