June 27, 2019

1. Why are we consulting?

Many factors are impacting and changing Alberta's capital market. Alberta has for many years had a strong capital market with significant representation from the energy sector, pipelines, and related services. Recently, those sectors have been subject to significant economic, socio-political and other pressures. Efforts are increasingly being made to leverage technology to strengthen existing industries, help them adapt to changing dynamics, and expand and diversify the Alberta economy into areas such as alternative energy, health/biotech, agritech, entertainment and tourism, artificial intelligence/machine learning, fintech and other high tech.

There are many parties engaged in these efforts, including business leaders, entrepreneurs, municipal and regional economic development organizations, universities and colleges, angel and venture capital organizations, incubators (providing services to start-ups such as management training and office space) and accelerators (working with a cohort of entrepreneurial teams, providing investment or investment connections, mentoring and pitch training), various levels of government, and technology and industry associations and alliances. Each has a different but important role to play.

The Alberta Securities Commission (ASC) is Alberta's securities regulator. We are responsible for protecting investors and fostering a fair and efficient capital market. We recognize that many of the challenges that must be addressed in Alberta extend beyond securities regulation and relate to broader economic and other factors. However, we believe we can play a role in creating more vibrant public and private capital markets in Alberta, for example, through the following:

Right-touch regulation	Embracing technology	Fostering connections	Informational resource
Removing unnecessary barriers to accessing capital and investing	Ensuring securities regulation adapts to technology solutions employed by those we regulate	Fostering investment alternatives	Helping Alberta investors better understand the considerations and risks when investing
Ensuring investors can continue to have confidence in the Alberta capital markets	Exploring and leveraging technology that can improve capital market efficiencies, reduce costs, and provide investors with better information and analysis	Facilitating connections between entrepreneurs and relevant professionals engaged in the capital raising process	Helping entrepreneurs better understand the capital raising process and available financing options

We are acutely conscious of the need to find the right balance - adequately protecting investors without unduly burdening the businesses trying to raise capital to grow. Regulation is necessary. Investors that lose confidence in the integrity of a capital market stop investing in it. But getting the balance right is critical; time and money spent on regulatory compliance is less time and money available for growing businesses.

We have been conducting research and engaging with market participants to better understand the changes that are occurring in our capital market and the challenges that are facing Alberta market participants. We have a history of engagement with businesses in Alberta's traditional industry sectors and continue to engage with them. Recently, we have expanded our research and engagement to focus more on the private market with a view to better understanding the challenges to those in new and emerging industry sectors as well as rural and smaller urban communities. We have formed our New Economy Advisory Committee[1], a group of experienced external advisors with expertise in the intersection of technology and entrepreneurial capital formation, to assist us and are consulting with them and our other expert advisory committees.

Now, through this consultation paper, we are seeking input more broadly on these issues. We hope to elicit feedback on steps that we – as Alberta's securities regulator – might take to enhance access to capital for Alberta businesses and enhance investment opportunities for investors while still ensuring appropriate investor protection. These efforts are consistent with the government of Alberta's broader expression that "Alberta is open for business", with a renewed focus on job creation and red tape reduction. We want to know what we can do as a securities regulator to help ensure that Alberta is not just one of the best places in the world to live, but also to invest and start, build and grow a business.

Be part of the answer. Share your thoughts.

On or before **September 20 2019**, you can participate by doing any one or more of the following:

- click here to respond to the survey questions;
- email us at new.economy@asc.ca to indicate your interest in participating in an in-person consultation session;
- submit a comment letter.

See **Part 8: Ways for you to participate**, below, for further details.

We are interested in your thoughts on ways we can enhance the Alberta capital market. To stimulate the conversation, we have set out a number of preliminary ideas, described in more detail in Part 7, *Brainstorming ideas*.

2. Contents of this Consultation Paper

The remainder of this consultation paper consists of the following sections:

Part 3: **Executive summary**

Part 4: **Alberta's capital market: Environmental scan**

Part 5: **Initiatives beyond securities regulation**

Part 6: **Existing regulatory burden reduction efforts**

Part 7: **Brainstorming ideas**

Part 8: **Ways for you to participate**

3. Executive summary

Investment in smaller companies in the traditionally dominant sectors of Alberta's capital market (oil and gas, and related services) has declined. Although this reflects broader economic and social factors, the decline has not been off-set by increased investment in other industry sectors.

There is some evidence of diversification of the Alberta economy e.g., the development of technology-focused businesses; however, there is still considerable room for growth.

Alberta is attracting and retaining less than its proportionate share of both public venture capital and investments through private venture capital and angel investing.

Regional financing differences may reflect broader economic factors and local variations in support to small business. There are various parties in Alberta that are and need to be engaged in addressing these issues. Although it is unlikely that securities laws, being largely harmonized across Canada, are the cause of these regional differences, there are potentially ways in which the ASC could participate that, while still protecting investors, could help foster a more vibrant Alberta capital market that can better address financing needs of emerging and growing Alberta businesses.

This Consultation Paper includes a summary of quantitative financing data and feedback we have received to date from market participants about challenges in financing Alberta businesses. We seek input now on what steps the ASC, as Alberta's securities regulator, can take to address some of these issues while ensuring appropriate investor protection. We have included a number of preliminary brainstorming ideas to spur the conversation. These include:

- enhancing our efforts as an informational resource for entrepreneurs;
- expanding the tools available to investors in assessing investments;
- expanding the accredited investor prospectus exemption to include investors who meet certain experience and educational requirements;
- leveraging technology to reduce compliance challenges faced by businesses and dealers in confirming an investor's accredited investor (or other) status;

- pursuing an exemption from dealer registration to facilitate small business financings that are not being serviced by registered dealers;
- providing know-your-client and suitability exemptions to registered dealers involved in smaller financings when dealing with experienced, accredited investors;
- addressing other compliance burdens facing dealers that may disproportionately impact smaller firms;
- facilitating angel investment funds;
- facilitating the development of publicly-traded retail funds to enable investment in early stage businesses;
- reducing compliance challenges for companies conducting cross-border financings;
- authorizing a semi-public market to permit secondary trading by non-public companies;
- exploring enhanced institutional liquidity for private markets; and
- further facilitating crowdlending and peer-to-peer lending.

4. Alberta's capital market: Environmental scan

In an effort to better understand the Alberta capital market, and the role we might play in enhancing both the public and private aspects of it, we have reviewed various quantitative data, considered academic and other papers relating to changes in capital markets, entrepreneurship and innovation, and engaged with our advisory committees and other market participants. We have sought preliminary input on perspectives and suggestions for steps we might take.

The following is a high level summary of certain quantitative information about the Alberta capital market. It is followed by a summary of themes that we have heard from our consultations to date.

(a) Quantitative and statistical information

Alberta's economic situation in the Canadian context

Despite representing only 11.6% of the Canadian population, Alberta's gross domestic product (**GDP**) for 2017 represented approximately 15.53% of the Canadian national GDP. Even with the recession and many Albertans struggling financially, Alberta continued to have the highest provincial per capita GDP at $71,092 in 2017, being $23,675 higher than the national average.[2] In 2017, Alberta contributed $100.2 billion of the total $483.6 in value of goods exported.[3]

Following the recession in 2015 and 2016, Alberta's economy grew by 4.6% in 2017, outpacing all other provinces. The pace slowed in 2018, as Alberta's GDP increased by 2.4%, fourth behind Prince Edward Island (2.6%), Quebec (2.5%), and British Columbia (2.5%). Although with low oil prices the Alberta economy has grown somewhat more diverse, the economy remains significantly dependent on the energy sector.[4]

With 48.8 small businesses per thousand adults, Alberta is second only to Prince Edward Island (49.4). However, the average annual growth rate of small businesss in Alberta was only 0.4% from 2013 to 2017. This does not compare well to the national average annual growth rate of 1.1%. Similarly, the average annual growth rate in Alberta for medium-sized businesses (100-499 employees) was -0.9%, compared to a national average of 1.0%.[5]

Public capital markets in Canada and Alberta

There are a number of very large well-established Canadian public companies. However, overall, Canada's public capital market is predominantly comprised of micro-cap companies. Based on market capitalization, Alberta-based TSXV-traded companies tend to be comparable to other Canadian companies; however, there are proportionately more Alberta-based TSX-traded companies with higher market capitalizations.

There is no precise definition of what constitutes "small cap" but it is often thought to include companies with a market capitalization between US$300 million and up to US$1 or $2 billion.[6] Nasdaq defines a company as "small-cap" if it has less than US$1 billion in market capitalization,[7] being approximately C$1.34 billion. Similarly, there is no standard definition of "mid-cap" but it is often used to reference companies with market capitalizations up to US$5 or US$6 billion with Nasdaq using US$5 billion as the upper limit.[8] Using Nasdaq's definitions, and converting to Canadian dollars, the following table compares the market capitalization of Alberta-based TSX and TSXV companies to all TSX and TSXV companies[9].

Market capitalization	Percentage of all TSXV- listed	Percentage of Alberta TSXV-listed	Percentage of all TSX-listed	Percentage of all Alberta TSX-listed
Nano* and Micro-cap: <C$401M	99.4%	99.4%	67.7%	56.8%
Small-cap: C$401M-C$1.34B	0.5%	0.6%	17.1%	18.5%
Mid-cap:>C$1.34B-C$6.69B	0.1%	0%	10%	15.4%
Large-cap: >C$6.69B	0%	0%	4.9%	7.4%

*91% of TSXV-listed and 40% of TSX-listed companies have market capitalizations below US$50 million/C$67 million and would likely be considered "nano-cap".

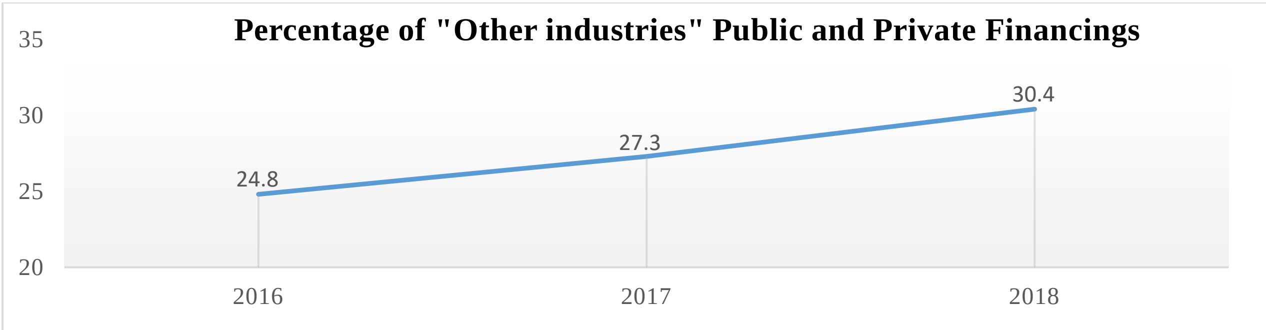
The size of the public companies in Alberta and Canada, relative to international standards, is relevant as we assess both the level of regulatory burden and the potential market risks.

Financing activity in Alberta[10]

In 2018, there was a total of $20.1 billion raised by Alberta businesses. This represents a significant decline from prior years which saw $63.8 billion raised in 2017 and $53.2 billion in 2016.[11]

Interestingly, the type of security being issued has also changed. While equity was the dominant type of security issued in 2016 and 2017, in 2018 the significant majority of securities issued by Alberta businesses (publicly and privately) was debt.

Alberta oil and gas and pipeline businesses continue to dominate both public and private financings, with pipeline financings overtaking oil and gas in 2018. However, "Other industries" (industries other than oil and gas, pipelines, financial services, real estate, utilities and investment companies and funds) have seen a year-over-year proportionate increase.



Changes in the public capital markets

Across Canada we continue to see a decline in both the number of operating businesses that are going public (i.e., becoming reporting issuers[12]) and that are staying public.[13] Some of these businesses exit the public markets because they no longer have a viable business but many exit through acquisition. Although the decline has been noted in Canada[14], the U.S., and elsewhere, this trend appears particularly pronounced in Alberta with the number of listed reporting issuers declining by approximately 35% from 656 in 2013 to 424 in 2018.[15]

Like the Alberta economy, the Alberta public capital market continues to be dominated by the oil and gas industry, followed by utilities and pipelines. However, we are seeing significant change in the size of those businesses.

