



**Tech Futures:  
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By [Michael Volker](#)

**CDNX-Making it Work, Capital Pool Corps Update and Local Happenings**

Almost exactly two years ago, I wrote a piece in this column, with the heading "*New Exchange good for Tech Stocks*".

At that time the Vancouver and Alberta Stock Exchanges were talking about a possible merger to create a national junior stock exchange - a concept I'd been keen on for many years. In November, 1999 the **Canadian Venture Exchange (CDNX)** was born.

Now, only a year and a half old, the CDNX is in the process of being acquired by the Toronto Stock Exchange. There's been a lot of debate and discussion about what this will mean. The owners of the two exchanges - their member brokers - and the Provincial Securities Commissions are busily plotting the future of this exchange.

There's no question that a junior stock exchange can play a vital role in providing risk capital to emerging companies. But, is the CDNX, in spite of its "venture capital" moniker, going to live up to that expectation? I'm worried about the future of the CDNX.

Here are a few comments which I've made over the past few years about the CDNX.

In April, 1999, I was beside myself with enthusiasm, proclaiming, "I think its wonderful that this is happening. It will allow tech companies to get much broader exposure to investors than they now have. More national and international attention will be paid to companies listed on the new exchange. Shareholders will have more liquidity and markets will be fairer. One big problem with running a junior exchange is one of regulation and surveillance. This is a tough job. The VSE has been through the school of hard knocks with respect to this matter but has emerged with the knowledge of what it takes to operate such a market. A new, larger exchange will permit the deployment of adequate resources to ensure that this knowledge is not wasted."

"This move will also take us a step closer in the direction of a national securities organization (e.g. Canadian Securities Association). Then we'll really see a difference. Many market traders don't understand all the nuances associated with provincial jurisdictions in this regard. For example, the new Venture Capital Pool (VCP) program in BC is available only to BC investors at the IPO stage. But, when trading begins on the VSE, anyone can buy/sell these shares. Figure that out! In the new scenario, this won't change - at least not immediately but perhaps eventually. Let's face it, BC companies seeking investment capital should not be limited to only the 4 million population base in BC. A national securities regulator will eliminate the need for a company to get its share offering approved by different provinces. The proposed junior exchange could handily assume this approval process. Case in point: the VSE has taken over some of the vetting from the BC Securities Commission and this has improved processing times considerably. This is an idea whose time has

finally come."

In my subsequent column, I wrote: "The amalgamation of our existing exchanges will hopefully push our disparate provincial securities commissions towards a unified national securities policy which will facilitate the raising of venture capital for Canadian firms. It is a known fact that most of the new capital raised by VSE companies is via "private placements" of shares. Such financings must be conducted in accordance with the applicable provincial Acts, which vary from province to province. Here in B.C., we are very fortunate (and this is unknown to many entrepreneurs) in that as little as \$25,000 can be raised by a company with minimal bureaucracy and red tape whereas in Ontario the entry level is over \$100K! The VSE's Small Financing Exemption, which allows companies to raise up to \$1 million from retail investors in B.C., is yet another benefit offered by the VSE to its listed companies."

"A boldly stated objective of the CDNX, as articulated by its CEO, **Bill Hess**, at a recent Vancouver Board of Trade breakfast, is to graduate companies off the Exchange to the TSE or NASDAQ. It's niche as a junior equity market is well defined." I was at that breakfast. I really felt like leaping onto the podium to talk about the exciting future prospects for the Exchange - since the speech we were hearing was putting many to sleep. I got my chance when I was asked by the Board to thank the speaker.

I did get a few points in, though, when I said, "Some people, especially mainstream Venture Capitalists, argue that junior companies should not go public and that the CDNX is not a viable "exit" opportunity in contrast to a senior exchange. Of course not. It's an "entry" opportunity - especially for smaller investors who like getting in early on companies such as **QLT Inc** or **Westport Innovations** which both started off as "penny stocks".

I also suggested that the CDNX may be the *only* regulated junior market for emerging companies and could well be seen as a "junior NASDAQ." And, perhaps an alliance with NASDAQ would be a great strategic fit. By the way the OTC-BB market is *not* a junior NASDAQ. In fact, it's not even close. The CDNX could fill that bill.

It would appear that Hess's goal of graduating companies from the CDNX to a senior exchange will be handily achieved by having a senior exchange, such as the TSE, be the CDNX's parent.

