



June 4, 2014

Denise Weeres
Manager, Legal, Corporate Finance
Alberta Securities Commission
250-5th Street SW
Calgary, Alberta T2P 0R4
denise.weeres@asc.ca

and

Me Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
comments@osc.gov.sk.ca

and

Tony Herdzik
Government of Saskatchewan
Financial and Consumer Affairs Authority
Suite 601, 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 4H2
tony.herdzik@gov.sk.ca

Re: Commentary on Multilateral CSA Notice of Publication and Request for Comment – Proposed Amendments to NI 45-106 *Prospectus and Registration Exemptions* relating to the Offering Memorandum Exemption and in Alberta, New Brunswick and Saskatchewan, Reports of Exempt Distribution dated March 20, 2014

Enclosed herewith is our response to the referenced request for comment on the proposed changes to NI 45-106. Our submission consists of a main document discussing the overall scope of the proposed changes; Annex A, which contains our responses to specific questions put forward with the proposal, and Annex B, consisting of recent press releases related to the matters under consideration. The Millennium III Group of Companies and its predecessors have been involved as a significant participant in the exempt market in western Canada for many years and have a vital interest in these matters.

Our main concern with the proposed changes, as detailed in our presentation, is the prospective implementation of a \$30,000.00 cap on the amount that eligible investors can commit per year to the exempt market under the offering memorandum exemption. In our experience, we encounter a large number of relatively affluent individuals who fall between the threshold levels for eligible and accredited investors for net worth and average net or financial income. As well, each of these parameters of wealth measurement can show considerable variation from year to year for a given investor. Thus, this specific \$30,000.00 limitation can have a very negative effect on the market

choices of many otherwise suitable investors, especially those at the upper range of the eligible investor definition. The timing of this proposed change as well as possible implementation of an audit requirement, both coterminous with prospective federal implementation of the Cooperative Capital Markets Regulatory System, also is a concern.

As well as placing unnecessary restrictions on investors, the aforementioned proposed changes have the potential to decimate exempt market registrants; Exempt Market Dealers and Dealing Representatives, and put many of them out of business. This would negatively affect the useful roles that these participants in the market play in scrutinizing issues and issuers, determining client suitability and raising capital for small businesses. Investors' interests, as well, would be restricted by the loss of their ability to diversify through investing in the shrunken exempt market that would result from these changes.

We thank the Canadian Securities Administrators for providing us with the opportunity to make comments on these proposals. Should you have any questions with respect to our main commentary or our answers to your questions, please do not hesitate to contact the undersigned.

Yours truly,



Everett J. Kearley, r.m.c., B.Sc., B.E., P. Eng.
Chairman

Encls.

cc: Cora Pettipas
Vice President, National Exempt Market Association
cora@nemaonline.ca

cc: Chad Haaf
McDougall Gauley LLP

cc: John Kearley, Ken Nicholson, Allan Lebiszczak, Jerald Tekatch, Jarvis Rein

Commentary on Multilateral CSA Notice of Publication and Request for Comment - Proposed Amendments to National Instrument 45-106 *Prospectus and Registration Exemptions* Relating to the Offering Memorandum Exemption and in Alberta, New Brunswick and Saskatchewan, Reports of Exempt Distribution

Commentary Due: 17 June 2014

**Submitted by:
Millennium III Capital Corporation**

I. INTRODUCTION

The Millennium III Group of Companies, including related predecessor organizations, and its Chief Executive Officer, Mr. Everett Kearley, r.m.c., B.Sc., B.E., P. Eng., have been active as real estate limited partnership issuers and asset managers in Saskatchewan and Alberta since 1981. Currently, as general partners, they control and supervise 56 active, real estate limited partnerships with properties located in those two provinces dating back to 1984. These partnerships comprise a total of 4,576 investment units held by approximately 2,000 individual investors organized in over 1,300 family, corporate, or individual files. The properties held by these partnerships have a total current portfolio value in excess of \$300 million.

