

**COMPANION POLICY 45-103CP  
TO MULTILATERAL INSTRUMENT 45-103  
CAPITAL RAISING EXEMPTIONS**

**Application**

Multilateral Instrument 45-103 *Capital Raising Exemptions* ("MI 45-103") has been implemented in British Columbia and Alberta.

**Background**

Securities legislation applies to any trade of a security in the local jurisdiction, whether or not the issuer of the security is a reporting issuer in that jurisdiction. The dealer registration requirement prohibits a person or company from trading in a security unless the person or company is registered in the appropriate category. The prospectus requirement requires the use of a prospectus for any distribution of securities.

Securities legislation provides exemptions from the dealer registration requirement and prospectus requirement in certain circumstances. In addition, the securities regulatory authority has the power to make discretionary orders to exempt trades, intended trades, securities and persons or companies from the dealer registration requirement and the prospectus requirement when it is not prejudicial to the public interest to do so.

**Purpose**

MI 45-103 provides four exemptions from the dealer registration requirement and prospectus requirement to assist issuers in raising capital. Issuers may also use other exemptions available to them under securities legislation to raise capital.

This Policy provides guidance on the use of the exemptions in MI 45-103.

**Part 1 General**

**1.1 Definitions**

MI 45-103 contains certain terms that are defined in National Instrument 14-101 *Definitions*.

**1.2 Multijurisdictional trades**

A trade can occur in more than one jurisdiction. If it does, the issuer must comply with the securities legislation of each jurisdiction in which the trade occurs.

**1.3 Responsibility for compliance**

The issuer or selling security holder trading securities under an exemption is responsible for determining whether the exemption is available. In doing so, the seller may rely on factual representations by the purchaser, provided that the seller has no reasonable grounds to believe that those representations are false. However, the seller must still determine whether, given those facts, the exemption is available.

For example, an issuer distributing securities to a close personal friend of a director could require that the purchaser provide a signed statement describing the purchaser's relationship with the director. On the basis of that factual information, the issuer could determine whether the purchaser is a close personal friend of the director for the purposes of the exemption.

The person or company trading securities under an exemption is also responsible for retaining the documents necessary to show that the person or company properly relied upon the exemption.

#### **1.4 Purchasing as principal**

Securities legislation deems certain persons or companies to be acting as principal when purchasing for accounts that are fully managed by them. Consult the securities legislation of the jurisdiction in which the trade is occurring to determine whether the person or company satisfies the conditions to be deemed to be purchasing as principal. For example, in British Columbia and Alberta, a portfolio manager (as defined in securities legislation) is deemed to be purchasing as principal when it is purchasing securities for accounts that are fully managed by it.

#### **1.5 Prohibited Activities**

The definition of trade in securities legislation includes any act, advertisement, solicitation, conduct or negotiation directly or indirectly in furtherance of a trade. A person or company who engages in such activities must comply with the securities legislation of each jurisdiction in which the trade occurs.

For example, section 50 of the *Securities Act* (B.C.) and section 92 of the *Securities Act* (Alberta) prohibit any person or company from making certain representations to a purchaser, including an undertaking as to the future value or price of the securities. The sections also prohibit a person or company from making any statement that the person or company knows, or reasonably ought to know, is a misrepresentation. Misrepresentation is defined in the securities legislation. The use of exaggeration, innuendo or ambiguity in an oral or written representation about a material fact, or other deceptive behaviour relating to a material fact, might be a misrepresentation.

#### **1.6 Responsibilities of registrants**

An exemption from the dealer registration requirement does not relieve a registrant from its responsibilities to purchasers under securities legislation. In particular, MI 45-103 does not provide an exemption from the know your client and suitability rules, the prohibitions against certain activities described in section 1.5 or the duty of a registrant to deal fairly, honestly and in good faith with clients. If the relationship between a registrant and its client is a fiduciary relationship, additional responsibilities may apply under common law.

#### **1.7 Advising**

MI 45-103 does not provide an exemption from the adviser registration requirement. Only advisers registered or exempted from registration under securities legislation may act as advisers in connection with a trade made under MI 45-103.

#### **1.8 Advertising and soliciting purchasers**

Advertising to solicit or find purchasers is not restricted under any of the exemptions in MI 45-103. However, issuers should review the securities legislation and securities directions for guidelines on advertising intended to promote interest in an issuer or its securities. For example, any advertising or marketing communications must not contain a misrepresentation and should be consistent with the issuer's public disclosure record.

