

COMMUNITY INVESTMENT IN ONTARIO

STATUS AND PROSPECTS

CONSEIL DE LA
COOPÉRATION
DE L'ONTARIO



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ONTARIO

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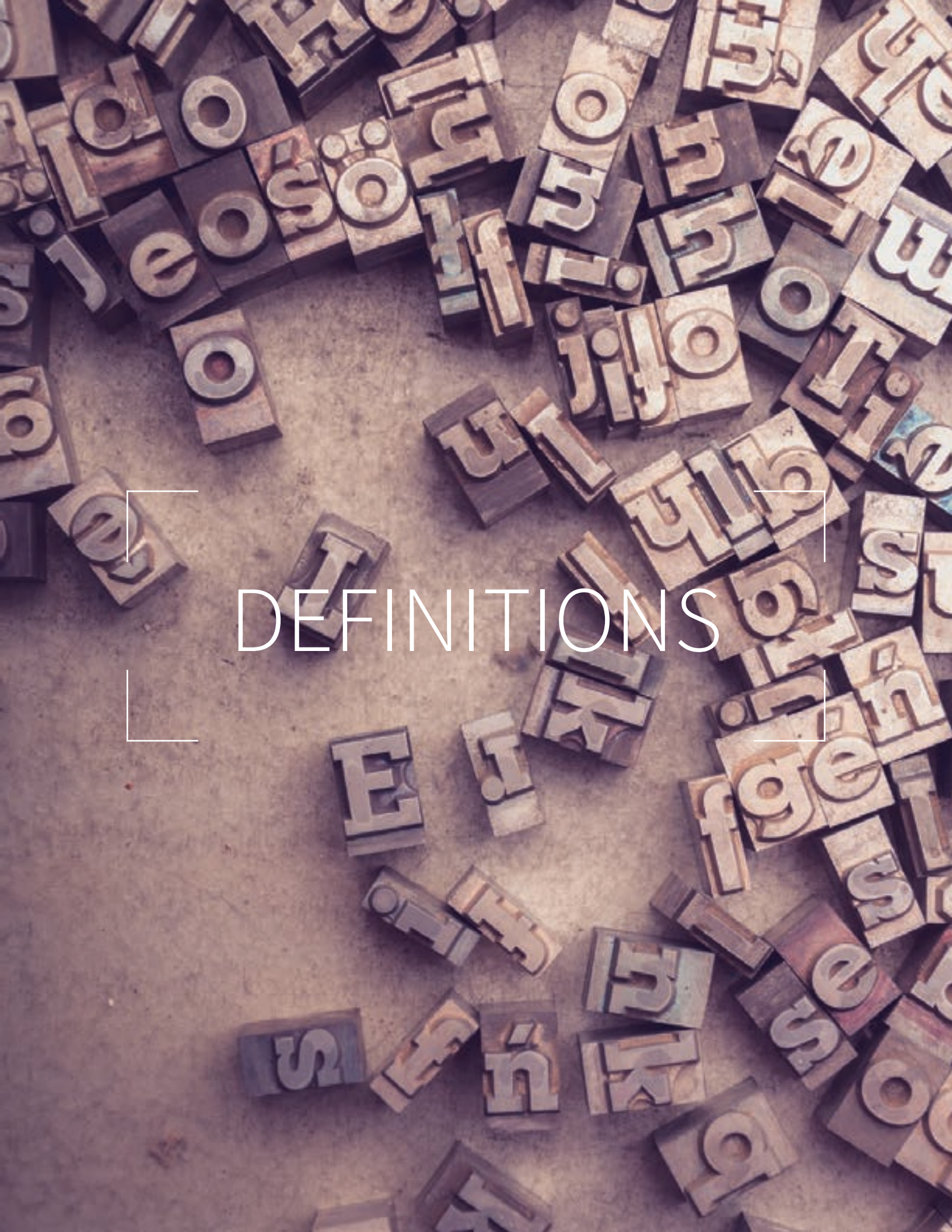
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Co-Operation Council Of Ontario



EXECUTIVE SUMMARY

Recent funding commitments, along with an increased capacity in social finance at a national level, have expanded interest and expertise dedicated to the development of community investment organizations (CIOs). While the area has rapidly expanded in scope, there is limited information and resources conducting a topographical data analysis of the current local community finance environment in Ontario. This report will close the gaps that follow. Firstly, this report will outline the current state of local community finance in Ontario while assessing the prospects for the integration of CIOs into that landscape. Secondly, this report will identify success indicators, as well as best practices from external jurisdictions in order to determine how CIOs could best contribute to the local community finance environment in Ontario. Finally, this report will make recommendations that would be required for the pursuit of the development of CIOs in Ontario.



DEFINITIONS

For the purposes of this research project, these concepts need to be defined. Those definitions will help the reader understand what is addressed throughout the report.

Community Investment Organization

For the purposes of this project, Community Investment Organizations (CIOs) are defined as community-owned and controlled support systems for community and economic development that mobilize local investment capital, usually from individuals (primarily non-accredited investors), to bridge the gap between local investors and local ventures in need of financing. CIOs could be incorporated as: co-operatives, non-profits, local investment corporations, equity crowdfunding platforms, community contribution companies, community interest companies, or venture capital corporations.

Impact Investing

Impact investing is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital for positive social results ([Investopedia, 2021](#)).

ESG criteria

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where they operate. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights ([Investopedia, 2021](#)).

Accredited Investors

Section 1.1 of NI 45-106 defines an Accredited Investor as:

- An individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value before taxes, but net of any related liabilities, that exceeds \$1,000,000;
- An individual whose net income before taxes exceeded \$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year; or
- An individual who, either alone or with a spouse, has net assets of at least \$5,000,000” (Ontario Securities Commission, 2011).

Individuals that are considered accredited investors are high net worth individuals that are able to take on more risk than the average retail investor. Therefore, there are exemptions in Canada that allow them to participate in capital raises without requiring a prospectus.

Retail Investors (non-accredited investors)

Retail investors are all individuals that do not meet the definition of an accredited investor, and therefore cannot use securities exemptions relative to individuals that fit in this definition. Since most investors are retail investors, communities are composed of many retail investors, and sometimes, a few accredited investors. Retail investors need full disclosure from securities issuers, including community investment organizations, unless specific exemptions apply.

