

March 8, 2013

John Stevenson
Secretary
Ontario Securities Commission
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Dear Sirs/Mesdames,

RE: OSC Exempt Market Review - Comments on OSC Staff Consultation Paper 45-710

As the Founder and owner of Cdling Capital Services Inc. and the Founder & Director of the Toronto Chapter of Startup Grind, I am pleased to provide these comments on OSC Staff Consultation Paper 45-710. I am also the National VP of Startup Advocacy for CATAAlliance Invest CrowdFund Canada (ICC).

My primary issue for this letter is **the advancement of investor protection measures** that are designed for the current era of low cost, globally funded startups that we live in. This context is a direct result of new media forms, driven by new enabling technologies including ubiquitous broadband internet connections, low cost computing and powerful mobile computing devices.

My purpose is to pass on the advice that Marshall McLuhan might offer. At first any new media (or in this case the financing methods enabled by the new media), looks like something that came before it. An email looks like a letter. TV seems like radio before it, and so on. But eventually it becomes apparent that the new form is not the same as the old form. They have different dynamics and effects that demand different responses from us.

Crowdfunding is not a choice. To deny its adoption and significance is the equivalent of calling the internet a fad and adopting the position of an ostrich with your head in the sand.

Therefore, as you move to accept your responsibility to cope with this reality, please do not try to impose old frameworks for risk mitigation in this new context.

You can actually introduce more risk by doing so.

Who Is Cdling and Startup Grind?

Cdling (pronounced "seedling") is an internet enabled technology platform that builds trust between investors, startups and the experts who serve them. We are developing a ratings agency that is designed for the era of globally funded, low cost startups. The Cdling platform recognizes and rewards the prospecting work that mentors, advisors, subject matter experts and analysts contribute to a healthy startup ecosystem. Using social network, financial and competitive analysis and prediction markets, Cdling produces Cdling Scores, which are a merit based measure of influence (more precisely, social capital) across the startup funding ecosystem. So far we have developed Cdling Scores for more than 2,200 of Ontario's top innovators through the [Ontario Cross Border Technology Innovation Ecosystem \(OCTIE\) Study](#), conducted under the supervision of Ryerson University with a world class advisory group and, using the method developed through OCTIE, more than 22,000 investors and founders in California.

Today, Cdling has 1,268 members and more than 600 startups in our community.

[The Cdling community is emerging in remarkable ways:](#)

- Designers 25%, Hackers 45%, Hustlers 28%
- United States 37%, Canada 22%, European Union 14.5%
- Rest of the World 25.8% includes: China, India, Singapore, Australia, New Zealand, Thailand, Venezuela, Turkey, Brazil, Mexico, Ecuador, Japan and the United Arab Emirates
- more than 60 city/regions are represented in the Cdling community.
- 35% have advanced/post-graduate degrees.
- Subject Matter Expertise: Computer Science 60.4%, Engineering 7.5%, Marketing 6.2%, Business Admin 5.5%, Management 5.4%, Finance 5.3%, Economics 4.6%
- Sectors Covered: Biotech 2.1%, Cleantech 1.6%, Communications 41%, eCommerce 9.9%, Enterprise 10.4%, Entertainment 2.3%, Finance 8.4%, Government 1.3%, Hardware 2.5%, Health 4%, Incubator 3.6% Investor 3.4%, Legal 1.5%, Media 32.4%, Mobile 1.3%, Other 4%, Social Media 17.3%, Software 12.4%
- Average years of career experience: more than 8 yrs.

[Startup Grind is the fastest growing blog and meetup network emerging out of Silicon Valley.](#) We have Chapters in 40 locations in 15 countries and the Toronto Chapter has attracted more that 750 Founders in less than one year with no government subsidies. Startup Grind Toronto's mission is to inspire, educate, and connect the Ontario startup community with the smartest startup minds. Our guests so far have included Eric Migicovsky (Founder of Pebble Watch), Sherwood Neiss (co-author of the crowdfunding framework adopted in the JOBSAct and Howard Morgan (co-founder of New York Angels, Partner of First Round Capital). For more details see on the top startup minds that we are connecting to Ontario see:

[Startup Grind Toronto](#)

[Startup Grind 2013](#)

In addition to my roles with Cdling and Startup Grind, I think it is useful in this context to note that I focused my MBA on the relationship between social capital and corporate value and have led my [Social Capital Value Add](#) thesis through two global “crowd sourced” competitions, having it published as a [ChangeThis manifesto](#) and being selected as a finalist among 248 entries from 48 countries in the [Power Of US: Re-imagine Media](#) competition. I also designed and taught [the first post-graduate level social media courses in a full time program in Canada.](#)

OUR INPUT - The Medium is the Message

“The medium is the message. This is merely to say that the personal and social consequences of any medium - that is, of any extension of ourselves - result from the **new scale** that is introduced into our affairs by each extension of ourselves, or by any new technology.”

