

**Form 45-106F6 British Columbia Report of Exempt Distribution and amendments to
National Instrument 45-106 Prospectus and Registration Exemptions**

Summary of Comments and Commission Responses

#	Theme	Comments	Responses
<u>COMMENTS FOR</u>			
1.	General support for the proposal	<p>27 commenters expressed general support for the initiative. These commenters said that the proposal would:</p> <ul style="list-style-type: none"> • increase transparency in the exempt market • provide investors with useful information for identifying scams, performing due diligence and determining the validity and quality of a company and its investors • level the playing field between ordinary investors and insiders and promoters • improve the reputation of the market • make it more difficult for the unscrupulous to disguise their actions 	<p>The Commission acknowledges these expressions of support for this initiative.</p>
2.	Additional disclosure requested	<p>Three commenters supported the proposal but requested that we disclose more information about purchasers:</p> <ul style="list-style-type: none"> • two commenters asked that we also publish the purchaser’s jurisdiction of residence in order for the public to identify offshore purchasers domiciled in tax and secrecy havens. • one commenter suggested we also require disclosure of the shareholders of private offshore entities investing in private placements, otherwise these entities could retain their anonymity. 	<p>We have revised the new form to disclose complete information, including contact information, about investors that are not individuals. Investors that are not individuals are not afforded protection under the <i>Freedom of Information and Protection of Privacy Act</i> (British Columbia) (FIPPA).</p> <p>We think that the jurisdiction of residence of a purchaser who is an individual is potentially sensitive personal information. We will not make this information available to the public.</p> <p>The Commission has the authority to request additional information about any purchaser under a private placement, including the security holders of a private offshore entity. At this time, we will not</p>

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			require this additional information in every exempt distribution report filed with us. We may request it on a case-by-case basis if circumstances warrant it.
3.	Increased disharmony	One commenter supported the proposal but expressed concerns about increased disharmony of securities law across Canada.	The Commission's mission includes protecting the public interest by fostering a securities market that is fair and warrants public confidence. We believe the need for increased disclosure about the exempt market in British Columbia warrants a local response. It is a strength of the Canadian system that local problems can be locally addressed. If other Canadian jurisdictions experience similar problems as British Columbia, it is open to those jurisdictions to adopt similar initiatives.
4.	Don't make personal information too readily accessible	One commenter supported the proposal but expressed concerns that information may be too accessible and leave investors in jeopardy from criminal elements outside the market. The commenter requested that we take steps to prevent individual purchaser information being too easily accessible through the internet.	We have revised the proposal to protect individual purchaser information better. Individual purchaser information will not be available on our website. Anyone wanting to access information about individual purchasers may do so through the Commission office.

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<u>COMMENTS AGAINST</u>			
5.	Opposed to proposal	11 commenters objected to the proposal for various reasons, set out in detail below. One commenter stated that they do not agree or disagree with the proposal but asked questions and made observations, which have been summarized in the comments against the proposal.	We appreciate all the comments we received. They greatly assisted us in revising the proposal.
6.	Concerns about insufficient protection of personal privacy and impact on capital raising	<p>Eight commenters expressed concerns that personal privacy would not be sufficiently protected under the proposal and that this would negatively impact capital raising and investment opportunities in British Columbia. Their comments included:</p> <ul style="list-style-type: none"> • people are sensitive to privacy, particularly on financial matters • institutional investors particularly do not want their investment decisions made public • the proposal will negatively impact business between financial advisers and their clients • the British Columbia capital raising market would be impaired because investors, concerned about loss of privacy under the proposal, would choose to invest in jurisdictions with greater privacy protections • information about investors buying securities in the public market or under a prospectus is not publicly available; transactions in the public and private market should be afforded the same confidentiality • has the Commission considered privacy legislation when developing the proposal • the Commission should defer the proposal until it can be shown that it won't deter investment 	<p>We have amended the proposal to increase the safeguards for personal privacy in the following ways:</p> <ul style="list-style-type: none"> • no information about purchasers who are individuals would be published on our website • limited information about individual purchasers would be available to the public through our offices • use of the information about individual purchasers would be restricted to personal research about the issuer and not for commercial purposes <p>To test the risk that disclosing individual purchaser information would impair capital raising, we analyzed exempt distribution reports to determine the extent of involvement by high-net worth individuals. We presumed that high-net worth individuals would be most concerned with privacy. We determined that only about 5% of the capital raised from BC individual investors would be at risk if we proceeded with the proposal.</p> <p>In connection with the application of privacy legislation to the proposal, the <i>Securities Act</i> requires that all records filed with the Commission must be</p>

