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Private Members' Statements

JUNIOR CAPITAL MARKETS

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JUNIOR CAPITAL MARKETS

R. Sultan: In August of this year, the Venture Capital Markets Association fired a broadside, telling us that the junior mining sector was in a death spiral because of our Securities Commission, which they described as "a well-meaning but destructive force," and also because robots had taken over stock trading, and also because banks controlled the stock exchange.

Well, it would take seven hours, not seven minutes, to fully discuss all of these points. But I would concede that yes, the junior mining sector is currently suffering. Gavin Dirom of AME said: "Times are tough for almost all AME BC members." That's the Association for Mineral Exploration. "Although British Columbia continues to host 58 percent of the mineral exploration and mineral companies listed on the various exchanges, the ranks are thinning." Mining share prices, if there's any bid at all, on our venture exchange are down by at least a third or a half or even 90 percent.

We can all agree it's a serious situation. However, as the broadside also said: "B.C. has a well-earned reputation for raising venture capital. Many of the major mines in the world were discovered by Vancouver-based junior exploration companies raising risk money from speculators."

However, "the exploration financing mechanism," the broadside concluded, "is in full retreat." Let's remind ourselves of some of the famous risk-takers we have seen in this sector in Vancouver — Murray Pezim; Robert Friedland, Steve Jobs's buddy; Frank Giustra; Ian Telfer; Ira Thomas; and let's add Bob Quartermain — and some of the huge wealth-generating resources which such persons' risk-taking helped create: Diavik, Sullivan, Bralorne, Hemlo, Eskay Creek, Oyu Tolgoi in Mongolia, Brucejack, Stornoway, Cerro Negro and Snap Creek.

To be sure, not all of these players were choirboys. Murray Pezim, described by one writer as "living somewhere beyond outrageous," would not be found in any bank's wealth-management comfort zone. But we should celebrate what our little corner of the world accomplished. While in the 1980s Vancouver was described by Barron's magazine as the "scam capital of the world" — and Calgary's $9 billion Bre-X fraud certainly didn't help — we stepped back and learned, and the TSX and TSX Venture share exchanges have today become the gold standard of the world when it comes to dollars raised by mining companies.

Canada now raises 75 percent of the world's mining capital, and Vancouver dominates the junior mining slice of that pie. We can attribute this success to experience and confidence — confidence in our capital market system and the trading associated with it.

Our vast cordillera opened to exploration our geology, the largest concentration of mine engineering expertise in the world and access to large quantities of smart money, which understands the risks and rewards of mine exploration development. And as Quartermain recently observed, B.C. has the highest concentration of quality geoscientists in the world.

In sum, as a country, we know more about finding, financing, building, operating and responsibly closing down mining than anybody else in the world. The sector knows how to bounce back. In 2001, before this government came into office, mine exploration expenditure in B.C. was only $29 million. Now B.C. dominates, peaking at $680 million in 2012 and, even in today's truly crummy commodities market, $338 million last year.

It may surprise you that in 2014, the TSX Venture Exchange in this town raised about $5 billion of equity capital, much of it for the mining industry. Working together, Vancouver and Toronto have eclipsed London, New York City and Johannesburg as centres of mining finance.

Our government encourages the mining industry to sell flow-through shares. We give them mine exploration tax credits. We invest $5 million annually in Geoscience B.C. We waive mine exploration permit fees. We've learned it makes no sense to ignore First Nations, as others do in Canada. Better to bring them in as full-fledged partners so they, too, can benefit from the royalties, jobs and community strengthening which accrues.

Having bragged about all of that, we must also recognize the serious issues dumped on our table — tales of heavy-handed financial regulation, impressions that computers have in fact taken over the market, and how in heck does the average retail investor get investment advice from some black box with an algorithm plugged into a stock exchange server operating 24 hours a day in a dark room in Kamloops or somewhere? That is how trades actually get executed today, believe it or not. Finally, as alleged, are the big, risk-averse and highly regulated banks spoiling the game?

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R. Sultan: An old miner recently reminded me that good prices make good miners, which is to say that if China had continued its 7 percent growth path, portfolio managers would be regarded as geniuses. Well, it did not, and they are not. Macro always wins. But in terms of those things actually under our own control, what could we do better?

I happen to believe that the B.C. Securities Commission, for example, should continue to protect us diligently from outright fraud. In that regard, the so-called perp walk that we see on television occasionally, where some Manhattan executive is frogmarched to a waiting police car, perhaps in manacles, should not be foreign to our justice system, because the fines aren't ever collected, as the Ontario Securities Commission itself conceded only last week.

Maybe we also try too hard to shelter our citizens. They happily invest $3 billion a year, each year, on lotteries, despite government taking a full one-quarter off the top. If some of them are also lured into what they hope and dream might be the next Hemlo, perhaps that's their business.

Rules and regulations, in my opinion, certainly tend to be overdone. Who could have foreseen that Barney Frank, in my experience, when I lived there, a yappy political aide I read about in the Boston papers in another century, would, to everyone's astonishment, become a congressman, and then ultimately co-author the Sarbanes–Oxley Act, several hundred pages of opaque and frequently contradictory rules to live your life by if you are a financial institution or a regulator.

The waste engendered has been phenomenal. I chatted recently with my classmate Tom, former vice-chair of Citibank, and he told me that 10 percent of Citibank's operating costs are now compliance-related — lawyers, paperwork, clerks and accountants, filing and reports. It's 10 percent. He said that banking had, in fact, become an unattractive business, in his somewhat expert opinion.

We find ourselves dealing with ever-expanding rules spawned by the usual Wall Street malfeasers, and they are never in short supply, born in some back room of Congress, adopted by the Washington financial regulators and shipped to New York. It's only a hop, skip and a jump to Toronto, where they wiggle their way into the TSX, are transferred out west and land on the desks, with a thump, of the B.C. Securities Commission and the TSX Venture Exchange, who must explain it all to their customers.

If the end product amazes our Minister of Red Tape Reduction, we should blame Barney Frank. Yes, indeed. It's not kind to junior mining, and we have work to do.