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Dear Mesdames:

Re: **Proposed Multilateral Instrument 45-108 Crowdfunding Exemption and Start-Up Crowdfunding Exemption and BC Notice and Request for comment on Start-Up Crowdfunding**

The Investment Industry Association of Canada (the "IIAC") appreciates the opportunity to comment on the Crowdfunding Exemption and the Start-Up Crowdfunding Exemption. In order to provide a full and consistent response to the entire proposed crowdfunding regime, we are responding to both the Proposed Multilateral Instrument and the BC Proposals in this submission, which also reflects our comments to the OSC on their Crowdfunding Exemption proposal.

While we support the Commissions' goals of assisting small companies in raising capital, the IIAC has very serious concerns about the Crowdfunding Exemption, as well as the Start-Up Crowdfunding Exemption as proposed in the Multilateral CSA Notice and in other Notices published in other jurisdictions.

We believe the crowdfunding framework in general has serious flaws and raises significant investor protection concerns. The lack of: investor suitability thresholds, qualified and accountable intermediaries, due diligence, and client review, stand in direct conflict with recently enacted regulations such as the Client Relationship Model, and the IIROC proposals for underwriting due diligence. These initiatives are designed to ensure investments have been adequately reviewed, fulsome information is available, the appropriateness for the client has been thoroughly considered and safeguards are in place to prevent extreme and inappropriate investor risk. The lack of such safeguards in the proposed Crowdfunding Exemption and Start-Up Crowdfunding Exemption results in a skewed risk proposal for potential investors.

One of the primary problems with both the Crowdfunding Exemption and the Start-Up Crowdfunding Exemption is the lack of expertise, accountability and oversight of the funding portals through which the investments must be purchased.

The regulation bars existing registrants from facilitating the use of the exemptions. This is wholly inconsistent with the regulators' investor protection mandate, as such registrants have expertise and are subject to regulatory accountability in respect of how exemptions should be utilized, the proper screening of investors and administration of the documentation and details regarding securities issuance. Rather than permitting existing registrants to leverage this knowledge and experience, under the Crowdfunding Exemption and Start-Up Crowdfunding Exemptions, individuals from outside of the industry with no background, educational requirements, proficiency standards or experience are invited to administer these exemptions for investors that are not required to meet any standards relating to knowledge, experience, or ability to withstand loss.

With existing registrants barred from operating crowdfunding portals, we are concerned about the entities that may be involved in setting up these portals. It seems likely that portals may be run by individuals with an adequate amount of technology expertise to set up the online framework for the portal, but no industry experience. Given the lack of regulatory scrutiny of the portal operators, we also foresee that this framework will attract problematic individuals who may be interested in exploiting investors. These individuals may include those who currently operate on the outskirts of the industry, and have elected not to be registered, or those that may have questionable regulatory history. They may also include individuals with no relevant background who see an opportunity to access vulnerable investors under a framework that has a regulatory endorsement.

Placing the most vulnerable investors in the hands of persons without experience, expertise, regulatory responsibilities or meaningful oversight is inconsistent in the extreme with the

regulators' investor protection mandate. At best, crowdfunding will result in investors making inappropriate investments, and at worst, there will be outright abuse and fraud.

In addition to the investor protection issue, it is likely that potential problems will arise in respect of the administrative, procedural, and documentation requirements connected with equity financings. This will become apparent when an issuer has reached the stage where it is a reporting issuer, and will become subject to the significant regulatory obligations relating to an expanded shareholder base. It is unlikely that the operator of a portal, who is not required to demonstrate that they have any background in the industry, will have the knowledge, experience and resources available to navigate the regulatory obligations that come with funding a reporting issuer. As a result, it is likely that the issuer will be required to expend scarce funds ensuring its books, records, filings and disclosure conform to regulatory requirements.

