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I support the goals of protecting investors from unfair, improper or fraudulent practices and fostering fair and efficient capital markets as well as confidence in those markets and appreciate the difficulty regulators have in balancing those roles.

The OSC is to be commended for providing more information on the exempt market, on the activities in some other jurisdictions and on investor demographics as it provides important context for respondents.

The OSC has an important role in fostering capital formation in small and medium sized businesses ("SMEs"). These companies have historically been net job creators. Capital for them is typically found in the exempt market – from friends, family and accredited investors.

Guidelines for increased access to investment opportunities for retail investors (who might otherwise seek out of country opportunities) are welcome as is the recognition that many successful business people and professionals are competent to analyze investment opportunities for themselves.

I hope that, in the future, the OSC considers more publicity for consultations such as this so as to have broad input from the members of the public likely to be impacted by the outcome. Most investors and members of the public do not regularly monitor the OSC website. The CRTC's recent public consultation that also used on-line comment tools might serve as a model.

Questions 1 to 4:

Please see the response by the Network of Angel Organizations - Ontario

5. Would a crowdfunding exemption be useful for issuers, particularly SMEs in raising capital?

Yes it could be useful, if stronger protections are afforded investors than are proposed in the model described in the consultation document. Without additional study and protections the model suggested is likely to be abused to the detriment of both issuers and investors.

6. Have we recognized the potential benefits of this exemption for investors?

The popularity of talent contests (e.g. American and Canadian Idol, the Voice etc.) and the success of existing crowd-funding such as kickstarter.com sites reflect the fact people contribute to projects or pay in advance for products for reasons that include1) liking the story or person 2) liking the project or product 3) being altruistic. Such venues are frequently considered to offer more equality of opportunity and to be more transparent an exempt market largely based on referrals and unequal access to information.

Accredited investors who become “angel” investors in companies often do so because they wish to “give back” to their communities by supporting local entrepreneurs and companies.

Another benefits not overtly recognized in the consultation document is that many companies and investors frequently seek to avoid registrants and their fees on small transactions to as to have more capital productively employed in a business. For the unsophisticated this may be a mistake, but for experienced management and sophisticated investors, registrants may not be perceived as adding sufficient value for the fees charges. This is particularly the case for investors and sell-side registrants whose interests are not aligned.

7. What would motivate an investor to make an investment through crowd-funding?

An investor would be motivated by an innovative product, credible management, non-excessive fees, adequate information and some confidence that no criminals are involved. Continuity of agent/registrant involvement beyond just a sale would also be important – i.e. knowing that the seller has a responsibility that lasts beyond the collection of a fee. In this way there is better alignment of interests.

One reason for the relatively low fraud rate to date in some existing crowd-funding models is that those seeking funding or microfinance usually are not faceless – their names and faces are well known and present in videos and photos on-line. People who have been taken advantage of by bad actors have the opportunity to “out” such individuals as well as the possibility of later levering the power of the crowd to find them. It is noted that it is also easier to litigate when presold product is not delivered than to do so under securities laws.

Microfinance loans are frequently guaranteed by a peer group - creating social pressure for repayment and leveraging the ability of peers to judge reliability and trustworthiness. Where these systems typically go wrong is when financial professionals enter these markets with maximizing profit as a sole motive – usually seeking to substitute technology for peer evaluations, charging too much and inducing people to take unneeded loans. Suicides of farmers in India have been a well-publicized example.

8. Can investor protection concerns associated with crowdfunding be addressed and, if so, how?

The commission will need to better study the current portals to what are the aspects that encourage honorable behavior on existing sites and will need to be innovative in terms of incorporating such elements in its models. Questions that need to be asked are whether the portal should have a due diligence obligation, how to lever the power of a crowd with respect to evaluating character or investment and how to provide continuity that would better align everyone’s interests. The following is submitted for consideration.

a. No anonymity – current successful sites often make faces and names of projects public thus increasing peer pressure against fraud and abuse and making it easier to find people for prosecution afterward. Similar information (names, faces, other) should be available and publicly posted for both the executives and directors of the companies seeking funding and the executives and directors of crowdfunding sites. Some have suggested that the CVs of Directors should be published.

b. Fees to both the companies and to investors should be posted so that participants can assess the value that a site is adding and the proportion of capital raised that can be employed by the company. It is suggested that all fees be capped at 6 to 8% of the funding raised.

