CRANSON CAPITAL SECURITIES

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Via email

Friday, September 30, 2016

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Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
The Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan

Re: CSA Consultation Paper 33-404 – Proposals to enhance the obligations of Advisers, Dealers and representatives toward their clients.

Cranson Capital Securities Inc. (CCS) welcomes the opportunity to comment on the CSA Consultation Paper 33-404 to enhance the obligations of advisors, dealers and representatives toward their clients.

About Cranson Capital Securities Inc

Cranson Capital Securities Inc. (CCS) is a registered Exempt Market Dealer (EMD) in Ontario, British Columbia, Alberta, & Newfoundland and Labrador. CCS has been an EMD in good standing since 2011. We raise capital primarily from individual investors, generally accredited and more recently eligible as well. We are also a 5-time Deal of the Year award winner recognized by the Private Capital Markets Association.

We understand the need to put the interest of the investors first and have reviewed the Best Interest Standards (BIS) that the Ontario Securities Commission (OSC) is considering. We agree that implementing regulatory reforms can improve the advisor/client relationship, however careful consideration is required. We understand the objectives of the OSC as outlined in the 2015 Annual Report and we believe that there may be better methods in which to achieve these objectives. In general, we review the proposed reforms as positive evolution of the EMD space, however we have great hesitation over some of the items that were proposed in Consultation paper 33-404, and in certain circumstances we urge the OSC to consider alternative approaches to meeting its objectives. Since we are an EMD our answers are from the point of view of an EMD.

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Conflicts of Interest

CCS agrees with the objective to manage conflicts of interest (COIs) in the best interest of the client. We agree that it is imperative to disclose COIs to investors, however, we believe that the current disclosure is sufficient where firms must identify material COIs that may arise between a firm and the investor. If there is a conflict it must be responded to appropriately through avoidance, control or disclosure. We practice this at our firm where we always disclose any conflict in a clear and meaningful way. This should already be standard practice in all firms so the proposed reform should focus on giving firms the guidance to uphold this policy.

Although, it should be standard practice, the information should pertain to cover applicable conflicts not necessarily information outside the scope of business. We have never found that offering additional disclosure has affected our EMD business in a negative way. EMD's must train Dealing Representatives (DRs) on how to explain COIs to investors so they can make a more comprehensible investment decision. At the end of the day the investor needs to be comfortable with the conflicts related to the investment, and as long as the conflicts are properly disclosed, the investor should be in the position to make the investment decision.

CCS does not feel like it is necessary to add another definition for institutional clients. We believe the permitted category satisfies the obligations of the institutional clients. If a DR is properly trained on the KYC obligations of their investors then the information on the Permitted NCAF should satisfy the KYC suitability obligations of the institutional client

With respect to sales practices it is difficult to standardize this across the various categories registered with the OSC. At CCS we have a Sales Handbook in addition to our Compliance Manual which helps guide our DRs on how to satisfy their obligations when introducing an investment to a client.

Regarding incentivizing DRs, we believe that what is currently the standard is sufficient. Firms should have a gift policy as part of their compliance manual. At CCS we clearly define the expectations of how a DR deals with gifts and entertainment. We have a policy/procedure to handle these situations.

Know Your Client

We have reviewed the proposed changes to the Know Your Client (KYC) requirements and have specific recommendations. While we agree with the proposal for the CSA codifying the specific form of the KYC, we would recommend that there should be separate KYC forms for each type of investor i.e. Permitted, Accredited, Eligible/Non-Eligible. We believe that Eligibles and Non-Eligibles should have to provide more details than an Accredited or Permitted investor to ensure that the investment is suitable. Our suggestion to the OSC would be to create a tiered system for firms to complete KYC obligations, requiring additional information from the eligible category and maintaining status quo on accredited investors.

The KYC form should not be required to be signed by the Dealing Representatives (DR) supervisor. These forms are currently signed by the CCO or UDP in addition to the DR, it would be unnecessary to require the supervisor as well. We believe that the role of the supervisor is to manage the details of the deal and the delivery of the Know Your Product (KYP), while someone from the compliance team can assist the DR on the suitability. Our firm has a Compliance Administrator that reviews all KYC forms to ensure they are correctly filled out and that the appropriate suitability factors are considered. When all the information is present, then it is reviewed again and approved by the CCO or UDP who also approves each trade. It gives an additional level of independence to the KYC requirement which we believe is for the best interest of the client. We think that having a strong compliance team and process will ensure the KYC requirements are met.

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Regarding implementing a minimum element for the collection of KYC information where it can affect the opening of an account seems redundant. There are certain information on the KYC form that needs to be collected such as identity, suitability, assessing AML etc. We feel that the current standards of collecting KYC information are appropriate.