That may be the CDNX's goal, but what's the goal of a listed company? Certainly the holy grail for every technology company is a NASDAQ listing. Sorry, but it's not to be on the TSE. That's a fact. The folks at NASDAQ were quick to see this when they make it easier for Canadian companies to get onto NASDAQ via the Quebec back door.

Regardless of where companies may go after graduating from the ranks of a junior exchange, we can't forget what it takes to get companies launched on the exchange in the first instance. In order to provide a healthy flow of graduands, we need a system that attracts companies and - most importantly - the capital and talent to make them grow.

Will a move "back East", as we love to say in the West, to the TSE aid or abet this process? Frankly, I'm a little worried about a move to the Eastern Establishment. Toronto's Bay street players have always aspired to emulate Wall Street. Will the parenting of a fledgling junior marketplace move them in this direction?

**Harry Jaako** in his recent **Business in Vancouver** column (Apr 10) correctly points out that TSE ownership may open some new doors to capital and may make the institutional investors a little

friendlier to the small cap market. Certainly, the big market rules will give them a little more comfort in this regard. But, this may be like pushing on a string. I'd rather see it become easier for the smaller retail investor to get in on the junior market action. We know, as Harry mentions, that Canadians are following the American lead in taking more market risks. A decade ago, fewer than a quarter of Canadians invested in stocks. Today fewer than a quarter don't. So, let's pay attention to this trend by simplifying, not complicating, the process.

We've all seen what happens with acquisitions. Big company acquires small company. Big company culture is imposed on small company and small company is assimilated into big company. Why will this be any different when big market TSE takes over little market CDNX?

I know how the system works in Ontario, having used it in the building of my company and working with others - especially startups. Will the rules of the **Ontario Securities Commission** (OSC) add to the red tape faced by companies, especially the B.C. ones which fear that B.C. regulations may evolve to match those of the OSC?

The only good that may come from all of this is that it will create more jobs for lawyers. They, especially the Toronto ones, are very good at cutting red tape. The only problem is that they cut it lengthwise! And that's costly.

We're already seeing Alberta-based lawyers moving into Howe Street to help B.C. companies conduct their business on the CDNX which has moved its decision-making to Calgary. Soon, the Hogtown boys will be on our streets.

Presently, it costs a company about \$100K to raise \$1M of capital. That's outrageous. Will a Bay Street controlled market make this even pricier?

Why on earth should there be any cost at all? In view of the higher stakes in aTSE-style play, the regulations are appropriately more stringent. Can anyone tell me how this environment will work to make a CDNX-style market with much lower-stakes, an efficient one?

Investors betting on a CDNX company are investing pennies - not dollars (notwithstanding recent market trends in which many of our top dollar companies could be purchased for pennies). So, why apply dollar rules to penny situations? Why not simply make the "red herring" a little bolder? i.e. - less regulation and more disclosure. Let the market take care of itself.

I'd love to see the day when a company CFO with a few **SFU**-style securities courses under her belt can, by herself, complete all the documents and forms for a financing - without spending tens of thousands of dollars on legal bills.

In all the talks about the future of theCDNX, there's one sadly missing element: input from the listed companies. I've been personally involved in the VSE's and then the CDNX's Policy committee. It's always amazed me how rules are set in the complete absence of input from *the customer*. A rule which may make sense to a regulator or broker may be totally unworkable from a practical perspective - i.e. by the company in the trenches working on its survival. This policy making process has, unfortunately, been de-railed by the internal shuffling of the past year.

Listed companies are becoming involved. They formed the **CDNX Listed Companies Association** (see [www.cdnxlca.com](http://www.cdnxlca.com)) in order to get into the picture. It's a good sign that the regulators, i.e. the **B.C. Securities Commission**, welcome this input. Still, more company CEOs need to get into the act and immerse themselves in the process or be subjected to the whims of others.

The CDNX is owned by its members, the stock brokers. These are the same folks who own the TSE. From this perspective, an acquisition by the TSE is an efficient move, and will put some \$50 million in their jeans as a result of the buyout. Maybe the listed companies should own the CDNX. Now, that would be interesting! That may be nice in theory, but these companies are too busy minding their own business.

By the way - there are some 2300 companies now listed on the CDNX. Of these, about half are involved in the resource industries. Pure tech companies account for only 10% and the remainder consists of industrial, service, finance companies, and Capital Pool Corps (10% as well). Of all the listed companies, only 15% have market caps in excess of \$10 million. More than half of the 2300 firms had working capital reserves of less than \$100K - not an encouraging picture. But, it does indicate what this market looks like. Toronto - do you know what you're getting into?

