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April 2, 2014
The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario, M5H 3S8

Re: Proposed Prospectus Exemptions and Proposed Reports of Exempt Distributions in Ontario (Crowdfunding)

Dear Sirs,

We are submitting this document in response to the request for comments with respect to the aforementioned draft regulations proposed by the Ontario Securities Commission ("OSC").

We applaud the leadership role taken by the staff of the OSC in assessing the need for amendments to regulations related to offerings made in reliance on exemptions from the prospectus requirements. These proposals are timely and address a significant market need for access to capital for small and medium size enterprises and also an access to early stage investments for the general public who to date have been barred from this segment of the market.

It is an acknowledged fact that traction in job creation has generally been found primarily in the small and medium enterprises ("SME") and that these companies are also a major source of innovative products and services. Providing effective access to capital for these companies is an economic necessity for Ontario and for Canada.

Improving the efficient operation of the capital markets and investor protection are both essential parts of the mandate of the OSC. In issuing new regulations the OSC is no doubt mindful that if the layers of protection are such that the costs of compliance create are an overwhelming burden then capital markets cannot be efficient. While not achieving the mandate this has the additional downside that in and of itself it can create a significant risk to investors in that the costs of raising the capital become a detriment to the future success of the enterprise they invest in.

The OSC's approach in the draft regulations appears to be one of comprehensive risk mitigation. Experience in many sectors has shown that effective risk mitigation is achieved by assessing levels of risk and applying controls in areas of significant risk. In this fashion the focus on the key risk areas is not lost amongst a complex structure of risk mitigation compliance that overreaches.

We believe that a significant reassessment of the compliance structures, registration limitations and compliance related costs is required. The SME sector requires a streamlined process for its access to capital with flexibility for innovation that mirrors the very attributes that the sector exemplifies. We are of the view that this can be achieved with no significant incremental risk to the investors and we would argue that this could be achieved with a lower risk profile then the current proposals when all aspects are taken into account.

Mitigating Risks to Investors

There are a number or risks that should be of concern to investors. Some of these can be mitigated by the regulatory process, others should be mitigated by the self-interest of the intermediaries and in other cases the investor must make the decision on the risk acceptance. If the OSC in its role as the regulator imposes a compliance system that attempts to mitigate all of these risks the result will be an unwieldy and inflexible system which will not achieve the intended goals.

Making the wrong investment

-Investor Education

The most significant risk an investor takes on is choosing the wrong investment. In equity crowdfunding, advice from an investment advisor to the investor is not enforced by regulations although investors may seek that advice if they so choose. An important risk mitigating process is investor education which is featured in the draft regulations and we support this approach. This approach has the added benefit of increasing the general level of awareness of appropriate investment knowledge and research which will benefit the investors in other forms of investment as well.

-Sound business practices for Portals

For a Crowdfunding Portal to be successful over the longer term it is in their best interest that investors through their Portal have a successful experience. As such, good Portal operators will set standards and will provide guidance and support for issuers which will result in hosting only those that are well prepared for achieving their business plan. Over time, the market will determine which Portals offer investors the types of Offerings they are looking for. The OSC should ensure that the restrictions and compliance processes do not hinder the innovation and differentiation that Portals might develop. The ability to emulate best practices demonstrated by other participants will elevate the overall quality of portal operations and reduce investor risk.

-Bulletin Board

The Draft Regulations make the offering of a Blog/ Bulletin Board optional but where the Portal chooses to offer one, the regulations place a difficult and costly responsibility on the Portal to monitor and confirm that Issuer comments are consistent with the Offering Information. This will lead to very few portals offering this service or alternatively a significant additional charge will be required to fund the cost. Ultimately this cost will be shared by the investors and the Issuer.

The “wisdom of the crowd” as a risk mitigator should not be underestimated. There are many studies that support this concept. In its most simplistic form, shared opinion on a company’s prospects or products reflect the market acceptance for those products and become a predictor of its success or failure. We believe that a Bulletin Board is an essential feature of crowdfunding. The apparent concern that information posted by an issuer may conflict with the other information posted on the portal is not, in our view, a material risk. All investors have access to the Bulletin Board postings and all investors have the ability to request a refund of their investment up to 48 hours before the offering period ends. We would suggest that a Bulletin Board be made mandatory for each offering. Prior to the start of the 48 hour period the Issuer should certify that no material information has come to their attention which was not previously disclosed in the information posted on the Portal, (which would not include items

posted on the Bulletin Board). Where such material information does arise all Investors should be offered the opportunity to withdraw from the process. The Issuer and not the Portal should be held responsible for the information it posts on the Bulletin Board as it is for the information provided on the Portal. Any material information posted on the Bulletin Board and not in the offering documents should not be included by reference and should be part of the information considered by the Issuer in providing its certification.

