

ANNEX A-1

KEY PROVISIONS OF THE PROPOSED CROWDFUNDING PROSPECTUS EXEMPTION

The following is a summary of the proposed crowdfunding prospectus exemption. We are soliciting comments on the terms and conditions of the proposed exemption. The summary is divided into the following sections:

General topic	Specific discussion areas
1. Issuer qualifications	<ul style="list-style-type: none"> • Reporting issuers vs. non-reporting issuers • Investment funds vs. non-investment funds • Real estate issuers • Issuers without a written business plan (blind pools) • Jurisdiction of incorporation or organization and location of issuer’s head office • Jurisdiction where directors resident • Issuers that are not in compliance with the ongoing requirements of the crowdfunding prospectus exemption • Issuers that are the subject of sanctions imposed by a court or a regulatory body
2. Distribution details	<ul style="list-style-type: none"> • Types of securities • Seller • Offering size and other limits and conditions • Length of time an offering can remain open • Restrictions or requirements imposed on principals of issuer • Portals • Promotion of offering • Reporting of distribution
3. Integration	<ul style="list-style-type: none"> • Crowdfunding distributions and distributions made under other exemptions • Combining securities and non-securities rewards and perks in a crowdfunding offering
4. Investors	<ul style="list-style-type: none"> • Investment limits • Use of leverage to finance investment • Risk acknowledgement form • Rights • Ability to resell securities

General topic	Specific discussion areas
5. Disclosure	<ul style="list-style-type: none"> • Management certification and liability attached to materials • Format of disclosure • Content of point of sale disclosure • Advertising and marketing materials • Ongoing disclosure

Issue	Proposed crowdfunding prospectus exemption	Comments
1. Issuer qualifications		
Reporting issuers vs. non-reporting issuers	<ul style="list-style-type: none"> • Both reporting issuers and non-reporting issuers can use the crowdfunding prospectus exemption (crowdfunding exemption or exemption). 	<ul style="list-style-type: none"> • As the overall goal of our crowdfunding initiative is to facilitate capital raising for start-ups and small and medium-sized enterprises (SMEs), we think the exemption should be available to both reporting issuers and non-reporting issuers. • We have been advised that reporting issuers may wish to raise capital through crowdfunding, particularly venture issuers that may be experiencing difficulties in raising capital through more traditional means in the current economic environment. • We support allowing reporting issuers to raise capital through crowdfunding as reporting issuers should not have fewer capital raising options than non-reporting issuers, particularly since reporting issuers have a continuous disclosure record and are subject to regulatory oversight. • In OSC Staff Consultation Paper 45-710 <i>Considerations for New Capital Raising Prospectus Exemptions</i> (Consultation Paper), it was proposed that the exemption be available to both reporting

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		<p>and non-reporting issuers. No specific comments were received on the Consultation Paper regarding that aspect of the concept idea. However, one commenter thought that listed issuers should qualify for the crowdfunding exemption.</p> <ul style="list-style-type: none"> • We have sought specific comment on whether the availability of the exemption should be restricted to non-reporting issuers.
Investment funds vs. non-investment funds	<ul style="list-style-type: none"> • Investment funds cannot use the exemption. 	<ul style="list-style-type: none"> • We think this restriction is consistent with the overall goal of our crowdfunding initiative which is to facilitate capital raising for start-ups and SMEs. • As separate initiatives, we are currently undertaking significant policy projects to: <ul style="list-style-type: none"> ○ modernize product regulation for investment funds, ○ develop point of sale disclosure for mutual funds, and ○ review the cost of ownership of mutual funds.
Real estate issuers	<ul style="list-style-type: none"> • Real estate issuers that are not reporting issuers cannot use the exemption. • Real estate issuers include: <ul style="list-style-type: none"> ○ real estate investment trusts (REITs), ○ mortgage investment entities, and ○ issuers that primarily invest in, or develop, real estate, or derive their revenues primarily from investments in real estate. 	<ul style="list-style-type: none"> • Our objective is to facilitate capital raising by start-ups and SMEs. • We have concerns with the sale of real estate securities by non-reporting issuers in the exempt market. • We have sought specific comment on whether this restriction on the availability of the crowdfunding exemption is appropriate.
Issuers without a written business plan (blind pools)	<ul style="list-style-type: none"> • Blind pools are excluded from being able to use the exemption. A blind pool includes an issuer that does not have a written business plan setting out 	<ul style="list-style-type: none"> • We think this restriction is consistent with the overall goal of our crowdfunding initiative which is to facilitate capital raising for start-ups and SMEs.

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	<p>its business or proposed business, its goals or milestones and the plan for reaching those goals or milestones. It also includes an issuer where the proceeds of the distribution under the exemption will be used primarily by the issuer to invest in, merge with or acquire another unspecified business.</p> <ul style="list-style-type: none"> An issuer must disclose the nature of its existing or proposed business, its business plan, and the use of the proceeds of the distribution in furtherance of the business plan. 	<ul style="list-style-type: none"> In addition, we are concerned about allowing blind pools to sell securities to retail investors without a prospectus as blind pools raise additional investor protection concerns.
Jurisdiction of incorporation or organization and location of issuer's head office	<ul style="list-style-type: none"> The issuer, and if applicable, the parent and the principal operating subsidiary of the issuer, must be incorporated or organized under the laws of Canada or a jurisdiction of Canada. In addition, the issuer's head office must be situated in Canada. 	<ul style="list-style-type: none"> One of the key objectives of our crowdfunding initiative is to facilitate capital raising for Canadian issuers and we think these restrictions are consistent with that objective. We think that requiring incorporation or organization under Canadian laws and a Canadian head office may reduce the risks to investors.
Jurisdiction where directors resident	<ul style="list-style-type: none"> A majority of the issuer's directors must be resident in Canada. 	<ul style="list-style-type: none"> One of the key objectives of our crowdfunding initiative is to facilitate capital raising for Canadian issuers and we think this restriction is consistent with that objective. We think that requiring that a majority of an issuer's directors be resident in Canada may reduce the risks to investors. We have sought specific comment on whether this restriction is appropriate and consistent with these objectives.

