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Sent: Friday, February 17, 2012 4:47 PM

To: Gordon Smith

Cc: Shannon Grover; comments@wemaonline.ca; Travis Cadman

Subject: CBI Group response letter to CSA on 45-401

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CSA Secretariat
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Re: CSA Staff Consultation Note 45-401 Review of Minimum Amount and Accredited Investor Exemptions

Dear Members of the Secretariat:

As a leading issuer and dealer in Canada's Exempt Market space, I am writing to fervently recommend that securities regulators relax the Minimum Amount and Accredited Investor rules in Ontario to better protect investors, develop the Exempt Market Dealers system and enhance industry's ability to raise capital. The inconsistencies and illogic of the current rules do more to strangle an otherwise efficient market than they do to protect investors. Maintaining the rules in their current form would perpetuate their harm, and tightening them would only exacerbate the problems they pose.

My colleagues and I base these recommendations on our years of experience as both issuers and dealers in the Exempt Dealer Market. I am the CEO of both Frank Capital, a leading Exempt Market Dealer, and CBI Investments Ltd, a real estate investment company that raises capital on the Exempt Market. This dual role brings us a unique perspective because it allows us to understand how the shortcomings of the current system punish issuers, dealers and *especially investors*.

Investors:

Investors, by definition, accept reasonable risk in the belief they will ultimately receive a greater return than those offered by savings products. However, traditional investments today are either low-yield financial institution products or public markets that historically have underperformed expectations, often with high fees attached. By restricting qualifications for the Exempt Market so severely, the current rules punish medium-sized investors (i.e., those unable to make a \$150,000 minimum investment or meeting the Accredited Investor criteria) by denying them access to a market that could increase their returns and improve their chances of retiring comfortably.

What's more, the Minimum Amount rules can *actually* increase an investor's risk. By imposing a \$150,000 minimum investment, the current rules can force investors to make larger investments than they would otherwise feel comfortable making, as it is the only way to access this attractive market. These investors would be better served if they could make smaller investments in a single issuer, thereby diversifying their portfolio.

Finally, the inconsistency in rules among the provinces only serves to confuse investors, and makes proper planning difficult.

Exempt Dealers

The fact that some provinces do not have the \$150,000 Minimum Amount or the Accredited Investor rule creates an unbalanced market across the country, which adds to the cost and complexity of doing business. Not only do Exempt Dealers have to tailor their operations to adhere to a patchwork of provincial regulation, but they must also deal with potential clients who are frustrated by their inability to invest because they live in a province with tighter regulations than the province next door.

Industry

By severely restricting the number of people who can invest in the Exempt Market, the rules are limiting the ability of private corporations to raise capital without the expense and time of a formal prospectus. This works against one of the regulatory regime's mandates, namely, the oversight of efficient and orderly markets that allow for the capitalization of industry. This is especially critical at a time when volatility and uncertainty make it difficult for issuers to raise capital in the public market, and venture capital funding has been suffering a 10-year drought in Canada.

Issuers are facing undue strain because those in Ontario are subject to far tighter regulations than those in the Western Provinces and Territories.

In summation, we are not asking for a regulatory regime that would place mid-levels investors in harm's way. We are only asking that investors in Canada's largest province enjoy the same regulatory environment that is now working successfully in other provinces. By doing so, the regulatory regime would actually reduce many investors' risk and improve the economic prospects of the country.

Yours sincerely,

Travis Cadman
Chief Executive Officer



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