Marshall McLuhan, *Understanding Media*

Regulators must consider the **Internet and social media based** nature of crowdfunding and the impact of this on the way we consider risk protection measures. Traditional protections that were designed to reduce instances of fraud may not be as effective – or may in fact be counter-productive – in an on-line and networked communications environment. We have the following broad recommendations.

1. Facilitate New Reputational and Investment Analysis

Where any individual can readily communicate with anyone else, new methods for reputational analysis are enabled. We accordingly agree with the proposition in the Staff Consultation Paper that the crowdfunding exemption could be used to sell securities to any investor, regardless of income level or “sophistication”. In technology and social media start-ups, limiting participation based on “sophistication” would create a void of opinion and expertise from key contributors such as academics, experienced technology industry players and new participants such as recent graduates who are a source of innovation. Excluding these sources eliminates important social signals on the prospects and features of particular companies and projects.

Simply put, the broader the spectrum of participants, the more likely the “wisdom of the crowd” and “the right expert, for the specific question, at the right time” will be brought to bear. This is not a theoretical concept. Tools that leverage social networks for reputational analysis and risk measurement have been deployed to measure social and entrepreneurial influence – for example, [Klout](#),¹ [PeerIndex](#)² and [Cdling Scores](#).³ In a crowdfunding environment, these tools and many more like them are used to evaluate an offering and the reputations of the people behind the offering.

From a traditional securities regulatory perspective, it can be argued that analysis by “the crowd” is only as good as information that is provided by the issuer. This is only true if there is a scarcity of information. With the vast increase in the amount of publicly available data on markets, business models, products, and virtually every other subject, the problem is not lack of information – instead, what investors are missing is the ability to assimilate, critique and use information. This is why in the public company realm, an industry of highly paid analysts has emerged to put publicly available information in context and make it understandable and useful to investors. Crowdfunding supported by robust social media has proven to do the same thing on startups.

The Staff Consultation Paper also addresses the specific question of investment limits for individual investors. We believe an arbitrary threshold should be avoided. Any fixed dollar limit on investment will inevitably result in a clustered distribution around the limit.

If you set investment limits, link to income distribution not arbitrary thresholds.

If you must, explore a limit like 10% of annual income for "unsophisticated" investors (dislike these definitions). Make it an undertaking of funding portals and issuers to get contributors to certify in terms & conditions.

Regulators, politicians and everyone involved in this debate must understand that a \$ limit of \$1,000 or \$2,000 or \$10,000 would display obvious ignorance regarding to the social dynamics and distribution of contributors to any wise Crowdfunding.

Any social movement like Crowdfunding or Wikipedia or an election campaign works with individuals contributing along a "power law" or "long tail" distribution.

http://en.wikipedia.org/wiki/Long_tail

An arbitrary imposition of a limit would cluster people around that limit and eliminate signals for a large range above the limit.

¹ <http://klout.com/how-it-works>

² <http://about.peerindex.com/>

³ <https://sites.google.com/a/cdling.com/cdling/moneyball-cds-explained>

This would distort the signaling effect that is required to enable the "crowd" (actually opinions from a group of focused experts rather than a mindless crowd) to sort "good" investments from "bad" investments. This would effectively increase the risk of crowdfunding particularly for less informed participants who rely on social signals more.

These limits would be particularly terrible for crowdfunding in Canada where we need to generate continuity, consistency & quality of signal with a relatively small "crowd" (inherent in our small population) in order to attract bigger crowd funds from more distant market participants in the USA & beyond.

2. Encourage Engagement over Social Media by Issuers and Investors

A wider range of active and engaged investors, located globally, with diverse insights will promote greater accountability by issuers. We accordingly disagree with the restriction on the use of social media as construed in the consultation paper but agree with a ban on "advertising" by issuers. First, "advertising" is a product primarily of broadcast media like radio, television and newspaper that is paid for by the "advertiser". "Advertising" is a one-way communication in which information is controlled solely by the advertiser and it can be used to reach and mislead investors, particularly ill informed late adopters. On the other hand, Social Media is an inherently reciprocal communication where information is transmitted via social networks. Issuers must be encouraged to communicate through social media channels. In order to reach potential investors without advertising, issues need to win the trust and endorsement of communities that can share their offering with wider constituencies. In other words, social media is essential because it subjects the issuer and its information to the scrutiny of everyone needed to signal the quality of the offering. Social media will reduce fraud, not increase it.

Thank you for this opportunity which I offer in addition to the input that has been submitted via ICC. I would be more than happy to meet with your team at anytime to demonstrate the Cdling platform and advise more specifically on any items where you think my expertise would be helpful.

Sincerely yours,

A handwritten signature in black ink on a light pink background. The signature is cursive and appears to read "Michael Cayley".

[Michael Cayley](#)