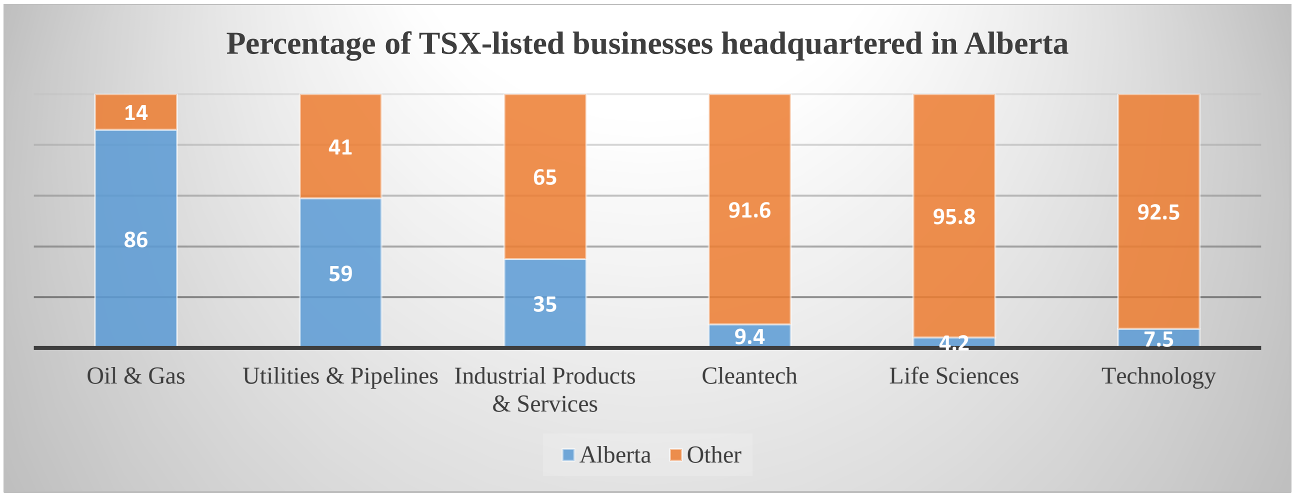
Operating businesses that remain public tend to be getting larger.[16] In contrast, there has been a dramatic decline in the last 10 years in the number of Alberta public "venture" companies i.e., those, trading on the TSX Venture Exchange (**TSXV)** and the Canadian Securities Exchange (**CSE**). For example, the number of Alberta-headquartered TSXV- listed businesses has decreased from 422[17] in 2008 to 178 as of December 2018.[18]

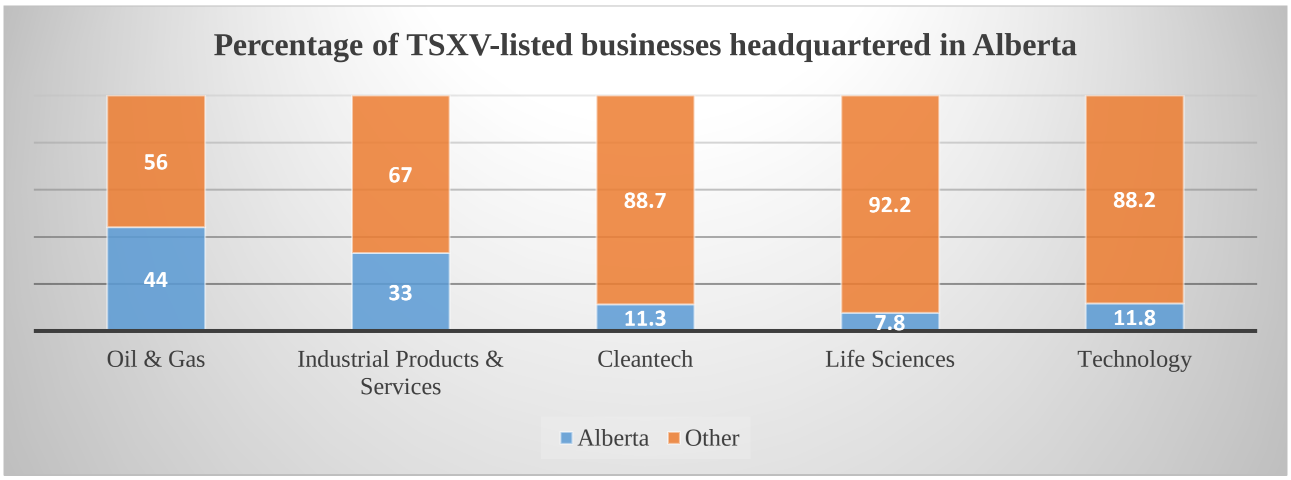
The market capitalization of Alberta-headquartered businesses represents approximately 19% of the aggregate market capitalization of the Canadian public markets, which is second only to Ontario. However, the number of Alberta-headquartered public companies is much lower, approximately 10.6% of those listed on the Toronto Stock Exchange (**TSX**) and 10.4% of those listed on the TSXV.

Representation of Alberta publicly traded businesses in traditional and emerging industry sectors

Alberta's public market reflects the continued dominance of the oil and gas industry, related industrial services, and pipelines.

Although progress has been made in diversifying the Alberta economy, there continues to be room for growth in Alberta's share of emerging industry sectors in the public markets.





Alberta's private capital market

Private investment in publicly-traded companies

Larger public companies tend to raise capital by public offering via prospectus. However, the majority of funds raised by smaller publicly-traded businesses is through private financings, by prospectus-exempt financings. For example:[19]

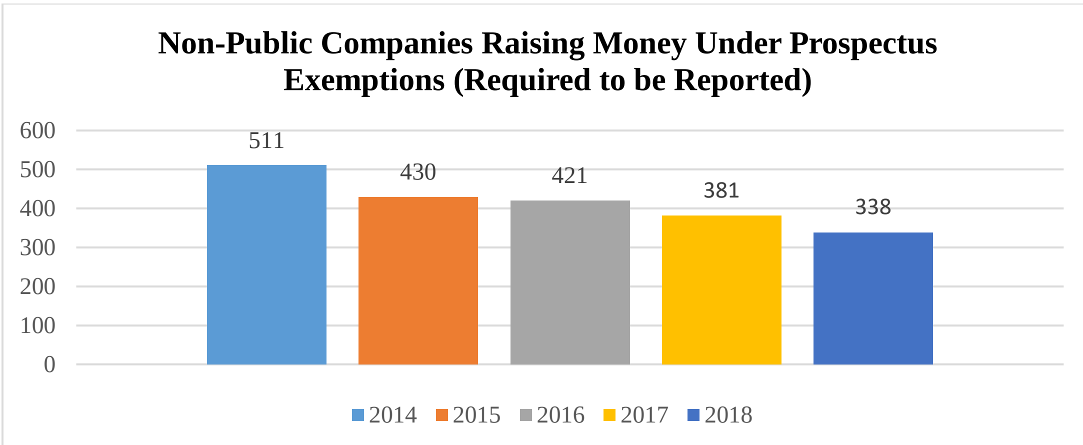
- In 2018, TSX-listed businesses raised approximately $34 billion of which approximately $24 billion was by prospectus offering with the remaining $10 billion being raised under exemptions from the prospectus requirement.

- In contrast, TSXV-listed businesses raised approximately $6.8 billion of which approximately $2 billion was by prospectus offering with $4.8 billion being raised under exemptions from the prospectus requirement.

Private markets, as reported to the ASC

Private financings, raised under prospectus exemptions, by businesses that are not public companies, represents a significant component of the Alberta capital market. Alberta-based non-public companies raised $2.7 billion in reported prospectus-exempt financings compared to $4.1 billion raised by public companies in prospectus-exempt financings.[20] Since "private issuers"[21] e.g., businesses with less than 50 non-employee shareholders are not required to report their financings, the number of private financings by companies that are not public is likely higher.

However, the number of non-public companies raising money under prospectus exemptions (that require reporting to the ASC) has been steadily declining: [22]



Supplemental information about private markets

Since businesses that qualify as "private issuers" and only sell their securities to a specified list of persons or companies, such as family, close friends and accredited investors are not required to report those financings, the ASC's data respecting private financings is not complete and we have looked to other sources to supplement the available information on financings in this private market. However, we have heard from many sources that this data may not necessarily fairly represent the level of private investment activity in Alberta. Venture capital and angel investor associations both report a lack of voluntary reporting in Alberta. This has also been documented in academic research as a particular problem in Alberta.[23] Reasons cited for this include:

- Much of the investment activity in Alberta is through 'family offices'. These investors may not be interested in publicizing their investments.
- Considerable angel investment in Alberta occurs individually through informal connections among investors rather than through an organized network. Because the investment is not coordinated through an organization it is typically not reported.
- In contrast, in other jurisdictions considerable investment is made through labour-sponsored venture capital funds or other government sponsored vehicles that have an incentive to publicly demonstrate the impact they are making. Venture capital funds in Alberta do not necessarily have the same incentive.

With those caveats, we include the following.

Canadian Venture Capital Association Data

The Canadian Venture Capital Association (**CVCA**) collects information voluntarily provided to it. The following is a summary of select information from CVCA's Q4 2018[24] report, based on survey data collected.

<u>Private equity</u>

- Nationally, private equity deals are focused on agri-forestry, automotive and transportation, business products & services and cleantech.

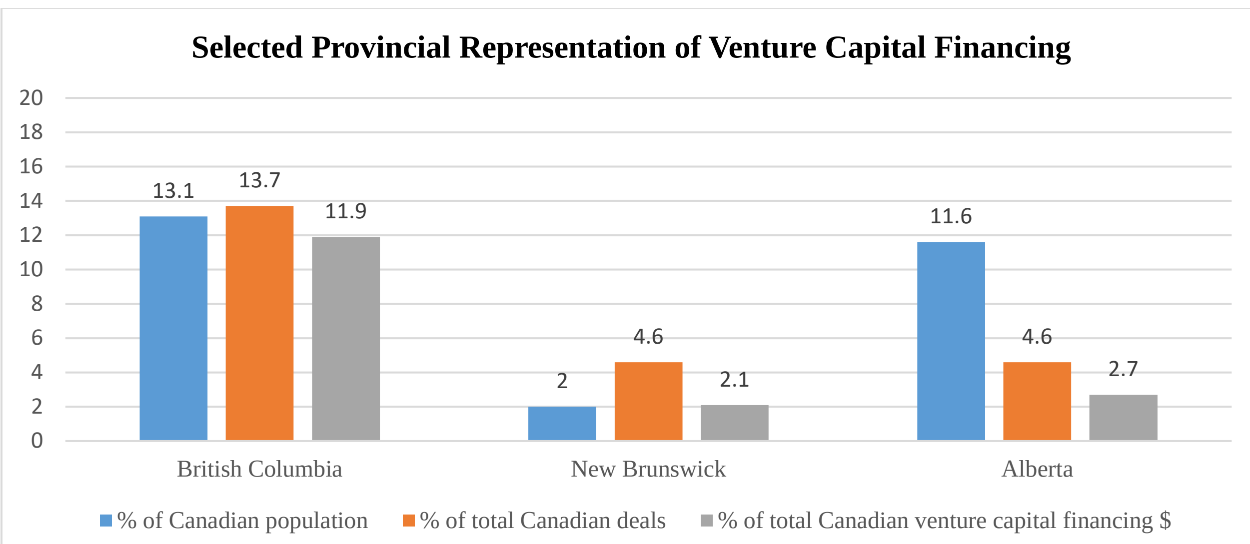
- Alberta-businesses accounted for 10.7% of the private equity "buy-out" and "add-on"[25] deals but represent only approximately 1.7% of the total Canadian dollar value.

- Alberta businesses represented 7.6% of all private equity deals, but this represents only 3% of the capital raised.

<u>Venture capital</u>

- Venture capital investment in Canada is focussed on four main industry sectors: information and communications technology (**ICT**), life sciences, cleantech and agribusiness with the significant majority being in the ICT sector.

