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The Secretary
Ontario Securities Commission
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I would like to make comments regarding the CSA (Canadian Securities Administrators) and the OSC (Ontario Securities Commission) publications regarding proposed changes to the Offering Memorandum Exemption regarding "eligible investors".

First as a way of introduction please let me tell you that I am currently a Dealer Representative of the exempt market dealer Pinnacle Wealth Brokers. Like Pinnacle I apply a very strict compliance process in regards to how my investors invest in the exempt market. We generally do not recommend that more that 30% to 40% of any one person's portfolio be invested in exempt market products and generally limit investments in one product. To best serve our clients we try to build exempt market portfolios. Any investment in a single product that represents a significant amount of the total portfolio (25%) must be approved by Pinnacle's compliance department. Currently our industry organization, through the exempt market dealers, is very conservative and very determined to protect investors. For those of us in Ontario I feel the proposed change to allow "eligible" investors to invest in the exempt market is a very worthwhile proposal.

In Ontario approximately only 2% of all investors qualify as accredited investors according to current definitions. This is so restrictive that only the very rich and institutional investors can qualify to invest in the exempt market. The right to invest in the exempt market should be expanded to include more sophisticated individuals.

There is however, one very glaring restriction in the proposed legislation and that is that "eligible investors will be capped at investing $30,000 per year using the OM exemption" for all products combined. This is essentially so restrictive that it makes no sense. For instance, let's suppose you have an investor with $750,000 of investable assets.

For this individual $30,000 represents 4% of his total investments. This restriction doesn't allow individuals to provide themselves with proper diversification away from standard stock and bond mutual fund portfolios. This is something more and more investors want to be able to do for three reasons:

1) The stock market is very volatile and there is a likelihood of another serious downturn soon.
2) Interest rates are the lowest they have been for over 50 years.
3) Investors feel the need to invest in alternative investments which do not respond to the same forces that drive standard markets.

I realize that the proposals are an effort to protect investors but the $30,000 limit per person per year does not do that. I would suggest that a percentage limit of total investable assets be considered. Let's say for instance a maximum of 30% of an individual's total portfolio could be invested as an eligible investor.
This type of restriction makes a great deal more sense because an individual with $750,000 of investable assets is likely much more sophisticated than someone who only has $50,000. The percentage formula would allow an investor in the first instance to invest $225,000 into exempt market products. This would allow that person to create a portfolio of perhaps a 6 to 8 different products which would provide that person with much greater safety because of the ability to diversify among different products.

In summary I believe your intentions to protect investors is laudable. However, there is a real need to allow more middle class sophisticated investors to be able to diversify proper amounts of their portfolios away from the volatile stock market. Investors further need the options provided by the exempt market to provide options to very low interest rate products like bonds, which are also quite risky investments and will suffer greatly if interest rates climb. The $30,000 restriction per person per year won't allow proper diversification for mid-level investors. Please consider a reasonable percentage restriction rather than a flat $30,000 which would be quite prejudicial to many sophisticated investors.

Respectfully Submitted,

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