



January 1, 2013

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## Dear Survey Participant,

Thank you for your interest and support in considering the development of an equity Crowdfunding framework for Canada. We highly appreciate your time and value your opinions and feedback.

## What is Crowdfunding?

Crowdfunding is recognized as a new source of early stage seed capital for Canadian start-ups and SMEs (small-to-mid-sized enterprises) who require funding to develop and market innovative products and services. Crowdfunding can be defined as 'the raising of funds through the collection of small contributions from the general public (known as the crowd) using the Internet and social media'.

## Why is it important?

**Small businesses are the lifeblood of the Canadian economy.** By definition, SMEs include micro-enterprises (1-4 employees), small businesses (5-100) and medium sized businesses (101-500). Small businesses hire 48.3% of the entire workforce while 25% of the Canadian population are self employed entrepreneurs. Almost one in every two persons is directly affected and reliant on small business for their livelihood. In 2009, small business represented 28% of Canada's total GDP and also accounted for \$68 billion in exports, or 25% of Canada's total export value. ([Source](#))

**Small businesses are faced with a 'funding gap' and find it overly difficult to raise small amounts of capital** (e.g., \$2 million) from traditional and existing financial channels to develop their ideas and fuel existing operations. Venture capital has declined 80% in the last ten years. In 2000, \$5.9 billion was invested in 1,007 Canadian start-ups according to Thomson Reuters compared to just \$1.1 billion in 2010 that was raised by 357 Canadian firms ([Source](#)). Raising funds via traditional institutions and mainstream options is expensive, not always available and often less than transparent especially for new start-ups seeking critical early stage funds. Incubator and accelerator programs are highly competitive and operating at maximum capacity.

**Entrepreneurs and innovation will drain from Canada.** Without a clear funding roadmap for Canadian start-ups and SMEs or an efficient and legally viable capital formation process, many entrepreneurs will leave Canada to setup businesses in countries with more supportive funding environments (i.e., United States). Canada will continue to slide down global innovation rankings and our economy will suffer as a result negatively impacting job creation and the economy.

## Current Legal Status in Canada

On-line **non-equity Crowdfunding** that allows the general public to contribute financially to projects in exchange for recognition, rewards or pre-purchases of a product are legally permitted in Canada and gaining in popularity (e.g., Kickstarter, Indiegogo and RocketHub). As of December 2012, NCFCA Canada has identified a total of 43 general and niche funding portals operating in Ontario, Quebec, British Columbia, Alberta, Nova Scotia and New Brunswick. See [Canadian Crowdfunding Directory](#)

**Equity Crowdfunding**, however, is not legally permitted in Canada but seriously being considered by Canadian securities regulators, such as the Ontario Securities Commission as a viable way to support Canadian start-ups and SMEs. Equity Crowdfunding involves the distribution of securities over the internet by a funding portal and the use of social media. If legalized in Canada, the general public would be allowed to financially invest in Canadian start-ups and SMEs via the internet in exchange for equity (e.g., common shares).

Facilitating the distribution of securities over the internet has gained a lot of interest internationally and has already been legalized or permitted under existing laws in several countries, such as Australia, the United Kingdom and the Netherlands. In April 2012, a framework for equity Crowdfunding was approved in the United States as part of the [JOBS Act](#).

## Canadian Securities Regulators – Equity Crowdfunding Proposals

On December 14, 2012, the Ontario Securities Commission (the **OSC**) released OSC Staff Consultation Paper 45-710 called ‘Considerations for New Capital Raising Exemptions’ and is **accepting public comments \*Extended until March 8, 2013 February 12, 2013 – the end of the comment period.** (OSC Paper [here](#))

In addition, on December 20, 2012, the Canadian Securities Administrators (the **CSA**) (other than Ontario and British Columbia) released Multilateral CSA Notice 45-311 called “Exemptions from Certain Financial Statement-Related Requirements in the Offering Memorandum Exemption to Facilitate Access to Capital by Small Businesses” (**CSA Notice 45-311**) which provides exemptions from certain requirements of Form 45-106F2 in connection with section 2.9 of National Instrument 45-106 *Prospectus and Registration Exemptions*. (**NI 45-106**). (Multilateral CSA Notice [here](#)).

The CSA is accepting public comments on CSA Notice 45-311 **until February 20, 2013 – the end of the comment period.**

CSA Notice 45-311 slightly amends the existing offering memorandum exemption in section 2.9 of NI 45-106 (the **OM Exemption**). Simply, it provides certain financial statement relief from the requirements under the OM Exemption provided that:

- the issuer is not a reporting issuer, investment fund, mortgage investment entity or an issuer engaged in the real estate business;
- the issuer is not distributing complex securities;
- the amount raised by an issuer group (the issuer and certain related issuers) must never exceed \$500,000; and
- the aggregate acquisition cost of all securities distributed by an issuer group to a purchaser in a distribution and in the 12 months preceding the date of such distribution, must not exceed \$2,000.

The exemption orders expire December 20, 2014.

## Canadian Crowdfunding Survey

**Survey Sponsors:** The **National Crowdfunding Association of Canada (NCFA Canada)** has partnered with the **Exempt Market Dealers Association of Canada (EMDA)** to develop and host a national Canadian Crowdfunding Survey focusing on Crowdfunding participants, especially small business owners, investors and the general public.

**Purpose:** To obtain a better understanding of the various stakeholder opinions on legalizing equity Crowdfunding in Canada and provide Canadian securities regulators with feedback on many of the challenges and issues put forth by the equity Crowdfunding frameworks put forward by the OSC and the CSA.

**Survey Deadline:** Please complete this survey by **February 22, 2013**.

**Documents and Resources:**

- Survey Glossary of Terms
- Select Crowdfunding pages from OSC Staff Consultation Paper 45-710
- Crowdfunding Resources and Links

**Results:** Survey results will be tabulated and emailed to all participants that indicated they desire to receive a copy of the survey prior to being posted online at NCFA Canada's website site at: [www.ncfacanada.org](http://www.ncfacanada.org) and the EMDA's website at: [www.emdacanada.com](http://www.emdacanada.com).

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Thank you for your interest and support in considering the development of an equity Crowdfunding framework for Canada. We wish you all the best in 2013 – Happy New Year!

Sincerely,



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Craig Asano  
Founder and Executive Director  
National Crowdfunding Association of Canada



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Brian Koscak  
Chairman  
Exempt Market Dealers Association of Canada