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Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption

Dear Madams:

I am writing, as an investor and an Exempt Market Dealing Representative, to comment on the proposed amendments to NI 45-106, and in particular the proposed annual investment limits for non-accredited investors.

Having worked in the Private Equity sector since 2002, I have had opportunity to observe and experience a variety of investment opportunities offered under the Offering Memorandum exemption. Some have paid out well, some went public and continue to pay out well, some are still pending, and some have been disasters – much like public market offerings, only usually closer to home.

With the regulatory changes to NI 31-103 effective in 2010, I became an Exempt Market Dealing Representative, registered with the Alberta Securities Commission, in order to continue to be able to offer my clients a greater diversification in their portfolios through investment offerings

not correlated to the public markets. The public market losses in 2008 and the decisions by financial organizations such as the Ontario Teachers' Pension Plan, the Canada Pension Plan, and various endowment funds to redirect some of their investments to private equity have confirmed my belief in the benefits of diversifying in the Exempt Market. The regulatory changes to NI 31-103 have also raised the bar in this market for issuers, Exempt Market Dealers and Dealing Representatives to the point that, with the new standards for due diligence and reporting, we are able to offer a greater variety of generally better investment opportunities to our clients.

The new regulations have also necessitated the change of our roles from "Sales reps" to that of working with clients to look at their overall portfolio to determine the appropriate nature of particular investment directions, which is of benefit to our clients.

Having lived in Ontario, I am happy to see that the OSC is looking to open up an Exempt Market for eligible investors, as their non-accredited residents have been unable to participate in the current situation in which the private market raises over three times the funds that the Canadian public market does. It is an opportunity for economic growth for that province, and for its investors.

However, I can only begin to imagine the chaos and repercussions of imposing a \$30,000 annual limit on investing for eligible investors in the Exempt Market across the country:

- Clients would be unable to adequately diversify outside public markets despite having sustained losses there and having gained growth in the Exempt Market;
- Clients whose existing Exempt Market investments pay out more than \$30,000 would be unable to re-invest the full amount of their returns into similar solid opportunities in the same year;
- Clients who count on regular returns for their income before or during retirement would lose the opportunity to benefit from solid, long-term Exempt Market products that do not have the volatility of the public markets;
- Clients who can buy a vehicle, RV, home or other property, or make investments on the stock market or in mutual funds, for sums far in excess of \$30,000 will lose their right to deploy their own funds as they wish in terms of investments they trust;
- What kind of bureaucracy would be necessary to track and enforce such an annual limit; what are the costs involved, and who would pay?
- Many Exempt Market Dealers would close, and their Dealer Representatives would leave the industry, as the current costs of due diligence and reporting are high, and the margins, especially for the smaller dealers, are small, and this would hurt the current economy;
- Limiting amounts per client would necessitate DRs to write more deals for more people, which would mean less time spent in conversation with clients to determine suitability, and revert back to simply being a "sales force".

Has there been any collection of hard data that would indicate that the recent changes to NI 31-103 have not done a good job in regulating the industry and bringing it to a higher standard, as has been our experience? Is there some evidence that \$30,000 is a median or maximum amount that would make it appropriate for an annual limit on eligible investors, whether they earn anywhere from \$76,000 to \$199,000 per year? It would seem expedient to do some research in

order to substantiate the proposed changes, and particularly before imposing an arbitrary limit which seems to serve no one's best interest.

Thank you for your consideration of this submission, which is being made on my own behalf. If you would like further elaboration on my comments, please feel free to contact me as below.

Regards,
Don Watt

CC:

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