ONTARIO SECURITIES COMMISSION (OSC) EXEMPT MARKET REVIEW
INVESTOR ROUNDTABLE – BACKGROUNDER

JUNE 11, 2013

The OSC is considering ways to help businesses raise money, particularly start-ups and small and medium sized enterprises (SMEs), while protecting the interests of investors. We are considering options for allowing businesses to sell securities (such as shares) to the public without having to prepare and file a prospectus first. There are additional risks when you invest in a business that is not listed on a stock exchange. We want to know if people are interested in making these types of investments and if so, what kind of information they would want to have and how much they would be willing to invest.

The current framework

Shares may not be sold to the public without a prospectus. A prospectus:

- includes detailed information about the business,
- describes the shares and any risks with the investment, and
- provides for some rights to purchasers if the prospectus contains a misleading statement

A business that offers shares to the public under a prospectus becomes a public company. Public companies have certain responsibilities; for example, they must provide ongoing information to the public on how the business is doing. Start-ups and SMEs might want to raise money by selling shares to the public, but may not be ready for the costs and obligations that are involved with being a public company.

In limited cases, shares may be sold without a prospectus. This is typically referred to as an exempt distribution that takes place in the exempt market. There are specific rules that determine when this is allowed. Generally, these rules are based on a rationale that justifies removing the prospectus requirement. For example, an exemption may be based on the idea that a certain type of purchaser is sophisticated or has the resources to obtain expert advice and therefore does not need the information and protections provided by a prospectus.

Exempt purchasers include individuals whose annual net income is at least $200,000, or $300,000 combined with a spouse. They also include people who meet other financial or net worth tests. In Ontario, only about 4% of the general population qualify.

In addition to the requirement to prepare and file a prospectus, persons or companies that are "in the business" of trading in shares or advising others about shares must register with the OSC. There is no requirement for issuers to sell shares using a registrant, but this is usually how shares are sold.

OSC exempt market review

On December 14, 2012, we published OSC Staff Consultation Paper 45-710 *Considerations for New Capital Raising Prospectus Exemptions* (the Consultation Paper). The Consultation Paper describes four concept ideas for new prospectus exemptions in Ontario. One of these concept ideas is "crowdfunding".

Crowdfunding

Crowdfunding is a term used to describe a method of raising small amounts of money from many people over the internet. There are different types of crowdfunding that currently exist. For example, there are websites that allow people to raise money for charity. On other websites people raise money for a particular project and in return provide a perk or reward. Currently, in Ontario, businesses are not allowed to raise money from the public over the internet by selling shares.

The Consultation Paper describes a concept idea to allow businesses to sell shares through crowdfunding. Under this concept idea:

- A business could raise up to $1.5 million under this exemption in a 12-month period
- Only certain types of securities could be issued, such as common shares
- An investor could not invest more than $2,500 in a single investment and no more than $10,000 in total in a calendar year
- Some basic information would have to be provided to investors before they purchase the shares
- Investors would have to sign a form acknowledging they are aware of the risks associated with the investment
- Investors would have two days to reconsider their investment and withdraw if they wish
- The shares would be sold through an internet website that is registered with the OSC and that is required to do criminal checks on the individuals involved with the business
- Investors would have limited ability to sell these shares

Topics for discussion

Investing in start-ups and SMEs

1. Would you like to be able to invest in a start-up or SME? Why or why not?
2. What factors would influence whether or not you decide to invest in a particular business?
3. What risks most concern you about investing in start-ups and SMEs?
4. How much would you be willing to invest?

Information you would want first

5. What types of information would you want to have to help you decide whether to invest in a start-up or SME?
6. If you decided to invest, would you want to receive ongoing information from the company on how it is doing? If yes, what information would be most important to you?

Advice

7. Would you seek advice before deciding to invest in a start-up or SME? If so, whose advice would you seek?

Crowdfunding

8. Are you familiar with existing crowdfunding websites that allow people to raise money for projects (but not sell shares), such as Kickstarter, Rockethub and Indiegogo?
9. Would you consider investing in a start-up or SME that wasn't listed on a stock exchange that you learned about over the internet? Why or why not?
10. Would you consider investing in a start-up or SME that was recommended to you by friends over the internet, such as on social media websites?
11. What do you think are the risks associated with investing over the internet?
12. Are you comfortable investing over the internet? If so, what amount of money would you be willing to invest in a business over the internet?