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Issuers that are not in compliance with the ongoing requirements of the crowdfunding exemption	<ul style="list-style-type: none"> The exemption is not available to an issuer if the issuer has previously raised capital under the exemption and is not in compliance with its ongoing disclosure and other obligations. 	<ul style="list-style-type: none"> We think that, in the interest of investor protection, issuers that previously raised capital under the exemption and are not in compliance with its ongoing disclosure and other requirements should be prohibited from using the exemption.
Issuers that are the subject of sanctions imposed by a court or a regulatory body	<ul style="list-style-type: none"> The portal must take reasonable steps to establish that the business of the issuer will be conducted with integrity and in the best interests of the security holders of the issuer based on the information contained in the issuer’s application and the results of background checks. This obligation includes considering the past conduct of the issuer and any of the issuer’s executive officers, directors, promoters or control persons. The portal must also conduct background checks on the issuer and its directors, executive officers, promoters and control persons as described more fully in item 5 - <i>Portal due diligence</i> in the <i>Regulatory framework for crowdfunding – key provisions of the proposed regulation of a portal</i>. 	<ul style="list-style-type: none"> The scope of capital raising activity that a person is permitted to engage in may be narrowed by sanctions imposed by an order of a court or regulatory body.
2. Distribution details – types of securities		
Types of securities	<ul style="list-style-type: none"> Novel or complex securities cannot be offered under the exemption. The only securities that can be offered under the exemption are: <ul style="list-style-type: none"> common shares, non-convertible preference shares, securities convertible into common shares or non-convertible preference shares, non-convertible debt securities linked to a fixed or floating interest rate, 	<ul style="list-style-type: none"> As the overall goal of our crowdfunding initiative is to facilitate capital raising by start-ups and SMEs, we do not think it is necessary or appropriate to allow complex securities, such as derivatives and securitized products, to be offered under the exemption. We have identified types of securities that may be offered under the exemption rather than try to define a category of “novel” or “complex” securities that would be excluded.

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	<ul style="list-style-type: none"> ○ units of a limited partnership, and ○ flow-through shares under the <i>Income Tax Act</i> (Canada). <ul style="list-style-type: none"> ● All of the securities offered in a crowdfunding distribution must have the same price, terms and conditions. 	<ul style="list-style-type: none"> ● We have included flow-through shares as they are frequently associated with government tax incentives. We think start-ups and SMEs should be able to take advantage of these incentives. ● Few comments were received on the Consultation Paper regarding the types of securities that could be offered through crowdfunding and these comments were largely supportive of the proposal that included the first four securities included in the list of securities in this proposed framework.
2. Distribution details – seller		
Who can issue securities under the exemption	<ul style="list-style-type: none"> ● The exemption is limited to distributions by an issuer of securities of its own issue. 	<ul style="list-style-type: none"> ● We do not think that selling security holders should be permitted to use the exemption. The exemption is intended to facilitate capital raising and not the resale of securities.
2. Distribution details – offering size and other limits and conditions		
Limit on offering size	<ul style="list-style-type: none"> ● There is a \$1.5 million limit on the aggregate amount that can be raised under the exemption by the issuer group in a specified time period. ● The issuer group includes the issuer, an affiliate of the issuer, and any other issuer that is engaged in a common enterprise with the issuer or with an affiliate of the issuer. ● The sum of the following must not exceed \$1.5 million: <ul style="list-style-type: none"> ○ the aggregate proceeds to be raised by the issuer in its current distribution under the exemption, 	<ul style="list-style-type: none"> ● As the exemption is focused on financing for start-ups and SMEs, we think a distribution limit of \$1.5 million is appropriate. ● Commenters on the Consultation Paper generally supported imposing an offering limit as a means of limiting risk and because the exemption is focused on start-ups and SMEs. However, the commenters had differing views on what the dollar amount of the offering limit should be. ● We have sought specific comment on whether this limit is appropriate.

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	<ul style="list-style-type: none"> ○ the aggregate proceeds to be raised under a concurrent distribution under the exemption by any issuer in the issuer group, and ○ the aggregate proceeds received by the issuer group under distributions under the exemption during the 12-month period immediately preceding the beginning of the issuer’s current distribution under the exemption. 	
Anti-avoidance in application of offering limit	<ul style="list-style-type: none"> ● The imposition of the offering limit on the aggregate proceeds raised by the issuer group, rather than only by the issuer, is intended to prevent the \$1.5 offering limit from being circumvented. ● In addition, disclosure is required of all current, previously closed, and failed distributions made under the exemption by each issuer that comprises the issuer group. (see item 5 - <i>Disclosure - content of point of sale disclosure - Required disclosure</i>). 	<ul style="list-style-type: none"> ● We think the imposition of the \$1.5 million offering limit on the issuer group will mitigate attempts to circumvent the limit on distribution size. ● In addition, the required disclosure will help investors make informed investment decisions.
Offering size and conditions to complete distribution	<ul style="list-style-type: none"> ● An issuer’s offering document for a crowdfunding distribution must disclose the minimum number or principal amount of securities being offered, and whether there is a maximum number or principal amount of securities being offered. ● A crowdfunding offering must not be completed unless: <ul style="list-style-type: none"> ○ the minimum amount of funds to be raised under the exemption, as disclosed in the crowdfunding offering document, has been subscribed for, and ○ at the time of completion of the offering, the issuer has financial resources sufficient to: (a) 	<ul style="list-style-type: none"> ● Requiring that these two conditions be satisfied before a crowdfunding offering can be completed will provide an element of investor protection, as an investor will know the minimum amount of proceeds that will be raised under the offering and will have some assurance that, on completion of the offering, the issuer will have financial resources sufficient to achieve the next milestone set out in its written business plan or to carry out the activities set out in its written business plan.