- Alberta businesses are under-represented in venture capital financing as compared to other Canadian provinces.[26]



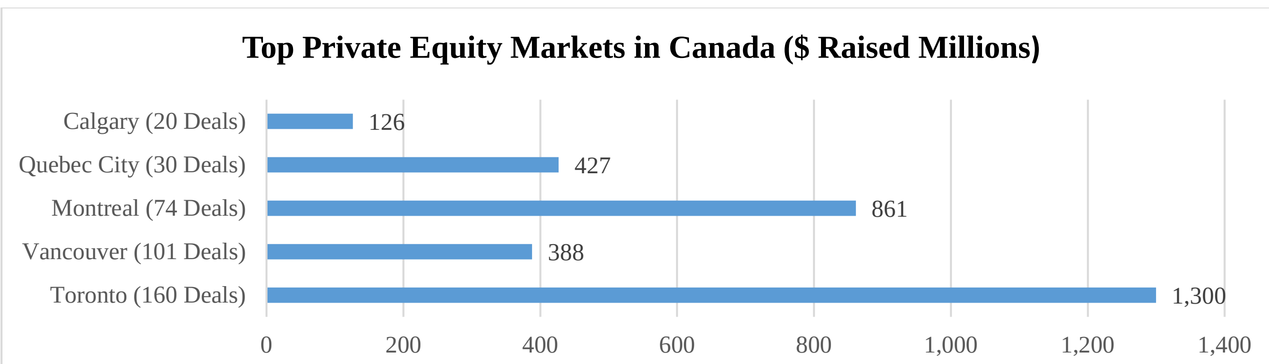
- For 2018, there were 610 deals for a total raise of $3.7 billion. Calgary ranked #6 in the top Canadian cities or administrative centres (e.g., Kitchener/Waterloo/Cambridge) with 21 deals representing $58 million. In comparison, Fredericton ranked #7 with 18 deals, representing $74 million. Calgary was the only Alberta city or administrative centre that made the top 10 for venture capital deals. Interestingly, jurisdictions with the most significant reported venture capital investment tend to correlate with those that have active government-sponsored funds and/or locally-based pension funds engaged in venture capital investment.

- Although mergers and acquisition exits are much more common, initial public offering (IPO) exits, when they occurred, generated higher values.

PwC Money Tree Data

The PwC Money Tree report for Q4 2018[27] also provides insight into equity financings for emerging Canadian-headquartered private companies that are venture capital-backed.

- This report indicates a total of 471 Canadian venture capital-backed deals (up 30% from 2017) raising a record $3.5 billion dollars (up 35% from 2017).
- It also indicates a significant increase in corporate investment, e.g., investment by large Canadian and global operating businesses into potentially complementary early-stage business, from 17% at the end of 2016 to 41% in Q4 2018.
- The top 5 markets by deals were as follows:



National Angel Capital Organization Data

Angel investment is another potentially significant source of financing for businesses that are not public. The National Angel Capital Organization (NACO), in June 2019 released its 2018 *Report on Angel Investing in Canada*.[28] The report indicates that angels "invest in start-ups that, while offering good potential returns, are not engaged in leading-edge innovation and hence do not offer the prospects of sufficiently rapid growth to attract investment from VC funds…[B]usiness Angels and VC funds play complementary roles in financing entrepreneurial activity."[29]

NACO reports that angel investment activity in Canada has increased by 90% since 2013. However, of the 584 investments raising a total of $142.8 million across Canada in 2018, the four Western provinces collectively account for only 11% of the total number of angel investments and 9% of the total value of investments.

The NACO report includes other Canada-wide information that is helpful in understanding the angel investor ecosystem:

- Angel capital investments tend to be made relatively close to home. In 2013, the majority of investments were made by investors in the same city as the entrepreneur. This has slowly changed such that in 2018, 26% of investments were made in the same city as the angel group. However, 56% of investments were still made in the same province. Investment outside the province by angel groups has remained relatively low.

- Only a small number of those companies that seek financing from angel investors are actually successful in obtaining it. In 2018

    - 17% of applicants were given the opportunity to present to angel members;

    - 51% of those that were given an opportunity to present were funded, such that approximately 9% of all applicants attracted funding.

- Demand for angel financing continues to increase. There were 2,946 applications in 2014, compared to 8,529 in 2017, although this was down to 6,541 in 2018. Despite the increase in applications there has not been an increase in investments.

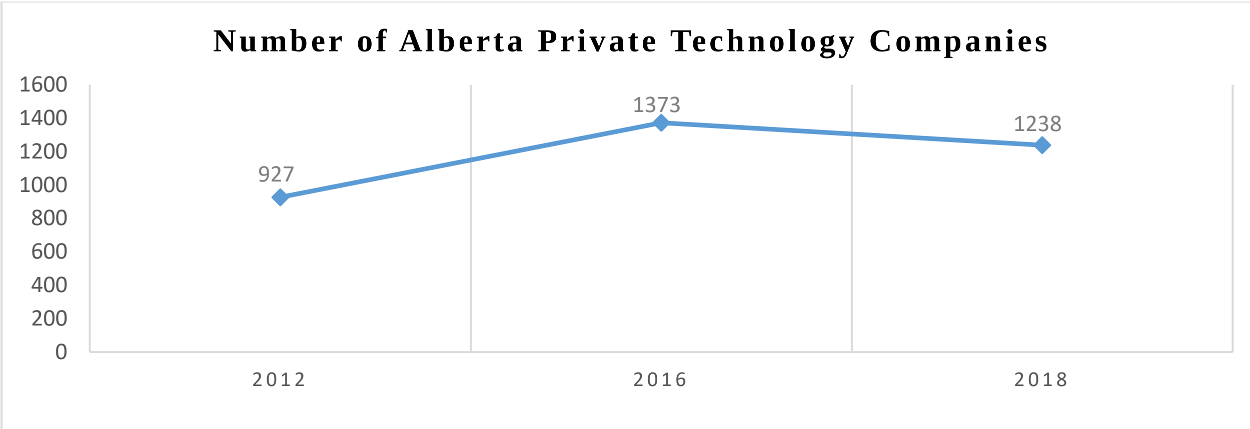
- Angel groups perceive their main role as supporting their members through rigorous and efficient screening of investment opportunities and performing due diligence. Several groups also emphasize their roles in investor training and education, notably workshops and value-added services such as developing standardized documents.

- Increasingly, angels are investing as groups and as part of broader syndicates with other investors and government programs such as the NRC Industrial Research Assistance Program (IRAP) and Ontario Centres of Excellence.

- Angel groups identified significant challenges arising from a lack of financial resources, difficulties recruiting and retaining members and a lack of successful exits. Angels identified three areas of potential support including resourcing angel groups, tax incentives and encouraging co-investment funds or 'side-car'[30] funds to match investment, citing Sweden and New Zealand as examples.

Alberta Enterprise Corporation Technology Company Data

Alberta Enterprise Corporation's *2018 Alberta Technology Deal Flow Study*[31], suggests there are a significant number of non-public technology businesses in Alberta. For 2018, the report identified 1,238 private technology companies headquartered in Alberta, up 33.5% from the 927 identified in 2012, but down 9.8% from the 1373 companies identified in 2016. Of those, almost twice as many were located in Calgary (767) compared to Edmonton (394).



Based on the 208 responses to Alberta Enterprise's online questionnaire, head offices are clustered (96%) in our two largest urban centres, with 55% headquartered in the Calgary region and 41% headquartered in the Edmonton region.[32] However, since 2016, both Calgary and Edmonton have seen a drop (9% and 14% respectively) in the number of technology companies. Conversely, since 2016, Red Deer has seen a 115% increase from 13 to 28.

Since the last survey in 2016, it appears that Alberta private technology companies may be growing and maturing, with fewer new entrants but with 63% (a 12% increase) having launched and now being in the traction/scaling phase.

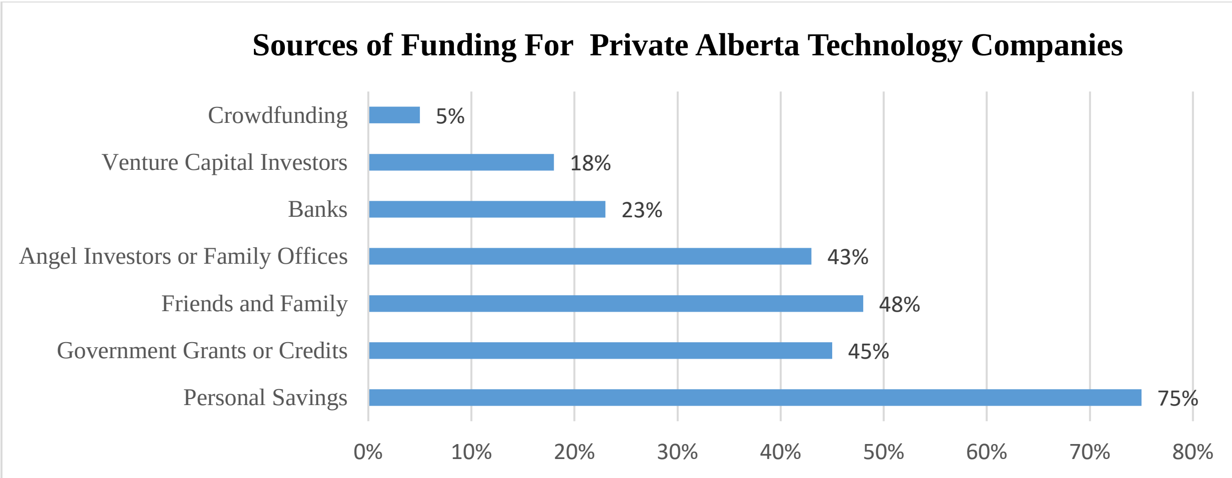
While 24% of companies were still pre-revenue, the majority are generating some revenue, with 23% generating more than $1 million annually.

Seventy percent of companies are currently seeking funding, with 33% reporting they have obtained financing between $100,000 and $1 million and 23% reporting having raised more than $1 million. Less than $100,000 has been raised by 17% of the companies and 18% reported no funding to date. 10% did not provide a number.

The location of funders appears to correlate with the location of the businesses. Companies reported that the location of funders (multiple locations could be provided) were as follows:

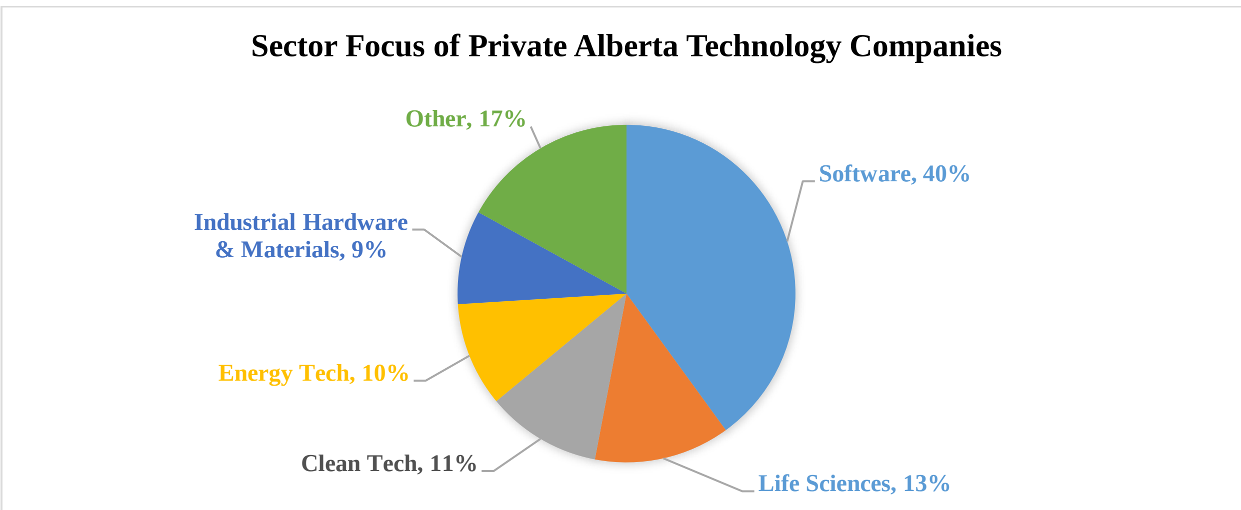
- 50% of companies reporting they had funders from Calgary;
- 31% reported funders from Edmonton;
- 13% reported funders from other locations in Alberta;
- 27% reported funders from elsewhere in Canada; and
- 24% reported funders from the US.

Technology companies reported relying on the following as sources of funding (multiple responses were possible):



Half of the companies reported funding through equity financing, 22% used debt financing and 16% a hybrid.

The following chart shows the sectors in which these technology companies are engaged:



(b) Consultation themes

There are several themes that we have gleaned from consultations and research to date:

Regulatory burden for public companies

In our consultations respecting the reduction of regulatory burden and alternative offering systems, larger Alberta public companies have generally reported that the current securities regulatory system works well for addressing their financing needs.

