

August 31, 2015

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Dear Sir and Mesdames:

Re: Proposed amendments to National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)* (**NI 13-101**) and Multilateral Instrument 13-102 *System Fees for SEDAR and NRD* (the **Proposed Amendments**)

The Private Capital Markets Association of Canada (the **PCMA**) is pleased to provide our comments and support of the Proposed Amendments for the reasons set out below under "Comments and Analysis of the Proposed Amendments".

### Who is the PCMA?

The PCMA is a not-for-profit association founded in 2002 as the national voice of exempt market dealers (**EMDs**), issuers and industry professionals in the private capital markets across Canada.



PCMA plays a critical role in the private capital markets by:

- assisting its hundreds of dealer and issuer member firms and individuals to understand and implement their regulatory responsibilities;
- providing high-quality and in-depth educational opportunities to private capital markets professionals;
- encouraging the highest standards of business conduct amongst its membership across Canada;
- increasing public and industry awareness of the private capital markets in Canada;
- being the voice of the private capital market to securities regulators, government agencies, other industry associations and the public capital markets;
- providing valuable services and cost-saving opportunities to its member firms and individual dealing representatives; and
- connecting its members across Canada for business and professional networking.

Additional information about the PCMA is available on our website at:

[www.pcmacanada.com](http://www.pcmacanada.com)

### **Who Are Exempt Market Dealers?**

EMDs are fully registered dealers who engage in the business of trading in securities to qualified exempt market clients. EMDs are subject to full dealer registration and compliance requirements and are directly regulated by the provincial securities commissions. The regulatory framework for EMDs is set out in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (**NI 31-103**) and it applies in every jurisdiction across Canada.

EMDs must satisfy substantially the same "Know-Your-Client" (**KYC**), "Know-Your-Product", (**KYP**) and trade suitability obligations as other registered dealers who are registered investment dealers and members of the Investment Industry Regulatory Organization of Canada and mutual fund dealers and members of the Mutual Fund Dealers Association of Canada. NI 31-103 sets out a comprehensive dealer regulatory framework (substantially the same for all categories of dealer), which requires EMDs to satisfy a number of regulatory obligations including:

- educational proficiency;

- capital and solvency standards;
- insurance;
- audited financial statements;
- KYC, KYP and trade suitability;
- compliance policies and procedures;
- books and records;
- trade confirmations and client statements;
- relationship disclosure, including disclosure of conflicts of interest and referral arrangements;
- complaint handling;
- internal dispute resolution procedures, and external dispute resolution for clients through the Ombudsman for Banking Services and Investments;
- cost, product and account fees disclosure;
- maintenance of internal controls and supervision sufficient to manage risks associated with its business;
- prudent business practices requirements;
- registration obligations; and
- submission to regulatory oversight and dealer compliance reviews.

EMDs may focus on certain market sectors (*e.g.*, oil and gas, real estate, mining or minerals, technology, venture financing, etc.) or may have a broad cross-sector business model. EMD clients may be companies, institutional investors, accredited investors or investors who purchase exempt securities pursuant to an offering memorandum or another available prospectus exemption.

EMDs provide many valuable services to small and medium size enterprises, large businesses, investment funds, merchant banks, financiers, entrepreneurs, and individual investors, through their ability to participate in the promotion, distribution and trading of securities, as either a principal or agent.

## Comments and Analysis of the Proposed Amendments

The PCMA supports the Proposed Amendments for the reasons set out below.

1. Need for accessible database - There is an urgent and pressing need for a publicly accessible and searchable database for information and documents involving non-reporting issuers in the private capital markets similar to that of SEDAR for reporting issuers in the public markets. We commend the CSA for proposing such an initiative and believe there is merit in extending SEDAR, as a commonly known industry tool, into this new area of the private markets.
2. Need for searchable database for reports of trade – We also believe there is a need for having a searchable database rather than a non-searchable database of exempt market filings. We believe such search capabilities should be more than just document type. As discussed in the Proposed Amendments, we concur with the CSA that it would be very helpful to break down the sections of an F1 and F6 report of exempt distribution into a specific template provided by the CSA and filed in a certain format. We commend the CSA for taking this approach which would require using specific templates and formats that will enable the CSA, issuers, academics, industry, investors and others to receive the information in the report of exempt distribution in a manner that can be more easily analyzed.
3. Need for search capabilities for offering memoranda - The PCMA requests that such search functions be available in a template form and filed in certain formats for offering memoranda prepared under the offering memorandum exemption set out in s. 2.9 of NI 45-106. However, we believe this may be more appropriately addressed during Phase II of the Exempt Market Review when the CSA will examine the prescribed form of disclosure form used in connection with the offering memorandum exemption.
4. Issuer benefits under the Proposed Amendments - The Proposed Amendments state that the benefits to issuers for using SEDAR for exempt market filings include:
  - a. enabling issuers to make filings in multiple jurisdictions through a single electronic system;
  - b. allowing both reporting and non-reporting issuers to have their filings, including exempt market filings, in one location under a SEDAR profile,

while still maintaining confidential treatment of sensitive investor information; and

- c. allowing issuers to verify the accuracy and completeness of their filing record without having to make an information request to the applicable jurisdictions.

We agree that these are compelling reasons, however, there are additional considerations as noted below.

5. Other benefits and advantages of introducing the Proposed Amendments - The PCMA submits that there are also benefits for others if issuers are required to use SEDAR for exempt market filings. These include,
  - a. *investors* who may want to research and read certain exempt market filings to assist them in making an investment decision;
  - b. *other issuers* who may want to see what their competitors are doing, or innovate by doing something different in terms of an offering and its structure;
  - c. *securities regulatory authorities* who may want to assess current market practices; and
  - d. *securities industry professionals* who want the transparency of having publicly available information for educational, comparable, research, precedent and industry purposes.
6. System fee - The system fee of \$25 is nominal and we have no issue with imposing such a cost in lieu of the benefits of having this information available.
7. Harmonization and nationalized requirements - For the sake of having a harmonized and nationalized filing system, it would be preferred that the BCSC and OSC be a part of the Proposed Amendments. We recognize that currently the BCSC is the only jurisdiction in Canada to require the electronic filing of offering documents under, for example, the offering memorandum exemption under s. 2.9 of National Instrument 45-106 and it may be difficult to adopt a new system. However, we believe it is more important for the private markets to have such an electronic filing system in all markets than not, albeit three

different systems (*i.e.*, Ontario BC and the other jurisdictions if they all were to adopt the Proposed Amendments), with the hope that the OSC and BCSC will work towards adopting the SEDAR platform in the future.

We note that it would be helpful if the CSA explain why the OSC and BCSC have decided not to adopt the SEDAR platform for exempt market filings and more importantly, its views as to future harmonization.

8. Filings by foreign issuers – We support the CSA maintaining the status quo for foreign issuers who may continue to file its exempt market filings in paper format or elect to do so electronically on SEDAR.

We thank for considering our submissions and we would be pleased to respond to any questions or meet with you to discuss our comments.

Regards,

***“Brian Koscak”***

PCMA Vice Chair

***“Geoffrey Ritchie”***

PCMA Executive Director