CANADIAN SECURITIES EXCHANGE
The Exchange For Entrepreneurs

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The Secretary
Ontario Securities Commission
20 Queen Street West
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Re: Proposed Prospectus Exemptions published March 20, 2014

The Canadian Securities Exchange ("CSE") is pleased to have the opportunity to comment on the proposed prospectus exemptions set out in the OSC Bulletin supplement of March 20, 2014. As a stock exchange with many small cap issuers on our stock list we are very concerned with issues pertaining to access to capital and capital formation in Canada for these companies.

We are very supportive of these efforts of the Ontario Securities Commission and those of all members of the CSA with respect to similar and complementary initiatives. We are also in agreement with the four key themes identified in the progress report published in August 2013. These proposed amendments are a welcome response to the ongoing funding crisis for small cap issuers. We encourage the OSC to maintain momentum and implement the proposals in a timely manner.

Our responses to some of the specific requests for comment are set out below. In general we support the position of the OSC with two important reservations:

- Prescribed limits on investment amounts for eligible investors using the OM exemption should not be required when there is a registered adviser with KYC responsibilities who has recommended the investment; and
- Risk acknowledgment statements for eligible investors under the OM exemption and investors under the Crowdfunding exemption should be tailored to the individual risks of each investment opportunity. Broad, boilerplate statements of risk do not add to the intended investor protection.

Responses to Some of the Specific Requests for Comment

A. OM Exemption

Issuer qualification criteria

2) We have concerns with permitting non-reporting issuers to raise an unlimited amount of capital in reliance on the OM Prospectus Exemption. Should we impose a cap or limit on the amount that a non-reporting issuer can raise under the exemption? If so, what should that limit be and for what period of

time? For example, should there be a "lifetime" limit or a limit for a specific period of time, such as a calendar year?

Response: We believe that issuers' circumstances are too diverse to apply a limit that pertains to all. Consideration should be given instead to a requirement that the issuer automatically becomes a reporting issuer within some period of time following the use of the OM exemption, or earlier at the issuer's election.

4) We have identified certain concerns with the sale of real estate securities by non-reporting issuers in the exempt market. As phase two of the Exempt Market Review, we propose to develop tailored disclosure requirements for these types of issuers. Is this timing appropriate or should we consider including tailored disclosure requirements concurrently with the introduction of the OM Prospectus Exemption in Ontario?

Response: We would encourage early adoption of the exemption as proposed with any refinements for real estate securities to follow in phase two. We are concerned that the additional time required to tailor the exemption for specific issuers may cause unnecessary delays to the implementation of the exemption for all issuers.

Types of securities

5) We are proposing to specify types of securities that may not be distributed under the OM Prospectus Exemption, rather than limit the distribution of securities to a defined group of permitted securities. Do you agree with this approach? Should we exclude other types of securities as well?

6) Specified derivatives and structured finance products cannot be distributed under the OM Prospectus Exemption. Should we exclude other types of securities in order to prevent complex and/or novel securities being sold without the full protections afforded by a prospectus?

Response to 5) & 6)

We don't agree with the proposal to restrict certain securities rather than define what is permitted. The list of security types that will be permitted is reasonably well defined and understood and using it will preclude the addition of novel and complex securities not yet developed to a list of securities not permitted.

Offering parameters

7) We have not proposed any limits on the length of time an OM offering can remain open. This aligns with the current OM Prospectus Exemption available in other jurisdictions. Should there be a limit on the offering period? How long does an OM distribution need to stay open? Is there a risk that "stale-dated" disclosure will be provided to investors?

Response: Harmonization is desirable. If the other jurisdictions do not have difficulty with the lack of a time limit, and if there is a requirement to update material information so it is not "stale-dated", we would support proceeding without a prescribed limit.

Registrants

8) Do you agree with our proposal to prohibit registrants that are "related" to the issuer (as defined in National Instrument 33-105 Underwriting Conflicts) from participating in an OM distribution? We have significant investor protection concerns about the activities of some EMDs that distribute securities of "related" issuers. How would this restriction affect the ability of start-ups and SMEs to raise capital?

Response: We agree with the proposal.

9) Concerns have been raised about the role of unregistered finders in identifying investors of securities. Should we prohibit the payment of a commission or finder's fee to any person, other than a registered dealer, in connection with a distribution, as certain other jurisdictions have done? What role do finders play in the exempt market? What purposes do these commissions or fees serve and what are the risks associated with permitting them? If we restrict these commissions or fees, what impact would that have on capital raising?