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	<p>achieve the next milestone set out in its written business plan, or (b) if the issuer does not have any milestones set out in its written business plan, to carry out the activities set out in its written business plan.</p> <ul style="list-style-type: none"> • A portal must ensure that a crowdfunding offering is not completed until these conditions have been satisfied. 	
Sufficient financial resources to achieve next milestone/carry out activities in business plan	<ul style="list-style-type: none"> • As noted above, a crowdfunding offering cannot be completed unless, at the time of completion of the offering, the issuer has financial resources sufficient to: (a) achieve the next milestone set out in its written business plan, or (b) if the issuer does not have any milestones set out in its written business plan, to carry out the activities set out in its written business plan. • The financial resources necessary to satisfy this requirement may include: <ul style="list-style-type: none"> ○ the net proceeds of the offering, ○ the net proceeds raised by the issuer from any distribution under a prospectus exemption other than the crowdfunding exemption, and ○ any other financial resources of the issuer. 	<ul style="list-style-type: none"> • Permitting the net proceeds raised by the issuer from a distribution under a prospectus exemption other than the crowdfunding exemption to be included in the determination as to whether this requirement has been satisfied will permit an issuer to satisfy the requirement as quickly as possible.
Ability to offer additional securities	<ul style="list-style-type: none"> • An issuer can offer more than the number of securities initially proposed to be offered in its offering document if it has disclosed the maximum number of securities that could be offered under the exemption and the use of proceeds for the additional proceeds that would be raised. • However, the \$1.5 million limit on the aggregate amount that can be raised under the exemption by the issuer 	<ul style="list-style-type: none"> • This approach will allow an issuer to raise additional funds to allocate to the advancement of its business plan if there is strong investor interest in the offering, subject to the overall distribution limit of \$1.5 million. • No comments were received on the Consultation Paper that focused directly on this provision. However, three commenters were not in favour of setting limits on the size of an offering.

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	group in a specified time period must be complied with.	
2. Distribution details – length of time an offering can remain open		
Length of time an offering can remain open	<ul style="list-style-type: none"> • An issuer’s offering document must disclose how long the offer will remain open. • A crowdfunding offering cannot remain open for more than 90 days. • If an issuer cannot complete a crowdfunding offering within 90 days, it must withdraw it. The issuer can commence a new crowdfunding offering after the 90 day period. 	<ul style="list-style-type: none"> • Similar to the prospectus regime, a 90 day limit on the length of time an offering can remain open will help to ensure that the information in the offering document does not become stale (see item 5 – <i>Disclosure</i>). • We have sought specific comment on whether an issuer should be able to extend the length of time an offering could remain open if subscriptions have not been received for the minimum offering and, if so, whether there should be a minimum percentage of the minimum offering that must have been received to do so.
2. Distribution details – restrictions or requirements imposed on principals of issuer		
Requirement for investment by principals in an issuer	<ul style="list-style-type: none"> • The principals of an issuer seeking to raise capital under the exemption are not required to invest their own money in a venture before making an offering to the public. • However, an issuer must disclose: <ul style="list-style-type: none"> ○ whether or not the principals own securities of the issuer, ○ if so, the number and type of the securities and how much the principals paid for them, ○ whether or not the securities are subject to an escrow or hold period, and ○ if so, details of the escrow or hold period. • See item 5 - <i>Disclosure – contents of point of sale disclosure – Required disclosure.</i> 	<ul style="list-style-type: none"> • Requiring the principals of a business to invest their own money in the issuer would align their interests with those of other investors in the issuer. • We do not think the principals of an issuer seeking to raise capital under the exemption should be required to invest their own money in a venture before using this exemption. One of the principal purposes of the exemption is to enable an entrepreneur to finance a start-up where he or she does not have the personal financial resources to do so. • However, requiring an issuer to disclose whether or not the principals own securities of the issuer, the number and type of the securities, how much

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		the principals paid for the securities, whether or not the securities are subject to an escrow or hold period and details of any escrow or hold period will help investors make informed investment decisions.
Escrow requirements	<ul style="list-style-type: none"> There is no escrow requirement for principals¹ of an issuer who are not otherwise caught by National Policy 46-201 <i>Escrow for Initial Public Offerings</i>. 	<ul style="list-style-type: none"> Requiring an escrow would be a significant departure from the approach taken in the exempt market, as there are no escrow requirements for issuers that rely on other prospectus exemptions. The principal regulatory objective of an escrow is to tie in an issuer's principals for a period of time following the issuer's initial offering to give them an incentive to devote their time and attention to the issuer's business. Securities of a non-reporting issuer are subject to an indefinite hold period, so principals are very limited as to whom they can sell securities. Even for a reporting issuer, a four-month hold period is imposed, which limits the possibility for immediate exit by principals.
2. Distribution details – portals		
Requirement to offer securities through registered funding portal	<ul style="list-style-type: none"> An issuer must offer its securities through a registered funding portal. See <i>Regulatory framework for crowdfunding – key provisions of the</i> 	<ul style="list-style-type: none"> Requiring that all crowdfunding offers be made through a registrant will provide a measure of investor protection.

