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cc: Cora Pettipas, NEMA ([cora@nemaonline.ca](mailto:cora@nemaonline.ca))

**Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption**

Dear Madams:

Further to the proposed amendments to NI-45-106, and in particular, the proposed annual investment limits for non-accredited investors, I submit the following for your review.

As an introduction, my name is Dinah Almond and I am an Exempt Market Dealing Representative. I am also a Certified Financial Planner, and I wish to express my disappointment in the strongest possible terms as to the proposed legislative changes.

First, on a personal note, it was never my intention to become a Certified Financial Planner. Indeed, it would never have happened if I could have felt comfortable with the advice and confident in achieving positive returns in the public market. But negative returns and disappointing financial planning advice was a clear indication that education was needed, and urgently. Following completion of my CFP, I was offered a position in the mutual fund industry, so I eagerly completed this course as well. Although mutual funds can definitely play a role in a good financial plan, completion of the course only confirmed to me that MER's can also be quite detrimental to positive returns, and Index Funds and ETF's are also viable alternatives. So, back to school for my Securities Course, and I did a significant amount of active trading, sometimes with very positive results. I have also completed my Branch Managers course, as well as the training for the exempt market.

So, as you can see, I have been on a journey, and I have had exposure to a lot of education and experiences. I should mention that I have also been an Estate and Trust Advisor with RBC, and was also VP of Finance in a consulting firm for 20 years.

So, the question arises – why am I involved in Exempt Markets? The answer – it is the only place I have made consistently positive returns.



Consistently? Well, I have been invested in the alternative market since 1994 (before the legislative changes) and there is a chance I may experience a loss on one of my investments this year. But up until this year, every single year, I have made a positive return. I certainly cannot say the same of my public market investments.

I was introduced to the alternative market by a mentor who worked with me and walked me through the due diligence I needed to make my initial investments. Without that advice, I wouldn't have been in a position to make an informed decision. Indeed, I have spent a substantial amount of time reviewing alternative investments since then, and invested in only a very select few. I looked at the legislation under NI 31-103 as a god-send. The registration of all parties, due diligence and review of the business plan by analysts specializing in the private market, NEMA and organizations trying to improve the industry, policies and guidelines, all critical components for protecting investors. Instead of the "old boys club" for the rich, or a mentor working diligently with a protégé, ordinary Canadians now had opportunities unheard of before.

On a personal note, there is one more important consideration I should mention that has affected my investing. In 1986, I divorced and started over with a 0 balance in both my financial and fixed assets columns, and two kids to support and put through university. I was more than fully prepared to take on more calculated risk to ensure their education and well-being, and the restrictions you are currently proposing would never have allowed me to successfully do that.

Indeed, in my humble opinion, if you enact this legislation, as proposed, you will ensure an underground market that will be subject to far greater risk with far greater negative results, and all the positive steps you have taken will be for naught. Indeed, if the \$30,000 threshold is enacted, who is to stop someone from going to multiple dealers to invest the total they wish to achieve, ensuring great difficulty for financial planners to confirm financial info, and complete proper financial planning.

If you enact this legislation, you are also forcing our clients to make financial decisions that may be detrimental to their financial wherewithal, i.e. forcing them to purchase REITS on the stock market, rather than private market REITS. A review of the volatility of three top public market REITS by profit (Boardwalk, Calloway and RioAlta <http://www.theglobeandmail.com/report-on-business/rob-magazine/top-1000/2012-rankings-of-canadas-top-1000-public-companies-by-profit/article4371923/>) clearly identifies all of them have yet to recover from highs in 2012 and 2013 (even though the stock market, as a whole, is up considerably). A private market REIT, such as Centurion Apartment REIT, has had almost no volatility and is still increasing NAV's and paying regular interest payments monthly. It should be noted that Centurion is also on some IIROC shelves, in addition to the exempt market.

If you are a 40-50 year old and have moved mountains to pay off your mortgage, should you be restricted to an investment of \$30,000/year, when you have obviously proven your financial expertise? Would the same rules apply to someone who has a mortgage and a major outstanding amount on their credit cards?

What if you are a young person with their debt under control and are prepared for more risk? Aren't they the perfect candidate for a little higher risk with a longer time frame for recovery, as long as their debt is manageable?

What if you already have more than \$30,000 invested that is coming up for renewal. Are you no longer allowed to invest a similar amount?



The Exempt Market is not perfect, but it is not broken. It is in its infancy. There have been problems in the past (well addressed by NI-31-103), and we will continue to have problems, the same as the public market. But positive, well-thought-out legislation will go a long way to assisting.