-Lead Investors

As discussed below, we are of the view that a restriction on a registered CrowdFunding ("CF") Portal being registered in another category is not appropriate. Two of the downsides of this restriction are as follows:

1. The AI is presumed to be more knowledgeable and also benefits from the Registrant's compliance with the Know Your Client and investment Suitability requirements. By combining both AI and CF investors in concurrent offerings and by providing for an ability for information exchanges between the two groups the CF investors benefit indirectly from the AIs' knowledge and experience. The AI become "Lead Investors" adding relevant knowledge and experience to the CF investors investment decision process
2. In the initial stages of the deployment of Equity Crowdfunding opportunities, investors should be, and we expect will be, cautious as they begin to educate themselves. As a result we expect that initial investments will be significantly less than the maximums stipulated by the draft regulations. In order to provide the capital required for the Issuers to be successful, investments by AI together with those of the Crowdfunding Investors will be required. The investors' risks are diminished if the Issuers attract a strong group of investors from both sources who can meet their full funding need.

Investing Through the Wrong Portal

A number of the proposed regulations appear to attempt to protect the investors from the actions of the Portals and its principals.

-Fidelity Bonding and Minimum Capital Requirements

We support the requirements for fidelity bonding and minimum capital requirements to offer a level of protection to investors and to act as an entry barrier to less qualified groups applying for registration.

- Registered Individual application approvals

We are of the view that the experience, qualifications and background records of the Ultimate Designated Person and Chief Compliance Officer also offer a compelling layer of risk mitigation for the investors. The regulatory focus on this particular risk should be on ensuring that the appropriate individuals have legal and operational control over all aspects of the Portal.

-Restriction on CF registrant being registered as EMDs (and vice-versa)

Restricting CF portals from being registered in other Registrant categories is not an effective control. Setting up two associated companies to be registered in the different categories with both

registrants working in tandem to achieve what could be achieved directly if EMD and IIROC dealers could offer portal services simply adds a layer of cost and complexity to the process. We are of the view that Portals should be registered either as EMDs or IIROC members.

We recognize that the OSC has had recent issues with non-compliant EMDs. We do not see where the proposed structure addresses this issue. Also, this new sector should not be burdened with procedures and costs that relate to issues encountered in a different segment of the capital markets. Those issues should be addressed directly with the parties involved.

We understand that the Know Your Client and Investment Suitability requirements for CF Investors will need to be different than for AIs. We see no particular difficulty applying different KYC and Suitability determination processes for the two groups within one registrant and of maintaining appropriate records documenting compliance.

-Handling Investor Funds

The current proposals restrict a CF Portal from handling investor funds. This restriction creates a significant level of complexity and additional costs for CF offerings. The ability to automate the collection of funds and deposit them in separate bank accounts for each offering facilitates a low cost process. Given that the funds are not comingled with either the Portal's funds or those of other Offerings this is also a substantially secure process. To develop automated systems which will seamlessly exchange required information from the Portal to a third party escrow agent and back again from the escrow agent to the Portal is complex and has significant risks of information transmission breakdown. This information exchange would be necessitated by the requirement to update the Portal system in real time to monitor progress towards offering maximums, NSF's, investor requests for refunds and their fulfilment etc.

Given that funds from investors in CF offerings will not be significantly different in total compared to funds collected by EMDs in other exempt offerings we fail to see the logic in this requirement. Proposed Bonding and Capital requirements are identical to those of the EMDs. We presume that the registrant qualification requirements for Chief Compliance Officers and Ultimate Designated Persons will be no less stringent for CF Portals than those requirements for EMDs. Placing this additional restriction on CF Portals adds a significant cost to the offering process and a layer of complexity that is not warranted. A requirement that only the UDP and Chief Compliance Officer be allowed to direct disbursements from these accounts would be a better and more cost effective method to add a layer of protection with respect to investor funds.

Given that the requirements for registration for EMDs and CF Portals are essentially the same there is little logic in restricting the registration for both purposes in one entity. There is also little logic supporting the creation of a new category of registrant when the current EMD registration could be extended to Funding Portals. Clearly the KYC and Investment Suitability rules would need to be separately defined for each class of Investor.

-Concurrent CF and AI offerings

Where an offering is made in reliance on the CF Prospectus Exemption and in conjunction with the AI exemption (through an affiliated or non-affiliated EMD) restrictions on use of funds and other CF

regulatory related requirements should be applied to the combined offerings. For instance ongoing reporting requirements should apply for the benefit of all investors.

Other Matters

-The 90 day offering period

We expect that this proposal is being made on the basis that the information provided to potential investors would no longer be current if the offering period is extended. While it is possible that a material change could occur during the offering period, such a change could occur at any time during the initial offering period and, as proposed, there should be a requirement to disclose these events with the investor being given an opportunity to withdraw. Other than a material change it is difficult to contemplate what critical information would become "stale". In early stage companies, the business plans including go-to-market plans and product or service development plans are of predominant importance in the business and investment decision. Historical results, especially those of owner operated businesses where compensation structures are often tax driven, are much less relevant.

