



February 28th, 2012

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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cc: Western Exempt Market Association
e-mail: comments@wemaonline.ca

Dear Sirs and Madams:

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

SecureCare Investments Inc. appreciates the opportunity to submit comments to the CSA regarding CSA Staff Consultation Note 45-401.

SecureCare Investments Inc., of Pickering, Ontario, is an exempt market issuer of a fixed income bond (SecureCare Bond Offering). SecureCare's President also has previous recent experience as the UDP and dealing representative of a registered exempt market dealer. SecureCare Bonds are sold in several provinces across Canada in subscription amounts as little as \$5,000. SecureCare Bonds are asset backed through the true sale assignment of an interest in insured credit receivables. As such, SecureCare Bonds tend not to be correlated to the equity markets and have been seen by the exempt market as a medium yield opportunity for investors looking for fixed income or diversification of their portfolios reliant on equities, equity derivatives and mutual funds.

Consultation questions

1. What is the appropriate basis for the minimum amount exemption and the AI exemption?

We believe that there may be no specific rationale for the imposition of the minimum amount or AI exemptions. Suitability qualification for any exempt market investment must certainly take into account an investor's risk tolerance, financial sophistication and resources. This includes a complex list of investor variables and considerations that cannot be meaningfully addressed by "one size fits all" prescribed exemptions. It is our feeling that NI 31-103 and related instruments have created an effective regulatory framework within the exempt market and that, with guidance, exempt market dealers are capable of being industry "gate keepers", taking the risk and responsibility of determining product and investor suitability.

2. Does the involvement in the distribution of a registrant who has an obligation to recommend only suitable investments to the purchaser address any concerns?

Yes, quite definitely. We believe that "Know Your Client" and resulting investor suitability determination made normally by qualified registrant advisors should be fundamental to any exempt market investment decision. Experience has shown that this can be a complex determination that is unique to each client. With the implementation of NI 31-103 and related instruments, at considerable effort and cost, exempt market dealers and issuers accept the responsibility and risk of ensuring client suitability including risk tolerance for any investment that may be recommended. Particularly in the last two years, the quality of KYP and KYC processes undertaken by most exempt market dealers has substantially improved and we believe now does the best job possible to protect investors. As such, the somewhat arbitrary

restrictions imposed on investors by both the minimum amount and AI exemptions may not further serve investors. Our experience has shown that these restrictions are being viewed by some potential investors as arbitrary, draconian and “big brotherish”. It is felt by some that these restrictions generally serve to disenfranchise rational, intelligent investors from benefiting from investments that would serve to increase diversification, potentially their ROI and, in some cases, avoid issues of market volatility.

3. Do you have comments on the issues described in background #3?

As acknowledged in Appendices A and B, the establishment of minimum investment amounts through the minimum amount exemption may have a significant effect on a provincial and national economy by restricting the ability of SME’s to raise capital through the exempt market. It is a matter of record that investments obtained through the exempt market have significantly fueled economic growth in Western Canada. Restricting non-accredited investors from making small, diversifying investments in exempt market products can also be harmful to the public good. Our SecureCare Bond offering is a case in point, supporting many small subscriptions (as low as \$5,000) for investors adding fixed income return bonds to their TFSA, other registered or saving accounts, building highly diversified wealth engines for themselves. These types of investments are presently not possible in jurisdictions where exempt investments are restricted purely by the \$150,000 minimum investment or AI exemptions.

4. Are there other issues you may have with the minimum amount exemption?

The minimum amount exemption may also have the effect of causing a non-accredited investor to invest more money than they had wanted to in a particular exempt investment opportunity, thus having the effect of reducing diversification and increasing risk. Truly accredited investors may use the minimum amount exemption to avoid sharing their financial details with an exempt market dealer or issuer. Without further suitability tests, investors using the minimum amount exemption may generally be deemed suitable for an investment due to the fact that the CSA has set the threshold and the presumption that the investor must, therefore, be arbitrarily and sufficiently sophisticated.

5. Do you agree with maintaining the minimum amount exemption in its current form?

We would prefer that the minimum amount exemption be abolished or at least made scalable and reflective of the investor’s sophistication, resources and risk tolerance. The somewhat arbitrary “one size fits all” model may be highly prejudicial to the interests of some investors who are growing their holdings or have diversified in ways not recognized by present regulations. While scalability based on income, sophistication and/or net worth would introduce a further layer of subjectivity to the suitability process, we believe that, with guidance, exempt market dealers are capable of managing such a system.

