

**October 3, 2019**

## **Introduction and Purpose**

As part of our strategy of proactive compliance and informed regulation, and in accordance with our strategic plan initiative of consulting with stakeholders, staff of the Alberta Securities Commission (**Staff or we**) recently completed a survey of investors and an analysis of the use of section 2.3 *accredited investor* (the **AI Exemption**) of National Instrument 45-106 *Prospectus Exemptions* (**NI 45-106**). We are publishing this notice to provide a summary of the analysis of the survey results.

## **Background**

### ***Project Summary***

The AI exemption is used extensively in Alberta. It has been, and continues to be, vital to capital raising in the exempt market. It is used by a variety of issuers at all stages – from start-up and developing companies to mature issuers, reporting or non-reporting – to quickly access capital with minimal regulatory requirements. Given the significance of this exemption, the primary objectives of the survey were to assess overall compliance with the qualification criteria for individual investors under the AI Exemption and determine the type of information typically received and advice typically sought by accredited investors.

### ***Use of the AI Exemption by Alberta Issuers***

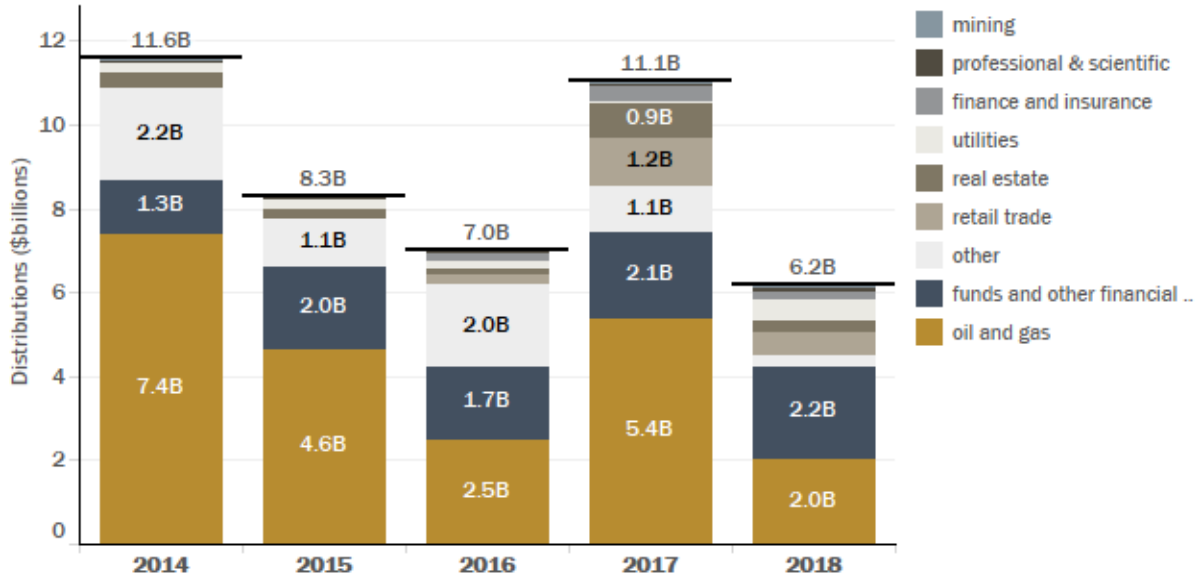
The AI Exemption is used regularly in Alberta. Chart 1 shows total distributions by Alberta issuers under the AI Exemption over the last five calendar years.<sup>1</sup> Based on reports of exempt distribution<sup>2</sup> filed with the Alberta Securities Commission (the **ASC**), the most commonly reported industry type among issuers relying on the AI Exemption was “oil and gas,” followed by “funds and other financial vehicles,” “other industries” and “retail trade.”

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<sup>1</sup> For additional detail on the use of prospectus exemptions in Alberta, refer to the 2019 Alberta Capital Market Report available on the website of the ASC.

