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OSC ADOPTS EXISTING SECURITY HOLDER PROSPECTUS EXEMPTION

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Further to our March 2014 <u>update</u>, the Ontario Securities Commission (the OSC) has followed suit with the majority of Canadian reporting jurisdictions by adopting a prospectus exemption for existing securities holders.

Reporting issuers in Ontario will now be able to raise funds more efficiently by connecting with their existing shareholder base, which does not require the same level of disclosure provided by a prospectus. By eliminating the costs connected with filing a prospectus provided certain requirements are met, the exemption balances the need for investor protection with the need for junior companies to effectively raise additional capital required to run or grow the business.

As described in our earlier note, the exemption is not without its requirements. Reporting issuers in Ontario may raise capital by issuing securities directly to their existing security holders without a prospectus, subject to the following conditions:

- 1. the issuer has a class of equity securities listed on the TSX, TSX-V, or CSE and has filed all required timely and periodic disclosure documents;
- 2. the offering consists only of the class of equity securities listed on the TSX, TSX-V, or CSE, or units consisting of the listed security and a warrant to acquire the listed security;
- 3. the issuer makes the offering available to all existing security holders who hold the same type of listed security;
- 4. the issuer issues a news release disclosing the proposed offering, including details of the use of the proceeds;
- 5. each investor confirms in writing to the issuer that, as at the record date, the investor held the type of listed security that the investor is acquiring under the exemption;
- 6. the investor invests no more than an aggregate of \$15,000 in a 12-month period under this exemption, unless the investor has obtained suitability advice from a registered investment dealer; and
- 7. the offering would not increase the number of outstanding listed securities of the issuer by more than 100%.



As with securities issued under the existing security holder exemption in other jurisdictions, any securities purchased under this exemption will be subject to a four month hold. Unlike other jurisdictions, however, the Ontario exemption will not be available for distributions in Ontario where the issuer is an investment fund.

Those interested in learning more about the existing security holder exemption in any of the adopting jurisdictions are encouraged to review our previous updates here and here.

by Morgan T. McDonald

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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