They have generally reported that the short form / shelf prospectus system is an efficient capital raising mechanism. Similarly, the accredited investor prospectus exemption is considered a significant and efficient source of private capital raising.

In contrast, many smaller public companies continue to report challenges in attracting capital and experience thinly traded securities. These comments persist despite tailored continuous disclosure obligations and various initiatives to make it easier for public companies to raise money from retail investors without requiring a prospectus.

The role of public capital markets

Venture capitalists and Canadian public markets

Canada has lagged behind other countries like the U.S. in typical venture capital investment. The existence of the public venture market in Canada is unique and it has played an important role in financing growth companies in Canada that might, in other jurisdictions, have been financed through private venture capital. For example, financings by TSXV-listed businesses are often very similar to private financings in terms of size and stage of company and use of proceeds.

In the U.S., venture capitalists and institutional investors, like private equity firms, play a significant role in initial public offerings (**IPO**s), being involved with approximately 50% of businesses that conduct an IPO. However, in Canada, only 4.8% of all IPOs and 11.85% of non-resource issuer IPOs are venture capitalist-backed.[33]

The role of venture exchanges

Canadian public markets are unique. Most businesses conducting IPOs in Canada would be considered to be microcaps by U.S. standards. Further, a significant number of IPOs, particularly on the venture exchanges, are by nano-caps that are pre-revenue.[34]

Listing on a venture exchange in Canada is seen as a financing strategy for companies with low capital requirements. It is not seen as an “exit”, major financing initiative, or sign of maturation. Some academics suggest that: “[t]he dearth of institutional capital available to finance Canada’s entrepreneurs accounts for the greater reliance Canada has placed on its public markets to supply early stage financing. The regional disparities within Canada explain why the origins of the TSXV are found in western Canada with the Alberta and Vancouver Stock Exchanges.”[35]

Canada's venture exchanges may provide an attractive alternative to private venture capital investment. One academic paper suggests that the knowledge gained by running a public company traded on a venture exchange translates to significantly better performance on graduation to the TSX as compared to an IPO directly to the TSX following private venture capital financing.[36] Other research has examined companies going public, not through a traditional IPO but through the TSXV's capital pool company (CPC) program. It found that while the CPC program has increased the number of junior public companies in Canada, and these companies have shown strong secondary market performance on the TSXV and resulted in a reasonable number (greater than 10%) of graduations to the TSX, those CPC companies that did graduate to the TSX, did not compare well to the market.[37]

Involvement of registered dealers in capital markets

Academic research suggests that agents such as dealers and underwriters provide a valuable service in the context of private entrepreneurial financing, attracting more investors and broadening both the geographic investor and capital base. This is enhanced by the involvement of more capable agents and multiple agents.[38]

Feedback suggests that there are a very limited number of registered dealers willing to conduct a public or private financing of less than $10 million and even fewer willing to finance an offering of less than $5 million. The exception to this may be the CPC program of the TSXV which allows for the creation of a clean publicly traded shell that can raise up to $5 million. In comparison, according to the CVCA, three-quarters of all venture capital deals were also under $5 million.

Local registered dealers in Alberta have experience financing oil and gas and related businesses but may have less experience in evaluating emerging technology sectors. Their clients may also have less familiarity with other sectors. However, registered dealers (both exempt market dealers and investment dealers) and public retail investors demonstrated an interest in new sectors, being highly engaged in financing the emergence of the cannabis industry.

Technology company participation in public capital markets

The traditional roadmap of an early-stage resource company i.e., from private to a venture exchange (e.g., TSXV or CSE) and onto the TSX has not been the typical roadmap for technology companies which are staying private longer and are more likely to seek to sell to a larger business as the exit strategy.

The public venture markets could serve as a means to fill the financing gap for growth tech companies but steps need to be taken to address the concerns of this sector with the public venture markets, e.g., addressing declining levels of retail participation, addressing issues with thinly traded securities, and addressing the lack of independent research respecting smaller businesses.

Being a public company may be less desirable for technology companies because of continuous disclosure obligations, privacy/confidentiality concerns and the potentially reduced scientific research & experimental tax incentives.

The tendency for technology companies to remain private reduces opportunities for the public to access these investments. This creates a cycle as the lack of investment access precludes investors from increasing their familiarity and comfort-level with technology businesses.

Requirements for shareholder engagement and responding to shareholder activism may be a deterrent to going and staying public.[39] Further, some have suggested that businesses most successful at maximizing shareholder value are those that have broader, longer-term measures of success.[40]

Investor participation in public capital markets

The average return following an IPO for a public issuer with net assets of less than $25 million is low.[41] Firms with no revenues at the time of an IPO, not surprisingly, have the poorest performance. Investors may approach investing in these types of businesses similar to a lottery. The performance of these types of businesses, and this approach to investing, means that the public venture market will not be attractive to all investors.

Some suggest that there has been a decline in retail participation in the public venture market. If so, this may indicate a decline in the number of retail investors for whom this type of investment is attractive.

Registered dealers report that the current economic situation, coupled with investor losses in oil and gas investments, have left Alberta public market investors very conservative.

The small market capitalization of publicly-traded "venture" companies, e.g., those trading on the TSXV and CSE, can create investment barriers for some institutional investors. An investment that is modest relative to the investor's overall portfolio may result in the investor holding 10% or more of a particular issuer, creating regulatory complications for the investor.

The perception is that millennials appear to be investing through means that do not involve active advice, such as ETFs, investing directly through online discount brokerages, or by investing online through crowdfunding, including in crypto-assets. The lack of engagement with, and personal relationships between, registered dealers and millennials may exacerbate the declining levels of retail participation in public venture markets.

Trends and observations

Markets are cyclical. IPOs are more attractive when public markets are hot e.g., cannabis. IPOs allow entrepreneurs to maintain greater control over their enterprise than might be the case with venture capitalist investment. Entrepreneurs will prefer private capital when it provides significantly higher returns.

A decline in the availability or attractiveness of IPOs tends to be matched by a corresponding increase in acquisitions of successful private companies by third parties. In Canada, the acquirer's are often much larger, typically foreign companies.[42]

Some hypothesize that structural changes now favour big firms at the expense of small firms and that it is increasingly important, particularly in the technology sector, to get big fast. More often, tech businesses plan an ‘exit’ involving a trade sale to a larger company that is better positioned to exploit the innovation.[43]

Accessing capital through private markets

Views of angel and venture capital investors

Some venture capitalists and angel investors report that there is an abundance of capital looking for investment opportunities. However, others report that beyond the seed stage, there is a funding gap in financing growing businesses and indicate there is not enough private sector money to address the gap.[44]

Finding businesses with the necessary human capital and experience scaling and growing a business is a challenge for investors. To facilitate growth and achieve success, these companies need “smart money”, or mentorship/advice attached to funding.

Alberta technology businesses need greater access to commercialization resources in the form of sales, marketing and executive talent.

Some suggest that Canadian companies think too small and often do not ask for enough money or have big enough growth plans to attract American venture capitalists.

A number of experienced investors report that, in their experience, investors rarely lose their investment because of fraud but rather because of the failure of the underlying business.

Failure of small businesses is typically attributed to their inability to successfully commercialize their product or service. These businesses may look to both experienced investors and innovation networks to assist with mentorship in this area.

Challenges cited by entrepreneurs

Businesses seeking capital perceive that there are various difficulties in accessing capital, e.g.,

- significant difficulty in identifying and connecting with the investors interested in their sector;
- a lack of venture capitalists on the ground in Alberta which may result in the entrepreneur needing to catch a plane to meet potential investors;
- geographical distance between investors and entrepreneurs can may make it more difficult for potential investors to monitor the business and ultimately deter investment;
- lack of experience and comfort by local investors in evaluating technology-focused businesses;
- little or no angel or venture capital investment available for non-tech businesses;

- even for 'tech' businesses, capital is only available for those that have plans for 'world domination'; and

- challenges in identifying legal, auditing, valuation and other professionals with experience assisting early-stage businesses.

Challenges accessing capital may be more pronounced for entrepreneurs that do not represent the same demographic group as the venture capital or angel investors. For example, while female participation in Alberta's tech sector represents 30% of founders[45] (a 50% increase since 2016), women represent only 17% of angel investors[46] and the percentage of female-led tech companies receiving investment is estimated at 5-6%.[47]

Anecdotal reports and academic research suggest that venture capitalists tend to invest in businesses within relative proximity to their other investments and to other venture capital investors.[48]

A lack of proximate capital may encourage tech entrepreneurs to relocate from the province to obtain financing.

Additional challenges in rural and smaller urban centres

Outside of Calgary and Edmonton, additional financing challenges may exist.

- Although there are various registered dealers, including exempt market dealers, operating in Alberta, they are almost exclusively located in Calgary and Edmonton, creating more challenges for those in other locations.

- Securities law requirements, including public company accounting standards, are complex and highly specialized. It can be challenging to retain professional advisers with experience in these specialties outside of the largest urban centres.

- The requirement for $200,000 net income to be considered an "accredited investor", for those living in large urban centres, might be a reasonable proxy for assessing "ability to withstand loss". However, in rural communities and smaller municipalities, particularly where the cost of living is lower, a different test could be more appropriate in identifying community business leaders.

Involvement of registered dealers in private markets

Liability concerns (e.g., ensuring accredited investor status) and due diligence required to "know-your-product" makes smaller financings e.g., under $5 million (and for some up to $10 million) unattractive to many registered dealers.

Regulatory burden associated with compliance obligations can make it uneconomic for smaller registered dealers to operate.

Although exempt market dealers focus on the private markets, clients of most existing exempt market dealers are typically looking for ‘yield products’, for example, by investing in real estate projects and syndicated mortgages. This investment objective is inconsistent with the financing mechanisms employed by technology businesses and the longer term investment horizons required.

Involvement of retail investors and investor protection concerns

Some retail investors express frustration in not having access to private high-risk/high-reward opportunities perceived as being reserved for the wealthy and for institutions.

Conversely, retail investors may not want the risk and long investment horizon (5-10+ years) associated with investing in start-ups. Further, private tech companies may not want ordinary retail investors but prefer sophisticated investors that can provide not just money but also mentorship and advice. Retail investor access to public funds that invest in tech businesses may be a better alternative.[49]

Online non-compliant offerings through non-traditional channels can create significant investor protection concerns. Significant amounts of capital have reportedly been raised in crypto-asset offerings, such as initial coin offerings, from retail investors through direct online offerings by early stage businesses. Many of those that raised capital have reportedly not progressed their businesses.

Investment in start-ups and early-stage businesses are generally much riskier investments than investments in established businesses, and are therefore generally not suitable for an investor unless they can afford the potential loss of their entire investment.

It will often take 10-40 investments in various early stage and emerging growth businesses before even an experienced investor attains the desired overall return. Most of the investments may ultimately be a complete loss, a few may provide a return of some of the original investment, and a select one or two will provide the desired portfolio success.

Investors in the private market face a number of additional risks as compared to investors in public markets:

- Investors will not typically receive the same level of initial or ongoing disclosure as investors in the public markets. In some cases, little or no ongoing information is available.

- Investors in private markets will typically have little or no ability to sell or liquidate their investment.

- Without a secondary market, it can be more difficult to value the underlying business.

- Even if a private business is successful it may take many years before there is an ‘exit’ for investors so these investments are not suitable for investors who need ready access to their investment funds.

Growing Alberta's innovation economy

According to the Government of Canada's 2019 *Western Canada Growth Strategy,*[50] Albertans surveyed in fall 2018 "highlighted the importance of economic diversification in order to reduce the volatility of commodity-based boom and bust cycles. A common thread among participants was the need to build on our existing natural resource strengths."

Albertans noted that "diversification needs to be grounded in a recognition of the economic contribution that Alberta's oil and gas sector makes to the province and the country" and that those resources, if allowed to reach international markets, can be both an engine for economic growth and can be leveraged to support diversification and transitioning to a lower carbon future. Albertan roundtable participants noted the need to "invest in areas outside of our traditional strengths, including high-tech sectors like artificial intelligence, cyber security, and robotics". This will add value to traditional industries and allow diversification into agri-food, clean technology, life sciences and healthcare and tourism.[51]

There is significant and important innovation occurring in Alberta, for example, by members of the Canadian Oil Sands Innovation Alliance[52] and through Alberta Innovates and Inno-Tech Alberta, with efforts to reduce environmental impacts including through reduction of greenhouse gas emissions and water consumption. However, the capital for this innovation may be funded by government and large energy corporations that operate in Alberta and consequently may not be reflected in financing statistics.

