

Nova Scotia Securities Commission

Rule 45-108
Crowdfunding

-and-

Consequential Amendments to Rules 45-102 and 45-501

-and-

Amendments to National Instrument 45-102 *Resale of Securities* and Nova Scotia Securities Commission Rule 45-501 *Statutory Liability for Misrepresentations in An Offering Memorandum Under Certain Exemptions From the Prospectus Requirements* (collectively, the Rule Amendments)

-and-

Changes to Companion Policy 45-501CP to Nova Scotia Securities Commission Rule 45-501 *Statutory Liability for Misrepresentations in An Offering Memorandum Under Certain Exemptions From the Prospectus Requirements* (the Policy Amendment)

WHEREAS:

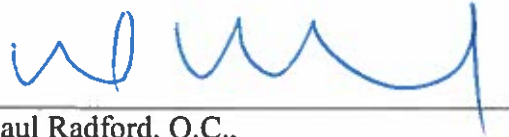
1. Pursuant to section 150 of the *Securities Act*, R.S.N.S. 1989, chapter 418, as amended (the Act), the Nova Scotia Securities Commission (the Commission) has power to make rules subject to compliance with the requirements of the Act;
2. Pursuant to section 19 of the Act, the Commission has power to issue and publish policy statements;
3. The Rule Amendments and the Policy Amendment, copies of which are attached hereto, have been made a rule by one or more of the Canadian securities regulatory authorities; and
4. The Commission is of the opinion that the attainment of the purpose of the Act is advanced by this Instrument.

NOW THEREFORE the Commission hereby:

- (a) pursuant to the authority contained in section 150 of the Act and subject to compliance with the requirements of section 150A of the Act, approves the Rule Amendments and makes the same a rule of the Commission;

- (b) pursuant to the authority contained in section 19 of the Act and subject to publication on the Commission's website, issues the Policy Amendment as a policy statement of the Commission; and
- (c) declares that the Rule Amendments approved and made pursuant to clause (a) and the issuance of the Policy Amendment pursuant to clause (b) shall both take effect on **January 25, 2016**, unless the Minister disapproves the rule or returns it to the Commission in accordance with subsection 150A(3) of the Act in which event the rule and the policy statement shall not be effective until the rule is approved by the Minister.

IN WITNESS WHEREOF this Instrument has been signed by the Vice-chair and Acting Chair of the Commission, being the member of the Commission prescribed by the Chair pursuant to subsection 15(3) of the Act to attend the hearing of this matter and the quorum with respect to this matter, on the 5th day of November, 2015.



Paul Radford, Q.C.,
Vice-chair and Acting Chair

Attachments

**Amendments to
National Instrument 45-102 Resale of Securities**

1. National Instrument 45-102 Resale of Securities is amended by this Instrument.

2. Appendix D is amended

(a) by adding “1.” before “Except in Manitoba”, and

(b) by adding before “Transitional and Other Provisions” the following:

2. In Ontario, Québec, New Brunswick and Nova Scotia, the exemption from the prospectus requirement in section 5 [*Crowdfunding prospectus exemption*] of Multilateral Instrument 45-108 *Crowdfunding*.

3. This Instrument comes into force on January 25, 2016.

**Amendments to
Nova Scotia Securities Commission Rule 45-501
*Statutory Liability for Misrepresentations in An Offering Memorandum Under Certain Exemptions
From The Prospectus Requirement***

- 1. *Nova Scotia Securities Commission Rule 45-501 Statutory Liability for Misrepresentations in An Offering Memorandum Under Certain Exemptions From The Prospectus Requirement is amended by this Instrument.***

- 2. *Section 2.1 is amended by adding before subsection (b) the following:***
 - (a1) Section 5 of Multilateral Instrument 45-108 *Crowdfunding* if the issuer is a reporting issuer;**

- 3. This Instrument comes into force on January 25, 2016.**

**Blackline Showing Changes To
Nova Scotia Securities Commission Companion Policy 45-501CP to Rule 45-501
Statutory Liability for Misrepresentations In An Offering Memorandum Under Certain
Exemptions From The Prospectus Requirement**

NOVA SCOTIA SECURITIES COMMISSION

**COMPANION POLICY 45-501CP TO RULE 45-501
STATUTORY LIABILITY FOR MISREPRESENTATIONS IN AN
OFFERING MEMORANDUM UNDER CERTAIN EXEMPTIONS
FROM THE PROSPECTUS REQUIREMENT**

PART 1 APPLICATION

1.1 Introduction

The Rule specifies when the statutory rights of action for misrepresentation in section 138 of the Act will apply to an offering memorandum that has been furnished to a prospective purchaser in connection with a distribution of a security under certain prospectus exemptions.