We do not feel that we are in the position to give tax advice to our investors. Since every investors tax situation varies, we must leave the tax advice to the certified tax professionals. We do give the investor a high level summary of any implicit tax implications that are applicable to a specific deal, only at the guidance of the issuers' tax lawyer. We do not believe it is feasible for the DR to understand the tax position of the investor as we will not have the sufficient information to interpret the clients' tax position or have the necessary qualifications to offer tax advice. If a client wants more information they are encouraged to seek advice from their own tax advisor.

Know Your Product

We believe that our firm exists to offer investors access to private alternative investments to what they can purchase through their investment advisor. We are not trying to manage an investors' portfolio. Our DRs are not trained on portfolio management. Our team has specific expertise in private alternative investments. The one size fits all model will not be able to work for all registered firms as multiple business models exist within the space.

We agree with point # 8 on the OSC Questions on CSA 33-404 "The intended outcome of the requirement for mixed/non-proprietary firms to engage in a market investigation and product comparison is to ensure the range of products offered by firms that present themselves as offering more than proprietary products is representative of a broad range of products suitable for their client base" if the EMD is capable of acquiring a good mix of products. When choosing a product a firm has to take into consideration a lot of factors that may influence their decision to add that product to their shelf. These include, but not limited to, the firms expertise on the product, market demand, their DR capability to understand/sell the deal and size of the deal.

Our firm has built expertise in specific sectors. We believe this is a great benefit to our investors who are seeking investments in the sectors that we work in. Because of our focus and deep expertise we are able to source and structure great investment opportunities for our clients in these specific sectors. We do feel forcing a dealer to offer a certain product mix is counterproductive for investors. We assume that reputable firms will take on investments that are suitable for their investors, and they will have the necessary expertise in their sector to determine what is suitable.

We believe that it is a good idea for firms to become specialists in certain sectors. If they are taking on too much of a variety of products from different sectors then it may result in firms not developing enough expertise in any one sector. At our firm we have a focus on real estate transactions and although they are in the same sector they are in different markets, different types (i.e. seniors housing, development, residential, etc.) as well as different structures.

It would be ideal if proprietary firms would be required to engage in both a market investigation and product comparison process or to offer non-proprietary products however it's not possible as firms do not know what other firms are offering. Also, as a result, firms may start taking on deals they are not knowledgeable about. To stay aligned with the investor's best interest, firms should perform the appropriate KYP and offer their clients optimal deals that they have the sector expertise to be able to determine.

There are challenges that an EMD may face with the proposed reforms. An EMD would have to add more resources to acquire the amount of products needed to be on their shelf to have a successful mixed shelf. As a firm we do our own due diligence on our deals so having to increase the amount of transactions we would need to keep on our shelf mixed would also be costly and take more time. Also as a smaller EMD it may be a disadvantage to

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our issuers if we have them "competing" against each other. We typically do not have multiple deals running at the same time as mentioned previously we are focused on thorough due diligence, KYP training and making sure our compliance procedures don't get compromised

Suitability

We have reviewed the OSC recommendations and have the following suggestions. Having a strong suitability process is important to our firm. We agree that understanding a client's suitability will enhance the methodology of working in the best interest of the client. Reconfirming suitability annually can also enhance the process.

Regarding the recommended requirement to consider other basic financial strategies would be a challenge. There are a few issues that may arise in this one-size-fits-all model. As an EMD that introduces investors to private alternative investments, our DRs do not have the proficiency regarding all financial options as would someone providing portfolio management or asset allocation services. Our investors are not expecting us to review their entire investment portfolio. We are not trying to replace the Investment Advisor (IA) who would sell an investor public equities, mutual funds, ETFs etc. An investor will still need an IA, while we provide alternative investments that should make up a portion of their portfolio not the entire portfolio. It should also be noted that it is difficult to take an overall snapshot of an investor's investments portfolio as most investors are not always willing to share that information with the DR.

At our firm we have an intense due diligence process and KYP training for our DRs. We encourage them to look at an investor's KYC form and ensure that the product fits within their risk threshold and investment strategy. We do however agree that offering investors deals with different structures, investment objectives, markets, risks, time horizons, liquidity etc. and looking at their investment concentration within our firm to help determine if the deal is suitable or not. This will help to diversify the private placement portion of their portfolio.

Suitability should be based on investment category i.e. Permitted, Accredited, Eligible and Non-Eligible. Additionally, Eligible & Non Eligible investors should be required to complete a different KYC form than Permitted & Accredited as more details are required to determine their suitability. Permitted or Accredited investors do not need to have the same scrutiny as an Eligible or Non Eligible.

