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By SP NARA Date 12/19/7

OFFICE OF  
THE CHAIRMAN

ONTARIO

## ONTARIO SECURITIES COMMISSION

PARLIAMENT BUILDINGS  
TORONTO, ONTARIO

September 7th, 1954

Honourable Ralph H. Dammler,  
Chairman,  
Securities and Exchange Commission,  
Washington 25, D.C.

Dear Mr. Dammler:-

Commissioner Adams and Messrs. Woodside and Barlock spent three days in Toronto last week discussing administrative policies and practical problems in relation to Regulation D. We consider that they now have a much better understanding of the local situation, and both Commissions have every confidence in each others good faith, despite the apparent lack of good faith in certain quarters on both sides of the Border.

We reviewed the history of the negotiations which led up the Regulation being adopted as a solution to difficulties in the past when United States citizens were being subjected to high-pressure sales methods from Toronto, and we stressed the point with concrete examples, that if offerings by Delaware companies were to continue to have free use of the Regulation, the situation would be infinitely worse and that eventually both Commissions would be extremely embarrassed when the public realized the significance of this type of offering. In our considered opinion if something is not done without further delay, it will eventually spell ruin to Regulation D and defeat all the efforts which have been made to correct an unsatisfactory international situation.

It is not necessary to repeat the details concerning some of these Delaware issues, as the offering circulars speak for themselves. It would however be interesting to check

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the locations of all the properties involved in these several issues. The locality of the properties in Ontario of the two issues discussed at some length with representatives from your Commission, presents some interesting considerations. Cavendish Township, for instance, has no favourably known history. Moreover if commercial ore had been discovered, there would normally be a rush of prospectors to the locality. We have not heard of any interest whatsoever being taken in the alleged discovery, and a prominent Geologist described the alleged showings of ore as "squirts." The official word on assays is that they run mostly between .04 to .07. Surely this is definitely low grade ore. In any event the estimate of tonnage could not have been made by Atwater or anyone else on the 10th of August, as drilling had not even been started up to the 17th of August.

Then take the case of the company claiming locations in the Blind River area, which may prove to be one of the most interesting uranium ventures in Canada, but the properties are located at some considerable distance from any proven area, which might fairly indicate that the company was looking for a cheap property which might still be legally described as lying within a famous mining area.

When these factors are combined with unconscionable corporate financing, I doubt whether any Ontario issue even prior to the days of securities legislation could be placed in such a low category.

We of course appreciate that your Commission is a full disclosure statute. Ontario, which finances a vast majority of Canadian issues and is now definitely recognized as the financial center of Canada, has also adopted the principle of full disclosure as sound. At the same time the legislators in their wisdom realized that as a most substantial percentage of the corporate financing to be undertaken in a country still in the pioneer stage would involve issues having potential assets only as against actual assets, inserted a provision, namely, section 44, designed to control unconscionable consideration for promotional purposes, for vendor's allowances and other factors, which would result in the public subscribing funds largely for the benefit of inside interests.

In reviewing the situation which may be described as the 'Delaware situation,' no attempt has been made to elaborate on the recent discussions, as the details are still fresh in the minds of those who participated, and Mr. Barlock took notes, as did Mr. Cameron, which should be of considerable assistance.

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In our opinion the problem created by Delaware companies might not have arisen if the wording of the Regulation dated August 18th, 1952, had not been amended. The Regulation was circulated in this form for comment, subject to modification. We submit that the change in the wording from "principal place of business," to "principal operations" was more than a modification, and in fact was a material amendment, resulting in a most unsatisfactory situation. We are not taking the position that simply reverting to the former phrasing would prove a solution. We suggest you being fully conversant with the technical problems of drafting a provision which is practical and constitutional, are in a position to amend the Regulation to combat a condition which is subject to many serious abuses and which may subject the American public to a type of fraud within their own territorial limits under the guise of Canadian offerings which would be infinitely more vicious than anything they have been subject to in the past.

So much for the Delaware problem which now presents the greatest threat to the success of Regulation D. At first we were chiefly concerned with the fact that Ontario issues were being offered by American dealers without being qualified in Ontario. In this connection there has no doubt been a certain amount of misunderstanding between our Commission and other Canadian Commissions and former representatives of the S.E.C., but in no sense do we wish to be critical of those who have given their best efforts in an attempt to correct conditions as they existed prior to March, 1953. We may be able to control this situation, but urgently invoke your assistance by amending Regulation D in a form consistent with our original intention of placing international trading in securities on a legal and sound footing in the best interests of United States citizens who are bound to be interested in Canadian opportunities despite all the rules and regulations which may be devised.

In view of conditions which have arisen as outlined in a letter to Commissioner Adams in the matter of Tideland Copper and dated June 7th, 1954, Canadian issues should be filed in the Province of their origin even if they are to be offered by United States underwriters.

This letter is in no way intended to be comprehensive. It is written against the background of current discussion, and with the definite purpose of putting our relations on a Commission to Commission footing. I might also add as a purely personal opinion from one who assumed the responsibility for the most part for negotiations and undertakings in the past, that the interests of Canada and the United States

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can best be served by the efficient and adequate processing of applications with Canadian properties by both Commissions, and those issues which are acceptable from the point of view of our joint standards, should be acceptable to the United States at large. I consider this in the best interests of the people of the United States, as there would be healthy competition free from State regulations. I do not expect you to express an opinion, but it is my considered opinion that so long as Canadian issues are processed according to adequate standards to safeguard the American public, free from the intervention of inconsistent and varying State policies, the interests of the American public will be best served, and offerings stemming from Canada will be offered on a fair and competitive basis. In this connection Ontario will, of course, live up to any understanding between New York State and Ontario and other States who have fully cooperated in an effort to make full use of the provisions of Regulation D.

It is essential that something should be done to correct the situation which has developed to the prejudice of the American public, and to ventures located in Canada. The necessary amendments to the Regulation may take some time, but in the meantime an investigation of one or more of these issues is certainly warranted. I would like to discuss the matter further with your Commission before the National Association of Securities Administrators Convention, and plan to visit Washington on Friday, September 24th, if this is satisfactory.

We feel that the success of Regulation D is definitely at stake. The local industry is uneasy and this uneasiness is shared by the Commission, as it is becoming increasingly apparent that the blanket prohibition contained in our Directive of March 26th, 1953 can no longer be considered fair, in view of the time and money wasted by at least one local dealer in an attempt to meet the requirements of several of the States, with little success. Moreover if the Commission continues to revoke registrations for violations of this Directive, an appeal to the Courts might very well prove successful for obvious reasons.

Lastly, conditions in Quebec are a most distressing factor. There is no evidence that we can see to indicate that things are improving. On the contrary, the last reliable information we received in July was that there was no actual let-up. Registrations may have been revoked, but the same interests no doubt have started up under other names, just as they did in Ontario before a series of rapid cancellations rendered the establishment of "fronts" an unprofitable undertaking.

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Surely when the combined effect of illegal offerings from Quebec, the type of offerings being made by Delaware companies, and the fact that Ontario issues are by-passing their own laws, is considered, it must fairly be conceded that the Regulation in its present form is not affording the American public adequate protection. At the same time these operations are discrediting ventures locating in Canada. Over all the situation calls for immediate action.

Trusting that when you have time to review conditions as they exist, you will appreciate the seriousness of the situation and will be willing and able to take the necessary steps to protect our mutual interests, I am,

Yours very truly,



(O. E. Lennox)  
Chairman