Debt financing

According to Investopedia, the definition of debt instruments, or debt financing instruments, is “When a firm raises money for capital by selling debt instruments to investors, it is known as debt financing. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid on a regular schedule” ([Investopedia, 2021](#)). Community bonds are an example of debt financing in the nonprofit sector. Debt instruments are important to define since they can be used by all CIOs.

Equity financing

The definition of “Equity financing is the process of raising capital through the sale of shares in a company. With equity financing comes an ownership interest for shareholders.” (Investopedia, 2021). Membership shares and preferred shares are examples of equity in the co-operative sector. It is important to define equity financing since it is part of the CIO model to use equity as a way of financing projects.

Lens investing

Lens investing “simply means using a particular social outcome as a guide for investing” (TIIP, 2021, chapter 9). For example, reducing inequalities between genders using investment tools would be Gender Lens Investing.

Social Finance

The government of Canada defines social finance as “[...]investments intended to create a measurable social or environmental impact as well as to generate financial returns. Social finance differs from responsible investing in that those making and receiving social finance investments intend to create tangible social and environmental impacts through their activities” (Government of Canada, 2021).

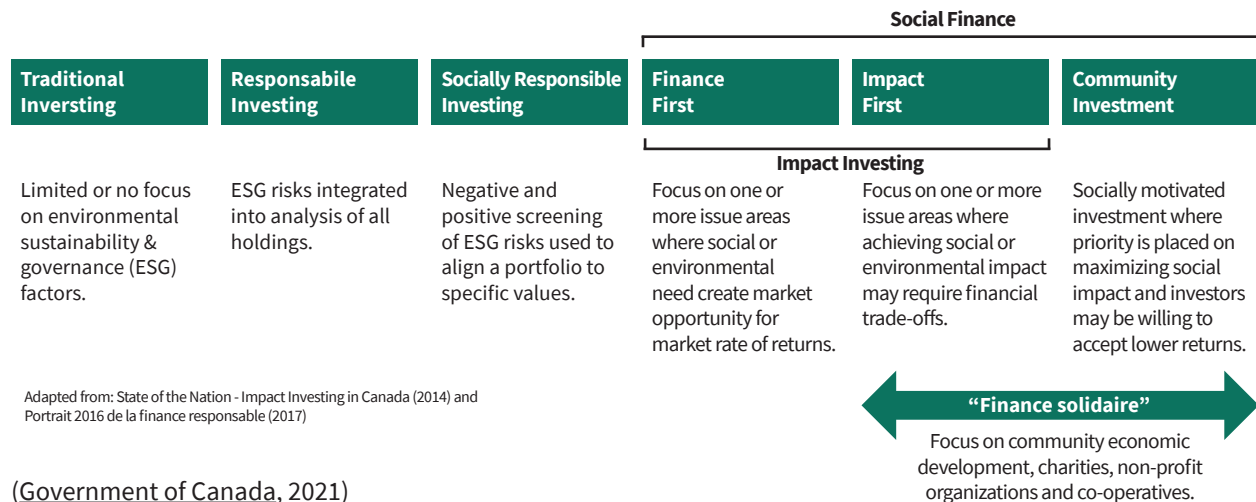
Tax Credit and deduction

“A tax credit is an amount of money that taxpayers can subtract directly from taxes owed to their government” and a tax deduction is a reduced amount of your taxable income (Investopedia, 2021). You have three types of tax credit: Refundable, Non-refundable and partially refundable. “Nonrefundable tax credits are items directly deducted from the tax liability until the tax due equals \$0 . [...] Refundable tax credits are the most beneficial credit because they’re paid out in full. [...] If the refundable tax credit reduces the tax liability to below \$0, the taxpayer is due a refund” (Investopedia, 2021). The partially refundable tax credit can take multiple forms in between the two.

Transfer Agent

In finance jargon, a transfer agent is “a trust company, bank, or similar institution assigned by a corporation for the purposes of maintaining an investor’s financial records and tracking each investor’s account balance. The transfer agent records transactions, cancels and issues certificates, processes investor mailings, and handles a host of other investor problems, including reissuing lost or stolen certificates. [...] (they) ensure investors receive their due interest and dividend payments in a timely manner” (Chen, 2020).

Social Finance



National Instruments

National instruments are a set of rules and regulations made by the Canadian Securities Administrators (CSA) that have been adopted by all thirteen province and territory commissions and are part of their securities act. “The CSA rules or regulations are largely harmonized as either National or Multilateral Instruments and are numbered in a uniform way” (CSA, 2021).

Usury

“Usury is the act of lending money at an interest rate that is considered unreasonably high or that is higher than the rate permitted by law” (Kagan, 2021).

Capital flight

In the financial world, capital flight is known as a “large-scale exodus of financial assets and capital from a nation due to events such as political or economic instability, currency devaluation or the imposition of capital controls. [...] Capital flight can impose a severe burden on poorer nations since the lack of capital impedes economic growth and may lead to lower living standards” (Chen, 2021). In a more local aspect and among Community Economic Development Practitioners, the same problem can arise when local “money is believed to largely find its way into stock exchanges, mutual funds and other mainstream investment markets” (Andersen, 2017, P. 22).

Social Enterprise

Social enterprises are defined by the Canadian Government as “a business, whether not-for-profit or for-profit, that pursues a social, cultural or environmental mission through the sale of goods and services, with the majority of net profits directed back to its mission, and with limited distribution to shareholders and owners” (Government of Canada, 2021). It is also important to mention that “different regions and communities within Canada use similar, yet distinct definitions of social enterprise” (Government of Canada, 2021).

Investment/Repayable capital

“An investment is an asset or item acquired with the goal of generating income or appreciation. Appreciation refers to an increase in the value of an asset over time” (Hayes, 2021). In finance, “an investment can refer to any mechanism used for generating future income, including bonds, stocks, real estate property, or a business, among other examples” (Hayes, 2021). An investment is therefore repayable capital, and “Social finance is repayable investment that supports positive social, environmental, and/or cultural impact” (Innoweave, 2021).

