

Annex C

Blackline showing changes to Companion Policy 45-108CP *Crowdfunding* published for comment March 20, 2014

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PREAMBLE TO COMPANION POLICY

Purpose of this Companion Policy

This Companion Policy sets out how the participating members of the Canadian Securities Administrators (**CSA**) (the “**participating CSA members**” or “**we**”) interpret or apply the provisions of Multilateral Instrument 45-108 *Crowdfunding* (the “**Instrument**”), including the required forms, and related securities legislation.

The Instrument provides

- (a) in Part 2, a prospectus exemption for eligible crowdfunding issuers that wish to make a crowdfunding offering in accordance with the regime described in the Instrument~~distribution~~,
- (b) in Part 3, the ~~principal~~ registration requirements, for funding portals, and
- ~~(b)(c)~~ in Part 4, who can grant exemptions ~~and ongoing obligations that apply to a funding portal that wishes to act as an intermediary in a crowdfunding offering in accordance with the regime described in~~from the Instrument, ~~and,~~
- (c) in Part 4, the reporting requirements for eligible crowdfunding issuers and registered funding portals that make a crowdfunding offering in accordance with the regime described in the Instrument.

Numbering system

References to the Instrument

Except for ~~this preamble, the numbering of~~Part 1, all references in this Companion Policy to parts, divisions and sections ~~in this Companion Policy corresponds~~are to the ~~numbering in the~~ Instrument, unless otherwise noted. Any general guidance for a part or a division appears immediately after the reference to that part or division name. Any specific guidance on sections in the Instrument follows any general guidance. If there is no guidance for a part, division or section, the numbering in this Companion Policy will skip to the next provision that does have guidance.

~~All references in this Companion Policy to parts, divisions and sections are to the Instrument, unless otherwise noted.~~

Meaning

Models of crowdfunding

Crowdfunding is a method of funding a project or venture through ~~small~~ amounts of money raised from ~~a potentially large number~~members of ~~people~~the public over the internet via an ~~internet~~online portal ~~acting as intermediary~~. There are at least ~~five models~~four examples of crowdfunding models:

- (a) the donation model, which is the practice of the crowd donating to a project or venture in exchange for nothing of tangible value;
- (b) the reward model, which is the practice of the crowd donating to a project or venture in exchange for some tangible reward, perk or ~~a “perk”~~benefit;

- (c) the pre-purchase model, which is the practice of the crowd donating to a project or venture in exchange for a future tangible reward, such as a consumer product; and
- ~~(d) — the peer-to-peer lending model, which is the practice of an online intermediary facilitating money lending between individuals to fund a project or a business, usually in the form of unsecured personal loans;~~
- ~~(e)~~(d) the securities-based model, which is the practice of the crowd investing in an issuer and its business in exchange for the issuer's securities, which are often equity securities but may include other types of securities, including debt securities.

Applicability of securities legislation

In this Companion Policy, when we refer to a “crowdfunding offering”, we are referring to ~~an offering (a distribution)~~ of securities made in reliance on the crowdfunding prospectus exemption through a registered funding portal as described in the Instrument.

Applicability of securities legislation

Crowdfunding activities that are limited to the donation model, reward model and/or pre-purchase model generally will not constitute or involve a distribution of securities. However, crowdfunding offerings ~~based on the peer-to-peer lending model and using~~ the securities-based model will generally involve an offering of securities. ~~As a result, issuers~~Issuers that wish to make a crowdfunding offering ~~based on the peer-to-peer lending model or using~~ the securities-based model will generally always be subject to ~~the prospectus requirement in securities legislation or be required to limit their offering to accredited investors or other investors who are eligible to purchase securities in the “exempt market”.~~

Securities-based and non-securities-based crowdfunding

An issuer may wish to include both securities and non-securities rewards ~~and perks or benefits~~ in a crowdfunding offering. Permitting an issuer to do so may enable an issuer to derive the benefits of both securities-based and non-securities based crowdfunding. ~~Where an An~~ issuer ~~combines securities and non-securities rewards and perks in a crowdfunding offering, it~~ must disclose in item 5.1 of the crowdfunding offering document ~~information about the non-securities~~ a description of any additional rewards ~~and perks that are or benefits~~ being offered. that are not securities.

All distributions and other trades are subject to securities legislation

The securities legislation of a local jurisdiction applies to any distribution of a security in that jurisdiction, whether or not the issuer of the security is ~~a reporting an~~ issuer in that jurisdiction. A person or company who engages in ~~this activity~~ a distribution must comply with the securities legislation of each jurisdiction in which the distribution occurs. That may include the requirement that such person or company be registered under securities legislation.

A funding portal that carries on business in a jurisdiction (either by facilitating offerings of issuers in that jurisdiction and/or by facilitating offerings to investors in that jurisdiction) must be registered in that jurisdiction.

Multi-jurisdictional distributions

A distribution can occur in more than one jurisdiction. If it does, the person or company conducting the distribution must comply with the securities legislation of each jurisdiction in which the distribution occurs. For example, a distribution from a person or company in Québec to a purchaser in Ontario may be considered a distribution in both jurisdictions.

PART 1 DEFINITIONS AND INTERPRETATION

Defined terms used in this Companion Policy have the meaning ascribed to ~~that term~~them in the Instrument unless otherwise noted.

Definitions

~~1. (1) Directors and executive officers – The term “director” is defined in the Instrument and includes, for non-corporate issuers, individuals who perform functions similar to those of a director of a company. Therefore, non-corporate issuers must determine in light of the particular circumstances which individuals or persons are acting in such capacities for the purposes of complying with the Instrument and Form 45-108F1. Terms defined or interpreted in other instruments~~

(1) Director – The term “director” referred to in Part 3 is defined in the provincial securities legislation of each of the participating CSA members.

(2) Officer – The term “officer” referred to in Part 3 is defined in the provincial securities legislation of each of the participating CSA members.

~~Offering Document.~~

~~— The term “executive officer” includes an individual who is performing a policy-making function in respect of the issuer. We would consider an individual who is employed by an entity separate from the issuer, but who performs a policy-making function in respect of the issuer through that separate entity or otherwise, to fit within this definition.~~

~~(2) Distribution period – The Instrument contemplates a distribution period of 90 days. If an issuer cannot complete a crowdfunding distribution within 90 days, the issuer must withdraw it. It can commence a new crowdfunding distribution after the 90-day period.~~

(3) Principal Regulator – A registered dealer funding portal’s Principal Regulator will principal regulator generally will be determined in accordance with section 4A.1.3 of National Multilateral Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103). 11-102 Passport System. This means that the principal regulator will usually be the securities regulatory authority or regulator in the jurisdiction where the ~~registered~~ funding portal’s head office is located.

(4) Registered Funding portal – There are two types of funding portal – A person portals that intends to operate a portal, platform or website to can facilitate offerings made distributions of securities in reliance on the crowdfunding prospectus exemption ~~is required to register~~.

(a) a funding portal registered in the category of restricted dealer and defined in the Instrument as a restricted dealer ~~under NI 31-103~~ funding portal; or

(b) a funding portal registered in the category of investment dealer or exempt market dealer and defined in the Instrument as a registered dealer funding portal.

(a) Restricted dealer funding portal

The restricted dealer category is described in paragraph 7.1(2)(e) of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and permits specialized dealers or other intermediaries with an unconventional business model to carry on a limited trading business, subject to terms and conditions restricting their activities. The restricted dealer funding portal is intended to be a specialized type of restricted dealer with limited permitted dealing activities as described in section 41 [Permitted dealing activities]. Accordingly, the regulatory framework for a restricted dealer funding portal described in Part 3, including the exemptions from certain usual registrant requirements described in subparagraph 21(b)(ii)[Restricted dealer funding portal], is not available to other types of registrants that facilitate the sale of securities through an online portal. A restricted dealer funding portal will not be permitted to obtain dual registration in another registration category.