c. Criminal and securities law violations background checks should be required for management and directors of both crowdfunding sites and companies seeking financing, with violations disclosed on the site. Such checks are no longer expensive and are increasingly a routine part of due diligence. Similar checks should be required for employees of crowdfunding sites and their records should be “clean” before any hire has access to personal information on investors.

d. The company seeking funding should be required to disclose the names of representatives of corporate and IP law and accounting firms acting as advisors.

e. Disclosure should include at a minimum: business summary, business model for which funding is being sought, current and proposed products and services, customer/market problem being addressed, information on the relevant target market subsector, sales and marketing strategy, customer concentration and channels of distribution, management's experience in the industry, a description of competitors, amount of money raised in return for what percentage of the company, how the proposed funding will be used and what key milestones for the next year will be.

f. 2 years of financial statements (if the company has been in existence that long) with GAAP note disclosures and a related party questionnaire. A least a review engagement by a third party CA/CPA should be required. Revenues and expenditures should be forecast for 2 years, with appropriate cautionary statements as these are essential elements in a business plan.

g. Sites should be required to have a forum that will allow both potential investor questions and company responses to be publically posted – this would increase disclosure.

h. The risk acknowledgement document should contain a statement specified by the OSC similar to the suggestion in #10. . An exhaustive listing of risks is useful in terms of limiting liability for companies, but they have become so generic and boilerplate that they are no longer particularly useful in terms of evaluating an investment and offer no asset allocation or risk guidelines. The OCS should be more proactive in providing such guidelines to investors. Being proactive in providing investor advice such as on asset allocation is preferable that providing no guidance and thereby make it easier for investors to overcommit.

i. Additional measures could include measures similar to those proposed in the US's proposed Entrepreneur Access to Capital Act, which could require cash management to be outsourced in the case of startups to a bank.

j. The description of what needs to be included in the books and records needs to be expanded.

k. Consider requiring that issuers have some level of directors' and officers' liability insurance. It's existence helps protect investors as the assessment that an insurance company does represents another level of review.

l. Consider requiring the site or another qualified third person to act as a Nominated Advisor role to the company as pioneered by the AIM market of the London Stock Exchange where the "Nomad" represents the interests of shareholders. Such a person or entity should focus on governance, represent the interests of shareholders and ensure that shareholders receive appropriate and timely information. This person/firm might also be required to act as a conduit/portal for information between the company and shareholders.

m. Another suggestion has been made that the majority of the board should be external to the company and unrelated to management. Board members would be expected to undertake a great deal of due diligence.

A chief risk for all retail investors is that shares may be sold at inflated values and that retail investors have insufficient information to assess valuation. Even a statement to the effect that private companies usually, but not always, trade at a discount to public company multiples to reflect the lack of liquidity could be useful and encourage investors to research such metrics.

9. What measure, if any, would be most effective at reducing the risk of potential abuse and fraud?

Criminal background checks, guidelines as to prudent portfolio allocation and requiring names, photos and/or CVs to be posted for senior officers would decrease the economic incentives that anonymity can provide.

Adopting the concept of a Nominated Advisor and possibly requiring the portal to operate an information portal for company and shareholder communications would also be useful.

Lists of risks and risk acknowledgement statements are a standard, but largely ineffective tool in shielding investors. They currently do more to shield management from liability than to protect or inform investors.

Directors and officers insurance would help protect investors; so too would additional such as prohibiting people from being a director or officer or from trading in securities for a prescribed time in addition to prosecutions for fraud and abuse.

10. Are there concerns with retail investors making investments that are illiquid with very limited options for monetizing those investments?

Yes, of course. However, we note that the amounts permitted are less than the price of many home appliances and in aggregate only slightly more than the average price of a used car, all of which tend to be illiquid purchases that investors are considered competent to buy.

Measures that would enhance investor protection have been proposed in question 8. I believe that the OSC should be proactive in helping investors assess what level of investment is by requiring on the website and in the risk acknowledgement a statement to the effect such as:

> **This investment is considered an "alternative investment" because it is long-term, illiquid and high-risk. The risk of loss is 100% - making it an inappropriate investment for an individual that needs the funds for retirement, for supporting a family, etc. or who has limited income or other assets. Even those who can afford a complete loss generally should not invest more than 5% of financial or liquid assets in this type of investment.**

11. Are there concerns with SMEs that are not reporting issuers having a large number of security holders?

Yes, but the ability to communicate to shareholders by electronic means mitigates some concerns as a password protected site could be created to post communication information. .