Response: The increasing cost and assumed compliance risks associated with prospectus-based offerings and private placements run by investment dealers has driven many Canadian companies to seek capital from non-traditional sources. The CSE supports a regulatory regime that addresses cost issues for registrants, which will have the beneficial effect of broadening the scope of their advisory and capital-raising activities. The majority of funds raised by issuers listed on the CSE is from non-brokered sources. It would be unfortunate if companies were denied, or severely limited, in their access to capital through these means. We favour a regulatory approach that:

- is consistent across Canada
- is designed to reduce the cost of capital
- addresses the significant cost burden on the registered investment dealers.

Investor qualifications – definition of eligible investor

10) We have proposed changing the $400,000 net asset test for individual eligible investors so that the value of the individual's primary residence is excluded, and the threshold is reduced to $250,000. We have concerns that permitting individuals to include the value of their primary residence in determining net assets may result in investors qualifying as eligible investors based on the relatively illiquid value of their home. This may put these investors at risk, particularly if they do not have other assets. Do you agree with excluding the value of the investor's primary residence from the net asset test? Do you agree with lowering the threshold as proposed?

Response: We agree with the proposal for the reasons stated therein.

11) An investor may qualify as an eligible investor by obtaining advice from an eligibility advisor that is a registered investment dealer (a member of the Investment Industry Regulatory Organization of Canada). Is this an appropriate basis for an investor to qualify as an eligible investor? Should the category of registrants qualified to act as an eligibility advisor be expanded to include EMDs?

Response: We believe that any category of registrant with KYC obligations should be included.

Investment limits

12) Do you support the proposed investment limits on the amounts that individual investors can invest under the OM Prospectus Exemption? In our view, limits on both eligible and non-eligible investors are appropriate to limit the amount of money that retail investors invest in the exempt market. Are the proposed investment limits appropriate?

Response: We are generally opposed to such limits if the investor is advised by a registrant that has a KYC obligation to the client.

Point of sale disclosure

13) Current OM disclosure requirements do not contain specific requirements for blind pool issuers. Would blind pool issuers use the OM Prospectus Exemption? Would disclosure specific to a blind pool offering be useful to investors?

Response: We do not see the need for blind pool issuers to use the OM exemption

14) We are not considering any significant changes to the OM form at this time. However, we are aware that many OMs are lengthy, prospectus-like documents. Are there other tools we could use at this time (short of redesigning the form) to encourage OMs to be drafted in a manner that is clear and concise?

Response: The length of the OM could be reduced for reporting issuers if they were allowed to incorporate existing continuous disclosure into the document by way of reference.

Advertising and marketing materials

15) In our view any marketing materials used by issuers relying on the OM Prospectus Exemption should be consistent with the disclosure in the OM. We have proposed requiring that marketing materials be incorporated by reference into the OM (with the result that liability would attach to the marketing materials). Do you agree with this requirement?

Response: We agree.

Ongoing information available to investors

16) Do you support requiring some form of ongoing disclosure for issuers that have used the OM Prospectus Exemption, such as the proposed requirement for annual financial statements? In our view, this type of disclosure will provide a level of accountability. Should the annual financial statements be audited over a certain threshold amount? If the aggregate amount raised is $500,000 or less, is a review of financial statements adequate?

Response: We support ongoing disclosure and would extend it to include quarterly financial reporting requirements because we believe that disclosure is of paramount importance. Given the availability of accounting software it is not an onerous requirement for a company to produce quarterly statements but we would support an exemption from MD&A. We would support a threshold above which an annual audit would be required.

17) We have proposed that non-reporting issuers that use the OM Prospectus Exemption must notify security holders of certain specified events, within 10 days of the occurrence of the event. We consider these events to be significant matters that security holders should be notified of. Do you agree with the list of events?

Response: We agree, assuming there are no items that conflict with or duplicate requirements that issuers would already be subject to under corporate law.

18) Is there other disclosure that would also be useful to investors on an ongoing basis?

Response: No.

19) We propose requiring that non-reporting issuers that use the OM Prospectus Exemption must continue to provide the specified ongoing disclosure to investors until the issuer either becomes a reporting issuer or the issuer ceases to carry on business. Do you agree that a non-reporting issuer should continue to provide ongoing disclosure until either of these events occurs? Are there other events that would warrant expiration of the disclosure requirements?

Response: We agree with the proposal.

Reporting of distribution

20) We believe that it is important to obtain additional information to assist in monitoring compliance with and use of the OM Prospectus Exemption. Form 45-106F11 would require disclosure of the category of "eligible investor" that each investor falls under. This additional information is provided in a confidential schedule to Form 45-106F11 and would not appear on the public record. Do you agree that collecting this information would be useful and appropriate?

Response: We agree that it would be useful, and that confidentiality must be maintained.

B. FFBA Exemption

Specific requests for comment – FFBA Prospectus Exemption

Types of securities

1) Do you agree with our proposal to limit the types of securities that can be distributed under the FFBA Prospectus Exemption to preclude novel and complex securities? Do you agree with the proposed list of permitted securities?

