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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

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.

Over the past two years, I have built a successful practice as an advisor of exempt market investments in partnership with Raintree Financial Solutions. The majority of my clients are young professionals with strong income earning potential but insufficient assets or income to be considered eligible investors. Despite the liquidity risk, these clients and I believe that exempt market investments are a sound means through which to diversify their investment portfolios. My clients appreciate that the exempt market gives them access to investments that fit with their values, as the management teams tend to be more accessible than those of large, publicly-traded companies and the projects are small-enough in scope and scale that investors can really learn and understand the means through which the companies generate growth.

My clients and I appreciate the fact that the exempt market is a regulated industry with limited oversight by the securities commissions. I fully support the introduction of new legislation aimed to increase investors' access to information and companies' responsibility to produce marketing materials that align with their offering memoranda. That said, I have some concerns about the proposal to introduce new caps on the aggregate amount of illiquid securities that can be sold to a single investor under the OM Exemption.

I believe that factors such as earning potential, attitude, risk tolerance, knowledge, and interest are better indicators of an investor's suitability to invest in a private company than income and absolute value of financial assets alone. As a professional advisor, it is my responsibility to assess my potential clients' suitability to invest in the companies that I raise capital for. I feel that restricting access to the exempt market on the basis of hard numbers like income and financial assets alone is a poor substitute for investor education and the thorough, personalized, suitability establishment procedures I follow with the help of Raintree Financial Solutions.

Allow me to introduce a few of my clients through the following three case studies (I have changed their names for confidentiality purposes):

1. Renata Lestrangle

Income: \$40,000

Assets: \$116,000 (through inheritance)

Exempt market investments made in the past year: \$50,000

I have known Renata for the past 9 years. Her mother, who is also a client, recommended that I introduce her to exempt market investing.

She just completed her certification program and is now a Registered Massage Therapist with strong earning potential. Renata lives a very frugal, car-free lifestyle in Vancouver. Her goals are to set-up her own RMT practice in Vancouver, save a good part of her income and invest part of her savings with growth and income in mind. She has high liquidity from her existing equities to meet emergency cash needs and to set up her new business. She can rely on her family in the event that life goes terribly wrong and she needs financial support. Renata asks insightful questions and is very keen to invest in socially and environmentally responsible companies.

Over a sequence of four meetings, Renata chose to invest \$50,000 (less than 50%) of her net financial assets in a selection of 5 exempt market investments that are well-diversified geographically and that focus on real estate with capital preservation characteristics.

Under the proposed changes, Renata would not be eligible to invest more than \$10,000 in the exempt market.

2. Jolene Humpries

Income: \$0

Assets: \$246,000

Exempt market investments made in the past year: \$85,997

I have known Jolene for the past 7 years, but she was never a close friend. At the end of last year I bumped into her and she told me that she had just become a realtor and joined a very well established real estate brokerage in Vancouver. Knowing that Jolene had recently begun working as a realtor for the first time, I was concerned about the suitability of exempt market investing, but I knew that she had saved well over the years.

Upon reviewing her finances, I advised Jolene to think about her money in three “baskets”. In the “income” basket, I suggested that she assume that she earned zero from her business and that she determine how much she would require to sustain her personal and business life. This includes deciding how long she was going to give the business before moving on or back to her profession as a PhD researcher at UBC. The second basket is the “parachute”. This assumes that the business fails miserably and she has to change life directions. How much would she require to fund a transition? The third basket is the “reserved for the future” basket that under no circumstances would be touched until retirement. Jolene took some time to consider how best to divide her money and contacted me to request a proposal for investing about \$90K in community-focused private investments. It was very important to her to understand how her money would be used and to avoid any investments in oil, gas, or mining.

Over a total of 6 meetings, Jolene chose to invest \$85,997 (just over 1/3 of her net financial assets) in a selection of 8 diverse exempt market investments.

Under the proposed changes, Jolene would not be eligible to invest more than \$10,000 in the exempt market.

3. Edward Pescaro

Income: \$26,000

Assets: \$34,500

Exempt market investments made in the past year: \$10,000 (with intention to invest a further \$5,000)

I met Edward through his girlfriend, who is also a client. He is a PhD candidate at UBC. Edward is a mature and very organized person. He is a diligent budgeter and planner. He is very much in control of the details of his life, and was looking for ways to work toward his long-term financial goals. When he learned about my work, Edward was eager to learn and understand the risks and opportunities within the exempt market. He is young and expects to earn well through his work in the years to come, and so he feels comfortable investing half of his saved assets in illiquid exempt market investments.