Except in Ontario, a restricted dealer funding portal may be affiliated with another registered dealer, registered adviser or registered investment fund manager. A restricted dealer funding portal that is affiliated with another registered firm must establish internal controls and appropriate policies and procedures to manage the risks associated with operating an affiliated restricted dealer funding portal. A restricted dealer funding portal should refer to section 13.4 of Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (31-103CP) to consider ways to identify and respond to conflicts of interest, including avoiding the conflict if it is significant and cannot be managed appropriately. In addition, a restricted dealer funding portal should be aware of other CSA guidance on registrant obligations to identify and respond to conflicts of interest.

(b) Registered dealer funding portal

We recognize that other categories of registered dealers, such as investment dealers and advisers exempt market dealers, may wish to operate internet/online portals, platforms or websites that may facilitate distributions of securities in reliance on other prospectus exemptions, such as the accredited investor exemption in section 2.3 of National Instrument 45-106 Prospectus and Registration Exemptions (NI 45-106) or the offering memorandum exemption in section 2.9 of NI 45-106, and may be similar to the registered funding portal concept described in the Instrument. However, the registered funding portal described in the Instrument is intended to be a specialized type of restricted. An investment dealer to or exempt market dealer may facilitate only distributions of securities in reliance on the crowdfunding prospectus exemption described in the Instrument. Accordingly, the regulatory regime for registered funding portals described in the Instrument, including the exemptions from certain usual; however, they are required to comply with all of their registrant requirements described in Part 3 of the Instrument, are not available to other types of registrants that facilitate the sale of obligations under securities through the internet. A registered funding portal will not be permitted to obtain dual registration in another registration category. legislation and Divisions 1 and 2 of Part 3.

- (5) - Registered individual – The term “registered individual” is defined in NI 31-103 and ordinarily refers to an individual who is registered as the ultimate designated person (UDP), chief compliance officer (CCO) or a dealing or advising representative of a registered firm. A registered-restricted dealer funding portal is not permitted to provide recommendations or advice to investors, except as permitted in subsection 33(2) [Prohibition on providing recommendations or advice] of the Instrument. purchasers. Therefore, we do not anticipate that it expect a restricted dealer funding portal will be necessary for require an individual to register/registered as a dealing or advising representative of a registered funding portal.

PART 2
CROWDFUNDING PROSPECTUS EXEMPTION

Division 1: ~~Offering~~Distribution requirements

Reporting and non-reporting issuers – The definition of “eligible ~~Crowdfunding prospectus exemption~~”

~~7. Subsection 7(b) [Crowdfunding prospectus exemption] imposes a \$1.5 million limit on the amount that can be raised under the crowdfunding prospectus exemption by the issuer group during a specified time period. The imposition of the offering limit on the aggregate proceeds raised by” in section 1 [Definitions] outlines certain requirements for the issuer group, rather than only by the issuer, is intended to prevent the \$1.5 million limit being circumvented.~~

Availability of ~~to be eligible to rely on the~~ crowdfunding prospectus exemption ~~to issuers~~

~~8. (1) Reporting and non-reporting issuers – Subsections 8(1) to (3) [Availability of crowdfunding prospectus exemption to issuers] impose certain conditions on the availability of the crowdfunding prospectus exemption. Subject to satisfying these conditions requirements, the crowdfunding prospectus exemption is available to both reporting issuers and non-reporting issuers.~~

~~(2) Real estate issuers – A “real estate issuer”, as defined in section 1 of the Instrument, that is not a reporting issuer, is excluded from being able to rely on the crowdfunding prospectus exemption. A real estate issuer includes a non-reporting issuer that “is a person that primarily invests in, or develops, real estate, or derives its revenues primarily from investments in real estate”. This exclusion is intended to capture non-reporting issuers whose primary business is focused on real estate. It is not intended to capture an issuer with a primary business that is not focused on real estate, but that invests in or develops real estate in the furtherance of its primary business. For example, an issuer that is developing a bakery business might need to rent or purchase real estate in order to establish retail bakery locations. We would not generally consider real estate activity that is ancillary to the issuer’s primary business as precluding the issuer from being able to rely on the exemption.~~

Investment limits

~~9. Section 9 [Investment limits] of the Instrument imposes certain Crowdfunding prospectus exemption~~

5.(1) Distribution period – The Instrument contemplates a distribution period that, in accordance with paragraph 5(1)(a) [Crowdfunding prospectus exemption], must end no later than 90 days after the date the issuer first offers its securities to purchasers under the crowdfunding prospectus exemption. If an issuer cannot complete an offering within the distribution period, the distribution period will expire. An issuer may commence a new crowdfunding offering so long as the issuer is in compliance with subsection 5(2) [Crowdfunding prospectus exemption].

Issuer group limit – Paragraph 5(1)(b) [Crowdfunding prospectus exemption] imposes a \$1,500,000 limit on the aggregate proceeds that can be raised by an issuer group under the crowdfunding prospectus exemption within the 12-month period ending on the last day of the distribution period. For example, suppose an issuer group consists of Issuer A, Issuer B and Issuer C. Issuer A proposes to distribute securities under the crowdfunding prospectus exemption and the last day of the distribution period will be March 15, 2015. In this case, the 12-month period to which the \$1,500,000 limit applies will commence on March 16, 2014 and end on March 15, 2015. If Issuer B has raised \$600,000 under the crowdfunding prospectus exemption during that same 12 month period (i.e., March 16, 2014 to

March 15, 2015), the maximum amount Issuer A could raise under the crowdfunding prospectus exemption will be \$900,000 (\$1,500,000 minus \$600,000).

If, in addition, Issuer C proposes to raise a maximum of \$300,000 in a concurrent distribution under the crowdfunding prospectus exemption that will end on or prior to March 15, 2015, since this is within the same 12 month period, the maximum amount Issuer A could now raise under the crowdfunding prospectus exemption will be \$600,000 (\$1,500,000 minus (\$600,000 + \$300,000)) in order to ensure compliance with the \$1,500,000 offering limit for the issuer group.

Investment Limits – Paragraphs 5(1) (c) and (d) [Crowdfunding prospectus exemption] impose investment limits on purchasers of securities distributed under the crowdfunding prospectus exemption. ~~An~~ In all the jurisdictions, a purchaser that is not an accredited investor that purchases securities under the crowdfunding prospectus exemption is subject to the same an investment limits as other investors. However, an issuer can distribute securities to the limit of \$2,500 per distribution and in Ontario, such purchaser is also subject to an annual investment limit of \$10,000 for all distributions made in reliance on the crowdfunding prospectus exemption in the same calendar year. In all jurisdictions, an accredited investor under the is subject to an investment limit of \$25,000 per distribution and in Ontario, an accredited investor prospectus exemption simultaneously with the distribution of securities under the crowdfunding prospectus 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 prospectus exemption during the prescribed period have the same price, terms and conditions as those distributed under the crowdfunding prospectus exemption. The registered funding portal is not permitted to act as an intermediary in the distribution of securities under the accredited investor prospectus exemption. However, information about this distribution must be disclosed in the issuer’s marketing materials described in section 16 [Disclosure at time of distribution – marketing materials].

