

June 18, 2014

**Via Electronic Mail: [JStevenson@osc.gov.on.ca](mailto:JStevenson@osc.gov.on.ca)**

Mr. John Stevenson  
Secretary  
Ontario Securities Commission  
20 Queen Street West  
19<sup>th</sup> Floor, Box 55  
Toronto, Ontario M5H 3S8

Dear Mr. Stevenson:

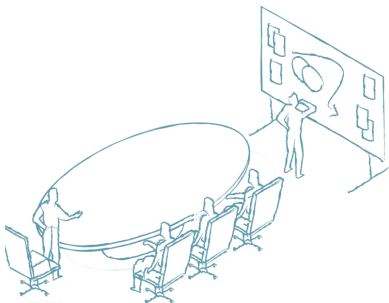
**Re: OSC Exempt Market Review – Comments on Rule 45-108 Crowdfunding**

Wales Capital is pleased to provide comments on Rule 45 – 108 Crowdfunding. Wales Capital was founded in 2012, shortly after the signing of the Jumpstart Our Business Act in the United States of America. As an entrepreneur of two startup companies, Wales Capital (management consulting firm) and CrowdBureau (ratings agency), an author, an advocate, and industry pioneer, I am writing to the Ontario Securities Commission because Canada’s small businesses need enhanced access to capital to grow and create jobs. Small emerging businesses also require the opportunity to gain their footing in the capital markets industry and establish their competitiveness in the global landscape.

**General Comments**

Wales Capital commends the OSC for identifying the issue of capital raising as a key priority that is important to the Canadian capital markets and economy. We also acknowledge the OSC’s efforts to address both traditional means of raising funds in the exempt market as well as new developments such as crowdfunding. Our focus is on crowdfunding/ crowdfund investments because the current gaps in capital raising and the negative impact of those gaps on a global scale, but more specifically Canada’s ability to innovate in various sectors. We encourage the OSC to establish rules that govern and support a crowdfunding exemption, that particularly allow start-ups and early stage businesses, to raise capital from a potentially large number of accredited and non-accredited investors through an online platform registered with the securities regulators.

There are key benefits of Crowdfunding for Issuers and Investors, the Crowdfunding ecosystem at - large and the OSC acknowledges the same by stating “ Crowdfunding arguably may provide a new source of capital for start-ups and SMEs that either have limited access to capital and have exhausted other available sources of capital. More traditional funding models may not be available to invest in these issuers and having a more diverse pool of investors may lead to increased



Kim Wales, *Founder and CEO*  
42 West 24 Street New York, NY 10018  
212-736-6884 (l) | 917-628-5805 (m)  
[www.walescapital.com](http://www.walescapital.com) | [kim@walescapital.com](mailto:kim@walescapital.com)

investment in underfunded businesses. Crowdfund Investing should also be less expensive than raising capital through traditional public offerings.” While we agree with these observations, the current framework does not support the same as it relates to Investor Limits.

While we understand the importance of investor protections, it is paramount to allow the investor community to obtain education on the inherent risk upon taking on any type of investment opportunity. Penalizing sophisticated investors and limited the amount of money an issuer can raise from any one investor during a 12-month period; essentially congest the pipeline when there is no need.

Wales Capital’s comments and recommendations are as follow:

## 1. Investor Limits

Unfortunately, the proposed Crowdfunding Exemption restricts the investment of the Crowd to a maximum of \$2,500 per investor/ investment not to exceed \$10,000 per year; irrespective of the investor’s is ability to invest more.

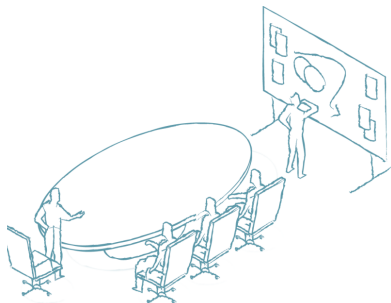
- a. **Recommendation 1:** The United States (JOBS Act – Title III) proposes an investment cap based on the investor’s income or net worth. Individual investments in a 12-month period are limited to: the greater of \$2000 or 5% of annual income or net worth, if annual income or net worth is less than \$100,000. 10 percent of annual income or net worth (not to exceed an amount sold of \$100,000), if annual income or net worth of the investor is \$100,000 or more (these amounts are to be adjusted for inflation at least every five years). Given Canada currently has existing defined investor categories, we propose those guidelines remain in effect and consistent with Crowfund Investing, these guidelines are as follows:
  - i. Ordinary Investor - \$5000 per investment & \$10,000 per year on a platform;
  - ii. Eligible investor - \$15,000 per investment & \$30,000 per year on platform; and
  - iii. Accredited Investor – Unlimited investment.