Over 3 meetings, Edward has so far invested \$10,000 in 2 projects, with plans to invest a further \$5,000 when the next suitable investment becomes available.

Under the proposed changes, Edward would not be eligible to invest more than \$10,000 in the exempt market.

As illustrated by the above examples, there is strong demand for exempt market investment opportunities above and beyond the proposed caps by financially responsible young professionals.

I believe that by employing my professional judgment along with Raintree Financial Solutions' suitability establishment practices and compliance procedures, and engaging in a thorough discussion of risks, I can help such clients to make educated and informed decisions about investments in the exempt market that are a good fit for their financial situations.

At this time, I have 77 clients with an average portfolio size of \$75,000 and a median portfolio size of \$30,000 (indicating that most of my clients are not eligible and have smaller portfolios). My average transaction size is just over \$15,000 (median \$10,000).

I employ a variety of criteria to establish suitability with the people I meet before we move on to completing any investments. In my first meeting with a new client, the focus is on describing the difference between public and private investing, discussing the regulatory environment under which the exempt market operates, including describing the roles and responsibilities that Raintree Financial Solutions plays, and introducing my business and the opportunities available in the exempt market. The second meeting involves an in-depth discussion of my client's financial resources, attitudes, and goals and the establishment of suitability. If there is initial suitability, subsequent meetings are devoted to discussing specific investments including information about the management team, the mechanics of the investment, the background of the company, the specific risks associated with the project, and client questions about the offering memorandum. Usually I meet with a client at least 3-4 times (for about 30 minutes to 1 hour or more each time) before the first investment is completed.

I do not think that exempt market investing is for everyone. I have held meetings with many people who are very keen to learn about the exempt market, but who are struggling to reduce debt, to achieve financial stability or who are at an age/stage in life which I deem not suitable for illiquid investing. I do not advise exempt market investments to anyone who does not have sufficient financial resources or income to meet their short-term financial needs. Other prospective clients I've met have a strong base of assets but lack the desire or capacity to learn about the details of the exempt market. If an individual does not demonstrate interest in learning about the companies and understanding who the people running the company are, what they do to generate income/growth, what their legal relationship would be and the specific risks associated with each investment through active listening, asking questions, and reading the

reference materials I supply, I choose not to do business with that prospect. Suitability to invest encompasses more than just financial eligibility.

Raintree Financial Solutions supports me in establishing suitability and in developing my product knowledge in the following ways:

- multiple weekly email communications regarding compliance, industry news, and product updates
- weekly conference calls
- compliance review of all orders and KYCs
- requiring that all dealing representatives acknowledge reading the Offering Memorandum prior to providing access to order paperwork for a new investment

I take the following additional steps to maintain and improve my professional knowledge and to assist my clients in making sound financial decisions:

- I visit the Raintree Financial Solutions office on average every 2 months
- I meet independently with issuers
- I invest personally in the investments I offer to my clients
- I have hired my partner, Katie, to work with me as an Administrative Assistant and Business Development Manager in order to free my time for client meetings and communication

I believe that there are better ways “to limit the risks associated with an investment by a retail investor in illiquid securities” than to impose caps based on that individual’s financial class. Specifically, I think that a professional advisor can follow a process to establish suitability and ensure that clients are financially, emotionally, and mentally prepared to assume the risks of illiquid investments. Compliance oversight by organizations such as Raintree Financial Solutions helps to ensure that advisors remain current and maintain a high level of professionalism in this process. With these mechanisms in place, highly restrictive caps are unnecessary and will only stand in the way of allowing hard working Canadians who want access to private investments through the exempt market industry. Philosophically I support regulation that protects investors and increases access to middle class Canadians. I hope that as a society we can continue moving in a direction that doesn’t only allow the already wealthy to get wealthier through private investing. Accessibility is important to give choice and offer diversification options to our middle class.

Thank you for taking the time to read this letter. I am happy to respond to questions or engage in further discussion on this matter.

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 ilan@treeinvesting.com.

Regards,



Ilan Handelsman

CC:

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