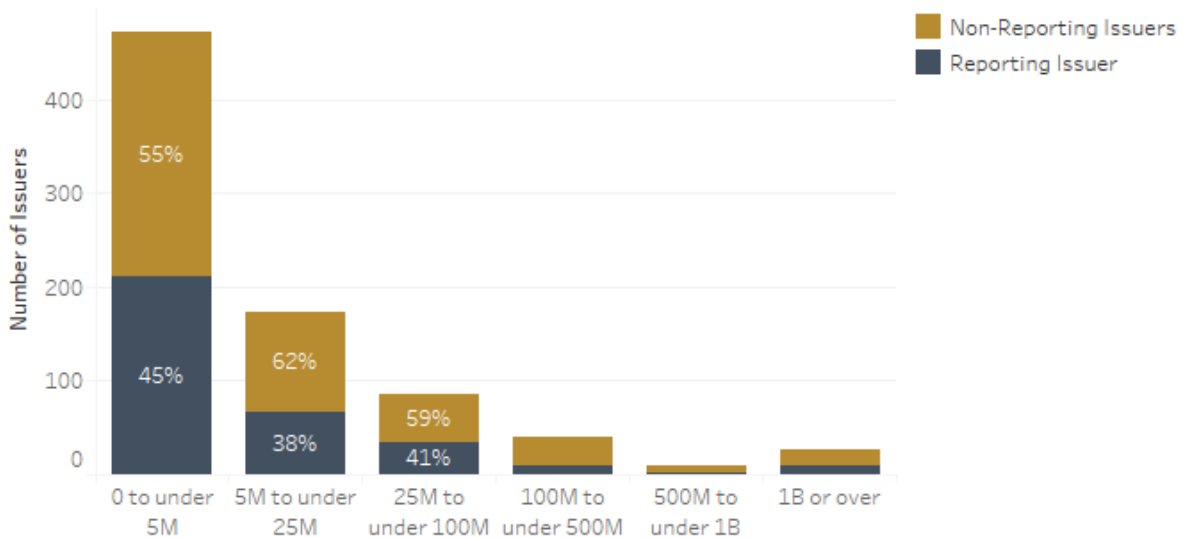
<sup>2</sup> Form 45-106F1 *Report of Exempt Distribution*

**CHART 1: DISTRIBUTIONS BY ALBERTA ISSUERS UNDER THE AI EXEMPTION FOR THE PAST FIVE YEARS, BY INDUSTRY**



We also reviewed reports of exempt distribution to analyze the typical asset size of issuers that used the AI Exemption. Chart 2 shows the number of issuers in each asset range in 2018. Based on reports of exempt distribution filed with the ASC, three quarters of issuers relying on the AI Exemption were small issuers with assets of less than \$25 million.

**CHART 2: NUMBER OF ALBERTA ISSUERS DISTRIBUTING UNDER AI EXEMPTION IN 2018, BY ASSET SIZE**



### ***Distributions to Alberta Investors***

A total of 1,047 issuers, from any jurisdiction, distributed to Alberta individual investors using the AI Exemption in 2018. The average and median total amounts distributed by each issuer to Alberta investors using the AI Exemption were approximately \$641 thousand and \$133 thousand, respectively. Each issuer distributed to an average of 9 accredited Alberta individual investors. Approximately six thousand Alberta investors purchased securities as accredited investors in 2018, with an average and median purchase amount of \$112 thousand and \$31 thousand, respectively.

For the survey, we identified all distributions made to Alberta purchasers using the AI Exemption in 2018. From this population, we randomly selected a sample of 500 investors to whom distributions were made, ensuring that each selection was for a unique issuer. We received 254 responses to the survey, for a response rate of 51%. The ASC is grateful to all those who responded to the survey.

### ***Who Qualifies under the AI Exemption***

There are various ways for individuals and non-individuals to qualify as accredited investors, as specified in NI 45-106. The survey focused on individual investors only.

