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The Secretary
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario M5H 3S8

Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption

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Dear Madams:

I am writing to comment on the proposed amendments to NI 45-106, in particular the proposed annual investment limits for non-accredited investors.

It is my position that the proposed annual investment limits are counterintuitive for the following reasons:

The manner in which they are being proposed

Imposing regulation, particularly arbitrary regulation such as this, without consultative due process is fraught with hazard and likely to induce more harm than good. A collaborative and inclusive approach among regulators and all parties formally involved in the exempt market industry, i.e. Exempt Market Dealers and their Compliance Officers, Issuers, Registered Dealing Representatives, and Industry Market Associations will provide a broader perspective and deeper level of knowledge that is required for the drafting and ongoing evolution of regulation.

The proposal for investment limits on exempt market securities is inconsistent with the rest of the investment industry in that investment limits are non-existent with publicly traded securities. The list of scandals, failures and collapses in Canada's public market is a long one with names such as Bre-X, Nortel, Hollinger, Research in Motion to name a few, as well as the many mutual funds invested in science and technology stocks that collapsed after the "dot com bubble" burst.

While there will be more of these in the future – both in public and private markets – the solution is not imposing arbitrary investment limits, but rather developing a more active, yet sensible culture where regulators, dealers, representatives, and investors perform greater due-diligence and demand strong corporate governance structures and processes that align management with investors; where advisors follow responsible guidelines for Know Your Client, Know Your Product, and Client Suitability – all of which the Exempt Market industry is currently practicing and continually enhancing for the long-term benefit of all parties involved.

They are detrimental to all stakeholders
The detrimental effect on stakeholders is far-reaching, starting with the broader Canadian economy.

Small Business (Issuers): According to Industry Canada, small businesses (1 to 99 employees) account for 98% of businesses in Canada and they employ over 7.7 million individuals or 69.7% of the total private labour force.

The exempt market/private market serves a vital role in providing capital to small businesses that are otherwise excluded from accessing capital through traditional bank lending. Imposing arbitrary investment limits will greatly reduce their access to this vital source of capital thereby placing constraints on the viability of small business, which in turn impairs the growth and development of those sectors of the economy in which these small businesses operate.

Exempt Market Dealers: EMDs are an integral facilitator in helping govern the operations and activities of issuers, registered representatives, and their clients. The imposition of investment limits will increase costs for administration, compliance and reporting while reducing revenue, which is dependent on the number of quality issuers on their "product shelf" and the amount of capital invested in their offerings. As with Issuers and small businesses, this proposal could place undue hardship on EMDs thereby impairing their viability as a vital component of the regulatory regime in Canada.

Registered Dealing Representatives (DRs): The proposed investment limits would incur many limitations on the DR's ability to properly advise and serve their clients. Chief among these limitations would be the DR's inability to adequately address the scope of a client's investment needs with respect to proper portfolio diversification *and diversity* in terms of asset allocation and product allocation for purposes of enhancing portfolio stability through risk reduction, volatility reduction; growth of capital and income for inflation protection and greater consistency of cash flow for meeting clients' ongoing living expenses.

Furthermore, this reduction in the DR's ability to adequately address the scope of clients' investment needs will have a material impact on the DR's ability to earn a living. This will cause an exodus of DRs from the industry creating a void in this advisory space and a shortage of much-needed qualified advisors that investors rely on for guidance and support.

Investors: If the purpose of the proposal for investment limits is to reduce investors' exposure to risk, it may in fact have the opposite effect. With the pervasive amount of fraud (trading practices, LIBOR, FOREX, Gold, serial re-hypothecation) and systemic risk (global inter-connected financial system, central bank QE, open market intervention and yield curve manipulation, sovereign debt and SIFI insolvency) present in the public markets, it is prudent for investors to diversify into private markets. By limiting the amount they can invest in this space, investors are being denied the ability to properly diversify, which can have the effect of increasing their risk.

In principle, there is no basis for restricting how much an investor can invest in a particular investment – both from an investor rights perspective and an economical one. In practice, this principle has been upheld in the public markets, despite the prevalence of extremely high risk investments in the resource, science and technology sectors that trade on venture exchanges, OTC and pink sheet markets. To single out the exempt market by proposing investment limits is a violation of this principle and contravenes current practices.

From an economical standpoint, the proposed limits do not take into account the wealth or investible assets of the individual, and therefore the individual needs of the investor. They assume an absolute level of risk when in fact risk is a relative consideration.

The unintended consequences yet to be seen
Lastly, while there are many clearly stated reasons for opposing investment limits on non-accredited investors, if enacted, there are yet to be seen unintended consequences that are sure to materialize.

This submission is being made on my own behalf.

If you would like further elaboration on my comments, please feel free to contact me at david.morisette@pinnaclewealth.ca

Regards,

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