1.2 Purpose

The purpose of the Policy is to provide guidance on how the Commission interprets or applies certain provisions of Nova Scotia securities laws relating to the provision of an offering memorandum when an issuer relies on a prospectus exemption.

PART 2 INTERPRETATION

2.1 Definitions

In the Policy,

“Act” means the *Securities Act*, R.S.N.S. 1989, chapter 418, as amended;

“CEDC Regulations” means the *Community Economic-Development Corporations Regulations*;

“Commission” means the Nova Scotia Securities Commission;

“MI 45-108” means Multilateral Instrument 45-108 Crowdfunding;

“NI 45-106” means National Instrument 45-106 *Prospectus and Registration Exemptions*;

“Nova Scotia securities laws” has the same meaning as in clause 2(1)(aab) of the Act;

“offering memorandum” has the same meaning as in clause 2(1)(ab) of the Act;

“Policy” means Companion Policy 45-501CP to Rule 45-501 Statutory Liability for Misrepresentations in an Offering Memorandum Under Certain Exemptions From the Prospectus Requirement;

“prospectus exemption” means an exemption from the prospectus requirement in section 58 of the Act; and

“Rule” means Rule 45-501 Statutory Liability for Misrepresentations in an Offering Memorandum Under Certain Exemptions From the Prospectus Requirement.

PART 3 OFFERING MEMORANDUM

3.1 Definition of offering memorandum

The Commission is of the view that the phrase “prepared primarily for delivery to and review by a prospective purchaser” in the definition of offering memorandum means the document is prepared in contemplation of soliciting an investment from a prospective purchaser.

3.2 Mandatory and voluntary use of offering memorandum

(1) An issuer must prepare an offering memorandum for use in connection with a distribution made in reliance on the prospectus exemptions in section 2.9 of NI 45-106, [section 5 of MI 45-108](#) and subsection 3(2) of the CEDC Regulations.

(2) There is no requirement to provide an offering memorandum to a prospective purchaser in connection with a distribution made in reliance on a prospectus exemption in:

- (a) section 2.3 of NI 45-106 Accredited investor;
- (b) section 2.5 of NI 45-106 Family, friends and business associates;
- (c) section 2.10 of NI 45-106 Minimum amount investment;
- (d) section 2.19 of NI 45-106 Additional investment in investment funds; or
- (e) clause 77(1)(ah) of the Act.

An issuer may decide to prepare offering material that is delivered voluntarily to a prospective purchaser in connection with a distribution made in reliance on a prospectus exemption referred to in clauses (a) to (e) of this subsection. This offering material may constitute an offering memorandum which is defined generally to mean a document that describes the business and affairs of an issuer that is prepared primarily for delivery to and review by a prospective purchaser under a prospectus exemption.

3.3 Right of action for damages or rescission

(1) Section 138 of the Act describes the rights of action for a misrepresentation in an offering memorandum. Subsection 138(14) of the Act states that section 138 applies only with respect to an offering memorandum that has been furnished to a prospective purchaser in connection with a distribution of a security under a prospectus exemption specified in the regulations for the purpose of that section.

(2) Section 2.1 of the Rule specifies the following prospectus exemptions for the application of the rights in section 138 of the Act for an offering memorandum that has been furnished to a prospective purchaser in connection with a distribution of a security:

- (a) one of the following sections of NI 45-106:
 - (i) 2.3 Accredited investor;
 - (ii) 2.5 Family, friends and business associates;
 - (iii) 2.9 Offering memorandum;
 - (iv) 2.10 Minimum amount investment;
 - (v) 2.19 Additional investment in investment funds;

(a1) section 5 of MI 45-108 if the issuer is a reporting issuer;

(b) subsection 3(2) of the CEDC Regulations; and

(c) clause 77(1)(ah) of the Act.