Although venture capital investment in Alberta is not significant relative to other areas of Canada or in the U.S., there is significant wealth in Alberta e.g., through family offices and wealthy individuals. Energy sector corporate venture capitalists may provide another source of capital. There is also local capital that is experienced in investing in the oil and gas sector that could be unleashed for other purposes.

There is an entrepreneurial investment community in Alberta, but it may be more prevalent in Calgary than elsewhere in the province and may reflect the history of investing in early stage resource businesses. This may create a barrier for entrepreneurs in other parts of the province e.g., scientists and innovators working through the University of Alberta in the artificial intelligence/machine learning space. Edmonton entrepreneurs may have a better appreciation for the vouchers, grants and other government funding opportunities available to them.

According to the TMX's February 2017 *Advancing Innovation Roundtable* whitepaper, Canada produces a high level of early stage and start-up stage companies – second only to Israel.[53] Further, financings at this stage have increased by almost 2.5 times since 2010, nearly double the growth rate in the U.S. However, there remains a sizable and expanding gap for financings in the $5-$25 million range.

Capital and resources will cluster organically where an industry has shared geography. Success begets success and amplifies the development of a supercluster. Factors evidenced in winning clusters include[54]:

- world class academic and research centres;
- large, high quality talent pool;
- access to capital;
- connective infrastructure and community;
- high standards of living;
- access to early adopters or receptive markets.

Further efforts may be required in Alberta to help Alberta tech entrepreneurs to move past their invention, connect innovators with those that can mobilize the innovation, identify commercially viable applications, and make the business-world connections necessary to turn the invention into a profitable business.

A significant component of the venture capital that is funding Canadian companies is foreign. Foreign investment can provide important growth capital. However, if emerging technology businesses are acquired by larger foreign businesses, there is a risk that the growth of that business may also move outside the province or country.

Alberta Advantages

Alberta has many advantages that makes it the place to want to start and grow a business:

New low corporate tax rate and low overall taxation rate for businesses and employees	**Significant innovation centres* and post-secondary leadership in artificial intelligence, machine learning, medical and health science and energy technology**	**A highly educated population coupled with a growing focus on entrepreneurial education**
Many corporate headquarters, with a strong business community and entrepreneurial spirit	**An investor base with experience investing in growth-oriented businesses**	**High human development index, and low living costs and office costs relative to other major centres**

*Some examples of innovation centres in Alberta include Google Deep Mind, Canada's National Institute of Nanotechnology, The Alberta Machine Intelligence Institute (AMII), The Alberta Centre for Advanced MNT Products (ACAMP), Canada's Oil Sands Innovation Alliance (COSIA), the Clean Resource Innovation Network (CRIN), NAIT's Productivity Innovation Centre, SAIT's Applied Research and Innovation Services (ARIS), and the Red Deer College Centre for Innovation in Manufacturing (CIM). This is in addition to Alberta Innovates and the regional innovation networks.

5. Initiatives beyond securities regulation

As mentioned in the introduction to this Consultation Paper, there are various parties with important roles to play in strengthening and diversifying the Alberta economy.

We are aware of a number of studies that explore ways to enhance innovation and entrepreneurship within Canada. We have been particularly mindful of those studies that make recommendations relevant to securities regulators. For example, the TMX Group published *Advancing Innovation Roundtable, An Initiative of TMX: Unlocking Growth Opportunities for Canada's Innovation Economy*, February 2017[55] (TMX innovation report) outlining the significant role that the TSXV has had in financing emerging growth companies and, similarly, the potential significant role it could have in filling the gap for businesses in the technology and innovation sectors. That report identifies a number of issues in the public capital markets that, if addressed, could help support an innovation economy. These include:

- improving retail participation, increasing investor access to expertise, information and investments of the type available to institutional capital;
- because of the lack of independent research, providing alternative tools and information to help investors identify and better understand TSXV investment opportunities; and
- providing a level playing field in respect of taxation, specifically regarding the scientific research & experimental development tax credit.[56]

These reports[57] provide a number of other potentially useful recommendations; however, most of the other issues raised extend beyond the mandate of a securities regulator and include broader recommendations and considerations that will necessarily engage governments, pension funds, academic institutions and others.

We have taken notice of various significant initiatives being undertaken in Alberta designed to help connect entrepreneurs with both relevant services and would-be investors. Some examples of these include:

- the networking and ecosystem building events of groups such as Rainforest Alberta, A100, Start-up Edmonton and Start-up Calgary;
- accelerator programs e.g., Creative Destruction Labs, Rockies, TEC Edmonton District Ventures and ATB X Accelerator;[58]
- the commercialization resources provided by Alberta Innovates and the various regional innovation networks[59] and regional and municipal economic development organizations;[60]
- Alberta Enterprise Corporation's efforts to foster a thriving venture capital industry in Alberta;
- the new StartAlberta website that acts to host a central repository of Alberta investors and entrepreneurs;[61] and
- the financial, investing and advisory services provided by BDC, the Business Development Bank of Canada and the federal government's Venture Capital Catalyst Initiative intended to help small and medium sized businesses, start up, scale up and access new markets.[62]

6. Existing regulatory burden reduction efforts

There are a number of securities regulatory initiatives underway that are intended to reduce regulatory burden while still providing appropriate investor protection. This has been and continues to be an ongoing focus for the ASC and is a core part of the ASC's commitment to intelligent regulation. We believe these existing initiatives and the goals of this Consultation Paper are consistent with the government of Alberta's broader efforts to ensure that "Alberta is open for business", including its renewed focus on job creation and red tape reduction.

We briefly summarize some of the ASC's on-going regulatory burden reduction efforts below.

For operating companies, as previously announced by the Canadian Securities Administrators (**CSA**), these initiatives include[63]

- review of potential alternatives to the prospectus offering system for public companies;
- facilitating at-the-market prospectus offerings through the short-form shelf prospectus system and liberalizing existing conditions;
- revisiting the concept of "primary business" which triggers a requirement for financial statements in a prospectus;
- modifying the requirement for a business acquisition report and the accompanying financial statements when a public company acquires or proposes to acquire another business (this is in addition to the adjustment in the threshold that was previously introduced for publicly traded "venture" issuers);
- revisiting certain continuous disclosure requirements including eliminating duplicative requirements and focusing required disclosure; and
- enhancing the ability to electronically deliver documents to investors.

For investment funds, as announced in CSA Staff Notice 81-329 *Reducing Regulatory Burden for Investment Funds*, efforts are being made to rationalize investment fund disclosure and identify opportunities for reduction of regulatory burden.

In addition, the ASC continues to consider the merits of semi-annual financial reporting versus quarterly reporting, including researching existing approaches and monitoring developments in foreign securities regulatory regimes.

Further, the ASC is currently working on an initiative designed to improve access to capital by start-up businesses through a harmonized instrument addressing start-up crowdfunding. We contemplate both a prospectus and a dealer registration exemption designed to facilitate crowdfunding for start-up and early stage businesses. Certain other jurisdictions have local blanket orders to facilitate this and the ASC already has a prospectus exemption to facilitate start-up crowdfunding. The proposed project would build upon these initiatives by introducing a corresponding registration exemption, by harmonizing and extending the regime across jurisdictions, and by potentially expanding the circumstances under which the current exemptions are available.

7. Brainstorming ideas

With this consultation paper we are interested in feedback on ways we can enhance access to capital for Alberta businesses and investment opportunities for Alberta investors, while still protecting investors.

Given the prior regulatory burden consultations undertaken respecting public companies and the work already underway on existing projects, we are particularly interested in feedback with respect to initiatives relating to private markets. We are interested not just in reducing regulatory burden but in energizing Alberta's capital market, public and private, in ways that might facilitate the growth and development of businesses that will help strengthen and further diversify the Alberta economy while ensuring appropriate investor protection.

As Alberta's securities regulator, our focus must necessarily be on changes we might make to securities law and policy or related guidance and educational efforts we could undertake.

The following are a few brainstorming ideas provided to help stimulate conversation. In some cases they have been suggested to us, in other cases they are ideas we have identified. They are preliminary ideas only.

We are interested in your feedback as to whether any of the following ideas would meaningfully contribute to energizing Alberta's capital markets. We are also interested in feedback on enhancements or modifications to these proposals or suggestions for alternative initiatives.

We note that securities laws are largely harmonized across Canada so it is unlikely that securities laws are the reason for the regional differences we note in financing activity and the growth of innovation and emerging industry sectors across Canada. However, it may be that to both strengthen existing industries and foster diversification of the Alberta economy there is a greater impetus for change in Alberta.

We recognize that if we identify changes to securities laws that would be considered beneficial in Alberta, that our market participants often encourage us to pursue harmonized securities laws across Canada. Accordingly, if the feedback from market participants is that any particular initiative would be significant in enhancing the Alberta capital market, we anticipate that, in addition to exploring and advancing these options in Alberta, we may need to consider ultimately advocating for a harmonized national approach with our CSA colleagues.

(a) Informational resource for Alberta start-ups and early stage businesses on capital raising options

A number of market participants have commented on the lack of experience and understanding many entrepreneurs have regarding the capital raising process and the capital raising options available to them. For example, many entrepreneurs may be unaware of the ability to conduct securities-based crowdfunding in Alberta, the rules relating to it, or even the existence of funding portals already operating. We have taken steps to provide additional information on the ASC website.

Other suggestions include:

- Although ASC staff cannot act as legal or other professional advisers to market participants, ASC staff could host information sessions and webinars on crowdfunding and common capital raising options as an educational resource for entrepreneurs. To allow for broader dissemination, the ASC might also pursue a series of YouTube or similar videos.

- The ASC could post all of its required forms in Word and/or html format. Also, the ASC could develop more easily fillable forms (note that the ASC has recently taken steps to create a number of fillable forms for registrants.[64]) Simple technology could be used to automatically populate some of this information.

- The ASC could lead an industry-sponsored initiative to develop, together with willing law firms, an industry-standard master subscription agreement for private financings.[65] Industry led efforts would be necessary to ensure widespread adoption.

- Although the ASC staff cannot endorse or recommend particular professional advisers, the ASC could maintain on its website a contact list of professional advisers e.g., law firms, accountants, valuators, trust companies, dealers (including crowdfunding portals), stock plan administrators and other service providers who annually advise of their interest in acting for small and early-stage businesses.

It has also been suggested that the entrepreneurial ecosystem could benefit from more information on what a timeline of successive financings might look like.

(b) Informational resource for investors investing in Alberta businesses

Although ASC staff cannot act as financial advisers, some market participants have suggested there might be a role for the ASC in increasing investor understanding respecting the exempt market and considerations when investing in start-up and early stage businesses.[66]

Other suggestions have included:

- providing easy access to the ASC's existing database of exempt financings to enable insights on the size and nature of financings being reported to the ASC (note that the ASC recently enhanced the data available through a new dashboard[67]); and

- assisting valuation assessments and enhancing market intelligence by requiring or encouraging certain limited information to be filed with the ASC about private financings that are not currently required to be reported e.g., amount raised, price, and security type.

We note that information resources are developing that may help provide investors with better access to information about businesses in which they might invest. For example, we note the development of the new dashboard, TSX Matrix, providing information on over 1,600 TSXV listed companies. In the private markets, we note StartAlberta's website, providing both a database of start-up companies and potential investors and a platform to tell the story of Alberta technology entrepreneurs.[68]

(c) Expanding the accredited investor exemption to include educated, experienced investors

Based on the filing of reports of exempt distribution, the accredited investor prospectus exemption is the most commonly used prospectus exemption and the exemption under which the most capital is raised. Under that prospectus exemption, an issuer may sell securities to any person or company that qualifies as an "accredited investor"[69] without any prescribed initial or ongoing disclosure.

Some individuals have expressed concern that despite relevant education and being experienced investors, they do not qualify as "accredited investors" because they do not meet the financial thresholds e.g., $200,000 net income or $1 million in net realizable financial assets (i.e., securities and cash). A number of parties consulted have suggested that appropriate investor protection could still be be maintained if we were to consider expanding the accredited investor exemption beyond the current financial test so that educated/experienced investors could also qualify as accredited investors.[70]

Related to that, we have heard that in some cases, small businesses want to provide compensation to their mentors or advisers in the form of securities. In not all cases do the mentors or advisers qualify as accredited investors or close friends or close business associates.