6. How much should the minimum investment threshold be increased?

As suggested above, we maintain that the minimum amount should be abolished, restructured or, at least, not increased. Factors such as adequate risk disclosure, individual versus institutional investor, complexity of the investment and the absence of issuer reporting obligations certainly affect the suitability of a security for a particular investor. As stipulated, the key to the safety of this process lies with an informed investor working with a competent, responsible exempt market dealer, who knows the securities product and makes a determination regarding the suitability of the investment for their investor client.

7. Should the \$150,000 threshold be periodically indexed to inflation?

No.

8. If we changed the \$150,000 threshold what would the impact be on capital raising?

Increasing the minimum investment amount would likely be adverse to capital raising in jurisdictions where it represents the only way that non-accredited investors can participate in the exempt market.

9. Should individuals be able to acquire securities under the minimum amount exemption?

Yes. Factors such as adequate risk disclosure, individual versus institutional investor, complexity of the investment and the absence of issuer reporting obligations certainly affect the suitability of a security for a particular investor. As stipulated, the key to the safety of this process lies with an informed investor working with a competent, responsible exempt market dealer, who makes a determination regarding the suitability of the investment for their investor client.

10. If individuals are able to acquire securities under the minimum amount exemption, should there be any limitations?

No, not beyond those already in place preventing syndication or grouping.

11. If we limited the use of the exemption to persons who are not individuals, what would the impact be on capital raising?

Our experience shows that the vast majority of investors relying on the minimum investment exemption are individuals. We, therefore, estimate that there would indeed be a drop in capital raising capacity.

12. Are there alternative qualification criteria for the minimum amount exemption?

We believe that fundamental suitability determination, conducted and enforced by exempt market registrants and specific to the investor client and their consideration of a particular investment opportunity, should take the place of an arbitrary “one size fits all” minimum amount exemption.

13. Are there other limitations that should be imposed on the use of the minimum amount exemption?

No

14. Should the minimum amount exemption be repealed?

As discussed above, we believe that the minimum exemption should be eliminated in the face of the substantially increased responsibilities for investor protection undertaken by exempt market registrants. As part of their KYP/KYC processes, exempt market dealers consider the degree of issuer disclosure, whether the investor is individual or institutional, the complexity of the security and whether or not the security is a reporting issuer. All of these factors contribute to the ultimate suitability decision.

15. If the minimum amount exemption was repealed:

We believe that, in jurisdictions where the minimum amount exemption is the only exemption available to allow non-accredited investors to participate in the exempt market, that repeal of the exemption would potentially reduce capital raising ability unless the exemption were replaced with something that continued to allow non-accredited investors to qualify. The AI exemption, because of its strict definition that relies on financial assets, would still serve to disqualify many investors who may otherwise be suitable for certain exempt market securities.

16. Are there other options for modifying the minimum amount exemption that we should consider?

As suggested above, a scalable minimum amount based on suitability criteria such as income, sophistication or net worth could work. This structure could provide effective and universal suitability guidelines to the exempt market industry, while not preventing investor access. This could be a similar process to that used by credit granting institutions whereby an investors ability to invest is limited by their income, net worth, risk tolerance and sophistication. While part of this qualification process is evidentiary, a portion may also be controlled by the responsible registrant, much the way that credit qualification sometimes depend on a human underwriter.

17. Do you have comments on the issues described above? See Background 16.

As above

18. Are there any other issues you may have with the AI exemption?

No.

19. Do you agree with retaining the AI exemption and the definition of "accredited investor" in their current form?

No. We believe that due to requirement for exempt market dealer registration has elevated the role and responsibilities of the exempt market advisor to a degree that makes these exemptions unnecessary.

20. What should the income and asset thresholds be?

If it is deemed that the establishment of income and asset thresholds is valid to suitability, we believe that there must be an expansion of the definitions affecting them. Many prudent investors have elected to move out of volatile, more liquid financial assets towards assets that do not fit in categories cited in the AI definition. Their total net worth may be substantial but, under those circumstances, they would no longer qualify as accredited investors. A common example of this is a shift to investment in real estate.

