

ISSUES IN CANADIAN GEOSCIENCE

Setting New Standards for the Mining Industry

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Over the past two years the mining industry and the institutions that regulate it have received a wake-up call. This call is being answered by the Toronto Stock Exchange, in co-operation with the Ontario Securities Commission and mining professionals from the exploration, mining and capital market industries. Together, they formed a Mining Standards Task Force in August 1997 and their report and recommendations released in June 1998 will change how mining activities and investment are conducted, reported and regulated.

It makes sense that we all work together to make these changes and that Canadians should be leading this change. Resource industries helped build Canada, and they are continuing to build it. Last year, the mining industry contribution to the Canadian economy including the value-added activities was about \$50 billion or approximately 4% of the Gross National Product. In each of the past 4 years, growth in the

mining industry has outpaced growth of the Canadian economy. There are now more mining company head offices in Toronto than anywhere else in the world and we are seeing a growing trend toward the "Canadianization" of foreign companies.

Mining is certainly important to the Toronto Stock Exchange, which is internationally recognized as the prime destination of mining investment. More than 300 mining companies trade on the TSE and account for 27% of the overall trading volume. Of the 193 new companies that listed on the TSE in 1997, 15% were mining companies.

The importance of mining to Canada does, however, reach far beyond our borders. Last year, 40% of international mining financing was raised in Canada and the TSE accounted for more than one-third of the total world mining finance of \$4 billion (Cdn.)

So, what makes Canada the financial capital of the mining world? We have a great history built on mining, which has resulted in the country developing many assets, including an abundance of mining expertise. Canadian geoscientists, engineers and consultants are at the centre of a vibrant global mining community. It is difficult to go to any mine site worldwide and not meet Canadian professionals. Canada also leads the world in the number of mining analysts. Roughly 100 Canadian financial analysts provide detailed reviews and exposure of mining companies to a large international audience of investors.

But one of the most crucial factors making the Toronto Stock Exchange the financial hub of the global mining wheel, has been investor confidence in Cana-

dian securities markets. Our success in maintaining mining activity in Canada has been due in no small part to the rigorous government and regulatory standards governing mining and mining exploration companies. We cannot allow a handful of mining scandals to erode that. Public and investor confidence is crucial to our industry, to the livelihoods of almost a million Canadians, to the life of many Canadian communities, and to the economic security of millions of Canadians with investments in mining securities.

As Director of Mining Services for the TSE, I am one small part of a comprehensive effort to reinforce Canada's leadership in exploration and mining. It is a newly created position: part of the TSE's extensive effort to improve monitoring of companies and to ensure that the public is provided with timely and reliable information. In a sense it is a job I have been doing for years. Due diligence is necessary whether you are leading a mining company as I did or when reviewing projects, operating projects, finding partners, or buying stock. It is something we all do in this industry. I will now be conducting due diligence on behalf of the investing public on newly listed companies, and reviewing the disclosures of all the currently listed companies.

In addition to providing technical support for the TSE's listing and market surveillance divisions, and providing ongoing liaison with the mining and exploration sectors, one of this area's most important tasks will be helping to implement the recommendations of the Mining Standards Task Force.

The task force report, based on 9 months of study and consultation, is a

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comprehensive effort to enhance the public and investor confidence. It is important that regulators keep up with changes that have been taking place in a globalizing industry. Canadian mining companies are now active in more than 100 countries: jurisdictions encompassing widely different systems of law, government and land tenure. Canadian mining companies often engage in major projects in countries where it is difficult enough to maintain a full understanding of the basics, let alone the details. Given these global pressures, how do we restore confidence in Canadian mining companies and the information they release? The task force's 55 recommendations provide a detailed blueprint for achieving that goal.

While the role of the mining industry is to literally "break new ground," the task force recommendations did the same thing figuratively.

