

De : Christophe Voegeli [<mailto:cvoegeli@clearfocusfinancial.ca>]

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À : Consultation-en-cours; denise.weeres@asc.ca; Cora Pettipas

Cc : Christophe Voegeli

Objet : Comment: Proposed Amendments to National Instrument 45-106

Good day,

I wish to share my opinion regarding the proposed change in investment limits and 45-106. I write this letter of opinion from the vantage of an Alberta based financial planner who treats the exempt space as a common sliver of a portfolio, when suitable to be employed.

I can certainly understand the motive of the regulators in entertaining such a rule. Were I a securities lawyer with the ASC, perhaps under public pressure, I too would try to create a rule to limit absolute risk, across a broad range. Imposing a raw dollar amount certainly does achieve this.

The challenge I feel, is this rule is far too draconian. This rule will impair the ability of the exempt markets to raise capital and mature. More importantly, it could also end up being a disservice to the client. While a broad rule may limit risk, good planning and servicing clients in a way the client may wish, may remain unachieved. Just as the industry begins to come together with sound dealerships, more robust training, stronger issuers, and more educated investors, this rule would significantly dampen the momentum.

The greater focus should remain on relative limits, not absolute ones.

While the key man, liquidity, valuation, and fat tail risks of the exempt space should not be undermined, a properly built portfolio commonly includes alternative assets, ranging from private equity to the use of derivatives and hedge funds. Any of these investments may easily carry similar risk profiles to the exempt space, but also offer the investor investment characteristics they in fact seek out. These sought after characteristics are driven largely by the desire to seek out investments with properties differing from the broad public markets of equity and fixed income. More specifically, these sought after characteristics include; project and/or team specific risk/return profiles, direct exposure to real estate, fixed income vehicles with higher yields, exposure to unique business opportunities, exposure to flow through equity, etc. The broad public market simply does not allow a retail an investor access to these tools. Often, investors seek project specific risk, as the exempt space often allows, as the variables at play are not the common macro factors effecting the public equity and fixed income spaces.

Imposing an absolute value on risk is perhaps too simplistic. To an individual, absolute numbers may be used easily, but as a blanket rule, it comes with many unintended consequences. Value at risk to a financier, is often expressed in percent terms, in that high risk, severe loss scenario. Perhaps the regulators may entertain a rule capturing this concept as opposed to a strategy which may be to the detriment of the industry and the investor. Percent limits of investable assets in the exempt space makes a lot more sense than a dollar limit. In addition, exempt risk profile comes down dramatically, just by virtue of diversification. While regulators should be cautious to impose naive diversification rules, some mechanism of diversification could be imposed, which aids the investor far more than a robust dollar driven rule.

Success in this regard can be observed with non eligible investors and the current \$10,000 limit. If a non eligible investors is limited to smaller dollar amounts, this implicitly imposes diversification, and both relative and absolute risk mitigation. Merging the current rule with a rule of maximum exposure of investable assets in the exempt space, would do a lot to avoid catastrophic loss, while encouraging sound planning.

A second, more common place observation, can be seen with eligible investors, in the middle income space, and of middle age, with perhaps a low to mid six figure portfolio. I suspect this is the core demographic and financial case the regulators observe and consider when drawing up such rules. I operate under this assumption as I speak to another example of how current rules could be complimented with more creative rules to ensure investor protection. This example is around using eligible tests currently, mixed with a relative exposure focus.

So much with financial planning is case specific, which makes this a challenge indeed. The regulators should focus on implementing planning strategies, not blanket rules.

If anything, regulators should allow dealerships and advisors more mobility to offer clients a broad range of products, not simply employ binomial rules.

I express these opinions independently and thank you for your time.

Christophe O. Voegeli, BSc, CFP, CFA

Clear Focus Financial

www.clearfocusfinancial.ca

5351 75 St.

Edmonton, AB T6E 0W4

Phone: (780) 702-3922

Direct: (780) 702-3921

Fax: (587) 409-0226

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www.raintreemd.com

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