We also believe that the average middle class Canadian is substantially more sophisticated than the current rules expect. Income and asset accumulation also vary considerably across Canada based on region and economy. Again, we maintain that an objective determination of suitability by a responsible exempt market dealer is the solution to safely match investors to securities.

21. Should the income and asset thresholds be periodically indexed to inflation?

No.

22. If we changed the income and asset thresholds, what would the impact be on capital raising?

We believe that any increase in income (particularly) and asset threshold (less important) would have a substantial adverse effect on capital raising in jurisdictions where AI exemption was relied on.

23. What qualification criteria should be used in the AI exemption for individual investors? Would your answer to this question change depending on whether:

We believe that suitability, done correctly, will benefit and protect the investing public and honest issuers without the need of thresholds and limiters set by the AI exemption. Suitability is a complex process requiring meaningful guidance from regulators and training and accountability from the exempt market industry. Part of the difficulty in functioning under the current AI exemption may be an inability by registrants to truly determine the nature and value of an investors stated financial assets. Investors wishing to protect their privacy can be wholly uncooperative when it comes to providing verifications.

24. If we changed the qualification criteria, what would the impact be on capital raising?

Constructive changes to qualification definitions and criteria could help capital raising by expanding the market to suitable investors who have previously been disenfranchised.

25. Should individuals be able to acquire securities under the AI exemption?

Our opinion is that the AI exemption is not well correlated to investor suitability. As mentioned, verification of an individual's status as an accredited investor is difficult to accomplish and many previously accredited investors have made investments that fall outside of the definitions. Again, we believe that the best way of ensuring investor suitability is through the appropriate KYP/KYC processes exercised by an exempt market registrant.

26. Should an investment limit be imposed on accredited investors who are individuals? If a limit is appropriate, what should the limit be?

No. We do not think that a limit is appropriate.

27. If investment limitations for individuals were imposed, what would the impact be on capital raising?

Any limitation would logically reduce capital raising.

28. Should this be considered in a review of the AI exemption?

Yes. For many exempt market issuers in jurisdictions that don't provide the Offering Memorandum exemption (NI 45-106 Section 2.9), accredited individuals are the most important single source of investment capital.

29. Do you agree with imposing such a requirement?

No.

30. Are there alternatives that we should consider?

Yes. Rather than employing somewhat arbitrary AI criteria that contemplates only two possible investor variables and the "one size fits all model", moving to a multi-variable approach to suitability employing meaningful guidelines implemented by exempt market registrants to truly match an investor with the appropriate security.

31. Are there other options we should consider for revising the AI exemption or for substituting an alternative exemption?

Part of the difficulty in functioning and being compliant under the current or future AI exemption environment may be an inability by registrants to truly determine the nature and value of an investor's stated financial assets. Investors can be wholly uncooperative when it comes to providing such verifications but insistent that they be permitted to invest. This consistent difficulty points to the inherent short comings of the AI exemption and related compliance. It is our opinion that, if a process is that problematic to administer, it may not be appropriate or meaningful.

Thank you again for the opportunity of expressing our views regarding these extremely important regulations. A failure to correctly handle these issues could damage or even destroy the fledgling exempt market industry, depriving Canadian investors of securities opportunities and Canadian companies of much needed capital.

According to Statistics Canada, on average in 2010, just over 5.1 million employees on payroll, or 48 percent of the total private sector labour force worked for small enterprises. Many of these companies use the exempt market to help supply capital for operation and growth. SecureCare Bonds are a good example, providing finance capital for a Canadian company in Ontario.

A review of the appendices included with this public consultation questionnaire shows that other major western countries take a similar approach to the issues discussed herein, relying on simple and somewhat arbitrary tests of investor suitability. Through the hard work of the CSA and its members, measures, such as NI 31-103 and 45-106, have been put in place to create a strong and responsible framework in which the exempt market can operate. We believe that the CSA can continue that leadership by abandoning the traditional exemptions and restrictions associated with the exempt market and empowering a holistic approach to the issue of investor suitability, executed by a willing and dedicated force of exempt market registrants. In this way, the CSA can lead the world in its approach to the exempt market, better protecting Canadian investors and harnessing more investment capital for vital small enterprises in this time of fiscal austerity and uncertain market returns.

Please do not hesitate to call upon us to elaborate on any of our responses.

Respectfully yours,



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