Most of the limited partnerships referred to above raised their capital relying on the offering memorandum exemption. Several of the proposed amendments set out in Multilateral CSA Notice of Publication and Request for Comment - Proposed Amendments to National Instrument 45-106 *Prospectus and Registration Exemptions* Relating to the Offering Memorandum Exemption and in Alberta, New Brunswick and Saskatchewan, Reports of Exempt Distribution (the "Proposed Amendments") would have a significant negative effect on our business as well as others trying to raise capital in Saskatchewan and Alberta. As a result, we feel compelled to write to you with our comments and concerns. The following sets out our thoughts on the key issues raised in the Proposed Amendments, and includes our answers to the specific questions posed in the above referred Request for Comment, which are attached in ANNEX A.

II. PURPOSE OF SASKATCHEWAN SECURITIES ACT AND REGULATIONS

Article V "Principles of Regulation under *The Securities Act, 1988*" in the paper "Securities Regulation in Saskatchewan" dated March, 2012 (the "Paper") published by the Saskatchewan Financial Services Commission, the predecessor body of the Financial and Consumer Affairs Authority (the "FCAA"), states:

"The *Act* is consumer protection legislation aimed at protecting the investing public. The mandate to protect investors' interests by regulating the securities industry and the capital markets must be balanced against the business community's requirement to raise capital efficiently. Stringent and time consuming rules enacted in the name of protecting

investors could unnecessarily stifle capital raising initiatives. On the other hand, the system of control must be sufficiently strong to encourage public confidence, for the investment industry will only flourish in such an environment.”

Later in the Paper, the FCAA summarizes securities regulations as follows:

The *Act* embodies four main principles of securities regulation that have evolved over the years:

- (a) Only honest and knowledgeable persons should be able to sell securities.
- (b) When securities are first offered to the public, potential investors should be provided with and be able to rely on truthful, complete and understandable selling documents.
- (c) All buyers and sellers should have equal access to information about companies whose shares are trading in the secondary market and an equal opportunity to be well informed.
- (d) Persons taking undue advantage of purchasers should be held to account.

III. TIMING

The timing of the Proposed Amendments is unfortunate. As reported in the *Globe and Mail* on April 23, 2014 (See ANNEX B), the new Federal Minister of Finance, Mr. Joe Oliver, an experienced securities executive, hopes to have a new, Cooperative Capital Markets Regulator (“CCMR”) operational by mid-2015. This could introduce a whole new regulatory regime into the Canadian securities industry.

While Mr. Oliver’s hoped-for timing may be somewhat optimistic, federally instituted changes could well be coming about at the same time as the subject proposed CSA amendments are coming into force. The recent announcement (StarPhoenix, May 8th, 2014; See ANNEX B) by the Minister of Justice for Saskatchewan, Mr. Gordon Wyant, that that province would (subject to certain conditions) be joining Ontario and British Columbia in the new, federally sponsored CCMR arrangement, however, makes this timeline a little more likely. The confusion and uncertainty that these potentially conflicting regulatory changes could bring would militate against “the business communities’ requirement to raise capital efficiently”, as confirmed by the FCAA above.

Many of the small business operations that raise capital, including ourselves, must regularly deal with changes to market conditions, taxation, technology and staffing issues and would find the impediment of further securities regulation, perhaps of an impermanent and conflicting nature, to be prohibitively challenging. As well, the Exempt Market Dealers (“EMDs”) have only been in business since 2009 and the registration regime is undergoing significant change as well; they would find the Proposed Amendments further challenges to their economic livelihood, particularly the uncertain nature of what the final scope of these changes might be.

In light of the developments with the CCMR, and the inevitable changes that would come with the CCMR's emergence as the country's securities regulator, any wholesale changes to existing securities regulations would be premature before the CCMR comes into effect. Therefore, the relationship between CSA and the CCMR should be clarified before any existing CSA regulations or procedures are further modified.

IV. INVESTMENT CEILING OF \$30,000 FOR ELIGIBLE INVESTORS

The proposed investment ceiling of \$30,000 for eligible investors materially and unnecessarily restricts the market to raise capital, from both the issuer and investor perspective. This change is proposed in the name of investor protection by limiting how much individuals can invest per year, thereby sparing them sizable losses in mismanaged or fraudulent projects. Unfortunately, this approach punishes and handicaps the entire industry because of a few bad actors and will not stop these types of scenarios from happening. It also treats all issuers relying on the offering memorandum exemption the same regardless of the nature of their respective businesses, from a speculative resource exploration startup to a conservative existing commercial real estate investment.