Grant/Non-Repayable capital

A grant “is a financial award given by the federal, state, or local government to fund some type of beneficial project [...] grants are funded by tax dollars, they include stringent compliance and reporting measures to ensure the money is well-spent” (Segal, 2020). It is the opposite of Repayable Capital in the sense that it doesn’t need to be repaid. Most of the time, grants are short-term project-based funding, which “rarely allow funding recipients to invest in their own capacity and skills development as it is often considered *overhead* that will not directly reach communities” (Government of Canada, 2021). This is a use of capital that social purpose organizations need over the longer term in order to meet the complex challenges they face yet rarely access (Government of Canada, 2021). ■



INTRODUCTION

Innovation is thriving in the social economy thanks to strong business skills, dynamic leaders, and strategic alliances

In 2018, the federal government announced an investment of \$805 million as a first step towards a Social Innovation and Social Finance strategy for Canada. This announcement prompted social finance actors across the country to take action in order to prepare for the expected influx of capital. In April 2019, the Canadian Community Economic Development Network (CCEDNet), in collaboration with Operation Come Home, the PARO Centre for Women’s Enterprise and Learning Enrichment Foundation, with support from the Ontario Nonprofit Network, the Cooperation Council of Ontario, the Ontario Co-operative Council and the Toronto Enterprise Fund, commissioned a report entitled: *Getting Ontario Ready for the Social Finance Fund*. The objectives were to survey and determine key stakeholders and their characteristics, give a new level of awareness and understanding of the potential of a social finance fund, and hear new perspectives for projects, capital needs, opportunities and barriers (Guy and Pletsch, 2019).

This survey identified “...no shortage of innovative ideas or interest in developing new projects...” (Guy and Pletsch, 2019, p. 28). It revealed that innovation is thriving in the social economy thanks to strong business skills, dynamic leaders, and strategic alliances that are both willing and able to provide targeted support. However, one notable identified barrier was a lack of awareness of social finance possibilities, which in turn limited the development of innovative ideas and projects.

Although a wide range of social finance models exist in Ontario, one that is less well established compared to in other provinces, is Community Investment Organizations (CIOs).

Community Investment Organizations are a new and innovative support system for community and economic development. They effectively bridge the gap between local investors and local ventures in need of financing. CIOs create cost-effective, community-owned, and controlled impact funds. The longer a dollar can circulate within a community, the greater its multiplier effect will be. In other words, when local money is invested in local projects and people, it stays in the community in the form of wages, rents, and local purchases – thereby increasing its impact on a community’s economic development many times over. CIOs are tangible measures that provide flexible and local capital from community members for priorities that are community led.

This report is the first step in identifying and addressing these knowledge gaps and the collective lack of awareness of the implementation of CIOs in Ontario.

The primary objective of this report is to assess and analyze the current state of local community finance in Ontario and identify barriers and potential actions for the pursuit and development of CIOs in Ontario. To this end, this report will first contextualize social finance in Canada, in order to identify the factors relevant to developing social finance in Ontario. This includes an analysis of the current social finance ecosystem in Ontario through the identification of stakeholders, using a recent report by the Table of Impact Investment Practitioners, by evaluating the different types of investment opportunities for Ontarians, and by giving examples of CIOs in Ontario. Next, this report draws on the knowledge and experience of models outside of Ontario and provides clear examples of successful CIO implementation, as well as the impact they’ve had on investment in communities. Lastly, the report makes recommendations on possible avenues for CIO development in Ontario as well as highlighting potential barriers to the advancement of CIOs. ■



CONTEXT

Sustainable development is a growing priority
for citizens and policy-makers

To understand the popularity of social finance as part of the social economy, it is important to account for some broader underlying trends.

Firstly, sustainable development is a growing priority for citizens and policy-makers, with respect to the commitments Canada made in 2015 to the United Nations Sustainable Development Goals and Framework (SDGs) (Canada, 2019).

Secondly, over half of global consumers are taking “green” factors into account when making purchasing decisions (BDC, 2021). For example, Canadians are choosing to support local businesses through various *buy local* campaigns, which have had notable success during the pandemic. According to BDC, out of all Canadian consumers, 97 percent prefer to support the local economy, 87 percent think buying local is better for the environment, and 45 percent made a specific effort to buy Canadian products this past year (BDC, 2021). As a result, businesses are incentivized to adopt good Environmental, Social, and Governance practices (ESGs) and to better understand their impact due to the importance of these factors to politicians and consumers.

“The biggest companies in the world are adapting their practices to better take care of the environment, to address social justice issues, and stand for something bigger than just profits. The world is demanding more equality, more environmentally friendly practices, more sustainability, and more impact. One thing that cannot be argued is that our world is aiming for more sustainability and social justice”

(Evolution of investing, Papke, 2021, p. 17).

Given the changing consumer preferences elaborated above, ESGs are finding their place in capital markets as well. The rise of discount brokerage investment services and increasing accessibility to investing has led to a closer relationship, and has even blurred the lines between consumers and investors (Langton, 2021). Investment products have reduced minimum investment amounts, for example allowing fractional shares (Investopedia, 2020). Groups once priced out of capital markets have now found their place, being

able to invest their capital in companies and products, and adopt an investment strategy that reflects their values. Blackrock, the world’s biggest portfolio manager with \$8.67 trillion in assets, identified this structural shift in a letter to clients, stating that “... we are making sustainability integral to the way BlackRock manages risk, constructs portfolios, designs products, and engages with companies. We believe that sustainability should be our new standard for investing” (Blackrock, 2020).

While the number of RRSP contributors in Canada has stagnated in recent times, this points to the growing agency that consumers have in the management of their finances (Statcan, 2019). Self-directed TFSA’s are newer, and popular option for Canadians to choose how to save their money in a tax-sheltered account. This has undoubtedly accelerated the adoption of ESG strategies with Morningstar reporting that 1 in every 3 dollars is now covered with an ESG strategy (Hale, 2021). Investors are explicitly choosing to invest in capital markets in a more sustainable way. Popular discount brokers in Canada, such as Questrade and WealthSimple, now have simple buttons that investors can toggle to invest in a sustainable manner.

While the trend towards ESGs is an important one, these investment dollars are not finding their way to local ventures and capital is flowing out of communities into conventional investments in RRSPs and TFSAs. Other examples of community wealth leakage or capital flight are well documented, such as net capital outflows in Atlantic Canada where they “imported \$11 billion more than it exported, with each of the region’s four provinces running a negative trade balance” (CLF, 2018, p. 6). The report states that this trade deficit is estimated to be at around 40% and that a 10% shift towards local goods and services would result in “ 43,000 new jobs, \$2.6 billion in new wages, and \$219 million in new (local) tax revenue. The GDP of the region would grow by \$4.7 billion” (CLF, 2018, p. 6). Local goods and services need local enterprises and local entrepreneurs need investments. Therefore, there seems to be a logical argument for local investment stimulation through policy or some other means.

