

CPI

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Re: Proposed National Instrument 31 -103 / Registration Reform Project

Following are my concerns/comment on the proposed National Instrument 31-103 relating to the exempt market.

HANDLING CHEQUES/CASH

It is not clear from the definition of handling clients' cash needs, whether all the persons including the staff needs to be registered under the new regime, because they will be handling cash/cheques from clients. Typically only the issuer or law firm actually handles the cash.

Know Your Client ("Know Your Client") Forms / Risk Acknowledgement Forms

Under MI 45-106, all securities are categorized as being high risk. By executing the Risk Acknowledgment Form the investors are already acknowledging that they could lose all their money. You will appreciate that majority of fund raising transactions are in the area of land development/acquisitions, etc. If an investor indicates that their risk tolerance is anything less than high, they theoretically should not be able to invest in ANY exempt security.

These type of many exempt securities are safer than marketable securities and in many cases, yet investors are forced to make a misrepresentation themselves by signing a form acknowledging that they could lose all of their money, even though that isn't the case, because land can never be valued at NOTHING.



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Know Your Client forms will be required to be renewed on an annual basis. This may not be practical at all, because if client's financial situation or risk tolerance changes in a 365 day period, they cannot simply sell their exempt securities on the market and move into something "safer," so why bother with this form in the exempt market? Know Your Client forms have more applicability in "securities" industry, where the financial advisors need to have the ability to alter investment portfolios with their clients' needs.

Fixing the "Problems" within the Exempt Market with Additional Regulation

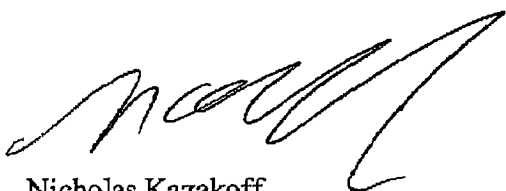
The Securities Commissions did not provide any statistics related to unscrupulous activity present in the exempt market. No matter how many rules are put in place, it is unfortunate to say that some investors will inevitably fall victim to the few unscrupulous promoters in the industry. NI 45-106 do provide for rights to investors for misrepresentations for their protection. Adding additional regulation will only increase the costs of raising capital (which are always passed on to investors) and will not increase investor safety. In fact, investor safety may be compromised if some of the proposals are implemented as you'll essentially be "legitimizing" everyone, even the crooks.

Canadian Securities Course ("Canadian Securities Course")

Canadian Securities Course is irrelevant to the exempt market industry because it is not specifically designed for the exempt market. CSA must work with the real estate boards and industry professionals on a course for the exempt market, keeping in mind that majority of fund raising is done for the real estate projects. The Canadian Securities Administrators need to establish a new steering committee to oversee the drafting of a course applicable to those that want to deal in exempt market securities.

Conclusion

The investors are being served well under the current regime of NI 45-106 as they get to participate in variety of investment opportunities. British Columbia is not participating in these changes is a clear example of this. The ASC and CSA should reconsider these reforms for the interests of various sales people and issuers involved in the exempt market.



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