Further, the previously quoted principles of securities regulation nowhere allude to any duty by regulators to prevent properly informed persons from investing their money as they see fit. There may be a social case for the present graduation of investors from minimal to eligible to accredited to permitted. Going a step further, however, and dictating amounts one can invest, especially in the higher income brackets, severely curtails investor choice.

In our experience over many years, the proposed investment limit for eligible investors raises the following issues:

1. The proposed change imposes a "one size fits all" approach and does not take into account individual circumstances. Incomes and net assets in the eligible investor class can vary widely and be quite variable from year to year. This rule would almost appear to be designed to direct investors into MFDA or IIROC controlled investments where there is no \$30,000 investment limit. These have not always had an unblemished or gainful performance history.
2. An investor's small business income by itself also can be subject to large upswings while not putting the investor into the accredited category due to its sporadicity. The proposed \$30,000.00 cap significantly limits an investor's choice in dealing with these potential gains. Most small businesspeople are sophisticated and will only invest the peak portion of this money; they are usually fairly careful in selecting where they invest.
3. In recent years, the growth of EMDs, both as independents and as distribution arms of issuers, has greatly facilitated the raising of capital for small businesses in western Canada. These EMDs are closely regulated and recent improvements and changes to disclosure requirements make them even more so. The economies of operating EMDs are tight, however, and the proposed \$30,000 annual limit per

investor sales would act as a disincentive both to registered dealing representatives (“DRs”) and EMDs, inhibiting or eliminating these important market agencies. This would be unfortunate, as many of these EMDs have only been established in recent years, and are now faced with a significant proposed challenge in their business model.

In following the requirements of National Instrument 31-103, EMDs provide an important role in vetting the suitability of issuers and their projects before presenting them to their investors, whose “know your client” information is considered along with the “know your product” by the dealing representative and subsequently approved by the chief compliance officer. This important function would be lost if the EMDs close down.

V. FINANCIAL REPORTING AND AUDIT REQUIREMENTS

The Proposed Amendments contemplate both audit requirements for annual financial statements and compliance with International Financial Reporting Standards (“IFRS”) by all issuers. For smaller exempt market offerings, these present a significant burden or difficulty for the following reasons:

1. A minimum cost of approximately \$5,000.00 in IFRS audit fees per year must be borne by even the smallest offering.
2. Under IFRS, audit of real estate based investments require annual appraisals to determine market value, which adds an additional cost of approximately \$2,000 - \$3,000 as an ongoing annual operating expense.
3. Timing is a problem for limited partnership offerings where T5013s have to be made available to investors within 90 days after their calendar year end.
4. Returns for real estate limited partnerships of the type we sponsor and manage tend to be consistent from year to year, exhibiting few variations that might require audit attention. Investors can vote for an audit if they feel one is required.
5. Financial statements prepared to Accounting Standards for Private Enterprises (ASPE) are simpler for investors to peruse than those prepared to IFRS and are quite adequate, without audit, for non-reporting issuers.

VI. NON-UNIFORMITY

One of the stated goals of the Canadian Securities Administrators is harmonized securities regulation. This is to ensure uniform investor protection while facilitating the raising of capital across the country and allowing some degree of autonomy to cater to local capital markets and business conditions.

Thus, the Proposed Amendments only apply to Alberta, Saskatchewan and New Brunswick, which creates additional regulatory discrepancies between the provinces, rather than harmonization. The Proposed Amendments run contrary to the stated goal of the CSA as set out above. Further, this is certainly encouraging the Government of Canada and its proposed federal

securities regulator, the CCMR, to step in in an attempt to standardize regulations, procedures and enforcement across the country. This could, unfortunately, militate against the desire of many provinces to have some degree of autonomy in these fields.

