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The Secretary
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and

HONOURABLE MICHAEL DE JONG, Q.C.
Minister of Finance for British Columbia
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**Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption
AND
Proposed BCSC Merger with OSC**

Dear Madams & Sir:

I am writing to comment on the proposed amendments to NI 45-106. In particular the proposed annual limits to the non-accredited investors and the proposed merger of the BCSC with the OSC.

I have had the benefit of reviewing a number of articulate and well-reasoned responses to the proposed amendments. As it's unlikely I can offer better, it may be best if I suggest a closer study of several responses. In particular, Yvonne Martin Morrison has made an excellent case, and Greg Romundt has clarified many of the challenges small to medium ventures would face if the proposed changes were to be implemented.

Regulation is inevitably a reaction to an event. Some have suggested that the loss of over \$2 BILLION in Alberta following the Credit Crisis was the causative event that resulted in NI-31-103 but in fact, the true causative event is more accurately portrayed in Michael Lewis's book "The Big Short" and the Hollywood movie "The Wolf of Wall Street".

If the available submissions are to be believed, imposition of non-Eligible and Eligible investor annual limits will most likely result in a Constitutional Challenge which will keep some lawyers employed for a couple of years and will likely result in the regulation being withdrawn.

Pest Control and Financial Market Regulation may have something in common.

When one has an infestation, removing the attractant is the next step in extermination after first identifying the undesirables.

Limiting the sum a non-Eligible or Eligible investor could invest will certainly remove the attractant, which is, has been, and always will be: MONEY.

It's reasonable to assume "People engage in activities they expect will be beneficial to them." If the potential for benefit is removed, it follows that the behavior will stop.

Of course, there may be unintended consequences: An industry disappears, an economy falters, a budget fails, and government fails it's citizens.

Imposing limits on the sums investors can invest does NOT address the challenges that investors were facing in October 2008. Lack of capital and the freezing of capital markets world-wide was the causative event leading to the collapse of hundreds of thousands of businesses. (actually avarice and greed would be what caused the collapse)

Moral Hazard is one of the risks we encounter daily. The chance of a "risk free benefit" can cause people to do the most horrifying things. By removing the attractant, the "risk free benefit" is also removed. Behaviour changes when people believe they will be held accountable. Thus, we see traffic-cams and CCTV in public buildings. Accountability is the key.

Some years ago Mr. Skauge Sr. the founder of Olympia Trust proposed that issuers in the Exempt Market soliciting funds in excess of \$5 Million should be required to engage a Custodian to ensure funds are allocated as proposed in their Offering Memorandum. Mr. Skauge's suggestion is worthy of review as I believe Custodians could have prevented many of the inappropriate fund allocations revealed following the failures of hundreds of firms post 2008.

Limiting Finder commissions by limiting the size of the annual investment will most likely result in the collapse of "service" to the non-Eligible and Eligible investors as the financial incentive is insufficient to maintain a "Finder's" business be it an EMD or otherwise.

As an investor I've had my share of disappointments in the Exempt Market. New Life Capital, Synergy Group 2000 Inc., Edgeworth MIC, Deercrest Construction Fund and Rogers Oil & Gas were all frustrating disappointments, but as I have always kept my investments small, they were survivable.

These losses pale in comparison those facing people who bought real estate at the top of the market in 2007 . Many will loose everything, before their mortgage obligations are met.

A person's ability to borrow (aided by eager lenders) and to consume, is a far greater hazard to their future financial health than an appropriate investment in private equity. I believe unfettered access to credit and through it, to volatile stocks, bonds and speculative real estate will ruin far more futures, than a poorly run MIC or a failed Limited Partnership.

The Exempt Market is evolving quickly, but it's not as haphazard or "Wild West" as some would have you believe. EMD's and DR's are paying attention. They are aware that they ARE accountable.

The CSA Notice of January 9, 2014 titled 31-336 provided clear guidance in a number of crucial areas. Leverage, Issuer Concentration, Sector Concentration and Suitability were all addressed in the document. Above all, the directive for practitioners to conduct themselves according to the "SPIRIT OF THE LAW" made it clear that the CSA was not going to sit idly by.

