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June 4, 2014

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The Secretary
Ontario Securities Commission
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Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption

Dear Madams:

I am writing you today in response to your request for comment on the proposed changes to NI 45-106. I am sure you've been getting a great number of comments from investors, exempt issuers, EMDs' and their dealing representatives. This is clearly an industry that people are passionate about, so I'm certain that the letters you've been receiving have been very interesting from your perspective.

I am one of the founding partners of an EMD called "Raintree Financial Solutions". I want to make this perfectly clear so that you are aware of any bias I have in what I'm about to write.

I am not writing you today to lobby on behalf of the exempt market dealers, or the clients, or the issuers, or the dealing representatives. Instead, I'm going to encourage you to keep on the path you've been on for the past four years because as a whole, it's the best thing for the industry. Where I fear you may have strayed from this path is with the new cap proposals.

When you, the securities commissions across our country, introduced NI- 31-103 to the exempt market industry, you attempted to regulate an industry that had never really been regulated. Some might argue that it was long overdue. You may or may not realize this, but when the national instrument was adopted you gave this industry the ability to legitimize itself. You gave us the ability and obligation to behave as professionals and created accountability for everyone. This was a huge step forward for everyone involved.

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It would be impossible for you to know everything that happens at ground level in our industry. Please allow me to share with you some of the things we've seen from where we sit.

When we started Raintree, we spent a great deal of time getting to know the various issuers and prospective dealing representatives in the industry. As would be expected, the caliber of each was varied. Because this industry had never truly been regulated, there were a lot of people in the exempt market who would not be considered to be financial professionals. There were also a number of issuers who relied on the fact that most of their capital was being raised from salespeople who weren't qualified to differentiate a good investment from a bad one. NI 31-103 set out to change that.

Prior to the regulation change in 2010, these people were selling products that were often times unsophisticated in their design with inappropriate commissions, sub-par business models and unacceptable disclosure. It was no wonder there were so many "blow ups" on issuers who raised their capital prior to 2010. You had people who weren't educated properly, selling investments that weren't regulated properly to investors who didn't know any better. And to make matters worse, these investors could invest as much of their money into any one investment as they wanted. It is not surprising that a number of investors were hurt badly in this environment. It was a perfect recipe for disaster.

On September 28th, 2010, everything changed. You gave this industry the chance to be legitimized and you forced everyone in it to start acting like professionals. Clearly, this was going to be an evolution. You can't just flip a switch and change behavior overnight. You can, however, encourage people to evolve, improve and demand more from themselves each day. That is exactly what is happening.

Fast forward to today. We now have three and a half years of operations, as an industry, since the regulation changes. The exempt market industry is gaining respect from the traditional, more mature sectors of our industry. Because of this, we are attracting an incredible caliber of financial professionals, from both issuers and dealing representatives. The attraction of these high caliber people will allow us to continue to grow and improve and evolve. We all want to get better. I can tell you that our industry is stronger today than we were yesterday. And we'll be stronger tomorrow than we are today.

To give you an example of how our industry is working together to improve, did you know that certain CCOs of the large EMDs have a conference call each month to discuss best practices? I could be wrong, but I suspect this is rare in the financial world. Our industry is taking compliance very seriously and the EMDs who have been deemed to be the leaders of this industry are taking steps to raise the bar for everyone else. I, for one, was pleased when I learned that this was happening. Hopefully, you feel the same way.

I know that the majority of the feedback you receive is negative. As a regulator, it must be a very rare occurrence to have someone reach out to you with any good news. I'd be willing to bet that nobody has ever sent you a letter telling you that they made 9% on their real estate investment. Allow me to give you some good news:



The changes you made are working, and they are working because you are allowing them to work. You have put our industry in a position to help people and you should be applauded for it.

You have created an environment of accountability, professionalism and ethical decision-making. Sadly, these are words that are sorely lacking from the financial industry. You should be commended for giving us the opportunity to do good things for our clients.

I would strongly encourage you to stay the course. Just about everything in your most recent notice will do positive things for our industry. It will make a good thing better. But there is one addition that could wipe out all of the good that you've done – the cap of \$30k per person per year for eligible investors relying on the offering memorandum exemption in the exempt market. I am not lobbying you because this will affect my pocket book, or my ability to run my business. I am lobbying you because this will eliminate our ability to act as a financial professional for our clients. I don't want our professionals to go back to being "salespeople". This would be a tragic step backwards, in my opinion.

The job of a dealing representative is very straightforward. Their job is to put the right client, with the right investments in a suitable manner. This process requires a number of complex and thoughtful actions. In order to do this properly, the dealing representative needs to take steps to learn about their client's needs, research the investments and then provide thoughtful recommendations on allocations. If the dealing representative is doing their job properly, they work with their client in an effort to create a suitable mix of exempt market investments to add to their existing portfolio of traditional investments. This is done each and every time a client invests. Before the transaction can be approved by the EMD, the dealing representative and the CCO need to review the suitability assessment made by that dealing representative.

Placing a hard cap of \$30k per person per year limits the registrant's ability to act as a professional. It takes away their ability to assess suitability and make thoughtful recommendations for their clients. To paint all eligible investors with the same brush is dangerous to these investors, each of them are unique and deserve to be treated as unique.

At least once per week, someone asks me "How much should people invest in private capital?" My answer is always the same: "I don't have enough information to answer that question."

They often ask what the average transaction size is, but that's not the right question either. The right question is, "how do you determine how much a client should invest with you?" The answer to that question is that we work *with* our clients to make sure that everything that they invest is suitable and appropriate. We do that by taking the time to understand our clients' unique situations and needs. Unfortunately, it's not simple enough to just pick a number and assume it will be suitable because it has been suitable for others. Investments that have been right for others could be misleading and irrelevant if we were to apply it blindly to other clients' situations.

I don't look at "how much" in terms of dollars invested, I look at "how much" in terms of the percentage of their assets that a client can suitably invest. And that percentage is different every single time. No two clients



are the same, nor does any one client remain the same during their investing time span. I would never paint two with the same brush, let alone *all of them* with the same brush, as we fear this new proposal may do.

The Alberta Securities Commission should be commended for what they have done so far with registrant regulations. However, this prospectus exemption change would indicate that you don't trust the work that you've done. Please have faith that you have made good decisions in the past with these regulations and allow this industry to continue to mature and grow on the path it's on. If you question your decisions in the past, please take the time to review the results before relying on assumptions to make changes that could ruin all of the great work that you've been doing.

If there is ever a time when you'd like to dig deeper on what is happening from the perspective of someone operating at the ground level, you can always call anyone at the executive of Raintree and we would be more than happy to talk with you. We genuinely want this industry to be strong and will do whatever we need to do to help you make that happen.

If you would like further elaboration on my comments, please feel free to contact me at aderges@raintreeEMD.com or call me at (780) 443-0340.

Sincerely,

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