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Re: CSA Proposed Amendments Relating to the Offering Memorandum Exemption

Dear Sirs/Madams:

I am writing in response to the request for comments on proposed changes to NI 45-106. Firstly, I would like to applaud regulators for previously instituting structure and guidelines in the exempt market, which have led to a significant increase in investor protection and professionalism in the industry as a whole. Parts of the newest proposal, however, will have a significant negative effect on the exempt market industry, including its ability to raise capital for small businesses while providing investors with investment opportunities. The most notable of these is the proposed limit on eligible investors of \$30,000 of investment within a 12-month period under the offering memorandum exemption.

The proposed new rules seem to be a reaction to complaints of investment losses from years passed, which NI 31-103 was initially developed to resolve. Annex B to this CSA proposal, regarding the use of the offering memorandum exemption in Alberta, makes a reference from the ASC that they have “received numerous complaints from investors that have invested significant amounts under the OM Exemption and incurred significant losses”. The ASC has not provided further quantitative or qualitative data on the complaints; most importantly, if they were part of the NI 31-103 regime or prior losses. As an industry participant, I expect the majority of the complaints are regarding the latter, and that the current system involving sales through Exempt Market Dealers (EMDs) is working.

EMDs provide multiple layers of protection for investors through KYC and KYP procedures, as well as the oversight of a CCO. EMDs also delve deep into suitability to insure clients’ needs and comfort levels are matched to the investment options available to them. Investors are all different, and even the category of “eligible investor” will have a significant range of investors with differing income, net worth, age, and goals. As a result, instituting a \$30,000 limit without any consideration of an investor’s personal situation encourages a broad form of tick-box categorization, which is unacceptable to regulators and unfairly restricts investors from otherwise perfectly suitable investment options based on their personal circumstances.

One of the most well-known financial principals of conventional investment markets (stocks, bonds, and mutual funds) is to diversify assets. Diversifying by industry, geography, and company are just a few ways to reduce investor risk. What is starting to become more commonplace is to also diversify out of conventional markets and into non-correlated assets such as private equity and real estate investments. Each of Harvard and Yale’s endowment funds, as well as the OMERS pension fund, has made significant reallocations away from stock market assets into private equity and real estate assets. Even the Canada Pension Plan Investment Board (CPPIB) has sought the high potential returns with reasonable risk of private equity within its mandate “to invest in the best interests of Canada Pension Plan contributors and beneficiaries and to maximize investment returns without undue

risk of loss". The CPPIB has recently partnered with the Walton International Group on a land development project <http://www.cppib.com/en/public-media/news-releases/2014/walton-group-release.html>, and also acquired the assets of Assiniboia Farmland Limited Partnership <http://www.cppib.com/content/cppib/en/public-media/news-releases/2013/CPPIB-Saskatchewan-farmland-Dec-2013.html>. Both of these companies have previously raised capital for Western Canadian projects in the exempt market. The CPPIB is using these types of investments to provide returns and ultimately insure that the majority of Canadians have a pension plan, yet this proposed \$30,000 limit significantly restricts the ability of average eligible investors to invest in these opportunities and grow their individual wealth.

Many of the losses experienced in the exempt market in previous years are attributable to outright fraudulent issuers and gross misrepresentations of use of capital. We cannot forget, however, that many organizations are successfully operating in this market and providing investors with opportunities to diversify their overall investment portfolios with assets not generally correlated with the conventional financial markets. Instead of arbitrarily limiting an investor's ability to make investment decisions and disregarding the investment regime started under NI 31-103, which is providing suitable protection to investors, focus should be directed toward those issuers that are not conducting themselves in an appropriate manner with investors' capital.

I strongly discourage implementation of the proposed limit on eligible investors of \$30,000 of investment using an offering memorandum exemption over a 12-month period. 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 Jerald@millennium3.ca.

Regards,



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