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			available for public inspection during normal business hours. FIPPA allows disclosure of personal information if it is under an enactment of British Columbia that specifically requires its disclosure, such as the <i>Securities Act</i> .
7.	Purchaser information would be used for inappropriate purposes	<p>Four commenters expressed concerns that purchaser information would be used for inappropriate purposes, such as cold-calling, creating and selling databases of investor names, and promoters using the names of recognized, reputable investors to promote stock. These commenters suggested that the Commission:</p> <ul style="list-style-type: none"> • limit access to personal information to prevent use for inappropriate purposes • prohibit misuse of information and cold-calling and prosecute offenders of those prohibitions • limit access to the information for inappropriate purposes, as has been done under corporate law • only disclose information about purchasers whose investment exceeds a certain size 	We have revised the proposal to protect personal information better, as described in more detail above. These additional protections will complement the existing prohibition against cold-calling in section 49 of the <i>Securities Act</i> .
8.	Disharmony across Canada and additional work for BC issuers	<p>Seven commenters opposed the proposal because it would increase disharmony of securities legislation across Canada to the detriment of BC issuers. They said that BC issuers would be required to spend more time and money complying with the requirement than issuers in other provinces and that this would negatively impact the BC capital markets. One of these commenters suggested the Commission consider excluding multi-jurisdictional reporting issuers until all provinces adopt the proposal.</p> <p>Five commenters questioned the policy reasons for imposing the additional requirements. Two of these commenters stated that there should be clear and tangible benefits to justify the additional costs of the proposal.</p>	<p>The Commission’s mission includes protecting the public interest by fostering a securities market that is fair and warrants public confidence. We believe the need for increased disclosure about the exempt market in British Columbia warrants a local response. We are considering changes to our electronic filing system to ease regulatory burden on issuers conducting offerings in multiple jurisdictions.</p> <p>We received significant support for the proposal from investors, who welcomed greater transparency in the exempt market.</p>

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9.	Additional information would not assist investors	<p>Eight commenters questioned the usefulness of this information for investors for the following reasons:</p> <ul style="list-style-type: none"> • exempt distribution reports are required to be filed 10 days after the distribution – given this timing, it is not clear how this information after the fact would assist investors in making an informed investment decision • the investment decisions of an insider or registrant does not help to determine suitability of an investment for someone else • the Commission has determined that accredited investors and investors of \$150,000 or more do not need prospectus disclosure in order to invest in the exempt market – why is this information necessary for these types of investors? • why would the purchase of an immaterial portion of a private placement by a non-registrant, non-insider be newsworthy? • if the Commission believes investors need certain information in order to make informed investment decisions, then the exemptions themselves should be revised • the Commission already receives this information; if there are concerns about particular investments, Commission staff can investigate further 	<p>We received significant support for this proposal from investors. Potential investors would be able to obtain information about insiders, promoters and current shareholders from previous exempt distribution reports.</p> <p>Since this information is already provided by issuers when complying with reports, it seems logical to provide the information to investors for purposes of doing their own due diligence, something our InvestRight program actively encourages.</p> <p>The additional disclosure required in the form would facilitate the Commission’s compliance and investigation teams in more quickly identifying fraudulent activities. It would also assist potential investors in identifying the principals of non-reporting issuers and the degree to which those principals are themselves invested in the company.</p>
10.	Comments on form requirements	<p>Three commenters cited specific problems with the additional requirements in the new form:</p> <ul style="list-style-type: none"> • issuers may not be able to easily access information to fulfill the additional disclosure requirements about purchasers, insiders and promoters • the person signing the form may be liable for misrepresentation 	<p>We expect issuers raising capital to obtain certain information from prospective purchasers in order to determine the availability of the capital raising exemptions. Only non-reporting issuers are required to provide additional information about insiders and promoters. We do not expect that obtaining this information would be difficult for non-reporting issuers, who have to maintain shareholder registries and often have restrictions on the transfer of their securities under corporate legislation.</p>