ANNEX A

ANSWERS TO QUESTIONS ON MULTILATERAL CSA NOTICE OF PUBLICATION AND REQUEST FOR COMMENT - PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 45-106 *PROSPECTUS AND REGISTRATION EXEMPTIONS* RELATING TO THE OFFERING MEMORANDUM EXEMPTION AND IN ALBERTA, NEW BRUNSWICK AND SASKATCHEWAN, REPORTS OF EXEMPT DISTRIBUTION

ANNEX A

Question 1:

Under the current framework in Alberta, Quebec and Saskatchewan, both individual and non-individual investors are subject to the \$10,000 annual investment limit if they do not meet the definition of an eligible investor. Should non-individual investors, such as companies, be subject to the \$10,000 limit if they do not qualify as an eligible investor? Please explain.

Answer

Companies should be subject to the \$10,000 limit unless their controlling shareholder is an eligible investor. There may be some tax or business organizational reason for using a bare holding or management company to make investments on behalf of an eligible individual(s).

Question 2:

Are there circumstances where it would be suitable for an individual eligible investor who is not an accredited investor and not eligible to invest under the FFBA exemption to invest more than \$30,000 per year under the OM Exemption? If so, please describe them.

Answer:

Yes.

There are many examples of higher net worth individuals that have substantial incomes but do not quite reach the accredited investor level in either net financial assets, net assets, or income, who would be suitable to invest more than \$30,000 per year under the offering memorandum exemption. Some examples are as follows:

1. Young professionals
 - Income is at \$150,000 per year, and increasing annually
 - Wishing to invest in long term real estate/value investments
2. Middle aged investor
 - Earns \$180,000, spouse does not work
 - Large capital base of financial assets of \$800,000, looking to diversify current portfolio of large capitalized publicly traded stocks and mutual funds
3. Farmer
 - \$4 million in farmland and equipment
 - T4 shows income of \$150,000

There are countless scenarios that can be laid out where an eligible investor would reasonably purchase more than \$30,000 per year under the offering memorandum exemption. We have encountered many of the above types of situations and others in our long years in the investment business. The Proposed Amendments apply a “one size fits all” approach that unnecessarily restricts the rights of investors and investor choice. Further, the Proposed Amendments do not account for investor’s financial literacy or sophistication to assess the investments.

Question 3:

Given the costs associated with doing so, how likely is it that an individual would create a corporation or other entity to circumvent the \$30,000 cap?

Answer:

Given the amount of tax planning and rearrangement of financial affairs involved as well as the time required, it is quite unlikely that a lower net worth investor would set up a company just to avoid the \$30,000 limit. For higher net worth investors, this would depend upon individual circumstances.

Question 4:

Investors who do not qualify as eligible investors based on net income or net assets can qualify as eligible investors on the basis of advice from a registered investment dealer. In what circumstances do investors actually seek and receive advice from a registered investment dealer? Does this introduce any complications or difficulties?

Answer:

Young professionals with high, not yet realized income potential, sometimes seek to qualify as eligible investors by obtaining advice from a registered investment dealer. Investment dealers, however, usually have their own firm-sponsored products to sell and frequently will attempt to place these investors away from the exempt market and into their own products, which may or may not provide returns. There is usually no such problem with other types of eligibility advisers.

Question 5:

The eligible investor definition includes persons that have a net income of \$75,000 and persons that have net assets of \$400,000. These income and asset thresholds currently apply equally to individual and non-individual investors, such as companies.

a. Should the \$75,000 income threshold only apply to individuals? If so, please explain.

Answer 5a:

The \$75,000 threshold should apply to both individuals and companies. For tax purposes and the arrangement of business and personal affairs, some otherwise eligible investors may choose to invest through a holding company with minimal potential impediments.

Controlling shareholder(s) of the holding company could be required to satisfy the criteria for “eligible investor” although very few lower net worth investors ever use holding companies.

- b. Should the net asset amount exclude the value of the principal residence for individual investors? If so, should the \$400,000 net asset threshold be lowered as a result?***

Answer 5b:

No, the net asset amount should not exclude the value of the principal residence. Many eligible investors tend to invest in larger homes with values well in excess of what would be required to maintain their standard of living. These expensive homes are also a form of investment that, in today’s real estate market, continually increase in value and can be liquidated in a relatively short term. Obviously, if the unfortunate decision is made to exclude the principal residence, then the net asset threshold should be significantly lowered. (Think young professional couple with high earnings potential) Obviously, the net asset value catches highly leveraged homes.