MI 45-103 does not prohibit the use of registrants, finders, telemarketing or advertising in any form (for example, Internet, e-mail, direct mail, newspaper or magazine) to solicit or find purchasers under any of the exemptions. However, if any of these means are used to find purchasers (other than accredited investors) under the private issuer exemption or the family, friends and business associates exemption, it may create a presumption that the relationship required for use of these exemptions is not present. For example, if an issuer advertises to find purchasers under the family, friends and business associates exemption, it suggests that the purchasers are not family, friends or business associates, and therefore the issuer would not be able to rely on this exemption. However, if a private issuer uses a finder to locate an accredited investor, this would not preclude the

private issuer from relying on the private issuer exemption, provided the other conditions to the exemption are met.

## **Part 2 Private issuer exemption**

### **2.1 Meaning of "the public"**

Section 2.1 of MI 45-103 provides exemptions from the dealer registration and prospectus requirements for trades in securities of a private issuer to those specific persons or companies listed in section 2.1(1)(a) to (i). For example, a trade in securities of a private issuer to an accredited investor is exempt from the dealer registration and prospectus requirements so long as the accredited investor purchases the securities as principal.

Because we cannot list all circumstances where a person or company, based on the "need to know" and "common bonds" test that have developed in the common law, would not be a member of the public, section 2.1(1)(i) permits trades to any person or company that is not the public. The issuer, or any other person or company relying on the exemption, must satisfy itself that the purchaser is not a member of the public for purposes of the private issuer exemption. The courts have interpreted "the public" very broadly in the context of securities trading. Consult legal counsel if you need further guidance.

### **2.2 Meaning of "close personal friend"**

A close personal friend is an individual who has known the director, senior officer or control person for a sufficient period of time to be in a position to assess the capabilities and trustworthiness of the director, senior officer or control person.

An individual is not a close personal friend solely because the individual is a member of the same organization, association or religious group.

An individual is not a close personal friend solely because the individual is a client or former client. For example, an individual is not a close personal friend of a registrant or former registrant simply because the individual is a client or former client of that registrant or former registrant.

The relationship between the purchaser and the director, senior officer or control person must be direct. For example, the exemption is not available for a close personal friend of a close personal friend of the director, senior officer or control person.

### **2.3 Meaning of "close business associate"**

A close business associate is an individual who has had sufficient prior business dealings with the director, senior officer or control person to be in a position to assess the capabilities and trustworthiness of the director, senior officer or control person.

A casual business associate or a person introduced or solicited for the purpose of purchasing is not a close business associate.

An individual is not a close business associate solely because the individual is a client or former client. For example, an individual is not a close business associate of a registrant or former registrant solely because the individual is a client or former client of that registrant or former registrant.

The relationship between the purchaser and the director, senior officer or control person must be direct. For example, the exemption is not available for a close business associate of a close business associate of a director, senior officer or control person.

## **2.4 Distribution of debt securities**

A private issuer may distribute any type of securities under the private issuer exemption as long as the sales are made only to the persons or companies described in section 2.1(1) of MI 45-103. However, a private issuer may also distribute securities to the public under another exemption if the securities are not designated securities, such as debt securities, without losing its private issuer status.

## **2.5 Merger of private issuers**

Securities distributed in an amalgamation, merger, reorganization, arrangement or other statutory procedure involving two private issuers to holders of securities of those private issuers is not a distribution to the public provided the resulting issuer is a private issuer. Securities distributed by a private issuer in a share exchange take over bid for another private issuer is not a distribution to the public provided the offeror remains a private issuer after completion of the bid.

## **2.6 Ceasing to be a private issuer**

The meaning of private issuer is set out in section 1.2 of MI 45-103. A private issuer can distribute designated securities only to the persons or companies described in section 2.1(1) of MI 45-103. If a private issuer distributes designated securities to a person or company not listed in section 2.1(1), even under another exemption, it will no longer be a private issuer and will no longer be able to use the private issuer exemption. For example, if a private issuer issues designated securities under the offering memorandum exemption, it will no longer be a private issuer. That issuer may then be able to use the other exemptions provided under securities legislation, including the family, friends and business associates exemption, the accredited investor exemption and the offering memorandum exemption, but will be required to report the distributions to the securities regulatory authority in each jurisdiction in which the distribution took place.