Full subscription of distribution and financial resources available

~~13. Section 13 [Full subscription of distribution and financial resources available] requires that, at the time of the closing of an offering under the crowdfunding prospectus exemption, an issuer must have financial resources sufficient is also subject to achieve the next milestone set out in its written business plan. If no milestones have been established, the financial resources must be sufficient to carry out the activities set out in the business plan. This requirement will provide an element of investor protection, as a purchaser will have some assurance that the issuer will raise a sufficient amount of proceeds to achieve the next milestone or activities set out in its written business plan. In addition, permitting the additional financial resources of the issuer 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 an annual investment limit of \$50,000 for all distributions made in reliance on the crowdfunding prospectus exemption in the same calendar year. In Ontario, an investor that is a permitted client is not subject to an investment limit.~~

Concurrent distributions under other prospectus exemptions

~~14. (1) The crowdfunding prospectus exemption set out in the Instrument is in addition to other prospectus exemptions contained in securities legislation, including the prospectus exemptions contained in NI 45-106. An eligible crowdfunding issuer may rely on other prospectus exemptions and may distribute securities through other types of registered intermediaries at the same time as conducting a crowdfunding offering in accordance with the crowdfunding regime described in the Instrument.~~

~~(2) Section 14 [Concurrent distributions under other prospectus exemptions] of the Instrument requires that securities distributed under another prospectus exemption during the period beginning on the first day of the distribution period and ending one month after the end of the distribution period, must 5.(2) The~~

crowdfunding prospectus exemption is not available to an issuer if any of the conditions in subsection 5(2) [Crowdfunding prospectus exemption] apply. For example, an issuer that uses the proceeds to invest in, merge with or acquire an unspecified business, commonly referred to as a blind pool, is excluded from using the crowdfunding prospectus exemption.

Conditions for closing of the distribution

6. Concurrent distributions – Eligible securities are defined in section 1 [Definitions]. An eligible crowdfunding issuer can distribute securities under other prospectus exemptions, such as the accredited investor exemption in section 2.3 of NI 45-106 or the offering memorandum exemption in section 2.9 of NI 45-106, during the distribution period. Securities distributed under other prospectus exemptions do not need to have the same price, terms and conditions as those distributed under the crowdfunding prospectus exemption. This requirement is intended to promote fairness to purchasers by prohibiting an issuer from offering securities during the prescribed period at different prices, or However, the issuer must ensure compliance with different terms and the conditions, than those distributed under the crowdfunding of the prospectus exemption.

Advertising and general solicitation being relied upon for

~~18.~~ Subsections 18(1) and (2) [~~Advertising and general solicitation~~] of the Instrument impose limits on advertising and soliciting purchasers in connection with a crowdfunding offering other than through the registered funding portal. No person involved with a crowdfunding offering can advertise the offering or solicit purchasers except as described below. However, an issuer or any other person involved with a crowdfunding offering can advise potential purchasers, including the issuer's customers and clients, that the issuer is proposing to offer its securities through crowdfunding and refer the potential purchasers to the website of the portal through which the distribution will be made. This advice can be provided in paper format or through the use of social media. However, in all cases, the advice must be limited to directing the potential purchaser to the portal's website to obtain relevant information. Information about the offering.

Commissions or fees

~~19.~~ Section 19 [~~Commissions or fees~~] of the Instrument prohibits the payment any concurrent distribution, including a concurrent distribution by an issuer of a commission, finder's fee, referral fee or similar payment to any person in connection with a crowdfunding offering, other than to a registered funding portal. ~~This is meant to mitigate against potential conflicts of interest.~~ However, this restriction is not intended to prohibit payments to persons as compensation for their services to a member of the issuer group, must be disclosed in preparing materials in connection with a crowdfunding offering, such as accounting or legal fees document.

Risk acknowledgement

~~20.~~ ~~(1)~~ The risk acknowledgment form required by section 20 [~~Risk acknowledgement~~] – The issuer must ensure upon closing of the instrument may be completed online through distribution that they receive from the registered funding portal through a Form 45-108F2 Risk Acknowledgement (Form 45-108F2) from each purchaser in which the distribution is made, purchaser has positively responded to each question in Form 45-108F2.

~~(2)~~ The risk acknowledgment form should be completed and signed by the issuer and registered funding portal (including by online signature) before it is provided to a purchaser. Confirmation of investment limits – In each jurisdiction other than Ontario, the issuer must ensure upon closing of the distribution that they receive from the funding portal confirmation that the purchaser is an accredited investor if the

acquisition cost is greater than \$2,500. In Ontario, the issuer must receive a Form 45-108F3 Confirmation of investment limits (Form 45-108F3) for each purchaser regardless of the acquisition cost to the purchaser.

Closing of the distribution – If the closing of the distribution does not take place within 30 days of the end of the distribution period, the funding portal is required to promptly return to the purchaser all funds and assets received from a purchaser in connection with the distribution under the crowdfunding prospectus exemption.

~~Division 2~~ Rights of security holders

Liability for misrepresentation – reporting issuers

~~22. (1)9.~~ In Ontario, the crowdfunding offering document required to be ~~delivered~~filed by an issuer under the Instrument is considered to be an offering memorandum and the rights available under section 130.1 of the *Securities Act* (Ontario) apply ~~in respect of the crowdfunding offering document.~~ Refer to Ontario Securities Commission (OSC) Rule 45-501 Ontario Prospectus and Registration Exemptions and the related Companion Policy for more information. Under section ~~229~~ [Liability for misrepresentation] of the Instrument, – reporting issuers, an issuer must provide a purchaser with a contractual right equivalent to the right in section 130.1 of the Securities Act (Ontario) for any ~~document or video~~materials made available to a purchaser in addition to the crowdfunding offering document, if the securities legislation of the jurisdiction in which a purchaser resides does not provide a comparable right.

~~(2)~~ In Québec, the crowdfunding offering document and any other ~~documents or videos~~materials that are made available to ~~potential~~ purchasers by a reporting issuer are documents authorized by the Authority/Autorité des marchés financiers for use in lieu of a prospectus in regards to which rights of action established in section 217 to ~~219~~ of Securities Act (Québec) may be exercised. In addition, an issuer must provide a purchaser with a contractual right equivalent to the right in sections 217 to 219 of Securities Act (Québec) for any document or video made available to a purchaser in addition to the crowdfunding offering document ~~221 of Securities Act (Québec) may be exercised.~~

~~(3)~~ The In Nova Scotia, the crowdfunding offering document required to be ~~delivered~~filed by an issuer under the Instrument is considered to be an offering memorandum and the rights available under section 138 of the *Securities Act* (Nova Scotia) apply ~~in respect of the offering document.~~ Refer to Nova Scotia Securities Commission Rule 45-501 *Statutory Liability for Misrepresentations in an Offering Memorandum Under Certain Exemptions From the Prospectus Requirement* and the related Companion Policy for more information. Under section ~~229~~ [Liability for misrepresentation] of the Instrument, – reporting issuers, an issuer must provide a purchaser with a contractual right equivalent to the right in section 138 of the Securities Act (Nova Scotia) for any ~~document or video~~materials made available to a purchaser in addition to the crowdfunding offering document.

Liability for untrue statement – non-reporting issuers

10. The crowdfunding offering document required to be filed by an issuer that is not a reporting issuer must contain a contractual right of action against the issuer for rescission and damages that is available to the purchaser if the crowdfunding offering document or other permitted materials made available to the purchaser contains an untrue statement of a material fact.