Registration serves to identify participants, and licensing (in addition to regulatory oversight and prosecution) is an effective means of controlling participant behavior. I believe the continued availability of the Northwest Exemption to firms wishing to raise capital in British Columbia does not serve investors, as it does not promote transparency, accountability, alignment or suitability. All issuers wishing to use the OM Exemption should be required to distribute through a third party intermediary charged with the responsibilities outlined by the CSA in 31-336. A “Free Pass” for issuers is not appropriate in our evolving marketplace.

As well, issuers who creates a distributor (an EMD) and a distribution sales force may be challenged by their duties as outlined in CSA 31-336 and an alternative means of distribution is clearly needed.

Some have suggested that those that drafted the proposed annual investment limits for non-Accredited Investors were unaware of CSA Notice 31-336 and had they been aware, it is possible the proposals would never have been made. That’s not my concern.

The proposal to require Exempt Market issuers to issue annual updates is excellent, so long as it can be done through an independent third party. Investors need to know how their investment is doing, particularly if it’s illiquid and pays no distributions, even after all the funds have been allocated, until the investment exits, or fails.

Before his election in 2008 Gordon Campbell promised the electorate of British Columbia that there would be no deal made with Ottawa regarding the HST. The compromise he made was the consequence of the collapse in world capital markets and the real concern that his government had about how they were going to balance the budget going forward. He did what he had to do at the time, but by November 2010 it had cost him his job.

The recent SURPRISE that the BSCS would merge with the OSC may not have the ground swell of negative sentiment that cooperation with Ottawa on taxation has, but the consequences may not differ significantly.

Although Ontario has by far the largest capital market in Canada, their Securities Regulator is a neophyte in regard to non-Accredited investment compared to British Columbia and Alberta. I believe the abandonment of our provincial mandate to regulate securities as we see fit, in favour of a “National Regulator” (read OSC) serves only to promulgate the folly of Jim Flaherty’s failed legislation. (no disrespect intended)

A National Regulator is already evolving under the banner of the CSA. Abdicating our provincial oversight in favour of the OSC does not serve to enhance the BCSC, the OSC or most importantly, the CSA, and it most certainly does not serve the residents of British Columbia.

Regulatory oversight has become a challenge to many. Care should be taken to ensure the industry regulated, remains viable, and doesn’t wither under the burden.

Investors need help. Investors, like advisors, need to learn what it takes to make better investments. Financial Education is dismal in Canada. As a country we are financially illiterate, and naïve to an extreme.

In 1974 at age 19 I began my career in finance with AVCO. By 1976 I was an Assistant Branch Manager and my job included taking loan applications and granting loans up to \$25,000.00. I was also charged with collections. My training had NOTHING to do with financial planning. I suspect little has changed in the lending industry.

Later I went on to work with Creditelle, The Collection Company of Canada and Laurentide Finance. None of them offered me even rudimentary financial planning education.

In 1987 as a newly minted “Financial Advisor” I was placed in a position of trust and taught how to push product. So long as I pushed the right product, I received awards and accolades. When I began asking questions (Portus) I was reminded that people far more qualified than me, had vetted and approved the product; I should just take their word for it.

Banks, Insurance companies, Mutual Fund Dealers and Securities Dealers have little or no interest in teaching Canadians how to make better financial decisions. They prefer their sheep to be passive, so they can fleece them regularly.

Improving financial education at every level (debt management is #1) will benefit every Canadian far more than limiting a few minor investment categories.

Please consider the consequences of the regulations you put in place. The economy of the planet is still very vulnerable, and far from robust. Though many suggest Mr. Flaherty was the financial saviour of Canada, I believe it was the legislators that drafted the BNA act and those that followed that are owed the most credit. Our national financial stability is not accidental, but our individual financial ignorance makes us vulnerable.

Canada’s stable regulatory environment, with our healthy Capital Markets, firmly governed by the Rule of Law, is still the greatest attraction for international capital to Canada; One of the most attractive markets in the developed world.

In my career, my association with Raintree Financial Solutions has been a refreshing change. Their insistence that every transaction be win-win-win as well as their pro-active education, KYP and Compliance updates, put them at the cutting edge of accountable, responsible financial firms. I have never felt my client interests were so closely aligned to a firm as I do now. I believe my clientele are very well served by my association with Raintree.

Thank you for the time you’ve taken to consider my opinions. This submission is made on my own behalf.

In closing, I will end this, as I do correspondence to my clients, because it really matters.

Take care of each other,

Peter Ian McArthur CPCA

CC:

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