The 2018 announcement of the federal government's \$805 million investment in social finance is a sign of the growing public sector's interest in shifting investment markets and practices. Among this interest, Guy and Pletsch reported that "[...] the government of Canada is promoting social innovation, and the social economy as a key component of its response to persistent and complex social problems such as, homelessness, mental health, gender inequality, precarious work, youth at risk, and first nations reconciliation and inclusion in our communities[...]" (Guy and Pletsch, 2019, p. 6).

Social finance initiatives – particularly community investment organizations -- can empower communities that were once at the fringes of capital markets to begin getting more engaged. Canadian examples of funds performing this type of work include community investment co-operatives in British Columbia and community economic development investment funds in Nova Scotia; this report will further elaborate on their successes. However, one barrier that must be brought to light is the reality that capital markets in Canada are regulated provincially, leading to provincial differences in the regulatory and legislative environments for investing. This report will identify best practices from other provinces that may be replicated using a framework relevant to the financial regulations specific to Ontario. To contextualize what follows is a small historical background of community investing in Canada and Ontario.

A HISTORY OF SOCIAL FINANCE AND COMMUNITY INVESTING IN CANADA

While the need to pool resources in order to improve community well-being is archetypal in nature, it has been integral to the development of Canada through the lens of Indigenous, racialized and language minority communities (TIIP, 2021, p.2). Social finance aligns itself with Indigenous principles, according to their shared communal values and morals. These values were adopted by early settlers in Canada and became critical in the creation of Canada's first co-operatives and Mutuals. These values have been transmitted throughout generations and still exist in Canadian society today (TIIP, 2021, p.2). As Indigenous communities first modeled, Canadians value a heightened sense of "shared responsibility for the well-being of our collective society and for the public good" (TIIP, 2021, p.2). These co-operative values created the social fabric of trust that allowed credit unions to thrive, with Alphonse Desjardins founding the first credit union in North America on December 6th 1900 (Desjardins, 2021). Credit unions were unique at the time as they provided savings and credit services to early minority communities, who were otherwise underserved by conventional banks or lending agencies. By championing the idea of co-operation, Desjardins was able to curb usury, improve conditions for the working class, and contribute to the economic development of French-speaking Canadians (Desjardins, 2021). Needless to say, social finance has strong historical roots in Canada.



While Desjardins is an important example of social finance successes in Canada, savings and credit are only a piece of the puzzle. Over the century that followed, a diverse landscape of local initiatives has emerged to solve the issue of capital flight in local communities as well as encourage local investments. The Community Investment Cooperatives in British Columbia recognized that there was a vast untapped local source of capital. For example, it was reported that “an estimated 500 million dollars leaves the community of Victoria on an annual basis [...] this money is believed to largely find its way into mainstream investment markets” (Andersen, 2017, P. 22). The province of Nova Scotia has experienced a similar reality, and looked to community investment funds to curb capital flight as well. Community Economic-Development Investment Funds (CEDIFs) are capital pools raised by private citizens of Nova Scotia in order to invest in for-profit entities that benefit local communities. CEDIFs offer tax advantages to local investors, including a 35 percent non-refundable tax credit on returns, as well as RRSP eligibility (Behn Skovgaard Andersen, 2017). So far, \$105 million has been raised through CEDIFs (Karaphillis, 2021, p. 14). Those are some examples of social finance solutions put forward by Canadians, to increase accessibility of financial products, reduce usury, and reduce capital flight. However, these innovative financing solutions have not developed in an unchallenged regulatory environment, a reality that will be discussed later in this report. The puzzle of social finance in Canada is a complex one, with portions still under development throughout the country, as well as with sections or provinces more put together than others. This report will focus on Ontario.

A HISTORY OF SOCIAL FINANCE AND COMMUNITY INVESTING IN ONTARIO

Through the history described above, the co-operative sector has been integral to the development of social finance in Canada, from savings to credit and investment. Moreover, co-operatives have become an important vehicle for economic growth in Canada, amounting to 3.4 percent of Canadian GDP in 2015 according to Cooperatives and Mutuals Canada (Duguid and Karaphillis, 2019, p. 2). In Ontario, the co-operative sector is not as developed: while Ontario is home to 1,500 co-operatives, resulting in \$6 billion of added economic value as well as 57,000 direct and indirect jobs, Ontario only accounts for 10% of Canada’s co-operative economic activity (OCA, 2015).

The development of social finance in Ontario took a less storied approach than that of Quebec, even while Desjardins opened the province’s first credit union in Ottawa in 1912. Throughout the 20th century, organizations used funding strategies such as earned revenues and invested capital. These strategies are characteristic of present-day social enterprises, although they were not known by that terminology until much later. Examples include the Cooperation Council of Ontario, which was founded in 1964 to represent and advocate on behalf of Ontario’s co-operatives and provide support when required.

A nascent network of the social finance ecosystem was the Funders’ Forum operated for many years, beginning in 1991. This initiative was under the umbrella of the Canadian Co-operative Association — Ontario Region — and began during the provincial NDP government and continued over a period of fifteen years. Key groups that were involved are: CAIC, Alterna, CEDTAP, First Ontario Fund, CUCO (Central 1), Ontario Arts Council, Social Capital Partners, Grindstone Fund, Catherine Donnelly Foundation, Laidlaw Foundation, Carrot Commons, Toronto Community Foundation, Co-operators and Foundation for Rural Living.