¹ "Principal" is defined in NP 46-201 as (a) a person or company who acted as a promoter of the issuer within two years before an IPO prospectus, (b) a director or senior officer of the issuer or any of its material operating subsidiaries at the time of an IPO prospectus, (c) a person or company that holds securities carrying more than 20% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO, (d) a person or company that (i) holds securities carrying more than 10% of the voting rights attached to the issuer's outstanding securities immediately before and immediately after the issuer's IPO and (ii) has elected or appointed, or has the right to elect or appoint, one or more directors or senior officers of the issuer or any of its material operating subsidiaries.

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	<p><i>proposed regulation of a portal.</i></p> <ul style="list-style-type: none"> The intermediary must be registered in the category of restricted dealer. 	
Ability to offer securities through multiple portals	<ul style="list-style-type: none"> An issuer can only offer its securities under the exemption on one portal during the distribution period established by the issuer. 	<ul style="list-style-type: none"> All relevant information should be included in one place (i.e., the portal's website) for ease of investor reference and to facilitate the exchange of information and views that is conducive to eliciting the "wisdom of the crowd". It will also make it easier to monitor both the distribution and investment limits.
2. Distribution details – promotion of offering		
Compensation of persons promoting the offering	<ul style="list-style-type: none"> Disclosure must be provided about any person or entity promoting the offering. An issuer may not, directly or indirectly, pay a commission, finder's fee, referral fee or similar payment to any person in connection with an offering under the exemption, other than to a portal. This restriction does not apply to payments to persons as compensation for their services to an issuer in preparing materials in connection with an offering under the exemption, such as accounting or legal fees. 	<ul style="list-style-type: none"> We think that prohibiting any form of payment to persons in connection with an offering under the exemption will mitigate potential conflicts of interest.

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2. Distribution details – reporting of distribution		
Requirement for report of exempt distribution	<ul style="list-style-type: none"> A report of exempt distribution on proposed Form 45-106F11 <i>Report of Exempt Distribution for Issuers other than Investment Funds (Alberta, New Brunswick, Ontario and Saskatchewan)</i> must be filed for a distribution made under the exemption within 10 days of completion of the distribution. 	<ul style="list-style-type: none"> Requiring a report of exempt distribution is consistent with the approach taken for other prospectus exemptions. The information derived from these reports will help us to effectively oversee the market and inform any future policy development regarding the exemption.
3. Integration - crowdfunding distributions and distributions made under other exemptions		
Application of offering limit under the crowdfunding exemption to capital raised concurrently under other exemptions	<ul style="list-style-type: none"> The net proceeds raised by the issuer from a distribution under a prospectus exemption other than the crowdfunding exemption can be included in the determination as to whether the issuer has satisfied the requirement that, at the time of completion of a crowdfunding offering, the issuer has financial resources sufficient to: (a) achieve the next milestone set out in its written business plan, or (b) if the issuer does not have any milestones set out in its written business plan, to carry out the activities set out in its written business plan. However, the proceeds from the distribution under that other prospectus exemption would not be included in the calculation as to whether there has been compliance with the \$1.5 million offering limit under the crowdfunding exemption. 	<ul style="list-style-type: none"> We consider the range of prospectus exemptions available to an issuer to be complementary, so that an issuer can use different exemptions to raise capital provided that the terms of the exemptions are complied with. For example, an issuer may use other available prospectus exemptions (such as the accredited investor exemption) in addition to the proposed crowdfunding exemption. We do not want to restrict an issuer's options for raising capital in the exempt market.
Type and terms of securities distributed under the crowdfunding exemption vs. securities distributed concurrently under other exemptions	<ul style="list-style-type: none"> If an issuer distributes securities under other exemptions (such as the accredited investor exemption) during the period beginning at the commencement of the crowdfunding offering and ending one month after the distribution date 	<ul style="list-style-type: none"> This requirement is intended to promote fairness to investors by prohibiting an issuer from offering securities during the prescribed period at different prices, or with different terms and conditions, than those being distributed under the exemption.

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	(prescribed period), the securities must have the same price, terms and conditions as those distributed under the crowdfunding exemption.	<ul style="list-style-type: none"> Limiting the prescribed period to one month following the distribution date is appropriate because once an issuer receives the funds, the value of the issuer or its operations could quickly change, thus justifying offering securities at different prices or with different terms and conditions than those that were distributed under the crowdfunding exemption.
3. Integration – combining securities and non-securities rewards and perks in a crowdfunding offering		
Combining securities and non-securities rewards and perks in a crowdfunding offering	<ul style="list-style-type: none"> An issuer can combine securities and non-securities rewards and perks in a crowdfunding offering. An issuer must describe in the offering document any non-securities rewards or perks that are being offered and on what terms. 	<ul style="list-style-type: none"> Permitting an issuer to combine securities and non-securities rewards and perks in a crowdfunding offering will enable the issuer to derive the benefits of both securities-based and non-securities-based crowdfunding. Non-securities-based crowdfunding has been cited as contributing to consumer and investor loyalty, product development, and marketing. As a result, combining securities and non-securities rewards and perks in a crowdfunding offering may result in a better investment opportunity for investors without detracting from investor protection.
4. Investors – investment limits		
Investment limits	<ul style="list-style-type: none"> An investor is not permitted to invest: <ul style="list-style-type: none"> more than \$2,500 in a single investment under the exemption, or more than \$10,000 in total under the exemption in a calendar year. 	<ul style="list-style-type: none"> Having low investment limits minimizes an investor’s exposure. Specified maximum dollar amounts are easier to administer than an approach that requires calculations based on an investor’s annual income or net worth. In addition, it avoids the concern that investors may be unwilling to share their tax