## 2. Allow the OM Exemption

For companies seeking to raise up to \$1.5 million, the OM Exemption would allow for issuers to engage investors form all investor classes. The framework of the CFE documents is not that dissimilar to the current OM documents.

### a. Recommendation 2

- i. The OM Document – Provide a document that can is easily digestible and usable by the Crowdfunding Community.
- ii. Incorporate the Alberta Blanket 45-512 and disallow having two exemptions. Companies raising under \$500,000 in capital should have disclosure relief as provided on the blanket order.
- iii. Raise Investment Caps – Investment Caps are not a requirement when securities are distributed through an EMD. If there are flaws with the current

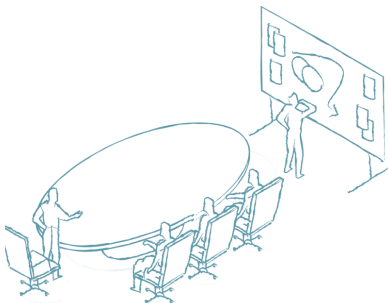


practices. We recommend fixing the problem versus coated another layer of heavy-duty exemptions and regulation on a group of companies already meeting hurdles of developing, growing and sustaining and business.

Wales Capital encourages the OSC to:

1. **Acknowledge that business have different funding needs at different phases in their development.** In order to address the current funding gaps, create jobs and reform the capital market, it is necessary to recognize that raising capital to support any size business is a continuum that starts at the inception of an idea through growth and sustainability.
2. **Permit simultaneous use of different prospectus exemptions.** There is both an interrelationship as well as signaling that occurs between different types of investors and levels of investment. Multiple prospectus exemptions are often used together and should be allowed in a concurrent manner (e.g., combining crowdfunding rounds of investing with investment on the accredited investor exemption.)
3. **Regulate Equity and Debt Based Crowdfunding Portals.** All Equity and Debt based Crowdfunding Platforms should be registered and regulated by the Commission. This would be consistent with other countries regulations such as the United Kingdom, Italy and the final proposed rules in-waiting in the United States. By mandating funding platforms to register and adhere to OSC regulation, the platforms will be uniformed in creating a healthy ecosystem for the market with also allowing for consistency for cross border transactions as the market flourishes and warrants such activities. Consideration towards a light regulatory approach may be appropriate, in order not to over burden the funding platforms with extra cost and processes that are unsustainable.
4. **Act Responsible yet Quickly.** Crowdfunding is rapidly expanding across the world, democratizing the financial industry, spurring on capital formation and job creation. Canada does not want to be left behind. Reflecting on the timeline of the United States, in which Congress mandated the SEC to enact Title III - Regulation Crowdfunding no later than 290 days from the day the Bill was signed, on April 5, 2012. The U.S.A lags behind the UK with opening the market. Canada should lead in efforts to spur the economy and innovation. Opportunities will be lost both at the early stage, and perhaps more seriously, for later stage companies if action is not taken quickly.

In conclusion, crowdfund investing is a reshaping the capital market, which is urgently needed; which is made possible by the innovation of the Internet and the emergence of social networking. While Crowdfunding may create new risks, it also creates new opportunities to protect investors while catalyzing capital formation and job creation. Principally by increasing transparency, bolstering investor confidence and allowing small emerging business to thrive; we believe that the



OSC can create marketplace that is in alignment with setting a financial paradigm for the 21<sup>st</sup> Century generation.

Wales Capital remains available for additional questions on how best to invigorate the capital market. Please do not hesitate to contact us at your convenience.

Respectfully submitted,



Kim Wales  
Wales Capital, Founder & CEO

