

## Open Letter to Securities Regulators: You Are One Call Away From Changing The Future of Canadian Business

Toronto, February 4, 2019

Dear Provincial Securities Regulators:

Startups and growth companies are the biggest drivers for economic growth and jobs in Canada. I know you know this, so I can't help but wonder why these companies are being denied access to the financing they need to grow and thrive.

Investment crowdfunding (also known as equity crowdfunding) gives emerging companies better access to the capital they need to grow, while allowing everyday folks a chance to easily invest in companies they believe in.

In the UK, investment crowdfunding has already become a mainstream form of financing. In the U.S., the federal government introduced national investment crowdfunding rules in 2016 and has seen the industry blossom in the proceeding years. In both countries, startups and growth stage companies can easily access capital from the larger community with concise, nation-wide rules. UK Companies raised £333 million in 2017<sup>1</sup> and £53.8 million in the first quarter of 2018 alone<sup>2</sup>. In the US, \$194 million was raised in 2018<sup>3</sup>.

And Canada? Canada is lagging behind, having raised less than \$2 million in 2018 using crowdfunding rules.<sup>4</sup>

Canadian companies raising capital through investment crowdfunding are forced to jump through the hoops of different (often conflicting) provincial regulations. In Ontario, our most populous province, the situation is particularly bad: the province has no viable crowdfunding rule that *actually* works. The *Crowdfunding Exemption* introduced by the Ontario Securities Commission (OSC) in January 2016 turned out to

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<sup>1</sup> Zhang et al, *The 5<sup>th</sup> UK Alternative Finance Industry Report* (Cambridge: Cambridge Centre for

<sup>2</sup> Hemmadi, Murad, "Canadian Companies have raised less than \$2 million through startup crowdfunding since 2016." TheLogic.co. <https://thelogic.co/news/canadian-companies-have-raised-less-than-2-million-through-startup-crowdfunding-since-2016/>

<sup>3</sup> Neiss, Sherwood, "Regulation Crowdfunding performed solidly in 2018. Here's the data". VentureBeat.com <https://venturebeat.com/2019/01/30/regulation-crowdfunding-performed-solidly-in-2018-heres-the-data/>

<sup>4</sup> BCSC, eServices, February 2019, FrontFundr Team Analysis, February 2019.



be much too onerous for young companies. To date it has never been successfully used. That means Ontarians are locked out of equity crowdfunding, and Canadian companies are restricted from accessing their capital.

FrontFundr, operating as registered *Exempt Market Dealer* in eight provinces and Canada's leading online private capital markets platform, is democratizing investing in startups and growth companies. We're passionate about linking visionary companies with everyday people who want to own a share in their future.

Unfortunately, we had to disappoint over 100 startups in Canada that wanted to raise capital from their supporters in Ontario. And aside from an elite group of angel investors and venture capitalists, nearly 14 million Ontarians cannot invest in companies they believe in.

You can change this virtually overnight and help Canada catch up with the U.S. and U.K..

It does not need to be complicated. I am not asking for overall harmonization of securities laws or calling for the establishment of a national securities regulator. All I am asking is for the executive directors of the provincial securities regulators to jump on a conference call and decide to:

1. Abandon the *OSC Crowdfunding Exemption*
2. Multilaterally adopt the *45-535 Startup Crowdfunding Exemption* that is already in force in most provinces
3. Increase the maximum capital raising limit of the *Startup Crowdfunding Exemption* from \$250,000 per capital raise to \$1,500,000 and the individual investment limit from \$1,500 to \$5,000 provided the capital raise is facilitated by a *Funding Portal* that is registered *Exempt Market Dealer*.

Let's support the drivers of Canada's economy by giving them the same access to capital they would have in the U.S. or the U.K.. All it takes this one conference call to help Canadian startups accelerate our economy. All Canadians will be thankful to you.

Yours truly,

Peter-Paul Van Hoeken

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