Advertising and general solicitation

11. An eligible crowdfunding issuer cannot advertise the distribution or solicit purchasers, except as permitted in subsection 11(2) [Advertising and general solicitation]. An issuer may inform purchasers, including the issuer's customers and clients, that the issuer is proposing to offer its securities under the crowdfunding prospectus exemption and refer the customers and clients to the funding portal facilitating the distribution. This direction can be provided through the use of social media or in paper format. However, in all cases, the direction must be limited to directing the purchasers, including the issuer's customers and clients, to the funding portal's online platform to obtain relevant information about the distribution.

We anticipate that issuers will want to use social media to harness the "wisdom of the crowd" in a crowdfunding offering. Although an issuer cannot advertise the distribution or solicit purchasers, an issuer may participate in communication channels or discussion boards to encourage purchasers to discuss the crowdfunding distribution, if the funding portal establishes one. An issuer is reminded that it cannot post any statement or information on the funding portal's online platform that is inconsistent with the crowdfunding offering document or the Instrument.

Commissions or fees

13. Section 13 [Commissions or fees] prohibits payment of a commission, finder's fee, referral fee or similar payment by any person or company in the issuer group to any person or company in connection with a crowdfunding distribution, other than to a funding portal. This is meant to mitigate against potential conflicts of interest. However, this restriction is not intended to prohibit payments to persons or companies as compensation for their services to an issuer in preparing materials in connection with a crowdfunding offering, such as accounting or legal fees.

Division 22: Ongoing disclosure requirements for ~~issuers that have relied on the crowdfunding prospectus exemption~~ non-reporting issuers

Division 2 [Ongoing disclosure ~~—reporting issuers and~~ requirements for non-reporting issuers

~~23. (1) Section 23 [Annual financial statements] of the Instrument] prescribes ongoing disclosure obligations for non-reporting issuers that distribute securities under the crowdfunding prospectus exemption. For reporting issuers that distribute securities under the crowdfunding prospectus exemption, all applicable continuous disclosure obligations under securities law will continue to apply.~~

~~(2) Non-reporting issuers are required to make available to the purchaser certain ongoing disclosure documents. These include annual financial statements, notices disclosing the use of proceeds, and in New Brunswick, Nova Scotia and Ontario, notices of specified key events. Issuers may~~ We anticipate issuers generally will choose to make these documents available to purchasers ~~in different ways, provided they electronically. However, an issuer may also make these documents available in paper format. We expect an issuer to~~ take reasonable steps to ensure that all purchasers receive or ~~can have~~ access to the documents.

~~We consider disclosure documents to have been made available if they are mailed to each security holder or if the security holder receives notice that the disclosure documents can be viewed on a public website of the issuer or a website accessible by all security holders of the issuer promptly.~~

We consider ongoing disclosure documents to have been made reasonably available to each holder of a security acquired under the crowdfunding prospectus exemption if the documents are made available through

the funding portal or are mailed to security holders, or if security holders receive an electronic notice that the annual financial statements, the notices disclosing the use of proceeds, and in New Brunswick, Nova Scotia and Ontario, the notices of specified key events can be viewed on a public website of the issuer or a website accessible by all holders of securities of the issuer that were acquired under the crowdfunding prospectus exemption (such as a password protected website).

For reporting issuers that distribute securities under the crowdfunding prospectus exemption, all applicable continuous disclosure obligations under securities legislation continue to apply.

Annual financial statements

16. What constitutes an issuer's first financial year? - The first financial year of an issuer commences on the date of its incorporation or organization and ends at the close of that financial year.

What financial years need to be audited or reviewed? - If an issuer is required to have an auditor's report or review report accompany its financial statements in accordance with paragraph 16(2)(a) [Annual financial statements], the financial statements for the most recent period and the comparative period, if any, are both required to be audited or are both required to be reviewed.

Statement required in annual financial statements that have not been audited or reviewed – Subsection 16(8) [Annual financial statements] requires that if an issuer's annual financial statements are not accompanied by an auditor's report or a review report prepared by a public accountant, the financial statements must include a statement which discloses that fact. As set out in subsection 16(2) [Annual financial statements], an issuer's annual financial statements are not required to be audited or reviewed by a public accountant if the issuer has raised less than \$250,000 under one or more prospectus exemptions from the date of its formation until the end of its most recently completed financial year.

What financial reporting framework is identified in the financial statements and in any accompanying auditor's report or review report? – If an issuer's financial statements are prepared in accordance with Canadian GAAP for publicly accountable enterprises and include an unreserved statement of compliance with IFRS, the auditor's report or review report must refer to IFRS as the applicable financial reporting framework.

There are two options for referring to the financial reporting framework in the applicable financial statements and accompanying auditor's report or review report:

- (a) refer only to IFRS in the notes to the financial statements and in the auditor's report or review report; or
- (b) refer to both IFRS and Canadian GAAP in the notes to the financial statements and in the auditor's report or review report.

Non-GAAP financial measures – An issuer that intends to disclose non-GAAP financial measures, including in its crowdfunding offering document, should refer to CSA guidance for a discussion on staff's expectations concerning the use of these measures.

Annual disclosure of use of proceeds

17.(1) Section 17 [Annual disclosure of use of proceeds] requires that an issuer's annual financial statements be accompanied by a notice that discloses in detail, how the gross proceeds raised by the issuer in a distribution under the crowdfunding prospectus exemption have been spent. The information in the notice is to be provided as at the date of the issuer's most recently completed financial year.

While specific disclosure is not prescribed for the notice, issuers should carefully consider whether the disclosure being provided contains sufficient detail for a security holder to understand how the proceeds have been used. For example, the level of detail expected in the notice of proceeds could include a breakdown of the amount of proceeds that were allocated to fees (including management or service provider fees), salaries or other compensation paid, asset purchases made or development costs.

If, at the date of the notice, there are funds raised by the issuer in a distribution under the crowdfunding prospectus exemption that have not been used, the notice should disclose that fact as well as the amount of the unused proceeds. The amount of the proceeds used together with the amount of unused proceeds, if any, should equal the gross proceeds raised by the issuer in the distribution under the crowdfunding prospectus exemption.

We expect the actual use of the proceeds as disclosed in the notice to be consistent with the issuer's intended use of proceeds as disclosed in the crowdfunding offering document.

If the proceeds of a crowdfunding distribution have been distributed to an entity that is related to the issuer (for example, an issuer in the same corporate structure), then the issuer should provide disclosure as to how the proceeds were used by that entity.

Notice of specified key events

18. In addition to annual financial statements and the notice of how the proceeds raised under the crowdfunding prospectus exemption have been used, non-reporting issuers that issue securities in reliance on the crowdfunding prospectus exemption in New Brunswick, Nova Scotia and Ontario must also make available a notice of specified key events to each holder of a security acquired under the crowdfunding prospectus exemption, within 10 days of the occurrence of the event. These events are considered to be significant changes in the business of the issuer that purchasers should be notified of. This requirement is in addition to any similar requirement under corporate law and also applies to non-reporting issuers with non-corporate structures, such as trusts and partnerships.

In making a determination as to whether an issuer's industry has changed, issuers may consider whether they would identify a different industry category on Form 45-106F1 *Report of Exempt Distribution* than the category previously identified.

A non-reporting issuer must continue to provide notice of the specified key events, if applicable, until the earliest of the following events: (i) the issuer becomes a reporting issuer; (ii) the issuer has completed a winding up or dissolution; (iii) the securities of the issuer are beneficially owned, directly or indirectly, by fewer than 51 security holders worldwide.

PART 3 **REGISTRATION REQUIREMENTS, EXEMPTIONS** **AND ONGOING REGISTRANT OBLIGATIONS FOR REGISTERED FUNDING PORTALS**

Division 1: ~~Obligations of a registered~~ Registration requirements, general

Division 1 [*Registration requirements, general*] sets out the registration requirements for both a restricted dealer funding portal and ~~its~~ a registered ~~individuals~~ dealer funding portal.