The 90 day period restricts the investors' ability to fully consider the information being presented, carry out any additional research they feel might be advisable and consult with advisors or online with Bulletin Board contributors. This short period also significantly increases the risk that the offering will not achieve the minimum goals.

We recommend that the offering period be increased to 120 days or more and that a requirement be added to the regulations such that the Issuer provides a certificate to all investors no less than 5 business days before the closing of the offering confirming that no material changes have occurred in the business or the company's plans or prospects. This will allow investors 3 clear days to consider whether they wish to continue with the investment.

-The $1,500,000 offering cap

- We believe that this is an appropriate initial limit for funds raised from CF Investors, recognizing that the total offering including funds from AIs may be higher. With caps significantly less than this amount the costs of raising the capital as a percentage of the funds raised reduce the economic feasibility. As this market matures the ceiling on capital raised should be revisited.

-Advertising

- The draft regulations restrict the medium of communications to social media and paper formats. It is not clear to us why radio or television could not be used to attract potential investor attention to the Portals.

- The term "social media" is subject to interpretation. While Linked-In and Facebook would be acknowledged forms of social media what about e-mails and YouTube videos? Clarification is required with respect to this provision. Discussion with respect to the underlying principles would also be well advised given the pace of evolution in modes of communication.

- Audit Requirements for Issuers

- In our view the incremental benefit of an audit versus a review engagement for SMEs is dubious. If an audit requirement is deemed necessary we would strongly suggest that this be mandated only for Issuers who raise more than $1,000,000 in total from CF and AIs.

-Investor Education annual re-certification

- While we strongly support investor education and would support an initial knowledge certification process we do not believe that annual recertification would be effective. Once the investor has gone through the initial education process they are unlikely to devote significant attention or engagement in a re-testing process and time spent by them in this process could be at the cost of spending less time on reviewing the Issuer specific information.

- **Portal reporting of issuers denied access or where access has been revoked**

- The purpose of this requirement is not clear. Is it the intent that the OSC provide access to this information for other Portals to review in their Issuer acceptance process? Will Portals be allowed to consider denial by another Portal as a factor in accepting or denying an Issuer access to their Portal? The purpose for requiring this information and the use that will be made of that information should be disclosed.

-**Additional Portal Obligations**

- We support the obligation placed on the portal to conduct background checks and to understand the structure and features of securities offered. Given the limited types of securities permitted in CF offerings additional guidance on the type of "risks of a security offered" understanding intended would be helpful.

- In order to satisfy the requirement that the Portal "review the information presented by the issuer…to confirm that the information adequately sets out…issuer specific risks" (emphasis added), requires the Portal to retain industry specific experts to assess and opine on these risks. These experts may not be available or affordable. We believe that the onus should be on the Issuer to assess and properly disclose this information.

Conclusion

The Crowdfunding phenomenon has the potential to engage investors such that they will inform themselves about their intended investment to an extent not previously seen. While the traditional reliance on investment advisors has been useful in many respects one significant downside has been the abdication of the investor in the investment decision process. Having the younger generation take an active role in their investments and in creating savings generally can only be a positive for them and for our community. While there is risk in Equity Crowdfunding, the fact that risk also exists in the traditional investment marketplace cannot be denied. Having individuals take ownership of these risks will foster a growing maturity and self-accountability in the investment process.

In Conclusion we are of the view that the Draft proposals have created a level of complexity that in and of itself creates investor risk. This is the result of the incremental costs of the offering process, the limitations on innovation and best practice adoption of Portals and the complexity of rules which will

focus the investors' attention on the process rather than on the assessment of the actual offering and its attendant risks.

This is a new initiative and should benefit from the flexibility required to provide valuable and cost effective services. The Commission has proposed maximum investment amounts and offering amounts for the Crowdfunding exemptions. This is a pragmatic and effective approach to protecting investors and more reliance should be placed by the Regulator on these caps as risk mitigators.

Our intended UDP and Chief Compliance Officer has many years of experience in these roles with both Canadian and US registrants and an unblemished record through many audits by regulators in both countries. We have a comprehensive understanding of the business fundamentals in this Exempt Markets industry and an appropriate respect for the needs and benefits of a well thought out compliance regime.

Setting up a Portal under the draft regulations requires all of the investments required to set up an EMD. In addition, the Portal requires a significant investment in technology, and given the current proposals an ongoing compliance cost which significantly exceeds that required currently of EMDs. We have carefully reviewed the current proposals and absent significant and fundamental changes we do not believe we can be successful as Portal Registrants nor do we believe that the proposals as currently drafted would be beneficial to the SMEs looking for capital or the CF Investors looking to invest in a company they have studied and believe in.

Respectfully submitted,

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