- c. Should pensions be included in the net asset test under the OM Exemption? Please provide the basis for your answer.***

Answer 5c:

Many government and large, stable company pension plans are still based upon the defined benefit principle. The present worth of these pensions should be included in the net asset test under the offering memorandum exemption. Other pensions, including defined contribution pension models and various types of ongoing profit sharing plans should be evaluated on an individual basis by dealing representatives, if necessary with outside expert advice. Decisions as to whether and to what degree to include their value should be made accordingly.

Question 6:

The FCAA would appreciate feedback on whether lawyers and public accountants should continue to be considered “eligibility advisers” in Saskatchewan for purposes of the OM Exemption. Please provide the basis for your opinion.

Answer:

Lawyers make good eligibility advisers. Only lawyers familiar with securities law and practices normally give advice and they usually go beyond the financial aspects of an investor’s affairs and inquire into the nature, viability and suitability of the investment. Lawyers have been known to unearth certain questionable features of some investments and warned investors away from them.

Public accountants (new title to be Chartered Professional Accountants) also make good eligibility advisers. They are highly qualified to evaluate the investor’s financial position as well as the business and financial aspects of the investment and advise accordingly.

It might be appropriate if practitioners in each of these professions had a minimum number of years of professional experience before becoming eligibility advisers.

Question 7:

How common is it for an issuer that relies on the OM Exemption to make annual financial statements available to security holders?

a. How is this done? Are they delivered?

Answer 7a

Our business consists of acquiring existing commercial real estate properties, syndicating them, financing equity through limited partnerships and providing property and asset management services on a long term basis. Financial reporting is as follows:

1. Annual financial statements, T5013s and written progress reports are mailed to investors in time to be received by 31 March each year. In 2014, 3,542 reports were sent out covering the 2013 operating year.
2. Annual meetings are held in April of each year (44 in 2014 reporting on 2013 operations and finances) for limited partnerships that have attendees.
3. Mid-year progress reports are sent out each year to partnerships with specific operational changes.
4. Cash distributions to limited partners are made either once or twice annually to all partnerships with operating surpluses net of reserves.
5. We maintain an open office policy for all investors that wish to attend for any business reason.

We are not aware of how other issuers that rely on the offering memorandum exemption make annual financial statements available to security holders. In today's business environment, with sophisticated investors, it is hard to believe that issuers do not provide financial statements to investors. Financial statements are one of the key means to assess the financial health of a business and it is standard business practice to have them produced. The Millennium III Group of Companies has always provided and will continue to provide, annual financial statements to its investors.

b. Are those financial statements typically audited?

Answer 7b:

Only 7.3% (4) of our 56 limited partnerships had their annual financial statements audited for the 2013 reporting year. These audit requirements resulted from a brief period in the past 33 years when audited financial statements were mandated by Saskatchewan securities regulations. Our investors have the right under the various limited partnership

agreements to request an annual audit of the financial statements. Our investors typically choose not to require audited statements due to the extra costs, time constraints and the limited efficacy of these. See also answer 7e below.

In all cases where the old rules required an audit on our limited partnerships, the auditor made no changes to the financial reporting in these financial statements for 2013 or in any previous year. As such the requirement for audit adds additional costs for the investors without any significant value.

- c. ***If the financial statements are not typically audited, is there an auditor involved and, if so, what standard of engagement is typically applied?***

Answer 7c:

All of our new project opening financial statements that accompany the offering memoranda are prepared and audited in accordance with IFRS. Subsequently, all of our ongoing financial statements, with a few exceptions (see Answer 7b above) are prepared without audit to ASPE standards.

- d. ***Do issuers that prepare financial statements in accordance with IFRS for inclusion in their OMs typically continue to prepare financial statements in accordance with IFRS or do they transition to generally accepted accounting principles for private enterprises (ASPE)?***

Answer 7d:

We transition to Accounting Standards for Private Enterprises (“ASPE”) after opening financial statements that are prepared in accordance with IFRS. Once funds have been raised and the partnership is operational, financial statements for the partnership are prepared using ASPE. As the partnership is not publicly traded and the operations of the underlying commercial real estate investment do not involve complex business transactions, there is no need to issue the financial statements using IFRS. In our experience for these types of investments, IFRS provides the same operating results as ASPE but requires the disclosure of many extra pages of notes relating to the financial instruments that, to the average lay person, means nothing and provides little added benefit. To some extent, the use of IFRS adds more complexity and makes financial statements more difficult for many investors to understand.