Restricted dealer funding portal

21. A restricted dealer funding portal and a registered individual of a restricted dealer funding portal must comply with the requirements set out in Part 3.

Although a restricted dealer funding portal is not required to comply with section 13.3 of NI 31-103 or collect client specific know your client information as contemplated by paragraph 13.2(2)(c) of NI 31-103, a restricted dealer funding portal is still required to establish the identity of, and to conduct due diligence on its clients under the general know-your-client obligation set out in section 13.2 of NI 31-103.

Registered dealer funding portal

22. A crowdfunding distribution must be made through a single funding portal. A registered dealer who currently distributes securities online under other prospectus exemptions, such as the accredited investor exemption in section 2.3 of NI 45-106 or the offering memorandum exemption in section 2.9 of NI 45-106, will already have in place the infrastructure required to facilitate distributions of securities under the crowdfunding prospectus exemption through an online platform. However, these registered dealers will be required to ensure they have the necessary policies and procedures in place to comply with Part 3, as applicable. For those registered dealers who do not currently distribute securities online and intend to use the crowdfunding prospectus exemption, they must establish an online funding portal to distribute the securities under the crowdfunding prospectus exemption in accordance with the Instrument.

A registered dealer that proposes to distribute securities under the Instrument must file a Form 33-109F5 Change of Registration Information that describes the change in its business operations.

Division 2: Registration requirements, funding portals

General

29. Although a funding portal enters into a contractual relationship with an eligible crowdfunding issuer, the funding portal also has a relationship with a purchaser investing through the funding portal. These purchasers are clients of the funding portal. A funding portal and its registered individuals must deal fairly, honestly and in good faith with its clients a purchaser. This is consistent with the obligation imposed on all registrants, including restricted registered dealers, and advisers under securities legislation. A registered funding portal's clients include both issuers that enter into a contractual relationship with the portal to distribute securities through the portal and investors who open an account with the portal to purchase these securities. As a registrant, we expect a funding portal to follow the letter of the law and also the spirit of the law. For example, a funding portal that requires a purchaser to sign an agreement that contains an inappropriate waiver of liability or that attempts to transfer its responsibilities to the purchaser, is engaging in conduct that is not consistent with the principle of dealing fairly, honestly and in good faith with a purchaser.

Proficiency

30. A funding portal must be aware of and act in compliance with the terms of the exemption being relied upon for the trade or distribution of the security. For example, the funding portal must confirm and validate that the purchaser is investing within the investment limits set out in the Instrument.

Restricted dealing activities

23.(1) Section 30 [Proficiency] of the Instrument 23 [Restricted dealing activities] provides that a registered individual of a registered funding portal must, among other things, understand the structure, features and risks of each security distributed through the registered funding portal. This is consistent with the general proficiency

requirement applicable to all registered individuals in section 3.4 of NI 31-103.

~~(2) We expect the funding portal and a registered individual to develop an understanding of the structure, features and risks of each security distributed through the registered funding portal based on a review of the issuer's articles of incorporation, other constating documents and other materials included in the application for a funding portal must not allow an issuer access to the registered funding portal. For example:~~

- ~~(a) a registered funding portal and its registered individuals are expected to take reasonable steps to confirm that an issuer that proposes to make an offering through a registered funding portal meets the definition of an "eligible crowdfunding issuer" and that the proposed offering involves "eligible securities";~~
- ~~(b) if an issuer proposes to offer securities described as "common shares" to the public, but the issuer's constating documents and application for access indicate that the "common shares" contain restrictions on voting, or contain redemption rights that allow the issuer to redeem the shares in certain circumstances, or that insiders or promoters of the issuer hold another class of securities that have multiple votes, the registered funding portal should understand that it may be misleading to investors if the issuer describes the securities as "common shares" or does not disclose the existence and material terms of the securities held by the insiders and promoters;~~
- ~~(c) if the issuer is part of a corporate group, and the issuer's interest in the business or the assets of the business are owned through one or more subsidiaries, the registered funding portal should understand the features and risks of the capital structure of the corporate group and assess whether the issuer's disclosure adequately discloses these risks.~~

~~(3) Subsection 30(2) [Proficiency] of the Instrument provides that the obligation to understand the structure, features and risks of a security does not include any obligation to assess~~

- ~~(a) the merits or expected returns of an investment to investors, or~~
- ~~(b) the commercial viability of a proposed business or offering.~~

~~In addition, the obligation does not include any obligation to determine whether an issuer's milestones are realistic or achievable or to assess the experience of the executive officers or directors of the issuer.~~

Division 2: Permitted and restricted dealing activities

Permitted dealing activities

~~31. (1) Section 31 [Permitted dealing activities] of the Instrument provides that a registered funding portal and every registered individual of the registered funding portal may only act as an intermediary in connection with a distribution of securities made in reliance on the crowdfunding prospectus exemption. This means that registered funding portals are not permitted to engage in a broader range of dealing and/or advising activities, including~~

- ~~(a) facilitating distributions of securities in reliance on other prospectus exemptions;~~
- ~~(b) facilitating resales of securities acquired by an investor to accredited investors or other investors who are eligible to purchase securities on a prospectus exempt basis; or~~
- ~~(c) providing other services of a corporate finance nature to issuers.~~

~~(2) The limitation on dealing activities applies only to activities in connection with a distribution of securities under the crowdfunding prospectus exemption. A registered funding portal may engage in other types of crowdfunding activities that do not involve a distribution of securities, including facilitating crowdfunding activities based on a donation model, reward model or pre-purchase model.~~

Restricted dealing activities

~~32. (1) Section 32 [Restricted dealing activities] of the Instrument provides that a registered funding portal and every registered individual of the registered funding portal must not allow an issuer access to the funding portal's website if the issuer is a "related issuer" of the registered funding portal. The definition of a "related issuer" is described in National Instrument 33-105 *Underwriting Conflicts* (NI 33-105) and generally refers to a situation where there is cross-ownership between an issuer and the registered funding portal, a registrant. Subsection 1.2(2) of NI 33-105 provides that an entity is a related issuer to another entity if one of them is an "influential securityholder" security holder" of the other, or if each of them is a related issuer of the same third party.~~

~~(2) If a registered funding portal or a registered individual of a registered _____ If a funding portal proposes to allow an issuer that is a connected issuer access to the registered funding portal, the registered funding portal should ensure that the issuer's offering documents include the disclosure required by Appendix C to NI 33-105. The definition of a "connected issuer" is described in NI 33-105 and generally refers to a situation where an issuer is may not be a related issuer of the registrant, but has some other relationship with the registrant that would cause a reasonable investor to question whether the registrant and the issuer are independent of each other for purposes of the distribution. Refer to NI 33-105 and the related guidance in Companion Policy 33-105CP for more information.~~

Prohibition on providing recommendations or advice

~~23.(2) A funding portal may accept securities of an issuer as payment of portal access fees or other similar fees, provided that the payment by the issuer does not result in the funding portal holding securities of the issuer that exceed the limit set out in subsection 23(2) [Restricted dealing activities]. However, an investment by a funding portal in an issuer that intends to distribute securities through the funding portal, including an investment in the form of securities accepted as payment for fees, may give rise to a conflict of interest. Accordingly, we expect the funding portal to comply with the conflicts of interest provisions in Division 2 of Part 13 of NI 31-103 and related provisions in 31-103CP.~~