Individuals qualify for the AI Exemption if they are one or more of the following:

- An individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000
- An individual whose net income before taxes exceeded \$200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year
- An individual who, either alone or with a spouse, has net assets of at least \$5,000,000
- An individual registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer

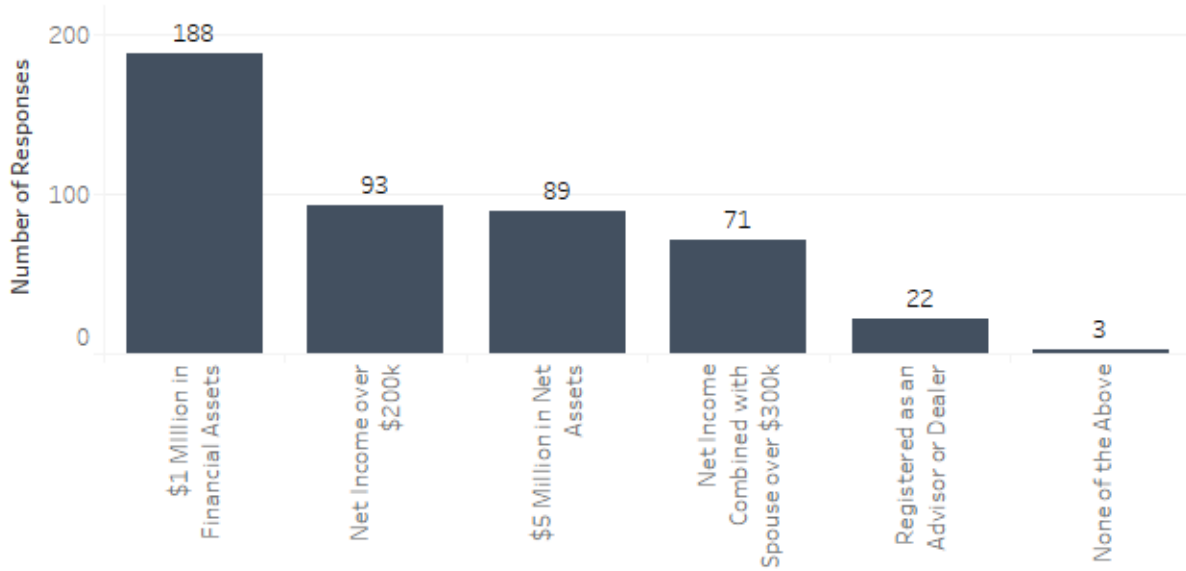
### **Key Findings**

#### ***How Investors Qualify as Accredited***

As shown in chart 3, 188 (74%) of respondents indicated that they beneficially own financial assets having a net value of more than \$1 million. 99 investors indicated that they met more than one of the criteria.

Only three respondents selected “none of the above”, indicating that they did not qualify to purchase securities under the AI Exemption. The responses appear to indicate an overall high level of compliance with the qualification requirements of the exemption.

