



Canadian Foundation *for*  
Advancement *of* Investor Rights

News Release  
FOR IMMEDIATE RELEASE  
March 18, 2013

## **FAIR Canada Opposes Equity Crowdfunding- True Capital Formation Requires Efficient Markets and Strong Investor Protection**

**Toronto, ON** – FAIR Canada has submitted comments to the OSC on its exempt market review, opposing the proposed equity crowdfunding exemption and offering memorandum exemption concepts. Crowdfunding and the OM exemption will undermine investor protection, make markets less efficient, undermine investor confidence in markets and ultimately result in less “real” capital formation for small and medium enterprises (“**SMEs**”). We suggest that the regulatory resources needed to introduce these concepts and properly police the exemptions in order to prevent widespread fraud would be better spent elsewhere.

FAIR Canada is of the view that the policy objective of increasing the amount of capital raised in the exempt market for businesses, particularly SMEs, must be accomplished in a manner that protects investors, otherwise real capital formation, where monies are invested in productive assets (leading to increased jobs and economic growth), will not occur. “Simply increasing the gross dollar amount of capital raised in the exempt market can be illusory, pointless and even destructive to the ability to raise capital for SMEs” said Ermanno Pascutto, Executive Director of FAIR Canada. “A regulatory framework which provides for strong investor protection and efficient markets will also facilitate true capital formation, resulting in lowering the cost of capital and increasing confidence in our markets. Instead of viewing investor protection mechanisms as an impediment to capital raising efforts, they should be seen as essential features of an efficient and effective market.”

### **Equity Crowdfunding: A Really Bad Idea!**

FAIR Canada believes that the existing crowdfunding concept results in too large a degree of informational asymmetry and too great a risk of fraud and potential for investor harm and, therefore, will not result in efficient markets nor the desired benefits that its proponents would argue it will achieve. The proponents of crowdfunding who argue that it will provide investors with more access to investment opportunities and thereby “democratize” the exempt market, are using a euphemistic term to make the concept more palatable. Ermanno Pascutto stated that “What “democratizing” really means is removing investor protection for people who are unsophisticated investors with limited income or financial assets so that high-risk unregulated products can be sold to them. Regulators should focus on the needs of the hundreds of SMEs listed on the exchanges in Canada that have gone to the effort and cost of complying with regulatory requirements and that are in need of equity financing.”

For a complete summary of the FAIR Canada submission, click [here](#).  
For the full submission, click [here](#).

FAIR Canada is a national, non-profit organization dedicated to putting investors first. As a voice of Canadian investors, FAIR Canada is committed to advocating for stronger investor protections in securities regulation. Visit [www.faircanada.ca](http://www.faircanada.ca) for more information.

-30-

For more information contact:

Ermanno Pascutto

Executive Director

416-214-3443

[ermanno.pascutto@faircanada.ca](mailto:ermanno.pascutto@faircanada.ca)

Marian Passmore

Associate Director

416-214-3441

[marian.passmore@faircanada.ca](mailto:marian.passmore@faircanada.ca)