Advertising and general solicitation

~~24. A funding portal cannot advertise the distribution or solicit purchasers, except as permitted in subsection 24(2) [Advertising and general solicitation]. Any solicitation or marketing activities, either in print or electronic form that targets specific individuals in connection with a distribution under the crowdfunding prospectus exemption would be a contravention of section 24 [Advertising and general solicitation].~~

~~A funding portal is not permitted to recommend or endorse a particular issuer or distribution, which includes accepting payment or other benefits from an issuer to highlight or showcase the issuer or its distribution. Such conduct would be considered to be inconsistent with the restriction in section 24 [Advertising and general solicitation]. However, a funding portal may advertise its business operations. For example, a funding portal may advertise that it is in the business of distributing securities under the crowdfunding prospectus exemption.~~

Access to funding portal

25. Section 25 [Access to funding portal]

~~33. (1)~~ Section 33 [*Prohibition on providing recommendations or advice*] of the Instrument provides that a registered funding portal and a registered individual of the registered funding portal must not provide a recommendation or advice to an investor in connection with a distribution of or other trade in a security. Certain activities undertaken by registered funding portals may, by their nature, be considered a form of express or implied recommendation, endorsement or advice to investors. These activities may include activities in relation to:

- (a) selecting, screening or approving an issuer for access to the registered funding portal, which is sometimes referred to as curating;
- (b) highlighting, showcasing or spotlighting an issuer on the portal's website;
- (c) matching an issuer to an investor based on selection criteria identified by an investor;
- (d) distributing information about a particular issuer or offering to an investor based on selection criteria identified by an investor.

Since these activities may be considered part of the *bona fide* activities of a registered funding portal, the Instrument provides that the prohibition on providing a recommendation or advice does not prevent the activities described in subsection 33(2) of the Instrument.

~~(2)~~ Nothing in the Instrument prevents a registered funding portal from establishing additional criteria or terms and conditions that an issuer must satisfy or meet in order to participate in a distribution under the crowdfunding prospectus exemption through the registered funding portal. In addition to its obligations under section 37 [*Issuers' access refusal—general*], a registered funding portal may establish additional criteria or due diligence checks to prevent access by an issuer to its portal for any reason, including any concern of the registered funding portal that:

- (a) any offering document or marketing materials of the issuer contain any statement or information that is misleading, false or deceptive or contains a misrepresentation;
- (b) the proceeds from a distribution under the crowdfunding prospectus exemption, together with any other amounts referred to in subsection 13(2) [*Full subscription of distribution and financial resources available*], are insufficient to accomplish the milestone or business plan referred to in section 8 [*Availability of crowdfunding prospectus exemption to issuers*];
- (c) ~~the issuer may not be financially responsible in the conduct of its business~~ or such business may not be conducted with integrity and with a view to the best interests of investors; or
- (d) the issuer has not complied with, or is not complying with, securities law or the undertakings, terms and conditions agreed to by the issuer in connection with any distribution under the crowdfunding prospectus exemption or otherwise.

~~(3)~~ We expect a registered funding portal to take reasonable steps to confirm that an investor proposing to participate in a crowdfunding distribution through its website understands the risks of such a distribution. In this respect, a registered funding portal should not rely solely on the risk acknowledgement form signed by an investor.

~~Division 3~~ **Portal obligations—issuer access to the portal**

Criminal record and background checks

~~36. (1)~~ Section 36 [~~Criminal record and background checks~~] of the Instrument requires a ~~registered~~ funding portal to obtain ~~the following documents from the the directors~~ a Form 45-108F5 Personal Information Form and Authorization to Collect, Use and Disclose Personal Information (Form 45-108F5) from each director, executive ~~officers~~officer and ~~promoters~~promoter of an issuer prior to allowing the issuer access to the ~~registered funding portal's website~~portal for the purposes of posting a distribution.

~~(a)~~ ~~— a completed personal information form that contains substantially the same information as set out in Appendix A to National Instrument 41-101 General Prospectus Requirements, and~~

~~(b)~~ ~~— a consent to criminal record and other background checks and the collection of personal information in accordance with applicable privacy legislation.~~

~~— (2) Funding portals should ensure all questions in Form 45-108F5 have been answered and additional details provided, where necessary.~~

At a minimum, we expect the following checks to be conducted by a ~~registered~~ funding portal:

- (a) regarding issuers:
 - (i) the existence of the issuer and its business registration, including a review of the issuer's constating documents;²
 - (ii) ~~criminal record and~~ securities and disciplinary enforcement history checks;²
 - (iii) bankruptcy check;² and
 - (iv) court record check, where available; and
- (b) regarding directors, executive officers, ~~control persons~~ and promoters of the issuer:
 - (i) criminal record and securities and disciplinary enforcement history checks;²
 - (ii) bankruptcy check;² and
 - (iii) court record check, where available.

~~(2) A~~ ~~— While we have outlined the minimum steps we expect a funding portal to take in conducting background checks on the issuer and criminal records and background checks on each director, executive officer and promoter of the issuer, a registered dealer funding portal must also take steps to ensure compliance with its regulatory obligations under securities legislation. For example, we would not consider the minimum checks and requirements outlined in this section by a registered dealer funding portal to be adequate compliance with its know-your-product obligation.~~

~~A~~ funding portal may retain a third party to perform these checks. However, the ~~responsibility to comply with this section remains with the registered funding portal.~~ funding portal is responsible and accountable for all functions that it outsources to a third party. A funding portal should have a written agreement that sets out the responsibilities of the parties to the arrangement. A funding portal should consider the guidance provided in Part 11 of 31-103CP on outsourcing.

~~(4)~~ ~~— Subsection 35(2) requires~~

Issuer access agreement

26. ~~We expect the registered funding portal to file and the completed issuer to enter into a written agreement that sets out all material terms and conditions of the arrangement under which a funding portal will grant the issuer access to its online platform. Although section 26 [Issuer access agreement] prescribes certain minimum requirements that must be included in an issuer access agreement, we encourage the funding portal and the issuer to also set out other key terms and conditions that will govern the arrangement.~~

Obligation to review materials of eligible crowdfunding issuer

27.(2) If, after reviewing the crowdfunding offering document, the materials referred to in subsection 12(1) ~~[Additional distribution materials], the personal information form with its Principal Regulator. This requirement is intended to act as a deterrent against false statements in a personal forms, the results of the criminal record and background checks, and any other information form since it is an offence to make a false statement in a document that is required to be filed about the issuer or furnished to the the distribution made available to the funding portal or of which the funding portal is aware, the funding portal determines the disclosure in the crowdfunding offering document and other materials referred to in subsection 12(1) [Additional distribution materials] is incorrect, incomplete or misleading, it must require the issuer to correct, complete or clarify the disclosure in the crowdfunding offering document and other permitted materials prior to posting on the funding portal's online platform. For example:~~

- ~~(a) if an issuer's constating documents indicate that the "common shares" contain restrictions on voting or contain redemption rights that allow the issuer to redeem the shares in certain circumstances, or that insiders or promoters of the issuer hold another class of securities that have multiple votes, and the crowdfunding offering document does not contain this disclosure, the funding portal must not grant the issuer access to the funding portal for the purposes of distributing its securities until it is satisfied that the crowdfunding offering document accurately describes the securities being distributed, the capital structure of the issuer, including the percentage ownership of the outstanding securities of the issuer held by the insiders and promoters, and any rights not otherwise available to purchasers;~~
- ~~(b) if an issuer is part of an issuer group, and the issuer's interest in the business or the assets of the business are owned through one or more subsidiaries, the funding portal should understand the features and risks of the capital structure of the issuer group and assess whether the issuer's disclosures adequately discloses these risks.~~

