

OSC Efforts to Enhance Capital-Raising Opportunities for Early-Stage Businesses

September 13, 2024

The Ontario Securities Commission (OSC) has launched a series of initiatives aimed at enhancing capital-raising opportunities for early-stage businesses in Ontario through the OSC TestLab program. This program uses controlled testing to evaluate innovative capital market strategies and regulatory approaches, aiming to support growth and innovation in Ontario's capital markets without compromising investor protection.

The key initiatives include:

Extension of the Self-Certified Investor Prospectus Exemption

This exemption, initially introduced in 2022, allows individuals with sufficient financial knowledge or relevant experience to invest up to \$30,000 annually in prospectus-exempt offerings, even if they do not meet the criteria under the Accredited Investor exemption. The availability of this exemption has been extended to October 25, 2025. To reduce the administrative burden on early-stage businesses, the OSC has implemented a streamlined process for reporting distributions under this exemption. This includes allowing quarterly reporting using a simplified form without an associated fee.

Dealer Registration Exemptions

The OSC has introduced exemptions from dealer registration requirements for early-stage businesses and not-for-profit angel investor groups. These exemptions allow these entities to raise capital and engage in marketing activities, subject to certain financial limits and conditions.

Angel Investor Group Registration Exemption

- **Purpose:** Allows not-for-profit angel investor groups to operate without dealer registration.
- **Eligible Activities:**
 - Identifying and introducing Ontario early-stage businesses seeking capital to members.
 - Providing information on Ontario early-stage businesses seeking capital to members.
 - Holding regular meetings for businesses to present to members.
 - Facilitating members' due diligence on Ontario early-stage businesses.
 - Updating members on investments in Ontario early-stage businesses.

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- Providing educational resources.
- **Eligibility Requirements:**
 - Group must be not-for-profit and primarily organized for that purpose.
 - Head office must be located in Ontario.
 - Maximum of 500 members, each an accredited or self-certified investor.
 - Compensation related to investments is limited to 5% of the securities' value.
- **Validity:** Exemption in effect until October 25, 2025, unless extended by the OSC.
- **Further Information:-** See Ontario Instrument 32-508 *Not-For-Profit Angel Investor Group Registration Exemption (Interim Class Order)*.

Early-Stage Business Registration Exemption

- **Purpose:** Allows eligible early-stage businesses to raise capital without dealer registration.
- **Eligible Businesses Must:**
 - Have head office and operations in Ontario.
 - Be in the early or development stage, seeking capital for growth or scaling.
 - Employ fewer than 100 people.
 - Not primarily invest in real estate, mortgages, or other assets.
 - Not be involved in crypto assets or gaming/betting businesses.
- **Capital Raising Conditions:**
 - Without dealer: Can raise up to \$3,000,000.
 - With dealer: Distributions through:
 - Exempt market dealer.
 - Not-for-profit angel investor group.
 - National Instrument 45-110 *Start-up Crowdfunding Registration and Prospectus Exemptions*.
 - Funding portal as defined in Multilateral Instrument 45-108 *Crowdfunding*.
- **Permitted Marketing Activities:**
 - Posting offering terms on the issuer's website.
 - Announcing distribution on social media.
 - Sharing terms at demo days hosted by eligible institutions.
- **Restrictions:**
 - No solicitation of investments unless pre-existing relationship or consent is given.
- **Validity:** Exemption in effect until October 25, 2025, unless extended by the OSC.
- **Further Information:** See Ontario Instrument 32-509 *Early-Stage Business Registration Exemption (Interim Class Order)*.