**CHART 3: HOW INVESTORS QUALIFIED AS ACCREDITED**

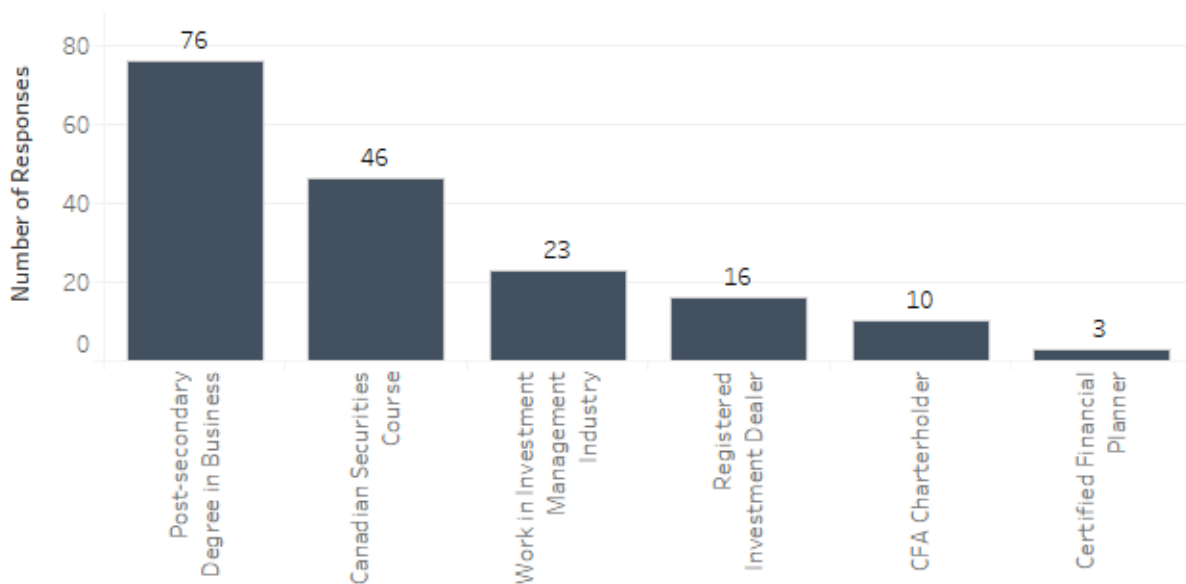


***Investors with a Business or Investment Related Background***

The survey asked respondents whether they had completed post-secondary business-related degrees, held certain professional designations related to finance or investing, or had work experience in the investment industry.

38% of respondents indicated that they met at least one of the criteria specified in the survey, while 17% stated that they met more than one of the above noted criteria.

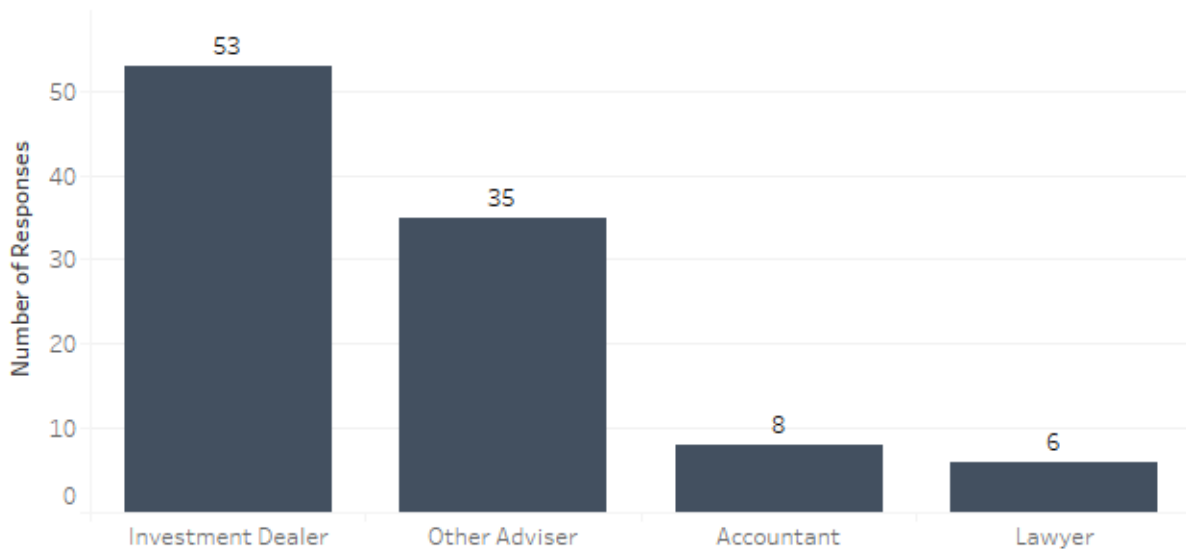
**CHART 4: INVESTORS' BACKGROUND**



### ***Advice Sought***

The survey asked whether investors sought advice from professional advisors prior to investing. 97 respondents (38%) indicated that they had sought advice, while 5 respondents (2%) indicated that they sought advice from multiple parties. The most common party to seek advice from were investment dealers.