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		<p>returns or other personal financial information with issuers or portals to establish they are investing within the prescribed limits.</p> <ul style="list-style-type: none"> • Most commenters on the Consultation Paper were in favour of imposing investment limits, but there were differing views as to what the dollar amount of the limits should be. Further, a few commenters thought that an investor’s annual income and/or net worth should play a role in determining investment limits. • In spring 2013, The Brondesbury Group was retained by the OSC to conduct a survey to gain insight into retail investors’ views on investing in start-ups and SMEs (Investor Survey). • Responses to the Investor Survey indicated that four out of 10 investors would invest less than \$1,000 through crowdfunding and a further four out of 10 would invest between \$1,000 and \$4,999. Only two out of 10 investors would invest \$5,000 or more in a crowdfunding offering. • We are not proposing to require that these amounts be adjusted for inflation. • We have sought specific comment on whether there should be separate investment limits for accredited investors who invest through the portal. An accredited investor can invest an unlimited amount in the issuer under the accredited investor exemption.

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Applicability of investment limits to accredited investors	<ul style="list-style-type: none"> • An accredited investor that purchases securities under the crowdfunding exemption is subject to the same investment limits as other investors. However, an issuer can distribute securities to the accredited investor under the accredited investor exemption simultaneously with the distribution of securities under the crowdfunding exemption. In so doing, the issuer must comply with all applicable requirements under both exemptions, including the requirement that the securities distributed under the accredited investor exemption during the prescribed period have the same price, terms and conditions as those distributed under the crowdfunding exemption. 	<ul style="list-style-type: none"> • We think that compliance reviews will be easier to conduct with only one set of investment limits for all investors based on specified dollar amounts. • We think that issuers should be able to use more than one prospectus exemption at the same time to raise capital. We think it should be possible for an accredited investor to make a contemporaneous investment in securities of the issuer under the accredited investor exemption at the same time as other investors invest through the portal under the crowdfunding exemption.
Monitoring of compliance with investment limits	<ul style="list-style-type: none"> • With each investment, an investor must self-certify that he or she: <ul style="list-style-type: none"> ○ is not investing more than \$2,500 in the particular investment through the portal, and ○ will not have invested more than \$10,000 in investments under the exemption in the current calendar year after taking into account the current investment. • A portal is responsible for verifying that the investor: <ul style="list-style-type: none"> ○ is not investing more than \$2,500 in the particular investment, and ○ will not have invested more than \$10,000 in investments under the exemption made through the portal in the current calendar year after taking into account the current investment. • For more information, see item 8 - <i>Investor education and screening</i> in the <i>Regulatory</i> 	<ul style="list-style-type: none"> • We think that self-certification bolstered by a portal monitoring compliance by the investor with the investment limits based on investments made by the investor through the portal is a reasonable and practical approach.

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	<i>framework for crowdfunding – key provisions of the proposed regulation of a portal.</i>	
4. Investors – use of leverage to finance investment		
Restrictions on investors’ ability to borrow money to finance the purchase of securities under the exemption	<ul style="list-style-type: none"> • An issuer, a portal, and their respective directors and executive officers must not lend or finance, or arrange lending or financing (e.g., from an affiliate), for an investor to purchase securities of the issuer under the exemption. 	<ul style="list-style-type: none"> • This approach will help to address concerns associated with retail investors using leverage to invest through crowdfunding. • Prohibiting a potential investor from borrowing money to finance the purchase of securities under the exemption would be overly intrusive and difficult to enforce.
4. Investors – risk acknowledgement form		
Risk acknowledgement form	<ul style="list-style-type: none"> • At or before the time an investor enters into an agreement to purchase the security, the issuer must obtain a signed risk acknowledgement form from the investor in which the investor confirms that the investor falls within the investment limits and acknowledges the risks associated with the investment, including the following: <ul style="list-style-type: none"> ○ it is a very risky investment, ○ the investor could lose all of the money they invest, ○ the investor may never be able to sell the securities, ○ the investor will be provided with less disclosure than public companies provide, ○ the investor will not have the benefit of protections associated with an investment made under a prospectus, ○ borrowing money increases the risk of an investment, and ○ the portal will not be responsible if the investor 	<ul style="list-style-type: none"> • Requiring that an investor sign a risk acknowledgement form may help to alert the investor to the risks of the investment, including that the investor may lose his or her entire investment.