It is our view that the financial statements included in the offering memorandum should match those for ongoing financial reporting. If IFRS will be used to prepare financial statements after the funds have been raised, it would make sense to require IFRS for financial statements included in the offering memorandum. If, however, ASPE will be used to prepare financial statements after funds are raised, it would be more appropriate to have the financial statements included in the offering memorandum prepared on this basis as well.

- e. ***Is it common for security holders to request annual financial statements? Do they request audited financial statements?***

Answer 7e:

We provide annual financial statements to investors without question or request. Only once in 33 years of operations out of many hundreds of annual financial statements did the General Partner and limited partners agree to have a financial statement audited. The audit did not result in any changes to the financial statement which, at that time, had been prepared in accordance with GAAP. See also 7b above.

- f. What do you estimate as the annual cost of preparing the proposed audited annual financial statements?*

Answer 7f:

The estimated annual cost would be \$5,000 per partnership over and above our in-house accounting costs in preparing for these. This audit cost could increase significantly in the next few years as many accounting firms are not prepared to audit statements to IFRS standards and this tightening of the audit market will drive up the cost per audit.

IFRS financial statements also require annual third party appraisals of real property. If these standards are adopted, this could add thousands of dollars more to the audit cost, depending on the size and value of the property. Generally, liability insurance for all auditors has been significantly increasing in recent years, and this will have a negative effect on cost and availability of audit services for exempt market issuers.

- g. Do you anticipate that issuers will mail annual financial statements to security holders or place them on a website?*

Answer 7g:

We will continue to provide mailed, hard copies of all reports. We have not provided electronic data reporting to date, however we anticipate we may rely on this more in the future.

- h. What do you estimate as the cost of making annual financial statements available to security holders?*

Answer 7h:

The cost of making annual financial statements available to security holders would be, approximately:

(1)	In house accounting	\$4,500.00
(2)	In house administration, mailing, etc.	<u>500.00</u>
	Total for Non-Audited Financial Statements	\$5,000.00

Item (1) – The foregoing expense is integral to the cost of operating the partnership and reporting to the CRA, etc.

(3)	If Audit is required, add	<u>\$5,000.00</u>
(4)	<u>Appraisal required for IFRS audit</u>	<u>\$2,000.00</u>
	Total for Audit Reporting	\$12,000.00

Question 8:

Under the Proposed Amendments, issuers relying on the OM Exemption would be required to deliver annual financial statements until the issuer either becomes a reporting issuer or ceases to carry on business. Are there other situations when it would be appropriate to no longer require ongoing annual financial statements for such issuers? If so, please describe them.

Answer:

No. In our type of business, syndication of real estate limited partnerships, annual reporting is required by the CRA, also, it is good business practice to inform investors. This includes opening financial statements, annual financial statements, including reporting to the CRA on investor earnings, etc. via T5013s, and final financial statements upon sale of the property and winding up of the partnership.

Question 9:

How do issuers relying on the OM Exemption typically communicate with their security holders? Do they maintain websites?

Answer:

See Answers to 7a and 7g above.

Question 10:

Should issuers be permitted to cease providing annual financial statements to their security holders after proceeds of a distribution are fully spent? If so, is there a period of time after which it is reasonable to assume that the proceeds of a distribution under the OM Exemption will have been fully spent?

Answer:

Issuers should continue to provide annual financial statements to their security holders beyond the time after the proceeds of a distribution are fully spent. Financial statements are integral to sound business management.

Question 11:

Should non-individual investors (e.g., companies or trusts) be required to sign a risk acknowledgement form? Please explain.

Answer:

Companies and Trusts should be required to sign a risk acknowledgement. Many of these organizations hold the personal wealth of shareholders, beneficiaries, etc. and it is important that the individuals responsible for these be aware of the risk factors involved in all types of investment.