The task force broke new ground by requiring mining and exploration companies to use the services of a Qualified Person (QP) who will be involved with the technical program and will ensure compliance with generally accepted industry standards. This regulatory requirement would set a new international standard in several ways: The Qualified Person would ensure that industry best practices are followed, and would sign off on all public disclosure statements relating to results from exploration programs and mining operations with which they were involved. In special circumstances, an independent Qualified Person's report would be required, which would ensure an independent review of certain activities of the company, including geological, engineering, environmental and legal issues.

Central to this concept is professional accreditation of the Qualified Person by a professional body with a disciplinary process. All the provinces, except Ontario and Quebec, have or are soon to have incorporated geoscientists, geologists and geophysicists into the provincial professional engineering associations. This ensures that all professionals using this title in these jurisdictions are subject to the same disciplinary powers and procedures. Only Ontario and Quebec are not in the process of licensing their geoscientists, which puts the public at risk since they cannot be certain who is a Qualified Person.

The task force supported the notion

of including geoscientists under Ontario's Professional Engineers Act; however, the Association of Geoscientists of Ontario (AGO) and the Association of Professional Engineers of Ontario (PEO) have been discussing this incorporation for almost 10 years, and recently the PEO decided against including geoscientists. Therefore, the task force recommends that the Ontario Government provide self-regulatory status for members of the AGO.

Professional accreditation for mining professionals is crucial: investors need to know that they are getting all the exploration results and full disclosure of field practices. They will have confidence in those results if a regulated mining professional is responsible for them.

The task force broke new ground by calling for uniform national standards and quality control systems for the conduct of exploration programs, including supervision, design, implementation and application. It is important that industry associations work together with professional engineers and geoscientists to develop these standards by December 1999. To plug the gap until then, the task force developed interim guidelines to be incorporated into the TSE rules. These standards will offer investors confidence that the programs are well run and that the results are reliable.

Canada is the first jurisdiction in the world to set detailed disclosure standards on a number of fronts. Explicit guidelines for the content of news releases, and guidelines for the detailed disclosure of exploration results are international firsts, as is the required use of the Gold Institute's method for calculating and reporting actual or projected production costs. The involvement of the appropriate QP in this disclosure will also ensure that publicly released information accurately reflects the technical results.

Effective regulation requires both consistent rules and the financial resources to ensure that these rules are enforced. The recommendations state that mining and mineral exploration companies should be uniform across the country (except for listing criteria). Securities commissions, stock exchanges, and the RCMP must establish a national co-operation network to ensure that these rules are enforced efficiently and cost effectively. Securities commissions must

have the resources they need for enforcement, something that has been all too often lacking and has allowed securities infractions to go unpunished. The Ontario Securities Commission has already committed to increase its staff by 40% by the year 2000. This focus on augmenting the enforcement division will make it easier to prosecute these securities infractions. Co-operation between these authorities will also make it easier to detect and deter fraud.

One of my priorities is to ensure that the task force recommendations are used to strike a reasonable balance between protecting investors and fostering a vibrant industry. The task force wrestled with the dual challenge of safeguarding investors without discouraging the business of legitimate mining companies. I think the report represents a manageable set of changes that will make a difference, giving investors a renewed sense of confidence without creating excessive costs. These recommendations should bolster investment and confidence by raising the bar of professionalism in the industry.

Canada must maintain its place as the global leader in mining investment. Breaking ground in setting new professional standards for mining companies is one of the steps we must take to ensure that.

We know that major reforms require the commitment of many participants. The task force report calls upon the participation of virtually everyone involved in the mining industry, including all mining professionals, their professional organizations, boards of directors, mining analysts, industry associations, and financial regulators, to help achieve these changes. I encourage all of you to support the MSTF recommendations and the licensing of geoscientists.

Copies of the Mining Standards Task Force report can be obtained from the TSE publications office at (416) 947-4681, or by mail at Market Data Services, The Toronto Stock Exchange, 2 First Canadian Place, Toronto, Ontario M5X 1J2.