However, a blanket “all exempt market products are high risk” is misguided and misleading to clients. All investments have risk. In Canada, the number of public market issuers is constantly changing, but there are approximately 3,827 listed issuers,

(<http://www.gowlings.com/knowledgeCentre/publicationPDFs/Guide%20to%20Going%20Public%20in%20Canada.pdf> )

with 60% on the Venture Exchange and 70% of those trading below 10 cents (all approximate numbers). That leaves 1,530 (approximately) on the regular exchange and how many of them are regular dividend paying stocks? Surely an exempt market offering undertaken by professional businesspeople with years of successful experience and a well-researched and prepared business plan reviewed and vetted by analysts and exempt market groups, has about the same risk as that 60%. A 200 page Offering Memorandum bears striking resemblance to a Prospectus, with the major difference being the underwriting. Is that underwriting review so different than the review by an analyst specializing in the private market?

Ordinary Canadians want alternatives and options. The Exempt Market can help.

“**Morningstar Inc.** now tracks more than 450 liquid alternative funds across a dozen subcategories, compared with 116 such funds 10 years ago.”

[http://www.investmentnews.com/article/20140516/BLOG12/140519959?issuedate=20140520&sid=INTEL&utm\\_source=MarketIntel-20140520&utm\\_medium=in-newsletter&utm\\_campaign=investmentnews&utm\\_term=text](http://www.investmentnews.com/article/20140516/BLOG12/140519959?issuedate=20140520&sid=INTEL&utm_source=MarketIntel-20140520&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text)

A review of the current practices of the Exempt Market, reveals the following,

1. Exempt Market Dealers have clear guidelines with respect to
  - Know Your Client, including extensive Compliance reviews.
  - Know Your Product training, often on a weekly basis
  - Diversification – i.e. no more than 25% in any one product
  - Asset Allocation – i.e. no more than 75% in the Exempt Market. My philosophy, and the philosophy of many of my fellow dealing representatives, is a 50% public, 50% private split, well diversified in each.
  - Client Suitability – is this product suitable for the client’s risk profile
2. Exempt Market Dealers have clear guidelines as to the steps that need to be taken to bring a product on to their shelf. There is a major emphasis on due diligence, with review and preparation of a report by an Analyst specializing in private market products, and a review by a Committee (usually including an accountant and other professionals) who recommend appropriate changes to provide additional risk mitigation and protection for the client. Many times there is also ongoing due diligence.



3. Exempt Market Dealers and Reps are working diligently to improve the industry and often utilize the same or stricter guidelines than are currently in practice in both the MFDA and IIROC.
4. Many of the Reps utilize a model of the larger pension funds and foundations as their blueprint for investing. As most foundations and pensions with positive returns, including the CPP, now have a private market component, sometimes in excess of 30%, it only makes sense that the private market be opened to and readily available to the average investor, not just the ultra-wealthy. Canada is a nation of small businesses with great ideas, and the more we support them, the more we improve our GDP and the Canadian dream, and the more choice Canadians will have to make investments that fit their risk profile.

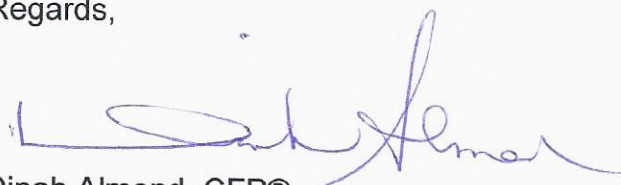
So my suggestions for improving the industry include the following (in addition to the NEMA proposal already submitted),

1. Elimination of the NW Exemption. This is still readily available and does not provide the protection for clients that is needed. It will also be part of the under-ground market that will thrive if the legislation is enacted.
2. Audited financial statements for all private market products
3. Written reviews by Analysts, in addition to the Offering Memorandum, be available to investors. This would allow for an informed review of the risk factors (by a qualified Analyst doing informed Due Diligence) being shared with clients, allowing them to compare risk factors among products, determining which is most aligned with their risk profile and their investment parameters, and allowing them to make the best decision possible. We cannot legally provide this information to them presently.
4. Formal risk analysis for all clients, including a written questionnaire
5. A formal chart in all OM's clarifying the maximum fees that can be charged and method of calculation.
6. If the Exempt Market is forced to limit exposure to any one product to a maximum % of Net Financial Assets, perhaps this rule should also be instigated in the IIROC and MFDA rules. Diversification and non-correlated assets are the cornerstones of good financial plans, not just in the private market. The same rules should apply.

I have attempted to address this issue on a very personal level, which I sincerely hope "strikes a cord" on the very personal issues our client's face, and we face in trying to meet their needs. Help us help them!

If you would like further elaboration, please feel free to contact me at [dinah.almond@pinnaclewealth.ca](mailto:dinah.almond@pinnaclewealth.ca).

Regards,



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