Question 12:

Should “permitted clients”, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Obligations be required to sign a risk acknowledgement form? Please explain.

Answer:

Entities defined as “permitted clients” generally are at a level of financial sophistication and/or capability that risk acknowledgements are not necessary. Some case might be made, however, for risk acknowledgement to be required from small municipalities, school boards, etc., although, these are usually restricted to relatively risk free investments by their constituting authority.

Question 13:

Should non-redeemable investment funds continue to be permitted to use the OM Exemption?

Answer:

Non-redeemable investment funds should not be permitted to use the OM Exemption. Non-redeemable investment funds are complex financial products and as such are ill-suited for the OM Exemption. The OM Exemption is there for small businesses to raise capital and not investment funds.

Question 14:

Are there certain types of issuers that should be excluded from using the OM Exemption?

Answer:

Yes, there are certain issuers who should be excluded from using the OM Exemption. The non-redeemable investment fund in Question 13 should not have access to the OM Exemption or any complex securities such as derivatives for which this exemption was not designed for. This exemption should primarily be available to issuers that are financing fairly well-defined projects or objectives and are not collecting a fund to play in various markets.

Question 15:

Should issuers that are related to registrants that are involved in the sale of the issuer's securities under the OM Exemption be permitted to continue using the OM Exemption?

Answer:

Issuers that are related to registrants that are involved in the sale of the issuer's securities should be permitted to continue to use the offering memorandum exemption. Registrants related to issuers are bound by the regulatory requirements under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. As a result, a related registered firm brings an additional layer of regulatory protection to investors. Registered firms have ongoing regulatory oversight which allows the securities commissions to ensure consistent compliance. Further, registrants selling related parties securities know their product intimately and are bound by the know your client and suitability rules. Any issues relating to conflicts are adequately dealt with through disclosure and other conflict minimizing measures.

The point of contact with most investors is the registrant, EMDs and DRs; the point of contact with the project being financed is the issuer. Many offerings put forward using the offering memorandum exemption are used to finance relatively long-term commitments e.g., real estate projects, small manufacturing ventures, resource developments, etc. A relationship between an issuer and a registrant ensures that investors have a direct contact with the financed project beyond the day of sale and can continue to obtain reasonably up to date and reliable information on their investment.

Question 16:

Currently, most CSA jurisdictions that have an OM Exemption have adopted local blanket orders that permit an issuer to raise up to \$500,000 under the OM Exemption without having to include audited financial statements in the OM. Further, the blanket orders permit the financial statements to be prepared in accordance with ASPE rather than IFRS.

- a. ***Should these blanket order be continued or revoked? Please provide the basis for your answer.***

Answer 16a:

The \$500,000 raise without audit requirement could be continued, although this does not impinge upon our operations. These small amounts tend to be local in character.

As per our opinion voiced above, annual financial statements prepared to ASPE standards are more suitable for providing comprehensible financial information to investors than IFRS.

- b. ***If you believe the blanket order should be continued, should the same threshold amount be used in determining which issuers are subject to an ongoing annual financial statement requirement or an audit requirement? Please provide the basis for your answer.***

Answer 16b:

Again, as outlined in question 7 above, it is our view that audited financial statements are not required where projects have a relatively stable operating picture from year to year e.g., commercial real estate. In all capital raising instances, however, financial statements prepared in accordance with ASPE by a professional accountant should be required.

ANNEX B

STARPHOENIX ANNOUNCEMENT DATED MAY 8th, 2014 BY THE MINISTER OF JUSTICE FOR SASKATCHEWAN, MR. GORDON WYANT, THAT THAT PROVINCE WOULD (SUBJECT TO CERTAIN CONDITIONS) BE JOINING ONTARIO AND BRITISH COLUMBIA IN THE NEW, FEDERALLY SPONSORED CCMR ARRANGEMENT.

THE GLOBE AND MAIL ANNOUNCEMENT DATED APRIL 23rd, 2014 BY THE NEW FEDERAL MINISTER OF FINANCE, MR. JOE OLIVER, AN EXPERIENCED SECURITIES EXECUTIVE, HOPES TO HAVE A NEW, COOPERATIVE CAPITAL MARKETS REGULATOR OPERATIONAL BY MID-2015.