## **Part 3 Family, friends and business associates exemption**

### **3.1 Meaning of close personal friends and close business associates**

For the purposes of the family, friends and business associates exemption, the meaning of close personal friend and close business associate is the same as in the private issuer exemption.

### **3.2 Number of purchasers**

There is no restriction on the number of persons that the issuer may sell securities to under the family, friends and business associates exemption. However, if the issuer sells securities to a large number of persons under this exemption, this may create a presumption that not all of the purchasers are family, close personal friends or close business associates and that the exemption may not be available.

## **Part 4 Offering memorandum exemption**

### **4.1 Offering memorandum exemption**

The offering memorandum exemption in MI 45-103 differs under Alberta and British Columbia securities legislation. Under Alberta securities legislation, there is an additional condition, which requires that either the aggregate acquisition cost to the purchaser be not more than \$10,000 or that the purchaser be an eligible investor. In addition, certain mutual fund issuers are precluded from using the offering memorandum exemption under Alberta securities legislation.

In determining aggregate acquisition cost, include any future payments that the purchaser will be required to make. Proceeds which may be obtained on exercise of warrants or other rights, or on conversion of convertible securities, are not considered to

be part of the aggregate acquisition cost unless the purchaser is legally obligated to exercise or convert the securities.

A purchaser can qualify as an eligible investor under various categories, including where the purchaser has either \$75,000 pre-tax net income or \$400,000 worth of net assets. In calculating a purchaser's net assets, subtract the purchaser's total liabilities from the purchaser's total assets.

Another way a purchaser can qualify as an eligible investor and purchase more than \$10,000 is to obtain the advice of a registered investment dealer or securities dealer (or some other category of unrestricted dealer in the purchaser's jurisdiction.) A registered dealer providing advice to a purchaser relying on this category of the eligible investor definition is expected to comply with the "know your client" and suitability requirements under securities legislation and SRO rules and policies. Some dealers have obtained exemptions from the "know your client" and suitability requirements because they do not provide advice. We do not consider an assessment of suitability by these dealers sufficient to qualify a purchaser as an eligible investor.

An issuer may rely on a purchaser's representation that the purchaser is an eligible investor by virtue of the purchaser meeting one or more specified categories of the eligible investor definition. However, the issuer cannot rely on the representation if the issuer has reasonable grounds to believe that the representation is false.

#### **4.2 Form of offering memorandum**

There are two forms of offering memorandum. Qualifying issuers under Multilateral Instrument 45-102 *Resale of Securities* ("MI 45-102") may use Form 45-103F2. Form 45-103F2 permits qualifying issuers to incorporate by reference their annual financial statements, annual information form and subsequent specified continuous disclosure documents. All other issuers must use Form 45-103F1.

#### **4.3 Date of certificate and required signatories**

The issuer must ensure that the information provided to the purchaser is current and does not contain a misrepresentation. For example, if a material change occurs in the business of the issuer after delivery of an offering memorandum to a potential purchaser, the issuer must give the potential purchaser an update to the offering memorandum before the issuer accepts the agreement to purchase the securities. The update to the offering memorandum may take the form of an amendment describing the material change, a new offering memorandum containing up-to-date disclosure or a material change report, whichever the issuer decides will most effectively inform purchasers. Whatever form of update the issuer uses, it must include a newly signed and dated certificate as required in section 4.4 of MI 45-103.

The chief executive officer, chief financial officer, two directors and all promoters of the issuer must sign the certificate. If the issuer has more than two directors, any two directors who are authorized to sign the certificate, other than the chief executive officer and chief financial officer, may sign on behalf of all of the directors. "Promoter" is defined in the securities legislation to be a person or company who has taken the initiative in founding, organizing or substantially reorganizing the business of the issuer or who has received consideration over a prescribed amount for services or property or both in connection with the founding, organization or substantial reorganization of the issuer. Under the securities legislation, persons or companies who receive consideration solely as underwriting commissions or in consideration of property who do not otherwise take part in the founding, organization or reorganization of the issuer are not promoters. Simply selling securities, or in some way facilitating sales in securities, does not make a person or company a promoter under this exemption.

#### **4.4 Consideration to be held in trust**

The purchaser has the right to cancel the agreement to purchase the securities until midnight on the 2<sup>nd</sup> business day after signing the agreement. During this period, the issuer must arrange for the consideration to be held in trust on behalf of the purchaser.