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	<p>loses all or some of the money they invest.</p> <ul style="list-style-type: none"> • The risk acknowledgement form may be signed by an online signature. • The issuer must retain the signed risk acknowledgement form for eight years after the distribution. 	
4. Investors – rights		
Right of withdrawal	<ul style="list-style-type: none"> • An issuer that offers securities under the exemption must provide an investor with a contractual right to withdraw an offer or agreement to purchase the security by delivering a notice to the issuer within at least 48 hours prior to the date of completion of the distribution disclosed in the issuer’s offering document. • See item 2 - <i>Distribution details – period of distribution – Length of time a distribution can remain open.</i> 	<ul style="list-style-type: none"> • A right of withdrawal will provide an investor with a “cooling off” period to consider the disclosure provided and reflect on his or her investment decision. • Limited comments were received on the Consultation Paper on this issue. These comments, however, were generally supportive of including a right of withdrawal.
Shareholder rights and protections (e.g., tag-along, pre-emptive rights)	<ul style="list-style-type: none"> • There is no requirement to provide crowdfunding investors with shareholder rights, such as tag-along or pre-emptive rights. • However, an issuer must disclose the specific risks to investors if such rights are not provided. Further, the risk acknowledgement form to be signed by investors will identify the potential risks which may arise. 	<ul style="list-style-type: none"> • Commenters on the Consultation Paper expressed differing views about requiring these rights. Some thought they should be applied at the discretion of the issuer while others questioned the practicality of one or more of these rights in the context of a crowdfunding offering. • We think issuers should have the flexibility to structure their transactions in a way that suits their circumstances. However, we also think that issuers should be required to disclose the specific risks to investors if such rights are not provided.

Issue	Proposed crowdfunding prospectus exemption	Comments
		<ul style="list-style-type: none"> A portal may, in its discretion, impose requirements for the granting by the issuer of such rights to investors.
4. Investors – ability to resell securities		
Resale restrictions	<ul style="list-style-type: none"> Securities acquired through crowdfunding cannot be resold until the issuer becomes a reporting issuer, unless the sale is made under another prospectus exemption (other than the crowdfunding exemption). Securities of a reporting issuer acquired through crowdfunding are subject to a four month hold period. 	<ul style="list-style-type: none"> Permitting the resale of securities sold under a prospectus exemption (other than a sale made under another prospectus exemption) before an issuer becomes a reporting issuer and is therefore subject to continuous and timely disclosure requirements would be inappropriate and a significant departure from current policy.
5. Disclosure – management certification and liability attached to materials		
Management certification of offering document	<ul style="list-style-type: none"> A crowdfunding offering document must contain a certificate signed by the issuer. The certificate must state that: <ul style="list-style-type: none"> the offering document does not contain a misrepresentation, and investors have rights of action and withdrawal in the case of a misrepresentation. A misrepresentation is as defined in securities law. 	<ul style="list-style-type: none"> Requiring that an issuer certify its offering document will: <ul style="list-style-type: none"> make management and directors accountable for the disclosure, and make investors aware of their rights of action. See the discussion below in item 5 - <i>Disclosure – management certification and liability attached to materials – Rights of action and standard of liability for offering documents and other materials.</i>
Rights of action and standard of liability for offering documents and other materials	<ul style="list-style-type: none"> If a comparable right is not provided by the securities legislation of the jurisdiction in which an investor resides, the issuer must provide a contractual right of action for rescission or damages (if such investor no longer holds the security) in the event of a misrepresentation in any written or other materials that are made available to the purchaser (including video). 	<ul style="list-style-type: none"> It is important for market confidence that investors have a contractual right to sue for misrepresentation. We will consider preparing policy guidance on how issuers can satisfy the due diligence defence. For example, OSC Policy 51-604 <i>Defence for Misrepresentations in Forward-Looking Information</i>

Issue	Proposed crowdfunding prospectus exemption	Comments
	<ul style="list-style-type: none"> The right of action applies to the issuer, management, and any director who has certified the issuer's disclosure. As a condition of the exemption, the issuer must provide a contractual right of action for rescission or damages to each investor and security holder in the event of a misrepresentation. Issuers, management, directors, and portals must have a due diligence defence as well as a defence that the investor knew of the misrepresentation. 	<p>contains OSC guidance on satisfying the statutory defence for misrepresentations in forward-looking information.</p> <ul style="list-style-type: none"> We have sought specific comment on the potential impact that this standard of liability would have on the length and complexity of offering documents. Currently, the statutory right to sue in the event of a misrepresentation contained in s. 130.1 of the <i>Securities Act (Ontario) (Act)</i> only applies to an offering memorandum delivered to an investor in connection with a distribution under a limited number of specified exemptions. We are proposing that the crowdfunding exemption be designated as an exemption to which s. 130.1 of the Act would apply.
5. Disclosure – format of disclosure		
Prescribed format for disclosure	<ul style="list-style-type: none"> No specific format for disclosure is required. 	<ul style="list-style-type: none"> We are concerned that prescribing the format of disclosure could detract from the objective of streamlined disclosure that is necessary for crowdfunding to be a cost effective means of raising capital.
5. Disclosure – content of point of sale disclosure		
General commentary	<ul style="list-style-type: none"> The disclosure in an issuer's offering document (referred to item 5 – <i>Disclosure - content of point of sale disclosure - Required disclosure</i>) should be streamlined and focus on material information that is relevant to the issuer's business and an investment in the securities offered. 	<ul style="list-style-type: none"> For crowdfunding to be a viable method of raising capital, investors must be provided with appropriate information to make informed investment decisions without imposing excessive costs on issuers. This is consistent with the disclosure requirements in other areas of securities law.