12. If we determine that crowdfunding may be appropriate for our market, should we consider introducing it on a trial or limited basis? For example, should we consider introducing it for a particular industry sector, for a limited time period or through a specified portal?

There will be resistance to introduction on a trial basis, given the cost of portal creation and compliance, but that may not be a sufficient impediment to initiation as a trial.

Industries with large capital requirements and high risks of failure (e.g. 1 success per 1000 - 10,000 initiatives) and that require very specialized knowledge to evaluate the opportunity, such a drug development and mining, should be excluded industries.

Issuer Restrictions

13. Should there be a limit on the amount of capital that can be raised under this exemption? If so, what should the limit be?

$2 million for the first year and $6 million in total are appropriate limits, keeping in mind the cost of distribution, and the increased cost of communication for a larger number of shareholders.

Questions 14 and 15

See the response by the Network of Angel Organizations – Ontario.

16. What information should be provided to investors at the time of sale as a condition of this exemption? Should that information be certified and by whom?

Please see the answer to question 8.

17. Should issuers that rely on this exemption be required to provide ongoing disclosure to investors? If so, what form should this disclosure take?

Issuers should provide semi-annual financial statements and should communicate information on material events.

18. Should the issuer be required to provide audited financial statements to investors at the time of the sale or on an ongoing basis? Is the proposed threshold of $500,000 for requiring audited financial statements (in the case of a non-reporting issuer) appropriate?

Review engagement financial statements by an independent third party CA/CPA and signed by the Directors are appropriate at initial offering provided that the format has extensive note disclosure and otherwise complies with GAAP if some of our other recommendations are adopted. Alternatively, an audit of the Statement of Assets and Liabilities and disclosure of any related party transactions or contracts might be an appropriate level of review beyond the threshold suggested.

19. Should rights and protections, such as anti-dilution protection, tag-along rights and pre-emptive rights, be provided to shareholders?

These features seem overly complex for this market. It is probably easiest to require that existing shareholders should be included in new offering solicitations. I do not understand why convertible preferred shares are an excluded class of shares.

20. Should we allow investments through a funding portal (similar to the funding portals contemplated by the crowd funding exemption in the JOBS Act)? If so:

Possibly, provided that the people behind the portal are not anonymous and have had criminal background checks performed and that a third party Tier one bank holds any funds in separate trust funds for investors until closing. The entity/portal should have D & O insurance and meet the requirements of an EMD – integrity, proficiency, solvency.

All fees should be fully disclosed and capped at 6-8% of the raise for a company. High fee portals put too little capital actually to work in a company, increasing the risk of failure to both the company and the investors.

Kickstarter, for example, has a 5% fee and is an all or nothing funding model – partial funding is not allowed. Circle up doesn't disclose its fee – it just says that it is consistent with what is changed by investment bankers for raising small amounts of capital. I consider such disclosure inadequate.

A high fee portal is an indication to many investors that good investments are not to be found there, so it is important information that investors should have and should be able to judge. .

21. What obligations should a funding portal have?

Consideration should be given to requiring the portal to engage in specific due diligence activities including visiting company's premises and making specific inquiries of the company's bankers, lawyers and external accountants.

Consideration should be given to requiring that a portal act as a Nominated Advisor or "Nomad" subsequent to the investment and as a portal for communication between investors and the company for an additional fee. This would better align the interests of the portal with those of investors as there will be

a continuing relationship with both. Continuity of involvement can be an incentive to effective due diligence.

Other entities who could qualify as “Nomads” might be law or accounting firms. Nomads should be an additional class of registrant with a possible fiduciary duty.

The portal should post questions from potential investors as well as company responses – there must be interaction. Lack of responsiveness is also a red flag for investors.

22. Should funding portals be exempt from certain registration requirements? If so, what requirements should they be exempted from?

No, they should not be exempt as they have the potential to do widespread damage to investor confidence if they are just a seller collecting a commission with no obligations. They should be a special class of registrant, with obligations beyond that of an EMD as outlined above.

23. Should a registrant other than the funding portal be involved in this type of distribution? If so, what category of registrant? Should additional obligations be imposed on the registrant?

If the portal is a registrant and meets the other tests, no additional registrants are required unless investors choose to hire them. Requiring additional registrants only increases the level of fees collected and reduces the capital that can be employed.

Questions 24 and 25.

Please see the response by the Network of Angel Organizations – Ontario.