It is up to the issuer to decide what arrangements are necessary to preserve the consideration received from the purchaser. The requirement to hold the consideration in trust may be satisfied if, for example, the issuer keeps the purchaser's cheque, without cashing or depositing it, until the expiration of the two business day cancellation period.

It is also the issuer's responsibility to ensure that whoever is holding the consideration, promptly returns it to the purchaser if the purchaser cancels the agreement to purchase the securities.

#### **4.5 Filing of offering memorandum**

The issuer is required to file the offering memorandum with the securities regulatory authority in each of the jurisdictions in which the issuer distributes securities under this exemption. The issuer must file the offering memorandum on or before the 10<sup>th</sup> day after the distribution. If the issuer is conducting multiple closings, the offering memorandum must be filed on or before the 10<sup>th</sup> day after the first closing. Once the offering memorandum has been filed, there is no need to file it again after subsequent closings, unless it has been updated.

#### **4.6 Purchasers' rights**

An issuer must give each purchaser under an offering memorandum a contractual right to cancel the agreement to purchase the securities by delivering a notice to the issuer not later than midnight on the 2<sup>nd</sup> business day after the purchaser signs the agreement.

Unless the securities legislation in a purchaser's jurisdiction provides purchasers with statutory rights, the issuer must also give each purchaser a contractual right of action against the issuer in the event the offering memorandum contains a misrepresentation. This contractual right of action must be available to the purchaser regardless of whether the purchaser relied on the misrepresentation when deciding to purchase the securities. This right is similar to that given to a purchaser under a prospectus. The purchaser may claim damages or ask that the agreement be cancelled. If the purchaser wants to cancel the agreement, the purchaser must commence the action within 180 days after signing the agreement to purchase the securities. If the purchaser is seeking damages, the purchaser must commence the action within the earlier of 180 days after learning of the misrepresentation or 3 years after signing the agreement to purchase the securities.

However, the issuer is not required to provide these contractual rights to a purchaser if the securities legislation in the jurisdiction in which the trade occurs provides rights to the purchaser.

The issuer is required to describe in the offering memorandum any rights available to the purchaser, whether they are provided by the issuer contractually as a condition to the use of the exemption or provided under securities legislation.

### **Part 5 Accredited investor exemption**

#### **5.1 Meaning of accredited investor**

The meaning of accredited investor under MI 45-103 is intended to be substantially the same as under Ontario Securities Commission Rule 45-501 *Exempt Distributions*. However, OSC Rule 45-501 is drafted for use only in Ontario, while MI 45-103 is drafted as a multilateral instrument and therefore uses certain terms that are defined under National Instrument 14-101 *Definitions*. For example, a Canadian financial institution is

defined under NI 14-101 to mean a bank, loan corporation, trust company, insurance company, treasury branch, credit union or caisse populaire authorized to carry on business in Canada or a jurisdiction.

An accredited investor who is an individual must satisfy either the financial asset test or the net income test set out in paragraphs (l) and (m) of section 1.1 of MI 45-103. If the combined financial assets or combined net income of spouses exceeds the \$1 million or \$300,000 thresholds, either spouse (or both spouses together) qualifies as an accredited investor. If the combined net income of the spouses together does not exceed \$300,000 but the net income of one of the spouses exceeds \$200,000, only the spouse whose net income exceeds \$200,000 qualifies as an accredited investor.

An issuer may rely on representations by the purchaser that the purchaser is an accredited investor by virtue of meeting one or more specified sections of the accredited investor definition but only to the extent that the issuer has no reasonable grounds to believe that the representations given by the purchaser are false.

## **Part 6 Resale of securities**

### **6.1 Resale of securities**

Securities distributed under an exemption are usually subject to restrictions on their resale. The resale restrictions depend on the status of the issuer and the exemption that was relied on to distribute the securities. Part 6 of MI 45-103 sets out the applicable resale restrictions for securities distributed under the capital raising exemptions. These resale restrictions refer to specific sections of MI 45-102. Sellers of securities, of course, may also rely on other exemptions from the prospectus requirement to sell their securities.

## **Part 7 Filing requirements**

### **7.1 Report of exempt distribution**

MI 45-103 requires a person or company relying on the family, friends and business associates exemption, the offering memorandum exemption and the accredited investor exemption to file a report of exempt distribution within 10 days of the distribution. In British Columbia, only issuers have to comply with this requirement.

The form of report may be different in each jurisdiction in which the distribution takes place. Consult the securities legislation of each jurisdiction to ensure compliance with the form requirements.