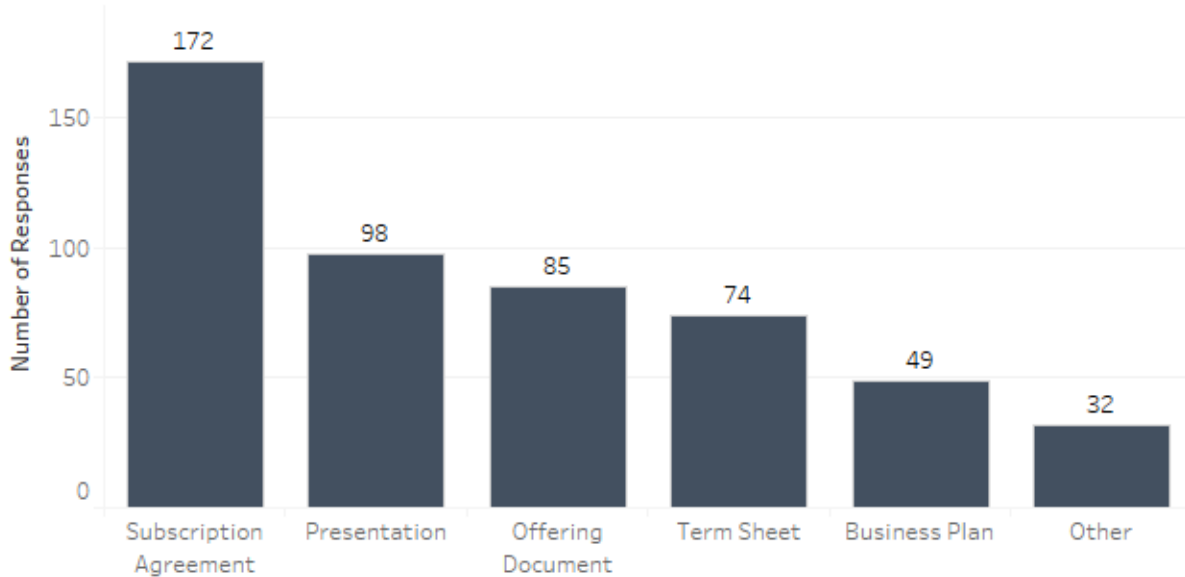
**CHART 5: WHETHER INVESTORS SOUGHT ADVICE PRIOR TO INVESTING**



### ***Information Received Prior to Investing***

The survey asked whether respondents received any information about the investment prior to making their investment decision. 89% of respondents indicated that they did receive information. Two-thirds of respondents said they received a subscription agreement. 54% of respondents indicated that they received more than one source of information.

**CHART 6: INFORMATION RECEIVED**



***Other Comments***

Many respondents indicated that they believed they had the sufficient expertise and experience to make their own investment decisions. Many respondents also indicated that they were pleased with their investments and confident in the issuers’ capabilities. Some respondents indicated that they were concerned with either a lack of progress made by the issuer or a lack of information provided by the issuer since the time of their investment. Many investors indicated that they understood the high risk nature of investments made using the AI exemption, but that they were willing to assume this risk due to the potential for high rewards and diversification provided by such investments.

***Conclusion***

Based on the results, it appears that compliance with the qualification requirements of the exemption is high. While we acknowledge that those that did not complete the survey may have chosen not to because they did not qualify as accredited investors, we are pleased with the results of the survey and do not believe that any additional guidance as to how to comply with the qualification criteria of the exemption is required at this time. We would like to thank all participants who completed the survey for their time.

**Questions**

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