



June 9, 2014

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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 Sir or Madam:

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

**As an Issuer**, I am deeply concerned about the proposed annual investment limits for non-accredited investors. We have with great expense set up the infrastructure and prepared an Offering Memorandum to tap into the exempt market space. Our alternative would be to go direct to institutional investors but we felt that the ability to raise funds in smaller amounts as we built the business was beneficial to us. We also saw the opportunity to provide a high quality debt instrument where none really existed. The depth of this marketplace was a key consideration for us. We have only been raising funds since December 2013 but the proposed limits would cripple our business. Approximately 67% of our investors (by dollars and a much higher percentage based on number of investors) would be affected by this proposal. The impact would be in excess of 80% reduction in the amount of funds raised. Overall impact of our fund raising efforts would be in excess of 50% decline in funds raised. With this impact we would have no other alternative but to withdraw from the exempt marketplace.

We are but one small business. Imagine the cumulative impact of countless other businesses that will have to “pull up stakes” or even more ominously never make the effort to build businesses in Canada. There are countless jobs lost, profits lost, taxes never paid .... our whole society is

diminished in enumerable ways. Do not strangle small businesses by implementing these caps! I have heard figures indicating that the exempt marketplace has raised in the region of \$160 billion dollars (larger than the public markets), and this seems to be growing. The consequences of pulling substantial amounts of this market are hard to know or quantify but they could be HUGE. We are also in an increasingly global marketplace where we compete for capital. If capital is not available in Canada it will be funded elsewhere with the consequent profits moving offshore (if not the whole business as well). The US is liberalizing fund raising in their marketplace. We should be doing so as well .... not backtracking.

I ask the question “what is the purpose of these limits?”. Is this to protect security regulators or to protect investors? If it is the latter, then treat the DISEASE and not the symptoms. Limiting investors’ choice is contrary to the fundamentals of a free society. Are we limited in investing in penny stocks? Are we limited in investing in options? Are we limited in investing in lottery tickets? No, of course not. Regulators have recently implemented a new regulatory regime that I believe, is making a positive contribution to the exempt space by weeding out bad apples that existed in the old lesser regulated exempt space. Give these measures time to bear fruit. Regulations, per se, do not solve these problems – one only needs to look at cases such as Nortel, Bre-X, Livent, Enron, etc. Fraud is not solved by regulation, it is prevented (never completely though) by enforcement. Remember failure is a natural part of the market. Market cycles, product cycles, commodity cycles, poor management, bad timing or luck all result in business failures. Regulation does not change this fact. If regulators have concerns about implementation of standards of record keeping, KYC, KYP, etc. then regulators should step up monitoring/audit processes and possibly increase penalties so that what is already on the books is actually being implemented.

One area where I think efforts could help improve the profile and compliance of exempt issuers in the marketplace would be to ensure that issuers relying on the offering memorandum should be required to provide a minimum of the following information to investors:

- Audited financial statements
- Ongoing performance data on the assets
- Enhanced disclosure on the use of funds

As an issuer with a vested interest in the health of the exempt marketplace we provide monthly portfolio performance data, disclose monthly cash flow distribution as well as disclosure of any adverse events or triggers affecting the issuer. We also provide quarterly unaudited statements and annual audited statements. These are best practices and we suggest that all issuers should meet these standards. Alternatively, those issuers who do not meet these standards would be subject to the caps you suggest.

As an issuer we decided not to develop or use a related EMD. We could have, but we understand the potential for conflicts of interest and decided that perception alone necessitated using independent EMDs. While I can understand and agree with both sides of the debate, if it is a question of this point being a tipping point in accepting or not accepting caps on investments, we believe that it is far more preferable to eliminate related EMDs vs. having caps on investors.

I must also take exception with the underlying implicit assumption that the exempt market is a high-risk market. It is not high risk per se any more than the options market is high risk or the equity markets in general. They all have spectrums of risk depending on where one invests. Investors choose the risks they wish to take depending on their particular circumstances. Investments need to be suitable. While the exempt market has historically been associated with natural resource financing and real estate projects, that is not necessarily the case going forward. Even if that were to remain the case, each of these projects can vary considerably in its risk profile. One cannot treat all risk profiles as “high-risk”. In the case of our particular transaction, we have structured the deal consistent with institutional securitization transactions including the use of a trust, trustees, providing audited statements and monthly transaction performance reports, and other measures to reduce risk and increase disclosure. Yet, every document makes the assumption that it is high-risk. This seems to be a pervasive view of the exempt marketplace. The exempt marketplace is NOT a penny stock market. Are there limits on the purchase of stocks on the Venture Exchange? While a number of businesses are in the start-up phase there are also many that have very established businesses with the prudent practices one would expect of modern companies.

While I have touched on this earlier, investors are served best by an enlightened approach to regulation. Not by restricting their choices but by ensuring the markets operate, as they should. Implementation AND ENFORCEMENT of NI 31-103 will achieve this. A paternalistic approach is regressive. Investors now have significantly more information about markets, are generally more knowledgeable and have access to professional resources. Suitability is the key parameter determining the size and scope of investments. EMDs should be policed to ensure that this aspect of KYC and KYP are fully implemented by the marketplace.

In summary, regulations do not solve or eliminate fraud or business failures. Enforcement of existing rules and regulations needs to be at a level to ensure investors are protected and provide the advice they need in making their investment decisions. The exempt marketplace encapsulates investments of varying risks and assuming that all the investments are high risk is not consistent with the reality of the marketplace. The exempt marketplace should compete with other markets on a level playing field. Enhanced enforcement, reporting and audit requirements, disclosures are the key to keeping investors knowledgeable about their investments. This benefits us all. The exempt marketplace tends to have a low profile but is hugely important to SMEs and the Canadian economy as a whole. It is too important to hobble with simplistic caps on investments.

One final more technical comment on the proposed changes to NI 45-106 re “funds”. I understand that with separate regulation of mutual funds that regulators would not want them to slip through regulatory cracks as a result of changes made here. I urge you, however, to be very careful in defining what “funds” means as it could inadvertently catch numerous businesses that are not mutual funds but that include pools of assets supporting issuances of debt, equity or flow through shares.

This submission is being made on my own behalf.

If you would like further elaboration on my comments, please feel free to contact me via email at [gnelson@aileroncapital.com](mailto:gnelson@aileroncapital.com).

Regards,



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