

February 29, 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

Re: Review of Minimum Amount (MA) and Accredited Investor (AI) Exemptions

To whom it may concern:

Lytton Financial Inc. (Lytton) is a small Toronto-based Exempt Market Dealer (EMD). Our business consists of corporate finance and m & a advisory services. In our financing business, we occasionally act as agent on private offerings which make use of the above noted exemptions. However, I like to think that I bring to issues such as this fairly a broad perspective based on over 25 years in the industry including board and executive committee roles at two larger firms (Richardson Greenshields and HSBC Securities). Recently I attended an OSC open house on this subject and, having heard the positions of various stakeholders, I would like to share with you my thoughts.

1. In addition to institutional investors, we deal primarily with family offices, multi family offices, and experienced individual investors (all of whom are AIs). These sophisticated investors are well-able to protect themselves, and do not require much help from regulators. For them the exempt market is a valuable, generally low cost way to invest. For the issuers who access these investors, exempt transactions are a valuable and efficient source of capital.
2. The main purpose of the MA and AI exemptions seems to me to be the protection of unsophisticated investors, particularly those who do not have the wherewithal to sustain a loss. It is concerning to think that such investors are being convinced to participate in unsuitable investments. I would be interested to see any data which measures the scope of this problem, as we have not seen it first hand in our business.
3. MA and AI thresholds are really a proxy for sophistication, which is otherwise difficult to define (although easy to know when you see it). We have found that the KYC rules and AI certification by the investor are effective for weeding out those who should not invest.
4. In general, the MA rule only comes in to play in one situation, which is where an entity (such as a Family Trust or corporation) does not itself qualify as an AI, despite being governed by a sophisticated investor or being part of a family which otherwise qualifies. In such situations, the MA exemption may be useful. Personally, I would prefer to abolish the MA exemption and broaden the AI definition to include entities where the investment decision is made by an AI or other qualified person.

5. I don't see any great reason to change investment thresholds or tests. They are all rather arbitrary to begin with and I have not seen any rationale to explain why any number is better than the ones we use currently.
6. I am a big believer in disclosure. If someone seeking to access capital provides information to an investor verbally, I do not see why they should not put the same information in writing. That way there is at least a clear picture of the basis on which an investment is made. Sophisticated investors insist on receiving quality information (which is in part how they protect themselves). I do not think the regulators need to provide detailed guidance about the content of OMs. For very small offerings in particular, issuers may need substantial leeway to manage costs and create their own disclosure (PowerPoint slides for example, rather than material drafted by lawyers). But people should stand behind what the information they provide and be accountable for it.

In short, I would recommend that changes to the AI and MA exemptions should be in response to clear data indicating that there are problems with the current system. Otherwise there is a risk of damaging an important aspect of Canadian capital markets for no good reason. If the data suggest that changes would be beneficial, my biases would be that the MA exemption could be abolished with some minor broadening of the AI definitions (point 4 above) and that written disclosure be emphasized (point 6 above).

If I can be of further assistance to the CSA's deliberations, please do not hesitate to contact me.

Yours Truly,



Glenn Gold
President (also CCO)