~~Nothing in the Instrument prevents a funding portal from establishing additional criteria that an issuer must satisfy or meet in order to distribute its securities through the funding portal. A funding portal should establish additional criteria or due diligence checks to grant or deny access by an issuer to its online platform for any reason, including any concern of the funding portal that:~~

- ~~(a) the issuer may not be financially responsible in the conduct of its business ~~regulatory authorities and;~~ or~~
- ~~(b) the issuer has not complied with, or is not complying with, securities legislation or the undertakings, terms and conditions agreed to by the issuer in connection with a distribution under the crowdfunding prospectus exemption or otherwise.~~

Denial of issuer access and termination

28.(1) ~~Funding portals are expected to play a gatekeeper role in attempting to ensure that regulatory authorities have recourse against the person making a false statement in issuers comply with the requirements of the crowdfunding prospectus exemption and to maintain the integrity of the capital markets. We expect funding portals to have policies and procedures in place to carry out their gatekeeper function, including measures to reduce the risk of fraud in securities-based crowdfunding. These policies and procedures should include the steps a person a funding portal follows to review and assess the issuer, the distribution, the crowdfunding offering document and the materials described in subsection 12(1) [Additional distribution materials]. At a minimum, we expect a funding portal to:~~

- establish the identity of an issuer, such as obtaining and reviewing the issuer’s articles of incorporation or other constating documents;
- determine the nature of the issuer’s business; and
- review the responses provided in Form 45-108F5 and the results of the criminal record and background checks.

If, after reviewing the information provided to the funding portal under the Instrument and any other information about the issuer or the distribution made available to the funding portal or of which the funding portal is aware, the funding portal identifies any discrepancies or causes for concern about an issuer, its directors, executive officers or promoters, the distribution, the crowdfunding offering document or the materials described in subsection 12(1) [Additional distribution materials], the funding portal must make all reasonable inquiries to resolve the discrepancies or concerns. This may include asking additional questions of the issuer and its management and ensuring the answers provided resolve the concern to the satisfaction of the funding portal or obtaining and reviewing additional documentation. We expect the funding portal to consider the discrepancy or concern in its determination as to whether or not to grant an issuer access to its online platform.

We expect a funding portal to deny access to an issuer if based on the information the funding portal has, it appears to the funding portal that the issuer has not satisfied the conditions in subsection 28(1) [Denial of issuer access and termination]. For example, if it appears to the funding portal that upon a good faith determination the business of the issuer may not be conducted with integrity, including where the funding portal believes the issuer or the distribution is part of a scheme to defraud investors, the funding portal must deny the issuer access. If certain executive officers of the issuer reside in a jurisdiction where background checks and securities and disciplinary enforcement history checks are not readily available to the funding portal, it may determine that it is unable to assess whether the business of the issuer will be conducted with integrity, and thus must deny the issuer access to its platform.

Monitoring purchaser communications

32. A funding portal that establishes an online communication channel, such as a blog or chat room, should have detailed written policies and procedures that outline the steps the funding portal will take to ensure compliance with section 32 [Monitoring purchaser communications]. For example, a funding portal may require issuers and purchasers to register to use the online communication channel and each will be assigned a user code or client identifier that enables the funding portal to track the communications of each participant.

If, for example, a purchaser makes an incorrect statement on the blog that the price per share is too high at \$50, when the crowdfunding offering document states the price per share is \$10, the funding portal would not be required to remove the statement. However, the issuer would be permitted to correct the price through a statement on the blog that the price per share is \$10. If, in another example, an issuer makes a statement on the blog that describes how its product works and that information was not disclosed in the crowdfunding offering document, then the funding portal must remove the statement as it is inconsistent with the crowdfunding offering document. However, in this example, an issuer could make a clarifying statement as to how its product works, if necessary, to address a misconception or misunderstanding expressed by a purchaser on the blog.

Online platform acknowledgement

33. Prior to a person or company entering a funding portal’s online platform, the funding portal must take reasonable steps to confirm that the person or company understands the risks of investing in securities

posted on the funding portal and is advised whether they will or will not receive suitability advice depending on the type of dealer operating the funding portal. We expect that these acknowledgements will be completed electronically through the funding portal and that the funding portal's books and records will include evidence that the funding portal has satisfied this obligation.

Purchaser requirements prior to purchase

34. Prior to a purchaser entering into an agreement to purchase securities under the crowdfunding prospectus exemption, a funding portal must obtain from a purchaser:

- (a) a risk acknowledgment form in which the purchaser has positively answered all questions;
- (b) except in Ontario, confirmation and validation that the purchaser is an accredited investor if the acquisition cost is greater than \$2,500; and
- (c) in Ontario, a confirmation of investment limits form and validation of the information contained in the form- regardless of the acquisition cost to the purchaser.

A funding portal must not permit a purchaser to acquire securities of the issuer if the purchaser has responded negatively to any of the questions in the risk acknowledgment form.

We anticipate that (a) the risk acknowledgment form, (b) the confirmation and validation of the purchaser's investor status, and (c) where applicable, the confirmation of investment limits form will be completed online through the funding portal facilitating the distribution.

A funding portal should take reasonable steps to confirm that each purchaser proposing to participate in a crowdfunding distribution through its online platform understands and complies with the applicable investment limits. A funding portal must have appropriate policies and procedures in place to confirm and verify the purchaser's investor status, the applicable investment limits and whether the purchaser is in compliance with the applicable investment limits. In Ontario, these procedures must include obtaining a Form 45-108F3 from the purchaser prior to accepting any funds from the purchaser. The funding portal should review the risk acknowledgment form and in Ontario, also review the confirmation of investment limits form to ensure they have been properly completed and executed. If a purchaser specifies that it is an accredited investor or a permitted client, the funding portal will have to obtain further information from the purchaser in order to determine whether the purchaser has the requisite income or assets to meet the terms of the accredited investor or permitted client definition.

Division 3:

Additional requirements, restricted dealer funding portal

Prohibition on providing recommendations or advice

39. Section 39 [Prohibition on providing recommendations or advice] provides that a restricted dealer funding portal and a registered individual of the restricted dealer funding portal must not provide a recommendation or advice to a purchaser in connection with a distribution under the crowdfunding prospectus exemption or other trades in a security. This means a restricted dealer funding portal cannot tell a purchaser that the securities are a good investment, that the securities meet the purchaser's investment needs or objectives, or that the purchaser should, for whatever reason, buy the securities.

Some activities may be considered *bona fide* activities of a restricted dealer funding portal provided that a reasonable person would not construe those activities to be the restricted dealer funding portal providing a recommendation or advice to a purchaser. These activities could include:

- (a) using objective criteria to limit the crowdfunding distributions on the funding portal if the objective criteria are disclosed on the funding portal and applied consistently to all distributions on the funding portal;
- (b) providing general information and educational materials to purchasers about crowdfunding distributions if the information is presented in a fair, balanced and reasonable manner;
- (c) providing search functions or other tools for purchasers to search, sort or categorize crowdfunding distributions available on the funding portal if the search functions are based on objective criteria;
- (d) distributing information on the funding portal about a particular issuer or offering to a purchaser based on selection criteria identified by a purchaser; and
- (e) providing communication channels or discussion boards to enable purchasers in a crowdfunding distribution to communicate with one another and with representatives of the issuer about a crowdfunding distribution displayed on the funding portal if a communication by a person can be traced back to its author and the funding portal complies with its obligations in section 32 [Monitoring purchaser communication].