Issue	Proposed crowdfunding prospectus exemption	Comments
Required disclosure	<ul style="list-style-type: none"> • An issuer must make the offering document available to an investor through the portal at or before the time the investor enters into an agreement to purchase the security. • The offering document requires disclosure under the following headings: <ul style="list-style-type: none"> ITEM 1 – REQUIRED STATEMENTS 1.1 Warning to investors ITEM 2 – FINANCING FACTS 2.1 Offering summary 2.2 Description of securities offered and relevant rights 2.3 Ability to resell securities 2.4 Right of action for misrepresentation and right of withdrawal 2.5 Concurrent offerings 2.6 Use of proceeds 2.7 Ability to achieve next milestone or business plan 2.8 Other crowdfunding offerings 2.9 Persons promoting and marketing the offering ITEM 3 – ISSUER FACTS 3.1 Business of the issuer 3.2 Principal risks facing the business 3.3 Financial information 3.4 Ongoing information 3.5 Mining issuer disclosure 3.6 Capital structure 3.7 Executive officers, directors and other principals 3.8 Management compensation 	<ul style="list-style-type: none"> • Investors will require appropriate disclosure to make an informed investment decision. • The disclosure must be straightforward for the issuer to prepare and for the investor to understand. We do not intend that the point of sale offering document be overly lengthy or complicated. • Commenters on the Consultation Paper generally agreed that some form of disclosure should be required at the point of sale. Although most commenters broadly supported the proposed content of that disclosure, some expressed differing views about the content and extent of the disclosure that should be required. • We do not think disclosure of how the issuer was valued or the offering price was determined should be required since it is difficult to value start-ups or early stage issuers. However, a few commenters supported requiring this disclosure.

Issue	Proposed crowdfunding prospectus exemption	Comments
	<p>3.9 Related party transactions 3.10 Other relevant information</p> <p>ITEM 4 – REGISTRANT FACTS 4.1 Registered funding portal</p> <p>ITEM 5 – CONTACT INFORMATION 5.1 Contact information for the issuer 5.2 Contact information for the registered funding portal</p> <p>CERTIFICATE</p>	
Financial information and attestation requirements	<ul style="list-style-type: none"> • A non-reporting issuer must include certain financial information in its offering document and must prepare annual financial statements and make them available to each holder of its securities that were acquired under the exemption. See Appendix 1 – <i>Disclosure of financial information for non-reporting issuers</i>. • Reporting issuers must comply with existing continuous disclosure obligations under securities law. 	<ul style="list-style-type: none"> • Respondents to the Investor Survey considered the following three types of information about a start-up or SME that raises capital through crowdfunding to be particularly important: <ul style="list-style-type: none"> ○ financial information about the issuer, ○ yearly information about how the issuer is doing, and ○ how the issuer will use the money it receives from investors. • Results from the Investor Survey also showed that three-quarters of those respondents interested in crowdfunding would want financial information about an issuer, and a significant majority of the respondents would prefer financial information that had been verified by an independent source (for example, by an independent accounting firm or through tax returns). • However, we are cognizant of the cost to issuers of being required to provide financial statements that are audited or accompanied by a review report. • We have sought specific comment on this issue.

Issue	Proposed crowdfunding prospectus exemption	Comments
5. Disclosure – advertising and marketing materials		
Use of marketing materials	<ul style="list-style-type: none"> • The only materials (offering materials) that may be made available to potential investors in connection with a crowdfunding offering are: <ul style="list-style-type: none"> ○ the issuer’s offering document, ○ a document that is described in the offering document such as the issuer’s business plan or shareholders’ agreements, and ○ a term sheet or other summary, including a video, of the information that is included in the offering document. • The offering materials must be made available to potential investors through the website of the portal through which the distribution will be made. • The offering document cannot be posted on any other website. • The issuer must electronically deliver a copy of the offering materials to the regulator at the time they are posted on the website of the portal. • An issuer, portal and any other person involved with an offering under the exemption may: <ul style="list-style-type: none"> ○ make the offering materials available to potential investors, and ○ advise potential investors, including customers and clients of the issuer, that the issuer is proposing to offer its securities under the exemption and refer the potential investors to the website of the portal through which the offering will be made. This advice may be provided in paper format or through the use of social media. 	<ul style="list-style-type: none"> • We do not consider materials, other than the offering materials, to be necessary for a crowdfunding offering. Crowdfunding offerings will primarily be conducted online via the portal’s website. • All relevant information should be available in one place (i.e., the portal’s website) for ease of investor reference and to facilitate the exchange of information and views that is conducive to eliciting the “wisdom of the crowd”. • We think it is important that the regulator receive the required disclosure documents in electronic format, as is required for documents filed with the OSC. • We also think it is important that the disclosure documents be accessible to the regulator to facilitate regulatory oversight and to members of the public considering making an investment to help those investors make informed investment decisions. • We have sought specific comment on how disclosure documents delivered by non-reporting issuers can best be made accessible and to whom they should be accessible. • We think that all offering materials should be subject to the same level of liability. • There are no restrictions on an issuer dealing with or making information available to investors who have participated in a crowdfunding offering. • We have sought specific comment on whether the