However, given that the current takeover is imminent, what can be done to ensure that the CDNX will work in the interests of developing its listed companies so that they can graduate to whatever exchange they want to go?

In my view, we've got to stop screwing around and make some radical, sweeping, changes to securities regulations in Canada - especially as they pertain to junior companies. We don't need band-aids. We need reforms. Legislation is not keeping up with technology. Our infrastructure is impeding business progress (in B.C. at least we can now see some light at the end of the tunnel with the upcoming election).

Companies and investors must be at the table, along with the regulators and agents. Will a TSE takeover move us in this direction? I'd like to be positive. But, now you can see why I'm worried.

### **Capital Pool Corporation (CPC) Update**

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies (see chart below) as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP and JCP programs on the Vancouver and Alberta Stock Exchanges.

Of the approximately 250 CPCs which have been formed only some 30 have completed their so-called Qualifying Transactions (QT). While this may appear "slow", one has to remember that good deals take time to cook. After forming a CPC, one should allow at least a year for it to find a suitable takeover candidate and then allow another six to nine months for a deal to be finalized.

Depending on what lies ahead for the CDNX, the future of the CPC program will be determined by the attitudes of the new CDNX players and most importantly their willingness to make major changes in the underlying policies governing this program. There are certain rules, such as the requirement to get a "majority of the minority" shareholders' approval on a transaction - a process that takes at least 90 days and is no more than a rubber stamp in any event. In my view, once a deal has been negotiated, it should take weeks - not months - to close. Presently, CPCs are having a tough time in attracting quality companies because they just won't tolerate the bureaucratic delays. They go elsewhere for funding - sometimes the OTCBB, heaven forbid!

Some observers believe that the CPC program may be a victim of the TSE takeover and will be disbanded. I personally believe that unless some sweeping changes are made in the administration

of this program, they won't survive regardless of what the CDNX's new owners think about the concept.

In an upcoming column, I'll be taking a look at the done deals and how their doing, ie. the successes and failures.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

### Local Happenings

The next **Vancouver Enterprise Forum** event will be held next Tuesday, April 27th at Science World. The topic will be: "The B.C. Genome Project: A View from Inside the Industry", organized by **David Ing** of **Pacific-International**. Just this month the federal government announced \$136 million in funding to **Genome Canada** of which close to \$40 million will flow to B.C. for research. The human genome project and research based on the resulting work and data promise to revolutionize the way we treat illnesses and diseases, provide healthcare and conduct medical research in the future.

While much of the media and scientific attention has been directed towards the publicly-funded **Human Genome Project** (<http://www.nhgri.nih.gov/HGP/>) and the privately-funded **Celera Genomics** (<http://www.celera.com/>), both in the United States, novel and breakthrough approaches to and technologies for genomics are being developed and applied right here in British Columbia.

In this event moderated by biotechnology and life sciences analyst **Karen Boodram**, **Dr. Roger Foxall** of **Genome B.C.** (<http://genomebc.bcgsc.bc.ca/>) will provide an introduction to the world of genomics and the different strands within genomics. He will introduce Genome B.C., its role in the development of B.C.'s genomics industry and what lies ahead for the industry.

**Dr. Steven Pelech**, a Professor at UBC's Faculty of Medicine and also President and Chief Executive Officer of **Kinexus Bioinformatics Corporation**, will address the impact of the human genome project and its role in the development of designer drugs and therapies.

About New Ventures BC - The **New Ventures BC** Competition is an annual event open to all BC residents, with prizes totaling \$125,000 - which is believed to be the largest of its kind in North America. Individuals with a new business idea can attend seminars and networking information sessions that will give them the chance to turn their idea into a successful startup. A number of these are scheduled to take place during the month of May. Check [www.newventuresbc.com](http://www.newventuresbc.com) for details.

SFU's **TIME Centre** is open for business - business folks, that is. TIME is an acronym for Technology, Innovation, Management, and Entrepreneurship. TIME supports the growth and development of the tech industry in B.C. TIME features a "Business Centre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown Harbour Centre campus at 515 West Hastings

St. More information can be found at [www.sfu.ca/time](http://www.sfu.ca/time). PS - there are some great facilities for holding your company's AGM here.

For a convenient printable, pdf version of this column, [click here](#).

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**Tech Futures** is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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