

November 9, 2020

Financial Services Regulatory Authority of Ontario  
5160 Yonge Street, 16th Floor  
Toronto, Ontario  
M2N 6L9

Dear Mr. White,

Thank you for the opportunity to comment on the consultation document titled “High Risk Offerings issued under the *Co-operative Corporations Act*”. The co-operative sector has discussed this document and is submitting this letter on behalf of share capital co-operatives in Ontario. In addition, co-operative corporations may also make individual submissions specific to the position of their businesses.

Ontario’s co-operatives thank the Financial Services Regulatory Authority (FSRA) for your commitment to a level of oversight that protects the integrity of the co-operative model and the members of our businesses. Our co-operatives believe full, plain and true disclosure is imperative to achieve two of our co-operative principles – democratic member control and members’ economic participation. For this reason, our co-operatives support FSRA’s oversight and appreciate the opportunity to consult on the proposed changes to offering statement procedure.

## Comments on the Guidance Document

Our review of the document has resulted in some questions we hope will clarify FSRA’s position:

1. What was the reason for creating this “high risk” categorization?
2. Are we clarifying the current requirements for disclosure or is FSRA recommending new requirements for disclosure?
3. Has FSRA had investor complaints that have led them to the position that increased oversight of certain co-operatives is necessary?
4. How did FSRA decide which offering statements were high risk?
5. Has there been a similar response to risk in other provinces?

It is the position of Ontario’s share capital co-operatives that some increased scrutiny may be justified in certain cases, however, there is some uncertainty after reading the document which co-operatives fall

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into the category of high risk. Upon close examination, all of Ontario's share capital co-operatives, depending on the interpretation of high risk, may fall into this category.

Our co-operatives are requesting some clarity regarding specifically which co-operatives fall into the high risk category. With any ambiguity around which co-operatives are considered high risk, there is concern that internal changes within FSRA may change the lens with which co-operatives are viewed and thus the interpretation of high risk. We also suggest co-operatives be organized into two distinct classes – 1. Community or Commodity based co-operatives and 2. Investment co-operatives. Our sector suggests the first class not be considered high risk unless there is significant material change to justify the designation.

Co-operatives are also requesting more clarity around disclosure requirements. Will FSRA be requesting information beyond what the current membership receives today from the external audit process and Canadian GAAP? Since Canadian GAAP and external audit processes are clear and understood by all businesses, requirements for enhanced disclosure for co-operatives designated high risk, should not exceed these generally accepted standards.

The document provides a list of disclosure requirements but notes it is not an exhaustive list. It is this open ended language that is concerning to co-operatives that would like assurance that definitions and requirements will be clearly outlined for the benefit of everyone involved now and in the future.

Ontario's co-operatives understand the need for full, plain and true disclosure however we are concerned that moving beyond disclosure to judging business competence is outside of the intent of the offering statement process. Therefore, Enhanced Disclosure should still allow for members to make the choice, with all of the facts, whether to invest in the co-operative.

There is concern among Ontario's co-operatives that costs and disclosure requirements may grow beyond the reach of average businesses. This would result in a disincentive for the co-operative model that had a 42% asset growth rate over the five years from 2010-2015, employs 57,000 Ontarians and are some of the only businesses equipped to manage the fallout of a global pandemic. Compromising the offering statement process may result in co-operatives seeking other types of financing instead of funding through member investment and if this is the case, co-operatives and the Ontario economy will lose.

## Resource Requirements

One item not mentioned in this document is cost. Ontario's co-operatives are aware that FSRA intends to move to a cost recovery model for Offering Statements. However, additional disclosure requirements and offering statement scrutiny will add time and cost to a process that is already taking longer than it has in the past. What is this enhanced disclosure process expected to cost?

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## Modernization of the Co-operative Regulations Required

The co-operative model is resilient and highly innovative when communities are in crisis. For over 150 years groups of community members, workers or both have co-operated to democratically develop businesses that meet the needs of their communities including housing, child care, elder care, employment, agricultural commodities, insurance and financial support. Now, as we face rebuilding our province in the wake of a pandemic, we must be inclusive of all communities, ideas and resources. To be successful it must be done with sustainability and equity at the core. The co-operative model embraces these principles and can be a roadmap to innovatively rebuild Ontario.

In order for Ontario's co-operatives to play an active part in economic recovery from COVID-19, changes to the current Offering Statement limits are essential. These 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 limits to account for inflation and the countless changes to business capitalization over the past twenty five years.

OCA's membership recommends government increase the exemption limits related to members purchasing securities and the total amount of issued securities to the following:

1. A member purchases securities for a total price of not more than **\$5,000** per year and **\$50,000** in total.
2. All securities issued to members are not more than **\$1,000,000** of issued securities.
3. Increase the prescribed number of security holders from 35 to 50.

Thank you for the opportunity to review and comment on the proposed guidelines for high risk co-operative offering statements. We look forward to our conversation on November 9, 2020.

Sincerely,



**Erin Morgan**  
Executive Director  
Ontario Co-operative Association

Cc: Minister Thompson, Ministry of Government and Consumer Services  
Co-operative Caucus co-chairs MPP Randy Pettapiece, MPP Chris Glover, MPP Mike Schreiner

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