Response: Yes, we agree with both.

Offering parameters

2) Should there be an overall limit on the amount of capital that can be raised by an issuer under the FFBA Prospectus Exemption?

Response: No, we do not think that an arbitrary limit would be suitable.

Investor qualifications

3) Do you agree with the revised guidance in sections 2.7 and 2.8 of 45-106CP regarding the meaning of "close personal friend" and "close business associate"? Is there other guidance that could be provided regarding the meaning of these terms?

Response: Yes, we agree with the revised guidance.

Investment limits

4) Should there be limits on the size of each investment made by an individual under the FFBA Prospectus Exemption or an annual limit on the amount that can be invested?

Response: No, we do not think that an arbitrary limit would be suitable. In addition, no specific limit should apply if the investor receives advice from a registrant with KYC obligations.

Risk acknowledgement form

5) Does the use of a risk acknowledgement form that is required to be signed by both the investor and the person at the issuer with whom the investor has the relationship mitigate against potential risks associated with improper reliance on the FFBA Prospectus Exemption?
Response: Yes

Reporting of distribution

6) We believe it is important to obtain additional information in Form 45-106F11 to assist in monitoring compliance with and use of the FFBA Prospectus Exemption. Form 45-106F11 would require disclosure of the person at the issuer with whom the investor has a relationship. This

additional information is provided in a schedule to Form 45-106F11 that does not appear on the public record. Do you agree that collecting this information would be useful and appropriate?

Response: We agree.

C. Existing S/H Exemption

Specific requests for comment – Existing Security Holder Prospectus Exemption

Issuer qualification criteria

1) Do you agree with allowing any issuer listed on the TSX, TSXV and CSE to use the Existing Security Holder Prospectus Exemption?

Response: Yes, we agree

Offering parameters

2) Do you agree that the offer must be made to all security holders and on a pro rata basis? Do you agree that these conditions support the fair treatment of all security holders?

Response: Yes, we agree with both. The intent of the exemption as we understand it is to permit non-accredited shareholders to participate in the recapitalization of listed issuers without putting the company through the time and expense of preparing a prospectus. If the exemption is not implemented, non-accredited shareholders will continue to see their holdings severely diluted in the companies that successfully recapitalize. Requiring that the offer be open on a pro rata basis offers anti-dilution protection to these public shareholders.

3) Do you agree that it is not necessary to differentiate between a security holder that bought securities in the secondary market one day before the announcement of the offering and a security holder that bought the securities some longer period before the announcement of the offering?

Response: Yes, we agree. The important point is that the securities were purchased prior to the announcement; fixing a longer time requirement is too subjective and would disenfranchise some existing security holders for no apparent reason.

Resale restrictions

4) Should securities distributed under the Existing Security Holder Prospectus Exemption be freely tradable?

Response: Yes, allowing freely tradable shares to be issued will reduce the discount that issuers must offer and ultimately reduce dilution to shareholders who do not participate while reducing the cost of capital to the issuer.

D. Crowdfunding Exemption

Specific requests for comment – Crowdfunding Prospectus Exemption and Crowdfunding Portal Requirements

Crowdfunding Prospectus Exemption

Issuer qualification criteria

1) Should the availability of the Crowdfunding Prospectus Exemption be restricted to non-reporting issuers?

Response: No, if reporting issuers wish to use this exemption they should not be denied access to this financing method. Listed companies would also be subject to exchange requirements such as pricing restrictions.

2) Is the proposed exclusion of real estate issuers that are not reporting issuers appropriate?

Response: We would generally prefer that all issuers be allowed to use the exemption but we understand the concerns. In the interest of time we would advocate for a revised exemption sometime later that incorporates some forms of real estate investments.

3) The Crowdfunding Prospectus Exemption would require that a majority of the issuer's directors be resident in Canada. One of the key objectives of our crowdfunding initiative is to facilitate capital raising for Canadian issuers. We also think this requirement would reduce the risk to investors. Would this requirement be appropriate and consistent with these objectives?

Response: We support this requirement and believe it is consistent with the objectives.

Offering parameters

4) The Crowdfunding Prospectus Exemption would impose a $1.5 million limit on the amount that can be raised under the exemption by the issuer, an affiliate of the issuer, and an issuer engaged in a common enterprise with the issuer or with an affiliate of the issuer, during the period commencing 12 months prior to the issuer's current offering. Is $1.5 million an appropriate limit? Should amounts raised by an affiliate of the issuer or an issuer engaged in a common enterprise with the issuer or with an affiliate of the issuer be subject to the limit? Is the 12 month period prior to the issuer's current offering an appropriate period of time to which the limit should apply?

Response: We have no way of knowing whether the proposed limits would vitiate the usefulness of the proposed exemption. If there is a consensus among the CSA members that such limits should be imposed we recommend their adoption as a means to hasten the introduction of the exemption.