The requirement to perform a suitability analysis at least once every 12 months can raise challenges for EMDs as investors may not invest within every year. At our firm we make attempts to do it annually but our process requires the DR to check suitability at the time of every transaction. We find the latter more effective as we offer investments that are long term and generally illiquid therefore some of our investors invest with us once every 4-5 years. We should not need to update their KYC if they are not purchasing more securities. If an investor provides updated KYC information after they have already made an investment and they are no longer considered suitable, we do not have a mechanism to unwind the previous transaction or get the investor liquidity. If an investor becomes unsuitable at a point after making an investment with us there's really nothing that we can do except wait out the time frame of the investment. Therefore if they are not making any new investments with us, it's not prudent to have them update their KYC information.

We feel that the requirement to perform a suitability review for a recommendation not to purchase, sell, hold or exchange a security will be problematic for registrants. At CCS we have a "Deal Suitability Checklist" that we use internally that all DRs submit with every investor's investments that the CCO or UDP reviews to help them decide to approve if the deal is suitable or not for the investor. This checklist is the mechanism where we can decline a purchase by an investor if we deem it to not be suitable.

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Relationship Disclosure

We agree with the proposed disclosure required for firms that offer only proprietary products. It should be standard practice across the board. We believe that the additional guidance would make the disclosure about the relationship easier to understand for clients.

Proficiency & Titles

We believe that an increased proficiency requirement for DRs would benefit investors. We agree that too many DRs do not have enough of an understanding of the products they are selling or the environment in which they sell. However the way in which this increased proficiency requirement is achieved will be important to consider. In considering the current proficiency standards the issue for the EMD is that the requirements are not necessarily focused on the Exempt Market. There is also no ongoing proficiency requirement the way that most other financial services industries have.

We do agree that a DR should be subject to a continuing education requirement including training on key securities regulatory obligations such as suitability, the KYC and KYP obligations and conflicts of interest, as well as an ethics training component. On the other hand, we believe that the current requirements for CCOs and UDPs are acceptable.

The challenge will be in the delivery of the training. We believe, like most other areas of financial services, that the DRs should be required to achieve annual Continuing Education credits. Therefore a network of educators will need to provide courses and seminars for DRs to attend. The Securities Commissions could work with the Private Capital Markets Association and the National Exempt Market Association to implement some of these requirements. Alternatively, CE credits for other sectors could be considered as equivalents for the DR's, such as what currently exists for financial advisors, financial planners, mortgage brokers and accountants.

Our preference for a standardized Client-Facing Business Title would be Dealing Representative, Securities as set out in NI 31-103. For a representative (I) where his or her sponsoring firm is registered as a portfolio manager or investment dealer and has a mixed/non-proprietary product list, and (ii) that advises a client with a non-discretionary account, our recommendation would be the title "securities advisor".

One challenge for registrants and investors that may occur as a result of more strictly regulating titles is that it may be difficult to differentiate between representatives at a firm. Currently, registrants and clients can differentiate levels in a firm by different titles. Perhaps for these individual they should include their title with Dealing Representative somewhere on their business card, signature, etc. For example if the President of a firm is also registered as a Dealing Representative, it does not make sense to replace the President title, the DR title should be in addition to the President title.

We also agree with the OSC that there should be additional guidance regarding the use of titles by representatives who are "dually licensed" (or equivalent). Additionally the OSC should regulate the use of specific designations and create a requirement for firms to review and validate the designations used by their representatives.

Role of UDP & CCO

We agree that the clarifying reforms are consistent with the UDP & CCO roles.

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Best Interest Standard (BIS)

We do not believe that a BIS is necessary. The Consultation Paper has proposed some interesting concepts that would enhance the exempt market with obligations such as, but not limited to, COI, KYP, KYC and Suitability. Although we made some recommendations, the idea behind the proposal has already taken into consideration the needs of the investor.

Also as an EMD, we work for both the issuer and the investor. We have a thorough due diligence process and a strong compliance, sales, and training culture. We also work alongside issuers legal and tax professionals to structure our investments. At times we will include the feedback from some of our more experienced investors. With all that we have put in place we make sure the needs of clients are met while satisfying the issuer and team of professionals involved.

We are pleased to see the OSC looking to enhance the exempt market space and provide additional guidance for dealers and protection for investors. We believe that these proposed reforms need to be carefully considered and as outlined above we agree that some of the reforms are necessary, however the way in which they are implemented will be paramount to their success in achieving the OSC objectives.

This submission is being made on behalf of Cranson Capital Securities Inc., a registered exempt market dealer.

If you would like further elaboration on my comments, please feel free to contact me at devon@cransoncapital.com.

Regards,

Devon Cranson
President, UDP, CCO, Cranson Capital Securities Inc.