OLYMPIA
TRUST COMPANY

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and

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Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption

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The proposal made by the Canadian Securities Administrators to amend the offering memorandum rules in an effort to reduce the risk of investor loss is akin to having the speeding limits reduced to 15 km/hour to save lives. There is merit in both proposals but there is also very little in real life that will support either.

The problem the Canadian Securities Administrators are trying to solve…..that of the small investor investing and losing their life's savings on one deal, has already been solved. In 2010 those persons that were involved in the business of raising money for private issuers were forced to conform to National Instrument 31-103. The new rules contained in 31-103 required that all those involved in the business of selling of exempt securities be registered with the securities commissions and required these registered entities to have compliance departments, know your client rules, know your product rules, and suitability guidelines. In other words, if these registered entities sell investors an investment they have to be able to justify that the investment amount and the risk involved is suitable to the customer.

Since 31-103 rocked the exempt market, the incidence of investor problems has greatly diminished. Prior to 31-103 it was not uncommon for the issuers of securities to have their own sales force. There was no third party review of the terms or the qualifications of the Issuer. There were no suitability rules. In many cases individuals invested too much money in one deal and in many instances the management of the issuers was dishonest, comingled funds, or were just inadequate to the task of managing the company.

The proposals being considered by the Canadian Securities Administration would seem more appropriate for a communist country. The proposal is that if you earn less than $75,000 a year and have less than $400,000 in assets, that you be restricted to one $10,000 investment per year in a private security offered through an Offering Memorandum. Why??? Because they do not want you to lose more than that. Why??? Because if you lose more than that you are going to call them and complain. The investors are going to want you to get their money back and the securities administrators know that won't happen. Why??? Because by the time they get going on the case the money is gone.

Do the securities regulators care if you buy a $60,000 new car and lose $12,000 the day you drive it off the lot? No, because you won't call them. Do they care if you put $20,000 down to buy a $400,000 condo in Calgary at these low interest rates where there is a 50% chance you will lose your down payment through market correction? No, because you won't call them. Do they care if you gamble it away at the Casino? No, because you won't call them.

There is another rule that if put in place would provide investor protection and still allow Canadians the inherent right to choose how much they could invest in any investment. This rule is currently in place for assets held by

mutual funds in Canada. If the Canadian Securities Administrators passed a law that stated that if an Issuer was to use an offering memorandum and raise more than a certain amount of money (say $2,000,000) that they would have to appoint a custodian to hold the cash and the assets many of their concerns regarding investor protection would be alleviated. Had this law been in place in the last decade it would have saved investors hundreds of millions of dollars. If it were put in place today, if will save investors hundreds of millions of dollars in the future.

There is a cost to having a custodian. It would probably be between ½ and 1% per annum. This would be a price most investors would be willing to pay to protect their investment. By adopting a custodian rule to accompany the offering memorandum rules, the Canadian Securities Administration would be doing a great deal of service in protecting investors while staying out of the investor decision making process where they don't belong.

Even if the current proposed limits were adopted, the only thing that would be accomplished is that small investors could only lose $10,000 per year in the exempt market. My experience tells me that most of the money lost in the exempt market was through investing with bad apples, not bad investments - the promoters ran away with the money. It does not matter if the issuer is raising money at $10,000 per investor as the proposals are calling for. If the issuer gets 500 people to invest they will raise $5,000,000. And if they run away with the money they will get $5,000,000 and the investors will lose their money and the Canadian Securities Administrators will not get it back.

My good friend the postman did not earn $75,000 a year and did not have over $400,000 in assets. He did invest $50,000 in Olympia Trust Company in 1996, an exempt offering at the time. He now receives $65,000 per year in dividends, has an investment that has a market value of $1,000,000 and received a special dividend of $250,000 last year. Do the Canadian Securities Administration care?? Of course they don't. Does my friend care? You bet he does.

Canada is a country of opportunity. Canadians have not and should not give up their rights to participate in creating wealth anyway they so choose. The current proposals being made by the Canadian Securities Administrators should be withdrawn. National Instrument 31-103 has already dealt with the problem.

If you would like further elaboration on my comments, please feel free to contact me at rick@olympiatrust.com

Regards,

Signed Rick Skauge

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