Social finance became more mainstream in Ontario around the early 2000’s while interest in the sector was also increasing nationwide. Following the announcement of the federal social economy initiative in 2004, many of Ontario’s social economy and social finance stakeholders convened to prepare for the prospect of capitalization of social finance intermediaries, which however never materialized outside of Quebec. In 2008, the first Social Finance Forum was held in Toronto, bringing together organizations from different spheres of social finance, to create synergies and work in a more collective manner. It is now a must every year as it “attracts more than 500 investors, entrepreneurs and finance professionals” in the fall (MaRS, 2019). Today, Ontario’s social enterprise and social finance ecosystem is diverse and growing, which includes philanthropic investors, social finance funds, accelerator programs, and service providers such as the Centre for Social Innovation and MaRS. Based on research from the Ontario Nonprofit Network, Ontario’s social enterprises generate \$143 million in sales, employing over 5,000 people as well as recruiting 18,000 volunteers. Ontario’s social enterprises are responsible for providing services to 2.7 million Ontarians, with their impact increasing annually (ONN, 2013). ■



OBJECTIVES
&
METHODOLOGY

OBJECTIVES


As mentioned in the introduction, the research objectives of this report are to assess the current state of local community finance in Ontario, learn from other jurisdictions and make recommendations for the development of a CIO model in Ontario. To achieve the first goal, this report will establish the profile of social finance stakeholders, with examples, by using data obtained from the 2021 report: *The State of Social Finance in Canada*. Secondly, the report will analyze the securities landscape, in which CIOs operate to better understand the legal environment. Thirdly, the report will put forward recommendations for the future development of CIOs in Ontario, including opportunities to create a more streamlined environment, and eliminating the regulatory barriers that currently limits CIO development in Ontario.

METHODOLOGY

In order to achieve the aforementioned goals, this report will rely on resources obtained through several social finance *network apexes*, including, but not limited to, the Canadian Steering Committee on Social Finance and CIOs, and the Canadian Community Economic Development Network. Once acquired, these resources were triaged based on their medium and intended use for the purposes of this analysis. The primary resource of interest was *Impatient Readiness, the State of Social Finance in Canada 2021*, prepared by the Table of Impact Investing Practitioners, (referred to as the TIIP Report). These documents have been drafted as part of the inaugural *State of Social Finance in Canada Report* and will be drawn on extensively to provide a longitudinal survey of the social finance field.

While the TIIP Report was very useful in the early stages of research, gaps in primary data were identified. As a result, six partners were surveyed in order to gather data on the legal context and practical “boots on the ground” environment, in which CIOs operate to capture provincial discrepancies in securities regulations and relevant legislation. Participants were selected based on their field of expertise, resulting in two interviews with prominent lawyers with knowledge of the CIO framework, two investment representatives from CIOs, and two market intermediaries. Questions were asked systematically, and sessions were conducted in an unrecorded setting to ensure participants were comfortable disclosing important information for this report.

Lastly, due to a limited sample size of interview participants, several case studies were obtained and analyzed to diversify the scope of the report and ensure that all provincial frameworks in which CIOs operate were considered. In order to incentivize CIO development in Ontario, it is essential to establish best practices and recommendations. These will help guide policy surrounding securities legislation and regulations governing CIOs in Ontario, and are the purpose of this report. However, we must acknowledge the great work that has been done leading up to this point, presented in the following review of existing literature.



Analysis of the Current Ecosystem in Ontario

LITERATURE REVIEW

There are several kinds of CIO stakeholders outlined in the TIIP Report. Distinguishing between the parties is important as they share mutual responsibility, with diverse roles. In Ontario, stakeholders are categorized as philanthropic investors, social finance funds and platforms, convenors, accelerators, social finance service providers, and financial institutions. Below is a brief outline of each stakeholder's profile and attributes:

Philanthropic investors mostly constituted by private foundations and are supporting intermediaries, funds and enterprises from the social finance space. These private foundations are in themselves constituted by accredited investors seeking diversification and alternative investments. Examples of these private foundations are the Lyle S. Hallman Foundation, the Inspirit Foundation, and community foundations led by the cities of Hamilton, Ottawa, and Kitchener.

Social Finance Funds and other intermediaries that bridge the gap between investors and social enterprise, with CoPower and the Community Forward Fund mentioned as leading examples in the TIIP Report.

The most prominent **convenors, accelerators and service providers** in Ontario are Rally Assets, MaRS Discovery District and the Center for Social Innovation (CSI). These organizations “play a vital role in developing interest among investors for social finance” and give support to Social Enterprises in the province (TIIP, 2021, p. 50).

Financial Institutions are the last stakeholders identified by the TIIP Report. Examples of these kinds of stakeholders are Banks and Credit Unions, as well as specific capital providers such as Vancity Community Investment Bank and Alterna Savings. Although not a financial institution, the Ontario Trillium Foundation is a major provincial actor in the ecosystem providing capital through grants in a variety of social finance infrastructure development initiatives.. These organizations provide capital through grants or investments.

The TIIP Report is a useful resource for those seeking to understand the roles and relationships between different stakeholders in social finance, including an overview of how social finance is evolving in Canada. One gap that was identified is the responsibility of financial regulators in the management of the framework in which these stakeholders operate. Therefore, this report will add an extensive profile of

the regulators relevant to social finance in Ontario: the Ontario Securities Commission (OSC) and the Financial Services Regulatory Authority (FRSA). These organizations share the joint responsibility of ensuring the integrity of Ontario's financial markets, albeit through the management of select stakeholders under their jurisdiction. Below is a profile of the OSC and the FRSA, as well as the stakeholders that fall under their respective jurisdictional responsibility.

ONTARIO SECURITIES COMMISSION

The reason the regulatory bodies are described here is due to them having an immense impact on the possibilities entertained by Social Finance. The regulatory bodies ensure that the rules are followed, which instills confidence from the public, and have exemptions in place that need to be well understood by the potential social enterprise raising money. Regulatory bodies are part of the landscape that needs better understanding from the Social Economy and Social Enterprises.

«[The OSC is] an independent Crown corporation that regulates Ontario's capital markets by making rules that have the force of law and by adopting policies that influence the behaviour of capital markets participants. The OSC exercises its regulatory oversight function through the administration and enforcement of Ontario's Securities Act and Commodity Futures Act and administration of certain provisions of Ontario's Business Corporations Act” ([Ontario Securities Commission, 2021](#)).

This work is necessary to ensure the integrity of finance and investment (including social finance) in Ontario, as the OSC ensures that all investors are protected from unfair, improper or fraudulent practices. The OSC also balances the scales to ensure that markets are efficient and fair. This inspires confidence in Ontario's capital markets as well as fosters stability in order to ensure sustainable development of capital markets in the long run. To this end, the OSC has been focusing on financial innovation, through recommendations and reform of various Business Acts as outlined below.