We have heard suggestions for various combinations of education and experience as an alternative[71] to the financial thresholds in the current definition of accredited investor.

What are the right combinations of education and experience? For the educational component, should we consider courses such as those offered through the CVCA Canadian Private Capital Investment School or the NACO Academy[72] for those investing in private markets?

Given that the policy rationale for the accredited investor exemption is 'ability to withstand loss', would it be appropriate to impose some limit on the amount that can be invested by an educated/experienced investor that is not otherwise an accredited investor e.g., the greater of $30,000 and 5% of their investment portfolio?

(d) Addressing the compliance challenges associated with confirming accredited investor status

A number of market participants have suggested that the ASC should explore leveraging technology to allow accredited investors to establish their status without needing to share all of their personal and financial information to businesses and dealers. One option would be to allow investors that have completed an online explanation and acknowledgement of risk, and have confirmed their high risk tolerance, to upload documents supporting their accredited investor status to the ASC or a trusted central third party. The central party could then confirm, through a unique investor identifier, to any business or dealer to whom the investor provided the unique identifier, that based on the information provided, the investor qualifies as an accredited investor, without the need for the investor to reveal all of their personal information. Tokenized smart contracts or self-sovereign identification technology, such as being explored by ATB Financial,[73] might serve to address this.

(e) Registration exemption for finders

Registration is designed to protect investors from, among other things, being pressured or encouraged to make investments unsuitable for their financial circumstances or stated risk tolerance. Registration also serves to set certain minimum standards respecting the integrity and proficiency of those selling securities and introduces certain controls over those that might have custody over a client's securities or monies.

These are important investor protection measures. However, we understand that small businesses raising modest amounts of money may have significant difficulty in attracting a registered dealer to sell their offerings. These difficulties can be exacerbated in rural or smaller communities given the geographical distance to a registered dealer.

We understand that in some cases small businesses may look to certain persons (finders) to connect them with the finder's network of experienced investors.

In some cases, e.g., where the finder is compensated for connecting the issuer with the finder's network, particularly where the finder engages in this activity repeatedly, the finder may be considered to be "in the business" of trading securities and be required to be registered.

We have received feedback recommending that we consider an exemption from the registration requirement that permits finders to connect their network of potential investors with small businesses.[74]

We recognize the financing challenges that these businesses may encounter and that in many cases these networks of investors are experienced investors. However, we are also mindful of the investor protection concerns and the risk that the exemption could be relied on to solicit unsophisticated investors and to undermine the protections of the registration system. Accordingly, if this were pursued, certain conditions or limitations would likely be necessary.[75]

We are interested in feedback on a dealer registration exemption for sales to investors that are accredited investors who also meet certain education and/or experience criteria. We are interested in how such an exemption could be tailored to adequately protect investors but help address the issues associated with smaller financings that are not being serviced by registered dealers.

(f) Reducing compliance costs for registered dealers when dealing with accredited investors

Securities regulation permits "permitted clients" e.g., individuals with at least $5 million in net realizable 'financial assets' (cash and securities) to waive the protections of know-your-client (**KYC**) and suitability. Rather than applying a purely financial measure, would it be appropriate to consider a combination of financial ability to withstand loss coupled with experience? For example, should we consider permitting clients to waive the dealer's KYC and suitability obligations if the client is an accredited investor with sufficient investment experience (e.g., investing for at least 5 years in securities other than mutual funds)? Would it be appropriate to impose some limit on the amount that could be invested, e.g., the greater of $30,000 and 5% of their net worth?

Would this provide adequate investor protection while meaningfully reducing dealer compliance costs? Would this encourage more registered dealers to participate in smaller financings? If not, are there measures that would?

(g) Addressing other registered dealer compliance burdens

We have heard various recommendations to address some of the compliance challenges facing dealers, particularly smaller dealers. Those recommendations include:

- to assist smaller firms with the costs of hiring a full-time chief compliance officer and to address the shortage of persons qualified to act in this capacity for dealers, permit part-time chief compliance officers;

- improve coordination among CSA jurisdictions in the exam schedules for dealers and increase the reliance by CSA jurisdictions on each other;

- to eliminate the need for dealers to provide documents to multiple regulators, develop a registrant portal to allow both regulators and firms to view and upload documents for examinations and other sharing purposes;

- accept alternative means of demonstrating proficiency e.g., permitting a CPA with 20 years of investment banking/sales/research experience to meet the proficiency requirements of the partner, director or officer exam;

- to provide increased clarity and consistency with respect to expectations, develop a rulebook for exempt market dealers; and

- to reduce complexity, reduce the number of trading order types or the best execution consideration obligations that may be generated by the introduction of new order types.

To what extent would these proposals meaningfully reduce the burden on dealers? Would this help to increase dealer participation in the financings of smaller deals? Do any of these proposals raise significant investor protection concerns?

The fragmented public market has also been identified as a major deterrent to participation. How might this be addressed?

(h) Facilitating angel investment funds

In some foreign jurisdictions crowdfunding platforms have developed that cater to angel investors, i.e., accredited investors that are interested in investing privately in early stage and developing businesses. In some cases, these platforms may promote the syndication of investment in start-ups, for example, investors invest in a special purpose entity that invests in the start-up, with the crowdfunding platform providing the administrative services necessary for the special purpose entity. These platforms may allow for one or more investors to act as a lead investor.

Some of these platforms have developed in Canada as well and can serve an important role in connecting entrepreneurs and investors. However, some features of the platforms that exist in other jurisdictions have not yet been accommodated in Canada. In other jurisdictions, these platforms may allow accredited investors to not just invest in particular start-ups, but to invest in a managed fund that then invests in a portfolio of start-ups. The managers of these funds are not necessarily subject to the requirements that would typically apply to investment fund managers and portfolio managers. They may operate under exemptions or other exceptions.

Would such funds be a way to help accredited investors gain greater familiarity with investing in tech businesses? Would diversification help reduce the risks associated with investing in select start-ups? Conversely, without the investor protections provided by registration, such as those related to proficiency and solvency, would such funds create unacceptable risks for unsophisticated or inexperienced, albeit accredited investors? Should we consider adviser registration exemptions where accredited investors have a limited amount of capital at risk? Should we consider alternative proficiency requirements coupled with registration in a category that permits advice in only particular circumstances?

(i) Facilitating the development of a retail, publicly-traded fund focused on innovative businesses

The TSXV CPC program and the TSX Special Purpose Acquisition Corporation or SPAC program facilitate the creation of a public shell company that then typically acquires a single business. These programs can provide an alternative financing source for businesses and liquidity for investors. However, the TMX innovation report, referred to above, recommended that to re-energize retail investment in Canada's public markets, regulators should facilitate the development of a retail, publicly traded venture fund that would co-invest alongside institutional investors in not a single business but a number of businesses. The recommendation contemplated a maximum investment amount for any one retail investor.

Would this assist Alberta businesses with access to another source of potential capital while providing retail investors with access to early stage businesses with reduced concentration risk? If so, what are the barriers to market participants in creating such a fund? Could such a fund be successful in attracting federal government investment into Alberta businesses through the federal Venture Capital Catalyst Initiative? Are any regulatory accommodations necessary or appropriate?

(j) Further facilitating global markets

The multi-jurisdictional disclosure system that has been adopted between Canadian securities regulators and the Securities and Exchange Commission (SEC) in the United States has been very useful in allowing Canadian and U.S. businesses to access the other's respective capital markets, relying largely on the offering document required in their home jurisdiction and the review by their home regulator. Are there other jurisdictions where a similar arrangement would be beneficial?

National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* provides accommodations to certain foreign businesses that are public companies in Canada, allowing them to comply in respect of most of their continuous disclosure obligations under securities legislation in Canada by filing the disclosure required in their home jurisdiction. However, Canadian businesses seeking cross-border financing or wanting to trade on a marketplace in a foreign jurisdiction may be subject to both domestic and foreign securities laws. To what extent does this create a burden on Alberta businesses or deter them from accessing foreign markets? How might it best be addressed?

(k) Facilitating a semi-public market that allows secondary retail trading by non-public companies

Smaller public companies continue to express concerns with the regulatory burden associated with being public. Although we have adopted different standards for “venture issuers” to reduce the regulatory burden relative to larger public companies, over the last 20 years, the requirements related to being a publicly traded venture issuer have increased.[76]

Although smaller public companies express concerns with the regulatory burden, it is difficult to turn back the clock when investors have grown to expect certain information and standards. Further, we conversely receive feedback respecting the lack of ongoing information provided to investors in the private market, particularly respecting retail investors investing under the offering memorandum exemption.

Some academics suggest a middle ground would be appropriate for smaller companies and argue that the benefits of mandatory disclosure are lower than generally assumed.[77] Should we consider a “semi-public” regime that would facilitate secondary trading of the securities of smaller companies that have filed an abbreviated offering document or statement of material facts, and that would be required to file some but not all of the ongoing information typically required of a public company?

We contemplate that ongoing disclosure in such a regime would be limited to audited or reviewed annual financial statements, semi-annual (rather than quarterly) financial statements, management’s discussion of highlights, material change reports, and an abbreviated proxy circular. Technical reports for oil and gas and mining companies would be a consideration. It may be appropriate to also consider insider reporting obligations.[78] Is there other specific disclosure that should or should not be required?

Is there a way to address the liquidity concerns currently associated with trading venture stocks? For example, rather than a continuous auction market, should we contemplate consolidating secondary trading to certain times?

Could trading on an alternative “semi-public” marketplace, help address the concerns of tech companies about the loss of benefits such as the scientific research and development tax credit, associated with being a private business?

In March 2019, the ASC, together with the other members of the CSA and Investment Industry Regulatory Organization of Canada (**IIROC**) published a consultation paper[79] respecting the regulation of trading platforms (commonly referred to as ‘cryptocurrency exchanges’) trading crypto-assets. To what extent would this semi-public regime be appropriate for security tokens or utility tokens (that constitute securities at the time of capital raising) trading on such platforms?

Would an alternative secondary market disclosure regime provide better outcomes for investors than investing in private placements, including crowdfunding offerings and initial security token offerings?

What are the potential benefits and limitations of a semi-public regime?

(l) Exploring enhanced institutional liquidity for private markets

An alternative market for secondary retail trading is one possibility for addressing private company liquidity. Another possibility is the model represented by Nasdaq's Private Market,[80] offering liquidity solutions to private companies and funds, by facilitating secondary trading among a more limited set of institutional investors. The TSX previously offered the TSX Private Markets and a number of dealers facilitate secondary trading among accredited investors in the securities of select non-public companies. Would a more centralized alternative market assist Alberta businesses in connecting with potential investors? If so, what are the key features necessary for such a market to be successful?

(m) Fostering crowdlending and peer-to-peer lending

Not all businesses want to become public companies nor should all businesses be public companies. Similarly, the modest growth prospects of many revenue generating businesses will not attract the interest of venture capitalists and institutional investors. These businesses may still have financing needs that may not be met through bank loans and lines of credit. To what extent could peer-to-peer or crowdlending help satisfy these financing needs and provide investors with an additional investment alternative?

If this would be helpful, are there steps we could take to further facilitate this while still providing appropriate investor protection? We note that peer-to-peer lending platforms are already operating in Canada as dealers registered with securities regulators. Further, we note that the ASC provided prospectus and registration exemptions to facilitate ATB Financial's crowdlending platform, ATB LendR. In addition, as mentioned above, the ASC is developing a harmonized start-up crowdfunding regime for small offerings, that includes a registration exemption. To what extent is the availability of these financing options known and understood? Are there other parties, such as credit unions, often already serving rural and smaller communities, that might also play a role in such initiatives?

8. Ways you can participate

On or before **September 20, 2019** you can participate in one or more of the following ways:

- **Survey:** You can respond to our survey, identifying on a scale from 1-5, the initiatives that you believe will be the most meaningful in energizing Alberta's public and private capital market, by clicking here. You can also provide additional comments in the survey.

  We ask for certain demographic information to help understand the types of parties providing comments but the survey can otherwise be completed anonymously.

It will take 5 to 10 minutes to fully complete the survey but it is not necessary to respond to all survey questions.

- **In-person consultation:** If you are interested in participating in an in-person group consultation, please send an email to new.economy@asc.ca indicating that. We anticipate organizing in-person consultations. The number and locations will be dependent on the response received. We anticipate providing webinar access for those that are interested in participating but are not able to attend in-person.