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		<p>One commenter asked why under the new form only requires non-BC issuers to give information about BC investors rather than about all their investors? The commenter said this places BC issuers at a disadvantage and appears to discriminate against BC issuers.</p>	<p>The person signing the form is doing so on behalf of the issuer; the issuer may have liability for any misrepresentation in the report.</p> <p>The Commission's jurisdiction is limited to trading of securities within British Columbia. A distribution by a non-BC issuer to a non-BC resident is not a distribution in British Columbia.</p>
11.	Additional disclosure is duplicative	<p>Two commenters said that the additional disclosure requirements are duplicative. The TSX Venture Exchange already gets and publishes information about purchasers under private placements that are insiders of the issuer or registrants. Corporate legislation makes shareholder information available through shareholder lists. One commenter suggested that the Commission should lower the thresholds for insider reporting if the current regime is not providing sufficient information.</p>	<p>The Commission recognizes that there may be other sources for some of this information. However, those sources may be limited and may not cover all issuers using the exempt market to raise capital in British Columbia. For example, the TSX Venture Exchange only provides information about registrants and insiders of issuers listed on it and BC corporate legislation does not address limited partnerships or issuers incorporated in other jurisdictions.</p> <p>The additional disclosure required in the form would facilitate the Commission's compliance and investigation teams in more quickly identifying fraudulent activities.</p>

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12.	Increased disclosure about insiders and promoters	<p>Two of the commenters who generally opposed to the proposal expressed support for increased disclosure about insiders and promoters of the issuer and registrants. These commenters thought that these parties, by virtue of their positions, have agreed to have their transactions scrutinized and made public.</p> <p>One commenter opposed to the proposal specifically objected to the increased disclosure about insiders and promoters because this would drive non-reporting issuers away from British Columbia.</p>	<p>In our view, information about investments made by insiders and promoters of issuers and registrants should be publicly available. This is useful information for potential investors, as evidenced by the support for the proposal. This additional disclosure would facilitate the Commission's compliance and investigation teams in more quickly identifying fraudulent activities.</p>
13.	Impact on investment funds	<p>Three commenters submitted that the proposal should not apply to investment funds because they operate differently than other issuers and that this information would not be useful to investors in investment funds. Their concerns included:</p> <ul style="list-style-type: none"> • additional information about insiders of a fund manager is irrelevant to investors in funds, which are redeemable on demand rather than traded on the marketplace • the proposal would diminish the privacy policies of advisers and negatively impact the trust and confidence of clients 	<p>We have revised the proposal to exempt investment funds that are managed by registered investment fund managers from the requirement to provide information about their investors, insiders or promoters. We have not seen problems in the exempt market involving this category of issuer.</p>
<u>COMMENTS UNRELATED TO PROPOSAL</u>			
14.	Suggestions for additional requirements for insiders and issuers	<p>Two commenters who supported the proposal suggested additional requirements to better control the exempt market:</p> <ul style="list-style-type: none"> • require securities held by insiders to be subject to a six month hold period • require issuers to file news releases confirming the holdings of insider after consideration has been received • prohibit issuers from issuing share certificates until after the expiry of any legends or hold periods in order to curtail short-selling • require issuers to disclose their outstanding securities more accurately 	<p>We thank the commenters for their suggestions.</p>

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15.	Change 45-102 to allow sales during restricted period	One commenter suggested that we amend National Instrument 45-102 <i>Resale of Securities</i> to allow investors to freely sell securities of non-reporting issuers to similarly qualified purchasers.	Investors in non-reporting issuers are able to rely on existing exemptions from the prospectus requirement to sell during the restricted period, for example, the accredited investor exemption.