The OSC exercises the majority of its mandate through legislation found in the *Business Corporation Act* (OBCA). The OSC does not regulate the Non-profit organizations, however when it comes to capital raise, they have the authority to intervene and could ask for

a prospectus. Thankfully, Non-Profit Organizations are able to use some of the exemptions provided by the National Instruments 45-106 (appendices), adopted by the OSC, in order to raise capital. While the OBCA has been reviewed and updated systematically, *Ontario Not-for-Profit Corporations Act* (ONCA) has yet to be signed into law. This has stymied the development of social finance in Ontario. The OSC has therefore recommended implementing aspects of the ONCA in 2017, in order to improve development prospects for the Non-Profit sector. In anticipation of the adoption of the ONCA, the *Cutting Unnecessary Red Tape Act* was enacted in 2017 to aid non-profits during this transitory time. Examples of the changes and advantages include:

- Giving not-for-profit corporations natural person powers, such as buying and selling property as well as borrowing money (section 126.1);
- Giving a not-for-profit corporation the flexibility to sell, lease or exchange all or a substantial amount of its property (section 126.2); and
- Making it easier to waive an audit and not appoint an auditor by lowering the members' approval threshold and changing references from "income" to "revenue" for clarity (section 130.1).

These recommendations bode well for the development of social finance in a non-profit context, as they provide key players with increased capital flexibility. However, gaps remain in the OBCA with respect to non profits due to a lack of specific legislation tailored to their needs. Moreover, the Ontario Co-operative Corporations Act (OCCA) has not received a significant update to their exemptions since 1990. For example, article 73.1(6) of the OSA states the following: "The prospectus requirement does not apply to [...] securities issued by a corporation to which the Co-operative Corporations Act applies." This means that exemptions related to National Instruments are not to be used in Ontario in order to raise capital and that cooperatives have their own set of exemptions in the Co-operative Corporations Act. Moreover, article 34 (1) of the Ontario Co-operative Corporations Act (OCCA) states that "No co-operative or person shall sell, dispose of or accept directly or indirectly any consideration for securities [...] unless the co-operative has filed with the Chief Executive Officer of the Financial Services Regulatory Authority of Ontario an offering statement and has obtained a receipt for it." Certain exemptions exist under the older OCCA; however, it is clear that the OCCA is more complicated than the modern, not yet voted, ONCA, with no appetite for reform or amendments to the exemptions in sight.

FINANCIAL SERVICES REGULATORY AUTHORITY (FSRA)

The Financial Services Regulatory Authority (FSRA) is an "independent regulatory agency created to improve consumer and pension plan beneficiary protections in Ontario" (FSRA, 2020). They regulate multiple sectors which includes "Property and casualty insurance, Life and health insurance, Credit unions and mutuals, Loan and trust companies, Mortgage brokers, Health services providers (related to auto insurance), Pension plan administrators" (FSRA, 2020). FSRA is mandated by the Ministry of Finance and is self-funded from the support of its members. Their vision is to have "financial safety, fairness and choice for Ontarians" with a mission of "public service through dynamic, principles-based and outcomes-focused regulation" (FSRA, 2020).

Since April 1st, 2020, the FRSA has been the regulator responsible for overseeing capital raised by co-ops. These responsibilities include reviewing and issuing receipts for offering statements, and ensuring they meet disclosure requirements (FSRA, 2020). Given these new responsibilities, the FRSA has experienced growing pains in its capacity to deliver on its new mandate. This is understandable as the transition has been difficult, with challenges exacerbated by pandemic restrictions. With time, the FRSA will be able to optimize the process of approving offering statements, through learning by doing, as well as by finding efficiencies in the process. Current procedures are extremely transparent and involve extensive communication between the FRSA and Ontario co-operatives, resulting in a heavy workload for all involved. This has resulted in a current backlog of offering statement approvals, delaying investment and funding opportunities for co-operatives, and putting them at a competitive disadvantage in the market.

Before having to file an Offering Statement with FSRA, co-operatives can raise capital by using the exemptions in place in the Co-operatives Corporation Act. Important exemptions for capital raises by co-ops will be listed and explained a little further in this report. Exemptions do not mean no business plan, strategy or risk disclosure, as these are an essential part of any social enterprise that is in need of capital.

ECOSYSTEM STRENGTHS AND WEAKNESSES

Strengths

Ontario is the largest financial market in Canada. This might explain why there's a good number of existing social finance intermediaries, along with their expertise and track record. In Ontario's social finance ecosystem, there is extensive practice using debt with different mechanisms and interest rates to finance the social economy at a "high level of activity in this segment of the ecosystem, with a diversity of actors ranging from banks to credit unions, place-based impact investing funds, and Community Futures Development Corporations (CFDCs)" (TIIP, 2021, p. 51). Another strength in Ontario is the range of foundations that are either giving grants or investing to build the social finance field, one of them being the Ontario Trillium Foundation (OTF).

It is safe to say that there is enough capital in Ontario to finance CIOs and that even more capital could be available with increased knowledge, interest, access, and incentive throughout the investor base, whether they be accredited investors, retail investors, and maybe even institutional players at some point down the road. The renewable energy and clean technology sector in Ontario are striking examples of what increased knowledge and interest can do to capital flows.

Ontario's well-established finance landscape, and infrastructure means that there are «a number of sophisticated convenors, advisors and services providers» that would be capable of playing a critical role in the development of CIOs (TIIP, 2021, p. 51). The roles these players would need to play are including, but not limited to:

- Ecosystem catalyst;
- Capacity builder;
- Community bond catalyst;
- Advisor;
- Portfolio manager;
- Education provider; and
- Capital administrator.

Weaknesses

The Ontario Social Finance Ecosystem experiences several weaknesses and challenges, outlined below :

The first challenge is the regional imbalance of social finance players' presence. Capital, intermediaries, investors, and capacity builders are all very present in Southern Ontario, while Northern Ontario is comparably underserved. Although Community Futures Development Corporations are active throughout Northern Ontario, "despite the strong presence and success of community futures organizations in rural and smaller urban centres, these entities often lack sufficient capital and a mandate to finance social enterprises" (TIIP, 2021).

Secondly, institutional investors, which dominate Ontario's finance landscape and provide the majority of investment capital, have little involvement in social finance. "Structural and incentive problems mean that social finance intermediaries often fail to appear on the platforms of mainstream financial institutions and advisors" (TIIP, 2021, p. 53).