26. Should a purchaser be required to receive investment advice from an adviser in order to rely on this exemption?

Not if the purchaser is a sophisticated investor. In other cases, the eligibility advisor is a good alternative as, in addition to registrants, it allows an investor to obtain advisor from an accountant or lawyer with whom he or she many already have a relationship of trust.

However, to allow for the fees that would be required for such advisor/registrant review, the amounts permitted to be invested would need to be raised or the cost would be out of proportion to the potential benefit.

27. Should there be mandatory disclosure required in an OM? If so, what level of disclosure should be required?

Yes. Information should be required similar to that suggested in 8e. .

28. Should we require registrant involvement as a condition of this exemption? If so, what category of registration should be required?

Not for sophisticated investors. For others the concept of an eligibility advisor offers a better choice as it includes registrants, but also includes lawyers and accountants with whom an investor might already have a trusted relationship.

Questions 29 - 30

Please the submission by the Network of Angel Organizations Ontario.

Questions 31 to 34.

I believe that the following combinations are evidence of sophistication:

a. 2 years work experience in the investment industry, or

b. an MBA with 2 years work experience in any industry plus passing the Canadian Securities Course, or

c. Canadian Securities Course and a professional such as a doctor, dentist, pharmacist, veterinarian, patent agent or architect and those holding PhDs should also be considered sophisticated.

Effective investors invest in what they know and that the above professional achievements indicate a proficiency in specialized knowledge at a level beyond that of many registrants. However, it is recognized that specialized knowledge should not be sufficient alone and therefore propose that these individuals also pass the Canadian Securities Course. We chose that course as it is an educational core course for the investment industry.

A professional who has demonstrated proficiency in his or her field and regularly evaluates new technology should not be required interrupt a career to gain specific work experience in the investment industry when much knowledge regarding portfolio management, diversification, investing at different lifestyle stages, the practices of the investment industry and financial planning can be acquired by taking and passing the Canadian Securities Course.

An alternative to concerns raised by the OSC that EMDs and others many do a poor job of ascertaining that an investor is an accredited or sophisticated investor is for the OSC itself to keep a registry of people who have elected to be treated as accredited or sophisticated with respect to their dealings with private companies.

35. Should we consider a new prospectus exemption that is based on advice provided by a registrant? If so:

No unless there is a fiduciary responsibility. I believe that the focus in these exemptions should be capital funding for SMEs, not for registrants to sell more funds and financial products with less disclose than currently mandated. Registrants can be eligibility advisors under an OM exemption. There is no need for a registrant only exemption.

36. Do you agree with limiting this exemption to a situation where the registrant has a fiduciary duty to act in the best interests of the client?

A fiduciary duty should apply.

37. Do you agree that this type of exemption should be limited to certain types of registrants (e.g. investment dealers) or should this exemption be available for another type of registrant (e.g., an EMD)?

I don't support this exemption but if it is allowed, I would like to see independent third parties such as accountants and lawyers also be allowed to be advisors.

38. Should this type of exemption be available for registrants that sell securities of "related issuers" or "connected issuers" (which would raise conflict of interest concerns, as explained in National Instrument 33-105 Underwriting Conflicts and Part 13 of NI 31-103)? If so, would this be consistent with the registrant being subject to a fiduciary duty to the client?

No, it is a clear conflict of interest.

39. Would exempting the issuer from a disclosure obligation have implications for a registrant's ability to conduct a meaningful KYP and suitability review?

Possibly – an advisor probably would need to investigate the issuer or state that he/she cannot assess suitability. In the case of related issuers, the conflict of interest almost certainly biases a suitability review.

40. Do you agree that a registrant should be required to have an ongoing relationship with the client?

Maybe, but we would prefer to given investors additional alternatives to registrants for eligibility advisors. Sophisticated investors should be able to hire whatever representatives or advisors they deem appropriate.

41. Should there be any restrictions on the type of security that could be purchased? For example, should this exemption be available for purchases of securities of investment funds and/or complex products (including securitized products and derivatives)?

This exemption should NOT be allowed for investment funds or securitized derivatives.

In the absence of data from the OSC, the perception of many that complex securities and investment funds the ones most amenable to overvaluation, excessive fees, fraud, abuse and unfair selling practices.

42. Should the existing managed account exemption described above be expanded in Ontario to permit purchases of securities of investment funds?

Probably not.

Thank you for the opportunity to respond.

Dr. Patricia Lorenz, MBA, CA, CPA, DVM