Restriction on ~~cross-ownership~~

~~39. (1) Section 39 [Restriction on cross-ownership] of the Instrument provides that a registered funding portal must not accept an application for access by an issuer if the registered funding portal, or any officer, director or significant shareholder of the registered funding portal or of any affiliate of the registered funding portal,~~

- ~~(a) has beneficial ownership of, or control or direction over, more than 10% of the issued and outstanding securities of the issuer, or securities convertible into securities of the issuer, or~~
- ~~(b) except as permitted in paragraph (a), otherwise has an economic interest in the issuer.~~

~~(2) A registered funding portal may accept securities of an issuer as payment of portal access fees or similar fees, provided the investment by the registered funding portal does not exceed the limit contained in section 39. However, an investment by a registered funding portal in an issuer that intends to distribute securities through the registered funding portal, including an investment in the form of securities accepted as payment for fees, will generally give rise to a conflict of interest. Accordingly, we expect the registered funding portal to~~

~~prominently disclose the investment and to Lending – A restricted dealer funding portal must comply with the conflicts of interest provisions in Part section 13.12 of NI 31-103.~~

- ~~(3) A registered funding portal is not permitted to recommend or endorse a particular issuer or offering on its website. Accordingly, a registered funding portal is not permitted to advertise or promote an issuer in which it has an investment in a manner that is more prominent than, or inconsistent with, the manner in which other issuers are displayed on its website.~~

Division 4: General portal obligations and prohibited activities

Prohibition on holding, handling or having access to purchaser funds or assets

which

~~42. (1) Section 42 [*Prohibition on holding, handling or having access to purchaser funds or assets*] of the Instrument provides that a registered funding portal and its registered individuals must not hold, handle or have access to purchaser funds or purchaser assets. Indicia of holding or having access to an investor's funds or assets include~~

- ~~(a) holding an investor's securities, certificates or cash for any period of time;~~
- ~~(b) having authority (e.g., a power of attorney) to withdraw funds or securities from an investor's account;~~
- ~~(c) accepting funds from an investor directly (e.g., a cheque made payable to the registered funding portal) or accepting funds on the investor's behalf from a custodian;~~
- ~~(d) acting in the capacity of a trustee for an investor;~~
- ~~(e) having, in any capacity, legal ownership of, or access to, the investor's funds or securities.~~

- ~~(2) For the purposes of this condition, we interpret the phrase "hold, handle or have access" as not including the handling in transit of an investor's cheque made payable to a third party. For example, a registered funding portal may handle in transit an investor's cheque made payable to a Canadian financial institution or other acceptable escrow party.~~

Restriction on lending

~~45. (1) Section 45 [*Restriction on lending*] of the Instrument provides that a registered funding portal registrant must not lend money, extend credit or provide margin to an investor or recommend that an investor a client. Further, paragraph 39(b) [*Prohibition on providing recommendations or advice*] provides that a restricted dealer funding portal must not recommend that a purchaser use borrowed money to finance any part of the purchase of securities of the issuer under the crowdfunding prospectus exemption. This activity ~~would create~~creates a conflict of interest which cannot be properly managed. ~~In addition,~~ investments made in reliance on the crowdfunding prospectus exemption will generally be made without the benefit of a suitability assessment or other advice from a registrant.~~

- ~~(2) To the extent that products sold to clientsa purchaser are structured in a way that ~~would result~~results in the ~~registered~~restricted dealer funding portal becoming a lender to the ~~clients, including the portal~~ extending margin to the ~~client~~purchaser, we ~~would~~will consider the ~~registered~~restricted dealer funding portal ~~to not~~ to be in compliance with the prohibition in section 13.12 of NI 31-103.~~

Permitted dealing activities

41. Section 41 [*Permitted dealing activities*] provides that a restricted dealer funding portal and a registered individual of the restricted dealer funding portal may only act as an intermediary in connection with a

distribution of securities made in reliance on the crowdfunding prospectus exemption and, except in Ontario, a distribution of securities made in reliance on a start-up crowdfunding registration and prospectus exemptive relief order granted by a securities regulatory authority or regulator. This means that a restricted dealer funding portal is not permitted to engage in a broader range of dealing or advising activities, such as

- (a) facilitating distributions of securities in reliance on other prospectus exemptions,
- (b) facilitating resales of securities acquired by a purchaser to accredited investors or to other purchasers who are eligible to purchase securities on a prospectus-exempt basis, or
- (c) providing underwriting or underwriting-related services to issuers except as otherwise permitted by the Instrument.

The limitation on dealing activities applies only to activities in connection with a distribution of securities under the crowdfunding prospectus exemption and, except in Ontario, a distribution of securities under a start-up crowdfunding exemptive relief order granted by a securities regulatory authority or regulator. A funding portal may engage in other types of crowdfunding activities that do not involve a distribution of securities, including facilitating crowdfunding activities based on a donation model, a reward model or a pre-purchase model. To the extent that a funding portal does engage in crowdfunding activities that do not involve a distribution of securities, it should have separate books and records for its non-securities related crowdfunding activities.

Chief Compliance Officer

42. A restricted dealer funding portal is required to have a UDP and a CCO. The UDP and the CCO can be the same person if they meet the requirements for both registration categories. We prefer funding portals to separate these functions, but we recognize that for a restricted dealer funding portal, it might not be practical.

Section 42 [*Chief compliance officer*] sets out the proficiency requirements for a CCO of a restricted dealer funding portal. The regulator is required to determine an individual's fitness for registration and may exercise discretion in so doing.

The regulator may grant an exemption from any of the education requirements in paragraphs 42(a) and (b) [*Chief compliance officer*] for the CCO of a restricted dealer funding portal if it is satisfied that the individual has qualifications or relevant experience that are equivalent to, or more relevant in the circumstances than, the prescribed requirements.

The experience requirement in paragraph 42(c) [*Chief compliance officer*] may include experience acquired:

- during employment as or with a registered dealer, a registered adviser or an investment fund manager;
- in related investment fields, such as investment banking, advisory services, venture capital or private equity;
- in legal, accounting or consulting practices; or
- in other professional fields that relate to capital raising business activities.

Proficiency

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43. Section 43 [*Proficiency*] requires an individual of a restricted dealer funding portal to have the

education, training and experience, among other things, to understand the structure, features and risks of the distribution. At a minimum, to comply with the proficiency requirements set out in section 43 [Proficiency], we expect a restricted dealer funding portal to review and assess the crowdfunding offering document, the materials referred to in subsection 12(1) [Additional distribution materials], the issuer's articles of incorporation and other constating documents. The restricted dealer funding portal must be able to evidence their review of the information provided by the issuer. If the information provided by the issuer is not sufficient to enable the restricted dealer funding portal to understand the structure, features and risks of the distribution, the funding portal must make further inquiries with the issuer to satisfy the proficiency requirement.

Examples of the structure, features and risks of the distribution include:

- return on the investment;
- fee structure;
- time horizon;
- liquidity risk;
- conflict of interest risk; and
- issuer's financial position.

MISCELLANEOUS

Resale of securities distributed under the crowdfunding prospectus exemption

Securities acquired under the crowdfunding prospectus exemption are subject to resale restrictions. Securities of a reporting issuer acquired under the crowdfunding prospectus exemption are subject to a four-month hold period. Securities of a non-reporting issuer cannot be resold in a jurisdiction:

- (a) (a) until the issuer becomes a reporting issuer and certain other conditions are met; or
- (b) (b) unless the sale is made under another available prospectus exemption.

The crowdfunding prospectus exemption is not available for distributions by selling security holders. Refer to National Instrument 45-102 *Resale of Securities*.