The rights apply when an offering memorandum is delivered mandatorily in connection with a distribution made in reliance on the prospectus exemption in section 2.9 of NI 45-106, or section 5 of MI 45-108 provided the issuer is a reporting issuer, or subsection 3(2) of the CEDC Regulations, or voluntarily in connection with a distribution made in reliance on a prospectus exemption in section 2.3, 2.5, 2.10 or 2.19 of NI 45-106 or clause 77(1)(ah) of the Act.

(3) An offering memorandum delivered in connection with a distribution of a security made otherwise than in reliance on the prospectus exemptions referred to in subsection (2) does not trigger the rights referred to in section 138 of the Act.

3.4 Content of offering memorandum

(1) Other than an offering memorandum delivered in connection with a distribution made in reliance on the prospectus exemption in section 2.9 of NI 45-106, section 5 of MI 45-108 or subsection 3(2) of the CEDC Regulations and subject to subsection (2), Nova Scotia securities laws generally do not prescribe the content of an offering memorandum. The decision relating to the appropriate disclosure in an offering memorandum generally rests with the issuer, the selling security holder and their advisers.

(2) Under subsection 65(3) of the Act, an offering memorandum must contain a statement of the rights described in section 138 of the Act and a statement that these rights are in addition

to any other right or remedy available at law to the purchaser and must describe the time limitations in subsection 146(2) of the Act for enforcing a right under section 138 of the Act.

3.5 Delivery of offering memorandum to the Director

(1) Subsection 77(3) of the Act requires two copies of an offering memorandum that is voluntarily furnished to a purchaser in connection with a distribution under section 2.3, 2.5, 2.10 or 2.19 of NI 45-106 to be delivered to the Director concurrently with or before the date upon which a report of trade is required to be filed with the Director under Part 6 of NI 45-106.

(2) Under subsection 2.9(17) of NI 45-106, an issuer must file with the Director a copy of an offering memorandum delivered under section 2.9 of NI 45-106 within 10 days of the distribution under the offering memorandum.

(3) Under clause 77(1B)(b) of the Act, a co-operative must file with the Director a copy of an offering memorandum that is sent or delivered to a member of a co-operative or a purchaser in connection with a distribution under clause 77(1)(ah) of the Act, other than a distribution referred to in subsection 77(1A) of the Act, at least 10 days before the first trade of securities offered under the offering memorandum.

(4) Prior to an offering of securities under the CEDC Regulations, the Director must issue a letter of non-objection to an offering document prepared in accordance with Form 1 of the CEDC Regulations. The offering document would be an offering memorandum by definition. The offering document is pre-filed with the Director for review and non-objection.

(5) Under subsection 15(2) of MI 45-108, an issuer must file with the Director a copy of a crowdfunding offering document, which is an offering memorandum by definition, and other materials referred to in paragraphs 12(1)(a) and (c) of MI 45-108 at the time the issuer files a report of exempt distribution and no later than 10 days after the closing of the distribution.

3.6 Review of offering memorandum

(1) An offering memorandum delivered to the Director under subsection 77(3) or clause 77(1B)(b) of the Act, or subsection 15(2) of MI 45-108 is not generally reviewed or commented on by Commission staff. If Commission staff becomes aware that an offering memorandum fails to disclose material information relating to a security that is the subject of a distribution, Commission staff may consider remedial action.

(2) An offering memorandum filed under subsection 2.9(17) of NI 45-106 by an issuer with its head office in Nova Scotia is reviewed by Commission staff under the monitoring program described in Notice No. 45-705 (Amendment) In the Matter of National Instrument 45-106 Capital Raising Exemption Monitoring Program. If there are substantial deficiencies in the offering memorandum, Commission staff may consider remedial action.

(3) An offering memorandum filed under the CEDC Regulations is fully reviewed by Commission staff.

3.7 Preliminary offering material

(1) The Commission cautions against providing preliminary offering material to a prospective purchaser before furnishing a “final” offering memorandum unless the offering material contains a description of the rights referred to in section 138 of the Act in situations when the rights apply.

(2) The CEDC Regulations govern the use of preliminary offering material for an offering of securities under subsection 3(2) of the CEDC Regulations.

The changes become effective on January 25, 2016.