

## Modernization of Regulations Still Needed

The COVID-19 pandemic has changed the landscape for many co-operative businesses and, in some cases, has created new opportunities for co-operative businesses. However, businesses wanting to utilize the co-operative model to increase community ownership and improve the economic outlook for Ontario are up against capitalization exemption limits set more than 25 years ago.

The current Offering Statement exemption limits have not been reviewed since 1995 and are inadequate for co-operatives to raise the money they need in order to capitalize their businesses. The members of the Ontario Co-operative Association are asking for a fivefold increase to the exemption limits to account for inflation and the countless changes to business capitalization over the past twenty five years.

## Recommendation

OCA's membership recommends government increase the exemption limits related to member purchases of securities and the total amount of issued securities. When an exemption from Offering Statements is available, a co-operative can raise funds from the sale of securities with fewer financial, regulatory and administrative burdens on the business. Even if a co-operative is exempt from Offering Statement requirements, it is still obligated to provide full disclosure to investors.

OCA recommends a fivefold increase in offering exemption limits:

1. An increase in the exemption cap on individual member purchased securities of \$1,000 per year or \$10,000 total to **\$5,000** per year and **\$50,000** in total.
2. An increase of total securities issued to members from an exemption cap of \$200,000 to a cap of **\$1,000,000**.
3. An increase in the cap on the number of security holders for an exemption from 35 to 50.

## Background

Co-operatives raise capital for their development and operations by offering to sell securities to members and non-members. Securities include both shares issued by the co-operative as well as other instruments like bonds or debentures. These securities are not traded on the open market, rarely fluctuate in value and may only be transferred with the approval of the board of directors. They are not purchased with a view to capital appreciation or to obtaining a high return.

The regulatory process in Ontario for co-operative securities is called an "Offering Statement," and is designed to provide up-to-date information so that prospective investors have the right information to

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make an informed decision while also ensuring that co-operatives can raise their capital from their members and other supporters without undue cost.

The Offering Statement process was created due to the fundamental difference between co-operatives and other forms of business: those other forms are funded by those wishing to earn profits from that business, while co-operatives are funded by those who benefit from the services offered by the co-operative to its members. The requirements for oversight in the former are considerable, and onerous, as they need to be. The potential for abuse in co-operative securities marketing is minimal, as the experience of the past 45 years has demonstrated.

With few exceptions, Ontario co-operatives are relatively small enterprises, with a close-knit membership base or source of community support that is strongly connected to their businesses. This membership and community connection reduces the need for the offering statement process because the members are more informed and connected to the everyday transactions of the business.

As per the current limits contained in the Regulations, a co-operative is exempt from submitting an offering statement to the Financial Services Regulatory Authority (FSRA) if:

- A member purchases securities for a total price of not more than \$1,000 per year and \$10,000 in total;
- All securities issued to members are not more than \$200,000 of issued securities; or
- The number of security holders is below 35.

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