Issue	Proposed crowdfunding prospectus exemption	Comments
	<ul style="list-style-type: none"> In addition, a portal may advertise the fact that an offering under the exemption is being made to potential investors through the portal. Other than as described above, an issuer, portal and any other person involved with an offering under the exemption must not advertise the offering or solicit potential investors. 	<p>proposed restrictions on general solicitation and advertising are appropriate.</p>
5. Disclosure – ongoing disclosure		
Ongoing disclosure	<p>Reporting issuers</p> <ul style="list-style-type: none"> A reporting issuer must provide ongoing continuous disclosure in accordance with securities law requirements. Reporting issuers must file all disclosure documents on SEDAR. <p>Non-reporting issuers</p> <ul style="list-style-type: none"> A non-reporting issuer must electronically deliver its annual financial statements to the regulator and make them available to each investor as more fully set out in Appendix 1 – <i>Disclosure of financial information for non-reporting issuers</i>. The financial statements of a non-reporting issuer must be accompanied by a notice of the issuer that discloses how the gross proceeds of a crowdfunding distribution have been expended. An issuer is no longer required to provide this notice if it has disclosed in one or more prior notices the actual use of the entire gross proceeds from the distribution, or if it is no longer required to deliver and make available annual financial statements. 	<ul style="list-style-type: none"> Certain ongoing disclosure is necessary for investors to be able to make informed investment decisions or discern how an issuer or investment has performed. The requirement to provide ongoing disclosure also imposes a level of accountability on an issuer and its executive officers and directors. We note that it will be a novel approach in Canada to require that a non-reporting issuer provide ongoing disclosure. However, since the exemption will allow issuers to raise money from a large number of retail investors, we think that requiring certain limited ongoing disclosure is appropriate. Commenters on the Consultation Paper were generally supportive of requiring non-reporting issuers to provide ongoing disclosure although there were differing views as to the form, frequency and content of that disclosure. We have not proposed that non-reporting issuers be required to provide timely disclosure of material

Issue	Proposed crowdfunding prospectus exemption	Comments
	<ul style="list-style-type: none"> • A non-reporting issuer must make available to the holders of its securities acquired under the exemption within 10 days of the occurrence of each of the following events, a notice of the event: <ul style="list-style-type: none"> ○ a fundamental change in the nature, or a discontinuation, of the issuer’s business, ○ a material change to the issuer’s capital structure, ○ a major reorganization, amalgamation or merger involving the issuer, ○ a take-over bid, issuer bid or insider bid involving the issuer, ○ a significant acquisition or disposition of assets, property or joint venture interests, ○ changes to the issuer’s board of directors or executive officers, including the departure of the issuer’s chief executive officer, chief financial officer, chief operating officer or president or persons acting in similar capacities. • A non-reporting issuer remains subject to the foregoing disclosure obligations until the earliest of the following events: <ul style="list-style-type: none"> ○ the issuer becomes a reporting issuer, ○ the issuer ceases to carry on business, and ○ securities of the issuer are beneficially owned, directly or indirectly, by fewer than 51 security holders worldwide that acquired such securities under the exemption. 	<p>changes on an ongoing basis. However, we propose to require that they disclose specified material events in their ongoing disclosure.</p>

Issue	Proposed crowdfunding prospectus exemption	Comments
Books and records	<ul style="list-style-type: none"> • An issuer that is not a reporting issuer that distributes securities under the exemption must maintain the following books and records: <ul style="list-style-type: none"> ○ the offering document and other offering materials set out under item 5 - <i>Disclosure - advertising and marketing materials - Use of marketing materials,</i> ○ completed risk acknowledgement forms, ○ the ongoing disclosure documents for non-reporting issuers set out under item 5 - <i>Disclosure - ongoing disclosure - Ongoing disclosure,</i> ○ the number of securities issued by the issuer under the exemption, and the date of issuance and the price per security, and ○ the names of all security holders of the issuer, together with the number and the type of securities held by each security holder. 	<ul style="list-style-type: none"> • An issuer needs to maintain books and records to generate financial statements and other ongoing disclosure. • We think that requiring an issuer to maintain books and records will impose a level of accountability on issuers and their executive officers and directors.

Appendix 1

Disclosure of financial information for non-reporting issuers

Status of issuer	Financial information	Frequency and level of assurance
Point of sale		
Issuer has not incurred any expenditures and its only asset is cash	Disclosure of amount of cash in point of sale disclosure	Third party confirmation of cash in bank account or held in trust
Issuer has incurred some expenditures but has not yet achieved financial threshold ¹	Complete set of annual financial statements ²	Annual: review by independent public accounting firm ³
Issuer has achieved financial threshold ¹	Complete set of annual financial statements ²	Annual: audit ³
Ongoing		
Issuer has incurred some expenditures but has not yet achieved financial threshold ¹	Complete set of annual financial statements ² Notice disclosing use of proceeds ⁴	Annual: review by independent public accounting firm ³
Issuer has achieved financial threshold ¹	Complete set of annual financial statements ² Notice disclosing use of proceeds ⁴	Annual: audit ³

¹For purposes of this framework, financial threshold means the issuer has raised more than \$500,000 under the crowdfunding exemption or any other prospectus exemption since its formation, and has expended more than \$150,000 since that time. In determining the proposed threshold on which to base financial reporting requirements, we considered a range of options including industry-specific thresholds. However, we concluded that these other thresholds would be overly complicated and, in many instances, subject to broad interpretation. We have therefore proposed a financial threshold that is objective and applicable to all non-reporting issuers that rely on the exemption. The amount of capital an issuer has raised is intended to serve as a proxy for the size of the issuer and the amount it has expended as a proxy for its level of activity. We have sought specific feedback as to whether these are appropriate parameters on which to base the financial reporting requirements and whether the dollar amount specified for each parameter is appropriate. A portal has the discretion to require an issuer to make further financial disclosure.

²Includes financial statements covering the shorter of the issuer's two most recently completed fiscal years or the period since the inception of its business.

³An issuer would be required to provide its security holders with annual financial statements within 120 days from the end of its fiscal year.

⁴The ongoing financial statements of a non-reporting issuer must be accompanied by a notice of the issuer that discloses how the gross proceeds of a crowdfunding distribution have been expended. An issuer is no longer required to provide this notice if it has disclosed in one or more prior notices the actual use of the entire gross proceeds from the distribution, or if it is no longer required to deliver and make available annual financial statements.