The regulatory environment also engenders a lack of investment opportunities and a lack of awareness of existing projects, for these capital providers. While infrastructure and size of capital supply in Ontario are solid strengths, the lack of incentives and policy infrastructure makes retail products scarce, access to capital for BIPOC communities difficult, and investor awareness inadequate.

The support of the Government of Ontario and a well-structured policy framework could help tackle these weaknesses, but Ontario's government is lagging behind other provinces with respect to the social economy and social finance sectors. In recent years, government initiatives were not sustained. Overall, the lack of development in "enabling regulatory and financing support for the ecosystem" has negatively impacted the advancement of social finance and social enterprise (TIIP, 2021, p. 54).

While Ontario is home to a great range of social finance experts, there are very few success stories to boot. Therefore, this report must look to other provinces for guidance on best practices for CIO development, to ensure that expertise reflects impact. ■

A black and white photograph of classical columns with ornate capitals. The columns are arranged in a perspective that recedes into the distance. The lighting creates strong shadows and highlights, emphasizing the texture and form of the stone. Overlaid on the image is the text 'Securities, Legal and Regulatory' and 'ENVIRONMENT' in a clean, sans-serif font. The text is framed by a thin white border.

Securities, Legal and Regulatory

ENVIRONMENT

There is a plethora of options for non-accredited investors in Ontario when it comes to investment selection, variety, and vehicles. This section will identify the most popular investment vehicles and frameworks pertaining to CIOs in Ontario. Firstly, this section will outline debt options such as bonds, debentures, and promissory notes. Secondly, equity options will be outlined, such as shares, membership shares, preferred shares, royalties, and rights. Thirdly, this section will consider the different legal structures and exemptions related to Community Investment Co-operatives (CICs), a model of CIO.

As outlined above in the definitions, debt financing and equity financing are fundamentally different, although they share the same goal: raising capital for businesses and placing capital for investors. For investors, the main difference resides in the relationship and their interaction with the firm. If investors are participating in debt financing, they become creditors. Conversely, when they are participating in equity financing, they become owners. Technically, a creditor has no control over the operations of the business and are owed their capital invested plus negotiated interest. Owners on the other hand, exercise control and share in company rents. This relationship creates a risk discrepancy between creditors and investors. However, in some loan agreements by banks, there could be some type of involvement or control. In practice, a company undergoing bankruptcy proceedings (legislated by the CCAA) must prioritize the repayment of creditors before investors throughout the liquidation process. Therefore, investors take on more business risk than creditors and must be compensated accordingly. Within these categories, there is more nuance in that creditors that are secured, such as bondholders, who get priority in bankruptcy filings when compared with unsecured creditors, such as employees and suppliers ([Investopedia](#), 2021). Within equity financing, preferred shareholders often receive priority over common stockholders in bankruptcy proceedings as well. Therefore, the risk for investors is inherently higher, and is compounded when you consider that the valuation of a company fluctuates based on internal and external factors, such as global economic health.

The same realities mentioned above hold true in community investing; if a co-op was to go bankrupt for example. However, the rewards are quite different because the investment is tied to positive impacts and outcomes in the community. The TIIP Report stipulates that while ESGs are an effective hedge against negative externalities, they are not a tool to measure the genuine impact of an investment, where appreciation of capital is still the top priority (TIIP, 2021, p. 11). Community investing outlines several impact objectives, one of which is the appreciation of social capital, which can be difficult to quantify. For example, a community investment may underperform compared to other ESG investments on financial returns, yet it reduces homelessness, improves mental well-being, gender equity, and First Nations reconciliation or inclusion. Moreover, community investing provides capital for essential goods and services such as housing, health care, financial services, or childcare in areas where access is scarce. Therefore, community investing considers multiple factors when quantifying wealth accumulation, rather than simple monetary multiplication, such as the increased capacity of a community and integrates these factors into its risk-reward framework.

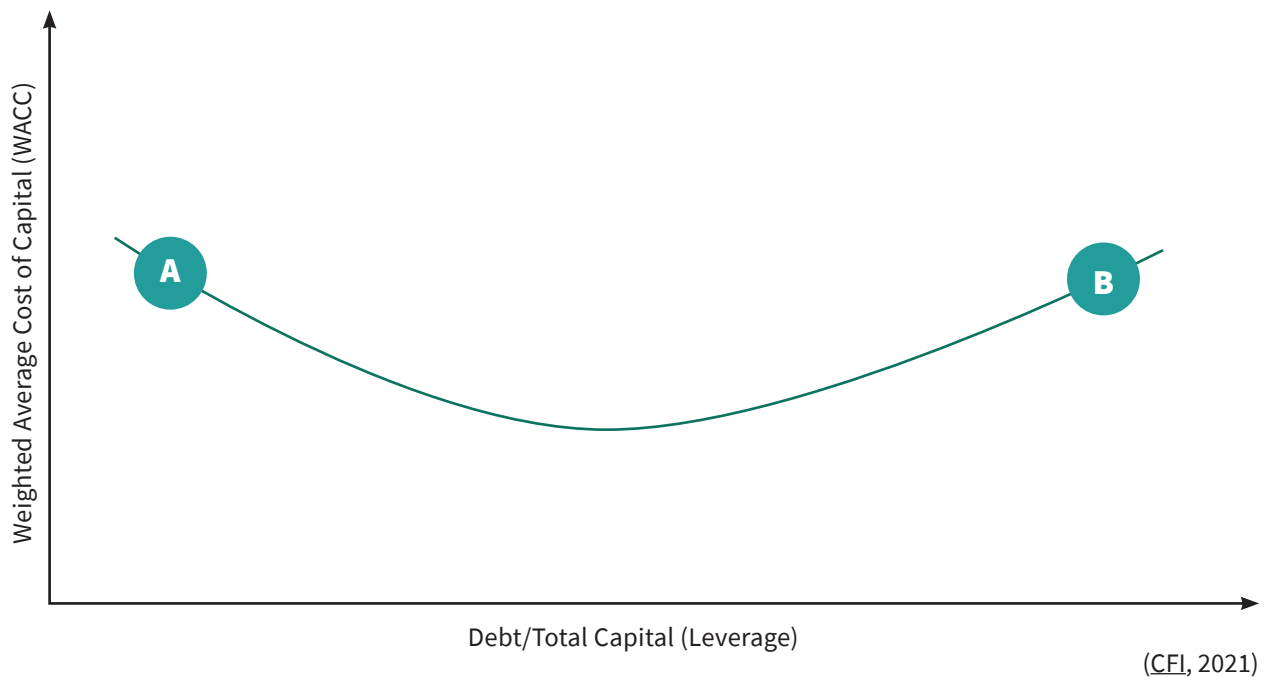
One debt financing instrument that has demonstrated success for community investment in Ontario's non-profit sector is community bonds. They are defined as interest-bearing loans that are accessible to non-accredited investors and can only be issued by a non-profit or charitable organization. These investments are priced to be accessible to a community of supporters and leverage the community, to grow social impact ([Center for Social Innovation](#), 2021). "Economic inclusion is a really important topic, [...] it's very important that bonds are accessible to a wide range of their community. We have seen bond minimums set as low as \$500 to make this possible" ([Tapestry Capital](#), 2021).