5) Should an issuer be able to extend the length of time a distribution could remain open if subscriptions have not been received for the minimum offering? If so, should this be tied to a minimum percentage of the target offering being achieved?

Response: Yes, provided that a minimum of 33% of the target offering has been achieved.

Restrictions on solicitation and advertising

6) Are the proposed restrictions on general solicitation and advertising appropriate?

Response: We do not believe they are inappropriate.

Investment limits

7) The Crowdfunding Prospectus Exemption would prohibit an investor from investing more than $2,500 in a single investment under the exemption and more than $10,000 in total under the exemption in a calendar year. An accredited investor can invest an unlimited amount in an issuer under the AI Exemption. Should there be separate investment limits for accredited investors who invest through the portal?

Response: Accredited investors should have no investment limit.

Provision of ongoing disclosure

9) How should the disclosure documents best be made accessible to investors? To whom should the documents be made accessible?

Response: Disclosure documents should be available online at the portal or on the issuer's website to any shareholder until the company becomes a reporting issuer.

10) Would it be appropriate to require that all non-reporting issuers provide financial statements that are either audited or reviewed by an independent public accounting firm? Are financial statements without this level of assurance adequate for investors? Would an audit or review be too costly for non-reporting issuers?

Response: As we stated earlier, disclosure is of paramount importance and financial disclosure is at the top of the list, however the requirement for an audit or a review should be commensurate with the amount raised. An issuer that raises less than $100,000, for instance, should not be required to have an independent audit or review as the cost of either could amount to a considerable use of the proceeds.

11) The proposed financial threshold to determine whether financial statements are required to be audited is based on the amount of capital raised by the issuer and the amount it has expended. Are these appropriate parameters on which to base the financial reporting requirements? Is the dollar amount specified for each parameter appropriate?

Response: The parameters are appropriate but there should be a lower limit for companies that do not raise $500,000 where they do not have to obtain a review by a public accounting firm. We would suggest

a limit of $150,000 raised.. There should also be a requirement for some form of certification by an officer of the company

Other

12) Are there other requirements that should be imposed to protect investors?

Response: We believe that once the proposed exemptions are implemented, the information provided in the new forms will assist the OSC with monitoring and analyzing the impact and identifying areas of concern. Further measures may be introduced as necessary.

Crowdfunding Portal Requirements

General registrant obligations

13) The Crowdfunding Portal Requirements provide that portals will be subject to a minimum net capital requirement of $50,000 and a fidelity bond insurance requirement of at least $50,000. The fidelity bond is intended to protect against the loss of investor funds if, for example, a portal or any of its officers or directors breach the prohibitions on holding, managing, possessing or otherwise handling investor funds or securities. Are these proposed insurance and minimum net capital amounts appropriate?

Response: Probably not.

Additional portal obligations

14) Do you think an international background check should be required to be performed by the portal on issuers, directors, executive officers, promoters and control persons to verify the qualifications, reputation and track record of the parties involved in the offering?

Response: No, and especially not with only $50,000 insurance requirement for the portal. Risk disclosure and acknowledgment is adequate.

Prohibited activities

15) The Crowdfunding Portal Requirements would allow portal fees to be paid in securities of the issuer so long as the portal's investment in the issuer does not exceed 10%. Is the investment threshold appropriate? In light of the potential conflicts of interest from the portal's ownership of an issuer, should portals be prohibited from receiving fees in the form of securities?

Response: We agree that the fee may be payable in shares.

16) The Crowdfunding Portal Requirements restrict portals from holding, handling or dealing with client funds. Is this requirement appropriate? How will this impact the portal's business operations? Should alternatives be considered?

Response: Our understanding is that the restriction will ultimately reduce the cost of capital by reducing the capital requirement and the fidelity bond insurance requirement. We would also allow other registrants, i.e., EMDs and IIROC dealers, to operate portals under the prescribed requirements that pertain to their existing registrations.

Concluding Comments

We also have the following comments on the process that has resulted in the Request for Comment:

- There has been a distinct lack of coordination among CSE members in the development of the existing shareholder exemption in particular. Intended as a means to address an identified funding "crisis" for small cap issuers in Canada, we have instead seen a fragmented response from the regulators. The truth of the matter is that it, again, has taken far too long to implement a simple, uncontroversial measure designed to assist companies desperately trying to stay afloat.
- We also have serious concerns about the lack of harmonization in the approach of the different provincial securities regulators to the issues at hand. Although there are a number of local concerns that can and should inform policy development, requiring entrepreneurs to operate in an environment where there are minor or major differences in capital formation rules from province to province only serves to increase the cost of capital. This is plainly not in the public interest.

Yours truly,

The Canadian Securities Exchange

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