ANNEX B

The StarPhoenix

May 8, 2014

Sask. Party ‘optimistic’ about new proposal

The Saskatchewan Party government is “optimistic” it can reach an agreement with Ottawa and become the third province to sign onto the federal government’s proposed voluntary national securities regulator.

“We’re optimistic about a national regulator,” said Justice Minister Gordon Wyant, who is minister responsible for the Financial and Consumer Affairs Authority, which regulates the securities industry in the province.

Wyant was responding to media reports out of Toronto Wednesday suggesting Saskatchewan would be the next province to join with Ontario and B.C. in the proposed Cooperative Capital Markets Regulator (CCMR), which would replace the existing “passport” system of harmonized rules and regulations among the 13 provincial and territorial securities regulators in the country.

“Certainly, B.C. and Ontario have different capital markets. They’re two of the largest capital markets in Canada,” said Wyant. “We have a very small capital market, catering mostly to small and mediumsized businesses. We needed to make sure that any participation in a national regulator took into account the unique aspects of our capital markets.”

In September, the federal government unveiled a plan to create the CCMR, backed by Ontario and B.C., while Alberta and Quebec remain opposed. Historically, Saskatchewan has been neutral or opposed to the concept of a national securities regulator, but recent changes to the proposal have made it more attractive to smaller provinces like Saskatchewan. Despite the relatively small number of publicly traded companies headquartered in the province, Saskatchewan has a healthy labour-sponsored venture capital fund sector and “unique capital needs,” Wyant said.

“We have some unique capital exemptions in Saskatchewan,” such as the crowdfunding exemption, “which was the first one in Canada,” Wyant said. “We need to make sure that any participation with a national regulator pays particular attention to the fact that we have unique capital needs.”

For example, investors and industry representatives like being able to pick up the phone and talk to a regulator official in Regina. “That was very important for capital market participants, especially those that raise capital,” said Wyant, a former securities lawyer. “We need to make sure our interests are protected.”

Having said that, Wyant said the financial crisis of 2008 made clear the need for better regulatory oversight of the financial services industry and markets.

“We’re the only industrialized country that doesn’t have a national regulator,” Wyant said. “A national regular may well be a better vehicle to protect the economy.”

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The Globe and Mail

April 23, 2014

Finance Minister Oliver says common securities regulator a priority

Canada's new finance minister said on Tuesday that the creation of a national securities regulator will be a priority under his watch as he draws on his experience in banking and as a provincial capital markets watchdog.

Joe Oliver, who became finance minister last month, indicated to reporters he was keen to make progress on an initiative begun by his predecessor Jim Flaherty, who died on April 10 less than a month after quitting the Conservative government's cabinet.

"Yes it is a priority," Oliver told reporters. "I have been involved in this issue for decades." He added that Canada was the only developed economy without a securities regulator that spans the entire country.

Last September, after decades of failed attempts by various governments, Flaherty and his counterparts from the provinces of Ontario and British Columbia announced they would set up a common regulator between them. The new regulator would replace the current patchwork system of 13 regulators in each province and territory.

The scheme would be voluntary and co-operative, since the Supreme Court had ruled that Ottawa could not unilaterally impose a new system on the provinces similar to the U.S. Securities and Exchange Commission.

Flaherty's hope, now shared by Oliver, was that other provinces would join in and the new system would be operating by mid-2015.

Oliver said he had witnessed first-hand the problems with the current system during his time as executive director of the Ontario Securities Commission and when he worked at Merrill Lynch.

"As an investment banker and a securities regulator I've seen the inefficiency that flows from our current system of each of our 13 provinces and territories having its own securities commission. It leads to not only inefficiency but it leads to an impact on enforcement and on the oversight of systemic risk," he said.

Ottawa hopes the common regulator will help improve Canada's reputation for being lax on white-collar crime and make it easier to detect risks that extend across markets and regions, rather than having a narrow focus on one province.

"I'm hoping that this voluntary delegation-based approach will be adopted, that other provinces will join in and we'll see that initiative go forward," he said.