- **Comment letter:** If you wish to provide a more detailed response than the survey allows, we encourage you to provide a written comment letter. Please send your comments by email.

  Please **address** your comments to the Alberta Securities Commission.

  Please **send** your comments to:

  Denise Weeres
  Director, New Economy
  Alberta Securities Commission
  new.economy@asc.ca

Please note that comments received by way of comment letter will be made publicly available and will be posted on the ASC's website at www.albertasecurities.com. We will not keep submissions confidential. You should not include personal information directly in a comment letter. It is important that you state on whose behalf you are making the submission.

Questions

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[1] See "Advisory Committees," Alberta Securities Commission, https://www.albertasecurities.com/about-the-asc/organization-and-governance/advisory-committees.

[2] "Western Economic Diversification," Government of Canada, Economic Overview, updated September 4, 2018, https://www.wd-deo.gc.ca/eng/243.asp; See also"Alberta's Economy In a League of Its Own in Canada," ATB Financial, updated May 30, 2018, https://www.atb.com/learn/economics/the-owl/Pages/ab-economy-in-a-league-of-its-own.aspx; and see"List of Canadian Provinces and Territories by Gross Domestic Product", Wikipedia, updated April 10, 2019, https://en.wikipedia.org/wiki/List_of_Canadian_provinces_and_territories_by_gross_domestic_product#cite_note-1.

[3] Innovation, Science and Economic Development Canada, *Key Small Business Statistics*, January 2019, https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_Jan_2019_eng.pdf/$file/KSBS-PSRPE_Jan_2019_eng.pdf.

[4] 16% mining, quarrying and oil and gas extraction;12% real estate and rental and leasing; 10% construction; 7% manufacturing. See "Gross Domestic Product," Government of Alberta, May 2, 2019, https://economicdashboard.alberta.ca/GrossDomesticProduct.

[5] Innovation, Science and Economic Development Canada, *Key Small Business Statistics*, January 2019, page 8. https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_Jan_2019_eng.pdf/$file/KSBS-PSRPE_Jan_2019_eng.pdf

[6] Adam Barone, "Small Cap," *Investopedia*, April 30, 2019, https://www.investopedia.com/terms/s/small-cap.asp; see also Cam Merritt, "The Size Limits for Small-Cap, Mid-Cap & Large-Cap Stocks," *Zacks*, March 6, 2019, https://finance.zacks.com/size-limits-smallcap-midcap-largecap-stocks-5895.html.

[7] "Mid cap," Nasdaq, https://www.nasdaq.com/investing/glossary/m/mid-cap; See also Merritt, "The Size Limits for Small-Cap, Mid-Cap & Large-Cap Stocks," https://finance.zacks.com/size-limits-smallcap-midcap-largecap-stocks-5895.html. USD converted to CAD on a 1:1.34 basis.

[8] See Nasdaq: https://www.nasdaq.com/investing/glossary/m/mid-cap. See also https://finance.zacks.com/size-limits-smallcap-midcap-largecap-stocks-5895.html. USD converted to CAD on a 1:1.34 basis.

[9] "The MiG Report, Toronto Stock Exchange and TSX Venture Exchange," TMX, December 2018, https://www.tsx.com/resource/en/1898/mi-g-report-december-2018-en.pdf. TMX quoted market value was used for market capitalization.

[10] ASC "The Alberta Capital Market", June 2019 page 46. Note that some statistics in this Consultation Paper will differ slightly from those in the Alberta Capital Markets Report as the latter generally reports on all reporting issuers for which the ASC has principal regulatory responsibility within Canada, including some foreign issuers. This Consultation Paper focuses on issuers headquartered in Alberta. See "Reports & Publications," Alberta Securities Commission, https://www.albertasecurities.com/news-and-publications/reports-and-publications#sort=%40z95xcreateddate%20descending.

[11] ASC "The Alberta Capital Market", June 2019 Chart 2.

[12] We use the informal term "public company" in this Consultation Paper. This term does not have a formal definition under Alberta securities law. Alberta securities law instead uses the term "reporting issuer" An issuer will generally become a reporting issuer by filing a prospectus, by listing on a 'recognized exchange' or by conducting an amalgamation or similar transaction with a reporting issuer. An issuer that trades in the U.S. over-the-counter markets may also be deemed to be a reporting issuer. Although reporting issuers are frequently listed on a stock exchange, this is not a requirement. Reporting issuers are required to provide various prescribed ongoing disclosure and are subject to certain governance requirements. Further, certain insiders of reporting issuers are subject to requirements to report trading in their securities. Securities issued by reporting issuers under a prospectus are typically allowed to freely trade in a secondary market. Securities issued by reporting issuers under prospectus exemptions may be subject to restrictions on resale but these restrictions generally do not continue beyond four months.

[13] There has been a 33% decline in the number of reporting issuers for which the ASC is the principal regulator over the prior five years. See ASC "The Alberta Capital Market Report" May 2018, 1, 7, http://www.albertasecurities.com/Publications/2018-ACM-FINAL.pdf. See also Bryce C. Tingle, Ari Pandes, Michael J Robinson, "The IPO Market in Canada: What a Comparison with the United States Tells Us About a Global Problem," *Canadian Business Law Journal*, (2013) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2460324. See also: Cecile Carpentier and Jean-Mar Suret, "Three Decades of IPO Markets in Canada: Evolution, Risk and Return," *Cirano*, https://www.cirano.qc.ca/files/publications/2018s-04.pdf.

[14] Although we continue to see a decline across Canada in the number of publicly traded operating businesses, this trend is somewhat obscured by the inverse trend of an increasing number of exchange-traded funds (ETFs) and other publicly traded investment funds. See "The MiG Report," https://www.tsx.com/listings/current-market-statistics/mig-archives.

[15] See ASC, "The Alberta Capital Market Report," May 2018, pages 1 and 7, http://www.albertasecurities.com/Publications/2018-ACM-FINAL.pdf; See also ASC "The Alberta Capital Market ", June 2019, Chart 1. Note that the statistics included in this Consultation Paper for Alberta-headquartered public companies will differ from those in the Alberta Capital Market Reports. This Consultation Paper only includes issuers headquartered in Alberta whereas the latter includes all issuers for which the ASC is the principal regulator under the CSA passport system, which includes some companies headquartered elsewhere. See also "The IPO Market in Canada," and "Three Decades of IPO Markets in Canada."

[16] ASC, "The Alberta Capital Market Report" May 2018, page 2. Market capitalization of issuers for which the ASC is the principal regulator increased by 9.2% in 2017 to $904 billion, the highest since 2013.

[17] ASC "The Alberta Capital Market Report" May 2018

[18] "TSX TSXV Listed Issuers," TMX, December 2018, https://www.tsx.com/listings/current-market-statistics/mig-archives.

[19] "The MiG Report," Toronto Stock Exchange and TSX Venture Exchange, December 2018, https://www.tsx.com/resource/en/1898/mi-g-report-december-2018-en.pdf.

[20] ASC, "The Alberta Capital Market", June 2019, page 32. Again, since "private issuers" are not required to report their financings, the amount of money being raised in non-reporting issuer financings is likely higher.

[21] The term "private issuer" is defined in National Instrument 45-106 *Prospectus Exemptions*. It is a much narrower term than the colloquial "private company". In general terms, "private issuer" refers to a person or company that is or has issued securities and that meets certain conditions. One of the key conditions is that the issuer have less than 50 security holders (although employees and holders of debt do not need to be included) and that its organizational documents e.g., its articles of incorporation, provide that the securities are not freely tradeable. Reporting issuers and investment funds are not private issuers. Another key condition is that the issuer has only ever distributed any of its securities to certain prescribed persons or companies. See National Instrument 45-106 *Prospectus Exemptions*, http://www.albertasecurities.com/Regulatory%20Instruments/5427069-v1-45-106_NI_Consolidation_Eff_October_5_2018.pdf.

[22] ASC "The Alberta Capital Market" June 2019, Chart 23.

[23] Brian Elder, Dr. Michael Robinson, "Alberta Private Equity Markets Study: Phase 1," *Industry Canada Report,* (2007). See also Thomas F. Hellman, Edward J. Egan, James A. Brander,"Value Creation in Venture Capital: A Comparison of Exit Values Across Canadian Provinces and US States," *LeadingEdge*: 14, http://www.llbc.leg.bc.ca/public/PubDocs/bcdocs/379236/ValueCreationVC.pdf.

[24] Canadian Venture Capital Association, "VC & PE Canadian Market Overview 2018," https://www.cvca.ca/reports/vc-pe-canadian-market-overview-q4-2018/.

[25] "Buyout" refers to an investment for the control of a portfolio company, including platform creation, secondary buyout. "Add-on" refers to corporate acquisitions by majority controlled private equity backed portfolio companies.

[26] See Government of Canada, "The State of Venture Capital in Western Canada," 2016, https://www.wd-deo.gc.ca/eng/19494.asp. According to the study, Western Canada has a small venture capital (VC) market compared to the central provinces, attracting $609 million of VC investment in 2016 compared to $1.4 billion in Ontario and $1.1 billion in Quebec. British Columbia, with $420 million accounted for over two-thirds of the VC investment in Western Canada. The Conference Board of Canada reports on venture capital received by provinces from 2004 to 2016 and compares venture capital investment in Canada internationally. They indicate significant improvement in venture capital investment in Canada relative to international peers, although paling compared to the U.S. They note considerable variation as between provinces with fairly strong investment in Quebec (0.2 per cent of GDP) and British Columbia (0.18 per cent of GDP) in 2016. Ontario-based firms received more venture capital money but 0.15 per cent of GDP. In contrast, Alberta-based firms fared poorly with 0.022 per cent of GDP. See "Venture Capital," The Conference Board of Canada, updated May 2018, https://www.conferenceboard.ca/hcp/provincial/innovation/venture-capital.aspx?AspxAutoDetectCookieSupport=1.

[27] PwC, "Money Tree Canada Report, Q4 & Full-Year 2018," https://www.pwc.com/ca/en/industries/technology/money-tree/money-tree-q4-2018.html.

[28] NACO, "2018 Report on Angel Investing Activity in Canada," https://www.nacocanada.com/cpages/angel-activity-report.

[29] NACO, "Report on Angel Investing Activity in Canada," page 10.

[30] Sidecar funds are generally thought of as a pooled investment vehicle that invests alongside an angel group. It allows members to invest in a diversified portfolio, allowing investors that do not feel confident assessing investments on their own to supplement their active investments. Generally, the goal is for the fund to be a pass through vehicle for tax purposes and to also avoid exposure for investors beyond their investment. The fund may have a decision-making body and may pay a management fee to the angel group. (As such, absent an exemption, the requirements for a registered investment fund manager and registered portfolio manager, would likely apply.) Generally the funds investment would mirror those of a specified number from the angel group. For further details, see Peter M. Rosenblum, "Sidecar Funds for Angel Groups: A Brief Introduction," *Foley Hoag LLP, https://www.angelcapitalassociation.org/data/ACANewsletter/2-11/Side%20Car%20Funds%20-%20An%20Introduction%20-%20Foley%20Hoag%202-11.pdf.*

[31] https://www.alberta-enterprise.ca/wp-content/uploads/2019/02/2018_DealFlowReportFeb.pdf

[32] More Edmonton companies responded to the survey than did Calgary companies.

[33] Carpentier, Suret, "Three Decades of IPO Markets in Canada," page 7.

[34] Carpentier, Suret, "Three Decades of IPO Markets in Canada," page 22.

[35] Tingle, Pandes, Robinson, "The IPO Market in Canada," page 323.

[36] Meoli, Pandes, Robinson and Vismara, "Can Spending Time in the Minors Pay Off? An Examination of the Canadian Junior Public Equity Markets", *Journal of Small Business Management* 2018 https://onlinelibrary.wiley.com/doi/pdf/10.1111/jsbm.12392

[37] Pandes and Robinson, "Is Exchange Regulation Effective for Junior Public Equity Markets?" 2018 *The Oxford Handbook of IPOs*

[38] Cumming, Pandes and Robinson, "The Role of Agents in Private Entrepreneurial Finance", 2015, *Entrepreneurship Theory & Practice*.

[39] Tingle, Pandes, Robinson, "The IPO Market in Canada," page 362. See also Justin Fox, Jay. W. Lorsch, "What Good Are Shareholders?," *Harvard Business Review*, (2012), https://hbr.org/2012/07/what-good-are-shareholders.