Crowdfunding will not only have a detrimental effect on investors, and eventually, as people lose their money, investor confidence in general; it also has the potential to erode the business of fully registered investment dealers operating in the small capital space. With financing limits of \$1.5 million per year, and availability of the Crowdfunding Exemption to reporting issuers, certain of these transactions may include ones that would otherwise be conducted by registered dealers. Not only will this further damage the small dealer community, it will potentially limit growth opportunities for small issuers. Registered dealers not only have an obligation to protect investors, they also take a long term view in respect of supporting the issuers to help them grow. Portals have no such obligations or incentives to the long term health of an issuer.

The creation of an exemption that encroaches on business already conducted by registrants creates a further, lower level of an already non-level playing field. Investors would be subject to 4 possible types of intermediaries with different responsibilities and regulatory requirements. This further fractionalizes the industry and makes it more complicated for participants and investors to understand their exposure and their rights.

It is clear that there are currently significant challenges for small companies attempting to raise capital in Canada. However, it is not appropriate to try to improve capital raising conditions by lowering standards to levels where investor losses are certain, as a result of inadequate regulation, portal inexperience and potential fraud. The ultimate outcome of the crowdfunding framework will be an erosion of investor confidence in the entire market, as many of the investors in crowdfunded issuers will not understand the difference between investing with a reputable firm that is subject to strict investor protection regulations, and through buyer-beware portals that will facilitate crowdfunding.

We note that in the US, crowdfunding portals will be required to register with FINRA. Although the proposed registration standard is not as high as a broker-dealer standard, it ensures a certain level of oversight. While we recognize the Crowdfunding Exemption calls for provincial registration of portals, we question whether the commissions have the

expertise and resources available to provide the high degree of oversight and monitoring that will be required to ensure compliance with the regulations.

Although the IIAC is not supportive of the Crowdfunding or Start-Up proposals, if the commissions believe these measures are necessary to facilitate capital raising, we recommend that the bar be raised in respect of the portal requirements. At a minimum, background checks and due diligence training should be required for principals involved in portals. This would help ensure that at least some potentially problematic individuals are not participating in the business where vulnerable investors are involved. Oversight of the portals and financings conducted through them is extremely important to avoid non-compliance and abuse. Without close scrutiny by regulators, it would be easy to abuse the limitations or commit fraud. For instance individuals could create a number of seemingly unrelated issuers and use the crowdfunding exemptions to funnel the capital raised into one enterprise (legitimate or not) through one or more portals. Without close oversight on the principals of both the portals and the issuers, organized crime or other parties would find it easy to take advantage of the wide scope of the exemptions to perpetrate fraud on unsuspecting investors.

In addition, without the proper due diligence experience, portal operators may not have the skills required to detect issues that indicate that inappropriate activity is taking place. Although it is critical for commissions to have a robust monitoring program to review financings and individuals involved in crowdfunding, it is also important that those involved in the process provide the first line of defence against fraud. An unregistered individual with no experience is not a strong line of defence.

One way to increase the compliance and decrease the chances of fraud perpetrated using the Crowdfunding Exemption and Start-Up Exemption is to permit existing registrants to operate portals under a separate registration category. This would inject a higher level of expertise into the process, and minimize the risk of non-compliance and fraud. It would also help ensure that the business and operations side of the portal financing will be properly conducted, preventing problems relating to administration, documentation and processes surrounding securities issuances. If crowdfunded issuers are, or will become reporting issuers or trade on stock exchanges, improperly issued securities can cause significant problems.

Commissions have the obligation to protect investors and to maintain efficient markets. The IIAC believes the Crowdfunding Exemption and Start-Up Exemption as currently proposed do not achieve either of these objectives. The proposed exemptions are inconsistent with the current regulatory emphasis on investor protection, some of which has resulted in burdensome regulation that in some cases threatens the survival of small dealers who are those best suited to assist startup issuers.

Thank you for considering our feedback. We would be pleased to discuss this matter further with you. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Copland', written in a cursive style.

Susan Copland