

June 17, 2014

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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.

Background

I was first introduced to the exempt market through a private issuer offering securities by way of offering memorandum. Many of the projects we raised capital for created jobs, stimulated economic growth and helped investors diversify their holdings. Since 2008 I've been fortunate to participate in various capacities in the private capital markets beginning as a Dealing Representative and Branch Administrator followed by my transition to working directly with Issuers and ultimately participating as an Issuer myself. In 2012 I was asked to join the National Exempt Market Association as a Director where I continue to serve today.

Introduction

Considering the significant interest and influx of capital in alternative investments particularly in the exempt markets, I believe the respective provincial regulators are to be commended for some of the proactive measures they are looking to introduce, I do however have several concerns with what I believe would be unintentional consequences of certain actions. In particular I have strong reservations in respect to introducing a \$30,000 per annum cap on eligible investors and no longer allowing for exempt market dealers to promote/manufacture related party issuers. These two proposals alone would place extraordinary restrictions on private capital market participants especially when compared to other capital markets currently serving similar clients.

The proposed changes affect 3 major exempt market participants: eligible investors, issuers and the exempt market dealers. I would like to take this opportunity to voice my sentiments in respect to each.

Eligible Investors

The definition of an eligible investor is quite broad. It can cover anyone from the 23 year old worker, with very little net worth with significant income, with an extended investment time horizon, or a 73 year old retiree with a mortgage free home living on a fixed income. It would be reasonable to assume that these two individuals would have diametrically different financial goals, tolerances to risk and liquidity requirements yet they would both be permitted to invest \$30,000 per annum.

The 2012 numbers posted by various regulators show significant amounts of dollars invested in exempt market securities. What happens when those investors see their various investments mature and receive proceeds in amounts that far exceed the proposed \$30,000 cap? Should each of those eligible investors now be forced to wait several years to be able to redeploy their capital?

Investors participating in exempt market opportunities have historically done so on the basis that they were able to invest in a particular opportunity to fulfil specific investment goals, diversify and reduce exposure to public equity. The \$30,000 cap would have a significant impact on investors looking to strategically place larger amounts of capital in short/opportune periods of time. For example, someone looking to place a more significant amount of capital in short/mid-term debt instruments, in order to create monthly income or someone interested in taking a larger position in a security for tax planning purposes.

In an age when even blue-chip stocks can lose up to 50% or more of their market value the investing public has been exposed to significant volatility, retail and institutional investors alike are distinctly aware that risk is inherent when it comes to investing. Given the significant inflows of capital over to exempt market, investors are clearly signaling an evolution in their investment attitudes towards risk vs return.

I do not believe a blanket rule on all opportunities available under a prospectus exemption will allow regulators to achieve a fair and efficient capital market as investors currently can access a plethora of issuers through various exchanges in highly speculative industries, spanning mining to biotechnology, without these types of limitations.

Combining the volatility of the public markets, with bond yields at prolonged all-time lows, investors of all sizes are forced to look for alternatives to traditional asset classes. Most investors cannot afford to park funds in bonds and watch inflation erode principal, nor can they or should they stomach daily fluctuations in public equities. In my opinion, this is one of the major driving forces behind investors looking for alternatives i.e. exempt market opportunities, as another way to diversify their holdings and keep pace with the cost of living.

Issuers

A \$30,000 cap would have the potential to create a very competitive environment for exempt market issuers to capture the maximum amount of capital from each investor in the first weeks of the annual 12 month rolling timeframe.

Issuers currently operating would find it very difficult to amortize the cost of doing business and would need to revisit whether they can afford to raise capital at all. The economic impact of issuers no longer

raising funds to continue to grow their business would have far reaching implications in the labor markets, both directly in their ability to employ people and indirectly by no longer buying the required goods and services to operate their business.

Small and medium sized issuers have a very difficult time accessing IIROC member firms to raise capital, as the size of the issuer needs to be attractive/feasible (typically 100M or more) to amortize the increased costs of doing business with the IIROC firm. Without the current prospectus exemptions, such as the "Alberta Model", small and medium sized issuers would find it incredibly difficult to grow their business to a size attractive to IIROC member firms.

Many IIROC member firms are very focused on the distribution of their proprietary products creating a very challenging environment for small and medium sized issuers to access such distribution channels. This is amplified more so, when the respective distribution channels already promote a competitive in house product.

While related party issuers do create the potential for conflict, these conflicts can be managed with adequate disclosure and supervision. The capital markets by and large operate with a significant amount of related party issuers and proprietary products, which are well received by the investing public.

Exempt Market Dealers (EMD's)

EMD's have invested considerable time, money and effort since NI31-103 came into effect. Many of them have worked tirelessly to foster an environment to attract talented individuals for front, middle and back office operations. EMDs have also attracted seasoned financial professionals, proven issuers and established service providers. None of this would have been possible, without the existing "Alberta Model". Few EMDs would have pursued building their businesses had they known that there would be a proposed \$30,000 cap.

EMD's have many roles and responsibilities that resemble the other regulated distribution channels in Canada yet they are the only channel that is being singled out with a \$30,000 per annum cap.

If an annual blanket \$30,000 limit is placed on the Exempt Market Dealers I believe the economics for operating an EMD that services eligible investors will not make business sense. An EMD might generate \$200-\$400 in gross revenue on a \$30,000 trade and will then be required to service that client on an ongoing basis for several years. The administration and reporting costs alone would prove to be cost prohibitive under this proposed model.

Conclusion

Capital markets are changing at a faster pace than ever before. This creates both opportunities and challenges for all market participants. While I believe the proposed changes are well meaning and timely, it is unclear if the exempt market industry has been consulted with or if enough time has been invested to fully calculate the financial implications to investors, issuers and EMD's. NI 31-103 is less than 4 years old and in many ways has helped chart a course to harmonize our markets.

We are only now starting to see post NI31-103's effects on the exempt markets across Canada. I believe the responsible thing to do is separate pre NI 31-103 activity from post NI 31-103 activity, gather data and analyze it. To my knowledge, the vast majority of us would be very hard pressed to find such information. It would be even harder still, to find such information to warrant the level of additional limitations, in the existing exempt market structure.

Related party issuers are commonplace in all other financial services in Canada. Investors vote with their wallets every day and buy such products. They are provided the required disclosure documents and such transactions are monitored to ensure compliance. This is an environment most financial market participants are familiar and comfortable with, I believe it should remain consistent across all channels.

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 md@marcindrozd.com

Regards,

Marcin Drozd

CC:

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