[40] See Mark Kramer, "What's Wrong With Maximising Shareholder Value?" *The Guardian*, https://www.theguardian.com/sustainable-business/blog/maximising-shareholder-value-irony. See also Brendan Sweeney, "Maximizing Shareholder Value: A Panacea for Economic Growth or a Recipe For Economic and Social Disintigration," *Royal Holloway, University of London,* https://www.emeraldinsight.com/doi/abs/10.1108/17422040810849767.

[41] Carpentier, Suret, "Three Decades of IPO Markets," page 24.

[42] Tingle, Pandes, Robinson, "The IPO Market in Canada," page 325.

[43] X Gao, J.R. Ritter, Z. Zhu, "Where Have All the IPOs Gone?" *Journal of Financial and Quantitative Analysis,* (2013).

[44] Geoff Gregson, "Critical Perspectives on Small and Medium-Sized Enterprise (SME) Funding in Canada," *National Angel Capital Organization,* (2018), https://www.academia.edu/37537506/CRITICAL_PERSPECTIVES_ON_SMALL_AND_MEDIUM-SIZED_ENTERPRISE_SME_FUNDING_IN_CANADA. See also "Quickfire: Report Release: Critical Perspectives on Small and Medium-Sized Enterprise (SME) Funding in Canada," produced by NACO Academy, June 21, 2018, Youtube Video, https://www.nacocanada.com/cpages/quickfire-report-release-critical-perspectives-on-small-and-medium-sized-enterprise-sme-funding-in-canada.

[45] "2018 Alberta Technology Deal Flow Study," 2. See also "Where's the Dial Now? Benchmark Report 2017," PwC, https://docs.wixstatic.com/ugd/55c9d2_efb58fc4258b40978b5d2bc3a9d2a577.pdf.

[46] NACO, "Report on Angel Investing Activity in Canada," page 1.

[47]*Unleashing Female Capital,* panel speakers at Inventure$ June 7, 2019.

[48] Xuan Tian, "The Causes and Consequences of Venture Capital Financing," *Journal of Financial Economics,* vol. 1 (2011), https://www.researchgate.net/publication/227418858_The_Causes_and_Consequences_of_Venture_Capital_Stage_Financing. See also Jun-Koo Kang, Yingxiang Li, Seungjoon Oh, "Concentration of Venture Capital Investors, Corporate Monitoring, and Firm Performance," 2018, http://www.apjfs.org/resource/global/cafm/2017_5_4.pdf.

[49] Vijay Govindarajan, Shivaram Rajgopal, Anup Srivastava, Luminita Enache, "Should Everyone Be Allowed to Invest In Private Tech Companies?", October 15, 2018, https://hbr.org/2018/10/should-everyone-be-allowed-to-invest-in-private-tech-companies.

[50] Government of Canada, *What We Heard: Public Engagement on a Western Canada Growth Strategy,* April 2019, page 36, https://www.wd-deo.gc.ca/eng/19820.asp#qnum2.

[51] Government of Canada, *What We Heard, Public Engagement on a Western Canada Growth Strategy,* page 36.

[52] See "Canada's Oil Sands Innovation Alliance," COSIA, https://www.cosia.ca/. See also "Our Clean Energy Focus," Alberta Innovates, https://albertainnovates.ca/our-clean-energy-focus/.

[53] TMX, "Unlocking Growth Opportunities For Canada's Innovation Economy," 2017, page 24-26, https://tmx.com/resource/en/569.

[54] "Primer on Technology Superclusters and a Fact Base on Canada's Toronto-Waterloo Innovation Corridor," Mckinsey and Company, (2016), www.mckinsey.com/Toronto-Waterloo Innovation Corridor white paper.

[55] TMX, "Unlocking Growth Opportunities for Canada's Innovation Economy."

[56] Technology businesses may look to the scientific research & experimental development (SR&ED) tax incentive under the *Income Tax Act* (Canada). However, this tax incentive may be available at a more advantageous rate for Canadian-controlled private corporations than it is to other businesses such as 'public corporations' e.g., a corporation that has a class of shares that trade on a 'designated' Canadian stock exchange.

[57] Examples of other reports that address the broader issues associated with developing an innovation economy include "Tech North: Building Canada' First Technology Supercluster," McKinsey and Company, (2016), https://nextcanada.com/TechNorth-McKinsey-Report.pdf; "Start 'Em Up: Incubating Nextgen Innovators," Canada West Foundation, (2016), http://cwf.ca/research/publications/start-em-up-incubating-nextgen-innovators/; "The Rainforest Scorecard: A Practical Framework for Growing Innovation Potential, Alberta Progress Observations, 24 months," Rainforest Strategies, (2018), Alberta RF Scorecard Report 2016-18-November.pdf.

[58] For information on incubator and accelerator resources see "Calgary's Coworking Spaces, Incubators and Accelerators," Startup Calgary,

updated April 4, 2019, https://www.startupcalgary.ca/startup-calgary-resources/2017/12/11/calgarys-coworking-spaces-incubators-and-accelerators; "Programs and Accelerators to Help You Grow," TEC Edmonton, https://www.tecedmonton.com/what-we-offer/programs-and-accelerators/.

[59] See "Funding," Alberta Innovates, https://albertainnovates.ca/funding-entrepreneurial-investments/regional-innovation-networks/.

[60] For a summary of these initiatives, see NACO, "Critical Perspectives on Small and Medium-Sized Enterprises (SME) Funding in Canada," pages 40-43.

[61] Start Alberta, https://startalberta.com/explore.

[62] Government of Canada, SME Research and Statistics, Venture Capital Catalyst Initiative. https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03052.html

[63] As announced in CSA Staff Notice 51-353 *Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers,* the CSA is pursuing a number of regulatory burden reduction initiatives designed to assist reporting issuers / public companies.

[64] See "Frequently Used Forms and Fees," Alberta Securities Commission, https://www.albertasecurities.com/registrant-and-market-regulation/registrant-toolkit/frequently-used-forms-and-fees.

[65] We note that there are a number of parties endeavouring to provide assistance in this area, e.g., the model documents made available by NACO respecting angel investment. See "Common Documents," NACO, https://www.nacocanada.com/cpages/common-docs; "Venture Capital Model Documents," CVCA, https://www.cvca.ca/venture-capital-model-documents/; and the services provided through the University of Calgary's BLG Business Venture Clinic http://www.businessventureclinic.ca.

[66] We note that there are also resources available to assist investors in assessing investments. See "NACO Academy," NACO, https://www.nacocanada.com/cpages/naco-academy; "Canadian Private Capital Investment School," The Ivey Academy, https://www.ivey.uwo.ca/academy/programs/program-finder/canadian-private-capital-investment-school/.

[67] See "Prospectus-Exempt Distributions," Alberta Securities Commission, updated June 1, 2019, https://public.tableau.com/profile/albertasecuritiescommission#!/vizhome/ExemptMarketDashboard/EXDDashboard.

[68] TSX Matrix https://tmxmatrix.com/ and StartAlberta https://startalberta.com/. Note also StartAlberta's partnership with Crunchbase. https://finance.yahoo.com/news/startalberta-forges-data-partnership-crunchbase-105500159.html

[69] Although the general prohibitions on fraud and misrepresentations always apply, an issuer relying on the accredited investor exemption is not required to provide the investor with any prescribed offering document. (However, in the case of most individuals, the issuer is required to provide and obtain from them a short prescribed risk acknowledgement form.) Under the accredited investor exemption, there is no limit on the amount that can be raised by an issuer under this exemption and relying on the exemption does not trigger any requirement under securities law to provide ongoing disclosure. The policy rationale for providing the accredited investor exemption is that some investors have sufficient financial means to withstand the loss of an investment and accordingly do not need all of the protections of a prospectus. Although the stated rationale of the exemption is 'ability to withstand loss' there may be an implicit assumption of a certain level of sophistication or at least the financial means to obtain necessary advice.

[70] Interestingly, similar recommendations have been made to the United States Securities and Exchange Commission (SEC) through its annual SEC Government-Business Forum on Small Business Capital Formation as well as through its advisory committee in the SEC, "Final Report of the Securities and Exchange Commission Advisory Committee on Small and Emerging Companies," September 2017, https://www.sec.gov/info/smallbus/acsec/acsec-final-report-2017-09.pdf.

[71] For example, individuals who met the following criteria might be permitted:

- persons that hold a chartered financial analyst designation;
- persons that hold an MBA, finance degree, accounting designation, engineering degree or law degree that have been investing in securities, other than mutual funds, for a minimum amount of time e.g., 3 years and that have made a minimum number of investments e.g., 10;
- persons that have passed a prescribed exam e.g., the Canadian Securities Course or the Exempt Market Proficiency Course, with a mark of at least 80%, and have been investing in securities, other than mutual funds, for a minimum amount of time, e.g., 3 years and have made a minimum number of investments e.g., 10; or
- persons or companies that have been investing in securities, other than mutual funds, for a minimum amount of time, e.g., 5 years and that have made a minimum number of investments e.g., 20.

[72] Ibid note 65.

[73] See for example: "Canada's ATB Financial Joins Sovrin Network as a Founding Steward," *Globe News Wire,* November 15, 2017, https://www.globenewswire.com/news-release/2017/11/15/1193646/0/en/Canada-s-ATB-Financial-joins-Sovrin-network-as-a-founding-steward.html; "ATB & the Value [Block] Chain – Engaging in Inspired Solutions," *Medium,* June 6, 2018, https://medium.com/atb-alphabeta/atb-the-value-block-chain-engaging-in-inspired-solutions-12703a62db7e.

[74] Again, we note that similar proposals have been made to the SEC through its annual SEC Government-Business Forum on Small Business

Capital Formation as well as through the *Final Report of the Securities and Exchange Commission Advisory Committee on Small and Emerging Companies* recommended made a finder exemption.

[75] To address the potential risks associated with unregistered finders, conditions that might apply include:

- the subscription funds would be paid directly to the issuer and the finder would not be permitted to hold them;
- the finder would not be permitted to provide any investment advice or recommendations;
- the finder would have to provide notice to the ASC of having relied on the exemption; and
- to avoid confusion about the role of the finder and the nature of its obligations to an investor, the finder could not be or have previously been registered or been engaged in providing financial planning or similar advice.

[76] For example, the introduction of a requirement for management's discussion and analysis including for businesses without significant revenues, a breakdown of expenditures; the introduction of requirements for business acquisition reports, including in connection with certain "restructuring transactions" the disclosure that would be required in a prospectus; the introduction of additional requirements relating to executive compensation disclosure; the introduction of international financial reporting standards (IFRS); the introduction of new governance and disclosure requirements under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and National Instrument 43-101 *Standards of Disclosure for Mineral Projects*; the introduction of a more extensive set of policy requirements by the TSXV relative to those of the Alberta Stock Exchange, including the enhancement of disclosure in connection with a CPC's qualifying transaction and in respect of reverse take-overs and changes of business, and the requirement that the issuer be a true 'blind pool', without any potential transaction being contemplated; the enhancement and formalization of expectations of dealers and advisers; the introduction of tailored governance disclosure requirements; the introduction of requirements for audit committees and certain tailored disclosure respecting them; and the introduction of annual and interim CEO and CFO certifications, albeit without a requirement to certify controls.

[77] "Marshall Lux, Jack Pead, "Hunting High and Low: The Decline of the Small IPO and What to Do About It," *Harvard Kennedy School, Mossavar-Rahamani Center for Business and Government*, (2018): page 25, https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/86_final.pdf.

[78] Note that a somewhat similar concept has been adopted in the U.S. by the SEC under Tier 2 of Title IV of the *JOBS Act*, what is colloquially referred to as "Reg A+", and note that it is serving as a financing vehicle for some businesses in the U.S. Some feedback suggests that Reg A+ might prove to be more successful once some of the challenges posed under state securities law respecting secondary trading are addressed.

[79] Joint CSA/IIROC Consultation Paper 21-402 *Proposed Framework For Crypto-Asset Trading Platforms*, https://www.albertasecurities.com/-/media/ASC-Documents-part-1/Regulatory-Instruments/2019/03/5450795--CSAConsultationPaper21402ProposedFrameworkforCryptoAssetTradingPlatforms20190301.ashx.

[80]See Nasdaq Private Market https://www.nasdaqprivatemarket.com/