

May 12<sup>th</sup> 2014

[denise.weeres@asc.ca](mailto:denise.weeres@asc.ca)

[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Denise Weeres  
Beaudoin  
Manager, Legal, Corporate Finance  
Alberta Securities Commission  
250 – 5th Street SW  
Calgary, Alberta T2P 0R4

and

Me Anne-Marie  
Directrice du secrétariat  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal, Québec H4Z 1G3

[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor  
Toronto, Ontario M5H 3S8

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

---

Dear Madams:

First of all, I wanted to sincerely thank you for your efforts to create a much healthier Exempt Market. The changes that brought about the Exempt Market Dealer System in 2010 has been a strong benefit; both to the Investors, the Dealing Representatives, and, has served the interests of you, the Regulators in promoting the right characteristics in this vital marketplace.

I am a Dealing Representative from Raintree Financial Solutions registered in both British Columbia and Alberta and I have been serving my clients in these markets for approximately 5 years. I originally chose to work with Raintree as they have made a commitment to promote healthy and efficient private capital markets. Raintree serves to raise the standard in the industry of what proper suitability and excellence in Compliance really means. This has really promoted the idea that suitability is paramount to these markets being healthy and strong, especially going forward. The CSA guidelines released earlier in 2014 also serves to bring greater clarity in regards to what a proper suitability regime looks like. These types of guidelines better serve investor's interests, and the people who work in this market.

As per the proposed amendments to NI45-106, I understand that a proposal was made to install a limit on what an Eligible Investor is allowed to invest at a cap of \$30,000 per person per year, as well as a \$10,000 maximum per person per year on Non-Eligible Investors. I believe this decision would be incredibly detrimental to the very market that is being improved and strengthened through a coordinated effort to structure proper regulation, suitability and business practices. I believe that suitability must be

paramount in determining any and all investment decisions in any area of the financial markets. When a hard cap is imposed, it starts creating many onerous and unintended consequences that for the most part do not result in any improvement. It is a proven economic concept that capital controls never can be implemented without unintended consequences; this decision would be no exception.

Here are the reasons that I believe that this proposal is misguided and will actually create new problems in the Exempt Market:

1. EMD's are the rightful gateway to these private markets and are certainly the way of the future. Suitability assessments are completed through properly trained and educated Dealing Representatives, with full suitability reviews being completed by equally trained and educated Compliance Officers. These EMD's promote strong diversification mandates, and are not representing a few products but rather many. (These are often 3rd party products.) The net effect is that investors are being diversified properly with suitability being the key factor in whether or not an investment is made. Hard Caps create otherwise suitable transactions from taking place, thereby affecting a client's ability to achieve their investment objectives. I believe that the unintended result of this would be to only create feelings of resentment and anger from investors toward the Regulators, which is not a positive outcome or compromise.
2. This Hard Cap would be extremely difficult to enforce, there is no way of knowing how much has already invested in a given year. Clients have the right to deal with multiple EMDs, this would create the need to be able to monitor and oversee the situation in "real time". Realistically, we know that there is little to no infrastructure that could achieve this in real time. As an example, let's say that an investor goes to multiple EMD's within days to invest \$90,000. The EMD and Reps would have no idea that this was happening unless the investor chose to disclose this. Thus, the discussion naturally moves to how this could be proven or not proven - what was disclosed and when it was, or was not, disclosed. This is just the beginning of added complexity and legal ramifications being introduced to the system.
3. There is a vast amount of difference from one client to another in the Eligible Investor Category and a "one size fits all" Hard Cap approach does not work. Let's compare for a moment, a young professional earning \$150,000 per year to a retired couple with \$450,000 in net assets, but little income; both are Eligible, but very different indeed. These people have completely different needs and objectives, which is why Suitability is a much stronger determining factor than rigid caps. If a client was 99% in the volatile public markets, and wished to create a well-balanced portfolio, it could take many years to accomplish under this proposal. This does not serve the client's needs better than before, nor does it allow for proper professional planning.
4. Reinvestment of a client's capital after an Issuer Exit is grossly affected. If clients were to invest \$30,000 and then some years later, this amount is \$50,000; under the proposed regime, the client would be forbidden from reinvesting the intended capital that they may wish to reinvest again. Also, let's say that a client made an RSP contribution of \$20,000 and two months later, they received an exit for the \$50,000...now they can only invest, \$10,000 of their \$50,000 back into assets that are doing well for them. These are just brief, yet possible examples of the problems that will occur and foment anger amongst investors towards these proposed rules.

5. To my knowledge, this would be setting a new precedent in the Financial Industry, as I am not aware of any investment class where self-determination is not allowed. If an investor wants to bet the farm on: penny stocks, futures, options, venture or angel capital, flow through shares, warrants, they are not precluded from doing so. In self-directed accounts, there is no one providing any suitability assessments whatsoever, so I cannot understand why this would be proposed regarding investors that go through a comprehensive suitability review prior to placing an investment. These aforementioned securities are arguably just as risk intensive if not more so than Exempt Holdings. This would be creating a precedent of prejudice against Alternative Investments, which I believe would be fought for many years to come.

6. Investors and industry reps will likely look for every opportunity to circumvent unfair or restrictive regimes, and I believe this will only create more reasons to tempt individuals to either be dishonest, or downright crafty in structuring themselves. I believe in an Exempt Market where honesty and integrity is promoted and encouraged, and do not support regimes that would create new reasons for people to conduct themselves in unscrupulous ways just to accomplish something that they would normally intend to do.

So what is the Solution?

I believe that hard caps are simply not the answer, for the Exempt Market. Continuing to place an emphasis on proper and objective suitability reviews, is the answer.

I believe that the only case where a hard cap might make sense is if it is being applied in a situation where there is a strong likelihood of immense investment over-concentration in a single product. This could mean with unlicensed /unregistered promoters, or EMD's that are only distributing a single proprietary product. These are the cases that often create undesirable outcomes and it is obvious why this is the case. We are quite aware in regards to which these groups are; and any move to penalize groups that are conducting themselves with the spirit of the securities laws, should not be governed according to the lowest common denominator. I firmly believe that this proposed rule should be exempt when trades are put through Registered Exempt Market Dealers; we are the ones who are focused on Suitability and Diversification as the key indicators for determining trades.

I believe that better yet, we can refine the systems and architecture that are already in place; in order to realistically promote the characteristics that are desired for the Exempt Market. As an example, the \$150,000 Minimum exemption does not serve investors interest, especially under a compliance mandate of strong diversification of 10% per security. This exemption should be done away with entirely, and pointed back towards the principles and business practices that foster "Suitable" transactions. All Legislation should always point back to suitability, and not legalism, or obtuse practical applications.

**Suitability is the absolute key to all of this.**

This submission is being made on my own behalf.

If you would like further elaboration on my comments, please feel free to contact me at [jeff.toews@drakewellington.com](mailto:jeff.toews@drakewellington.com)

Regards,

Jeff Toews

CC:

Cora Pettipas  
Vice President, National Exempt Market Association  
[cora@nemaonline.ca](mailto:cora@nemaonline.ca)