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Investment Analysis for Intelligent Investors

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308-1155 West Pender Street
Vancouver, BC V6E 2P4

February 2, 2012

Gordon Smith
British Columbia Securities Commission
PO Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2

RE: REVIEW OF MINIMUM AMOUNT AND ACCREDITED INVESTOR EXEMPTIONS

Dear Mr. Smith:

We are responding to the CSA's request for comments on its review of the minimum amount prospectus exemption and the accredited investor prospectus exemption contained in National Instrument 45-106.

Our comments will relate specifically to securities bought/sold in the exempt market mainly by exempt market dealers, and not those listed on a stock exchange.

To provide you with some background on our firm, Fundamental Research Corp is an independent equity research firm that has been in operations since 2003. From September 16, 2003, to September 28, 2009, we were registered with the B.C. Securities Commission as a securities adviser until the category was abolished. Since our inception, our vision has been to provide investors with independent third party analysis on issuers, usually small and micro cap, that do not attract mainstream brokerage attention. In 2009, we also started to perform due diligence on exempt market and private issuers.

According to the call for comments, the CSA's regulatory mandate is:

- A) protecting investors from unfair, improper or fraudulent practices, and
- B) fostering fair and efficient capital markets, and confidence in those markets.

We believe that these mandates would be well served by making it mandatory that issuers/dealers in the exempt markets have their offerings go through an approved **third party** due diligence process producing a research report with a rating similar to the one I have submitted with this letter. Dealers in the exempt markets cannot provide this themselves as there would be conflicts, and many do not have the scale to provide this function as the IROC dealers do.

After a report is completed, it should also be mandatory that exempt market dealers, and their agents, review such research to become familiar with each offering prior to marketing it to their clients, and

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then make it mandatory that such research is provided to their clients along with the offering memorandum and various other materials.

We believe that no single factor (income, net worth etc.) can determine whether or not an investor is sufficiently sophisticated enough. However, we feel that having each issue vetted by a professional analyst who is sophisticated will resolve this issue. Making third party research mandatory for all exempt market securities, combined with the existing minimum amount prospectus exemption, and/or the accredited investor prospectus exemption contained in National Instrument 45-106, will ensure that a sophisticated investor has reviewed the offering. For example, almost all our analysts are involved in, or hold, the Chartered Financial Analyst (CFA) designation.

Also, while the involvement of a registrant does address some concerns, the combination of having a registrant and a third party report is a much more ideal scenario. This is because a registrant's specialty is servicing clients, and not performing investment analysis. Furthermore, a registrant may only see a subset of the investments available in the exempt market, likely to be only those his/her firm approves. Thus, the registrant may not have enough data to compare the relative merits of an investment. An investment may look good on its own, but may look relatively poor when compared to another. An analyst report would solve this problem because the analyst, having looked at hundreds of issues, will have a better sense of the relative merits of each issue and can communicate this in the report.

There is some precedence for including independent research in a retail setting. For example, the SEC's Global Analyst Research Settlement required:

- For a five-year period, each of the [brokerage] firms will be required to contract with no fewer than three independent research firms and will make available the independent research to the firm's customers.
- Firms will notify customers of the availability of independent research on customer account statements, on the first page of research reports, and on the firm's website.

Armed with the report, the registrant's only duty would then be to assess whether a particular investment was suitable for their client based on the client's unique circumstances, and not assess the particular economics of each issue – that would be left to the analyst and contained in the report.

Additionally, we believe that at a minimum, exempt market dealers should have to provide a third party analyst report of any issue they are selling to **individual investors**. Individual investors are less likely to possess the skills necessary to do their own thorough due diligence. This would be solved by having an analyst report.

Capital raising would be impacted if the minimum amounts were raised by making it harder for firms to

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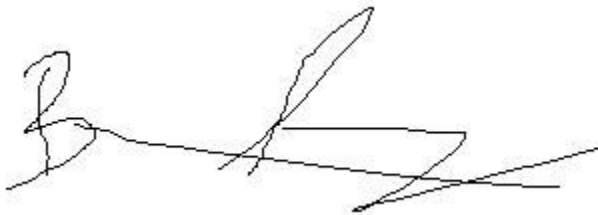
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raise money. The ultimate effect of this, assuming the firm is producing or going to produce some useful product/service, is an adverse impact on the economy and society as a whole. The \$150,00 threshold can be held in place, or even lowered, if the issuer has an independent third party report on it.

Funding the cost of the third party research can be modelled after some of the research initiatives previously initiated by organizations like the NASDAQ or Singapore stock exchange, the Global Research Settlement, or by using the direct issuer paid model. As our firm has 9 years of experience using the direct issuer paid model, we could advise in designing a system that would keep analysts independent (see attached article I wrote about this issue in *CFA Magazine*).

Sincerely,

FUNDAMENTAL RESEARCH CORP

A handwritten signature in black ink, appearing to read 'Brian Tang', with a long horizontal flourish extending to the right.

Brian Tang, CFA
President