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denise.weeres@asc.ca | consultation-en-cours@lautorite.qc.ca

Denise Weeres
Manager, Legal, Corporate Finance
Alberta Securities Commission
250 – 5th Street SW
Calgary, Alberta T2P 0R4

and

Me Anne-Marie Beaudoin
Directrice du sécretariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

comments@osc.gov.on.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
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.

I would like to start off by telling you why I believe my thoughts and inputs should be off importance. I have worked for one of Canada's big banks selling mutual, I was working in the exempt market before the regulatory changes in Sept 2010, I've worked for 3 different exempt market dealers, I currently work for Pinnacle Wealth Brokers and I'm also a licensed insurance broker for National Best. I believe that working in all these different areas of finance has given me a very unique and well diversified view of the investment landscape in Canada.

I don't believe the prosed rule changes make sense. I have some criticisms of the new rules, but more importantly I would like to provide some insight and suggestions of how we can make the exempt market a safer place for everyone. I believe the purpose of regulation should be to protect investors by regulating the people that work in the financial markets and not to decide for the investor how much money they can put into any particular asset class. I also believe that it's the regulators job to understand what they are regulating.

I have worked in the private investment industry since 2008 and understand it very well. The proposed $30,000 annual limit for eligible investors shows me that regulators either do not understand the exempt market very well or aren't interested in regulating it, because it takes the aspect of investor suitability out of the equation. How much money should an eligible investor be allowed to invest in Canadian equity, US equity, bonds, mutual funds, seg funds, oil, gold, silver and real estate? There isn't a good answer to this question nor is there a rule regulating amounts allowed in these areas, because it depends on each investors personal situation and what's suitable for each individual.

I believe suitability is the most important factor for any investor purchasing an investment. The investments they make should be suitable for their personal situation and every investor is in a different situation. I believe the current offering memorandum exemption rules are adequate for the exempt market, but I do feel there are a number of easy changes that regulators could make to ensure the exempt market is an even safer place for investor capital.

First off I believe the current offering memorandum exemption rules have been working very well. To suggest a rule change now doesn't make sense when there hasn't been enough time to evaluate how well the OM exemption rules have been working. The rules changed in Sept of 2010 and the average length of time for an exempt market investment to run its term is somewhere around 4-6 years. It will be very difficult to see how well things are going until we get to the point where investments have gone through a full cycle, which won't be until at least year end of 2016 as many exempt investments didn't actually get started until years after the 2010 rule change.

I have seen things going very well in the exempt market when I look at the investment offerings that have come out after Sept 2010 under the current OM exemption. I have heard of and seen other investments that haven't worked out, but they were raising capital prior to 2010. I believe that the addition of the third party exempt market dealer has made the industry a much safer place for investors and I wouldn't recommend that anybody ever invest with an EMD that is selling their own product.

There is a serious conflict of interest when a dealership is selling their own product. I would recommend a change where any dealership would only be allowed to sell third party investments or at least have some sort of third party evaluation done on their own product that would be a requirement to give to investors along with the OM. If all exempt market investment were sold through a third party dealership I believe this could be the only rule that needs changing to have a much safer exempt market. The problem with this is it would make it very difficult for some groups to raise money, because their offering wouldn't be strong enough to get picked up by an EMD.

In any for profit business the goal is to make money. This is the goal of all EMDs, but in order to make money you need to offer investments that make client's money. If the clients don't make money then they aren't going to reinvest and you will go out of business, so the best regulation is having EMDs that want to make money by selling what they feel are the best possible third party investments.

I live in BC, but feel the current eligible investor criteria in Alberta are a good bench mark. If you don't qualify as an eligible investor then you are limited to investing a maximum of $10,000 in any one investment, which forces the investor to diversify and protect themselves from having too much exposure to any one investment. This forces those who don't qualify to diversify if they aren't eligible.

Setting a limit like $30,000 a year on an amount people can invest in the exempt market makes absolutely no sense. If it was a percentage that would at least make far more sense, but still doesn't make sense in my mind. It doesn't allow investors to decide what they want to invest in, forces investors to only investing in the public market, prevents diversification, and doesn't take into consideration that investors have different needs and goals. This rule change wouldn't regulate the EM it would just stop people from investing in it, so there would no longer be a need for regulators. The industry would die off fairly quickly as EMDs and dealing reps wouldn't be able to survive.

An investor that has $30,000 in financial assets has a much different profile than an investor who has $900,000. To recommend a rule change that suggests these two investors should invest in the same fashion doesn't make sense. They are clearly in very different financial situations and should be allowed to decide how and where they would like to invest their money.

A limit also prevents clients from diversifying. To suggest that all eligible investors should have almost all of their money invested in the public markets would be irresponsible. Diversification has always been a good thing and will continue to be. I believe this is the main reason that the large pension funds like the Canadian Pension Plan have invested a large amount of their portfolio (38%) privately, outside of the public markets. This is a fund that needs to be conservative to ensure it has enough money for all Canadian citizens when they retire. I can't see how limiting retail investors to a much lower allocation in the private market would help protect them. Allowing investors to invest in the exempt market allows them the freedom to diversify their portfolio, which is a right I believe all investors should have.

Diversification is a very important aspect when it comes to portfolio protection. I could see rules put in place where EMDs are force to comply with maximum percentage amount for any one individual exempt market investment. I don't believe it would be a hard and set rule for every investor but for the majority. If investor were limited to only investing 10% of their financial assets into any one exempt market investment, then this would work well for ensuring a high level of diversification. I still believe that suitability should override a rule like this. For a 30 year old with $25,000 to invest they are likely to have the time frame and risk tolerance to invest half of their portfolio into one exempt market investment.

All regulated investing requires investors must go through the know your client process to ensure that an investment is suitable. We currently have this process in the EM and I think it works just as well in this market as it does in all others. I believe that this is sufficient and allows regulators to watch over things and ensure that an investor's investment is in fact suitable to their personal situation.

I would assume that there are a number of people working for the regulators that have previous experience working in the exempt market that they are regulating, but there couldn't be many that have been in working in the industry since the rule changes in Sept 2010. Adding more individuals to the regulatory bodies that have recent hands on experience could be very beneficial for the marketplace as a whole. We wouldn't want or trust a doctor to perform heart surgery on us if they have never done it before, just as we don't want regulators over seeing something they don't have the appropriate experience in. I don't say this to be facetious, but the prosed rule change clearly shows a major lack of understanding on the part of those who have proposed it.

In summary I don't believe it's the regulators job to regulate the investor, but to regulate the EMDs and their representatives to ensure all trades are compliant and suitable. I believe investors should have the right to choose where and how much of their money they invest into any sector. Investor find comfort in investing in things they understand and if they feel they understand the exempt market, then they should be free to invest as they wish.

I would love to see the regulators working more closely with the EMDs to better understand the exempt market and collaborate on ways to make the industry as safe as possible. There will always be risk when it comes to investing, but we can continue to work toward making the exempt market industry safer as it continues to grow and mature, while still giving investors the opportunity to decide whether or not the exempt market is a good home for some of their money. As someone who works in the industry I would be very happy and willing to help the regulators understand ways to increase the overall safety in the exempt market. I thank you for your time and consideration in reading this letter.

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 sean.mcmann@pinnaclewealth.ca.

Regards,

Sean McMann

Dealing Representative for Pinnacle Wealth Brokers