According to Tapestry Capital, a community bond consultant and intermediary, community bond rates of return begin at three percent, and go up to 7 percent depending on risk factors. However, this return is quantified differently than a traditional bond. The impact of the investment is considered

part of the return. The term *impact* is used rather vaguely in this sense and may constitute an economic or social outcome such as education, job preservation or the general improvement of well-being. For investors, the business risk still exists, in that the community organization may not be financially viable and may rely heavily on grants to survive. For this reason, having a strong, diversified portfolio of revenue-generating services is imperative for non-profits issuing community bonds. Moreover, as with any investment, more risk means a higher cost of capital, meaning that community bonds are usually supported by collateral assets. “Determining the right interest rate is really about finding a balance between the social and environmental return, and the financial return. If the impact is significant and important to the issuer’s community of supporters, you may find that investors are willing to take a slightly lower rate of return” (Tapestry Capital, 2021). Community bonds provide an effective solution for raising capital in Ontario’s social economy and are an important tool in the toolbox of Ontario’s social finance ambitions.

COST OF CAPITAL AND COMMUNITY INVOLVEMENT

Before getting into the details of the cost of capital, an organization’s legal structure will have a definite impact on the way it raises money and on its cost of capital. When an organization is deciding to raise equity or debt as a capital solution, the nature of the project and cost of capital must be taken into account. Given that the cost of equity is higher than the cost of debt, organizations generally should first seek debt solutions as preferred project financing vehicles over equity solutions. However, the terms of the debt and equity financing are at the discretion of the organization seeking the funding, including, dividend schedules, coupon rates, as they are dependent on the amount borrowed or invested, the impact, as well as the risk incurred. As mentioned previously, expected returns for CIOs and impact investing are measured differently than traditional investing, resulting in a more flexible cost of equity. While not dismissing financial return as unimportant in a community investment context, certain questions of ethics come into play when considering the rate of return of community projects. “For example, is it morally right to pay a return of greater than X% on a Community Investment supporting an affordable housing project?” (Sean Campbell, email, 2021).



There are also certain structural considerations that organizations must take into account in order to determine whether issuing debt or equity is the optimal solution. As mentioned before, if you are a non-profit corporation or a non-profit cooperative, your cost of capital will be high as a result of your structural inability to issue equity. This is especially true if the project is capital intensive, seasonal or if cash flows are uncertain. If an organization’s project is grassroots, then raising money through donations and grants will be much more effective than debt or equity, thus alleviating risk and increasing the net impact of the project. This is an especially effective strategy when raising funds for a specific social or environmental issue. Moreover, it can also give volunteers and the community a chance to engage in the delivery of the project, assuming they have the bandwidth to do so.

On the other hand, for-profit cooperatives have the flexibility of raising capital through equity and debt, or some optimal mix of the two. Therefore, for-profit co-ops have more financial tools at their disposal. An ROI is determined by valuation, dividends, or patronage returns, and co-ops have no legal obligation to issue dividends or patronage returns as they do in paying coupons to bondholders. Therefore, co-ops have the flexibility and time to become financially viable before issuing a payout to shareholders and may use a variety of tools to achieve their financing mix. Popular forms of equity in a for-profit co-operative are membership shares and preferred shares. The differences between the two are explained in the table below:

	Membership Shares	Preferred Shares
Voting Rights	Yes	No
Fixed Dividends	No	Yes
Fixed Term	No	Yes

A few notable differences between membership shares and preferred shares are that preferred share dividends are prioritized and paid out to shareholders before membership dividends. In order to purchase preferred shares, generally an investor needs to own

membership shares. This is at the discretion of the co-operative and is by no means required in Ontario. Lastly, since offerings are not made public and are subject to transfer restrictions, dealers and market intermediaries are not required to market the co-op shares.

POSSIBLE LEGAL STRUCTURES FOR CIO INCORPORATION IN ONTARIO

In Ontario, there are three different types of incorporations, each with their own subtypes and distinctions. The first type is business corporations, the second type is non-profit corporations and lastly, co-operatives. A CIO could be structured as any of the three. In order to choose the ideal structure for a CIO, an entrepreneur must first consider the goal they wish to achieve through their CIO, as every structure has certain advantages, as well as certain drawbacks. A list of the advantages and disadvantages of every corporation structure has been [annexed](#) to this report for reference. Consider this insight from Brian Iler, a well-known figure in the Canadian co-operative sphere, on choosing the right legal structure for a CIO: “The choice of business form is complicated. There’s no one answer, but the right answer for each enterprise depends on the particular values of the entrepreneurs involved, and the resources available to them.” With that in mind, “We do need to be open to all three forms of enterprise, but we also need to particularly support and encourage those entrepreneurs who opt for the co-operative or non-profit models, as they engender the most potential for a sustainable and community-based economy that puts people and planet first” (Brian Iler email, 2021).

A. For Profit Corporation, or Businesses

One of the reasons to choose this form of corporation is that “a capital-intensive enterprise, absent of generous funding from social economy funds, or private wealth, is forced to opt for the private model” (Iler, 2021, email). However, it is important to mention that a for-profit business does not mean absence of social purpose and that there are options to prioritize social impact in a for-profit corporation. “One can ameliorate the significant potential for a shift in values to wealth accumulation, intrinsic to the private model, through the use of a B Corp structure, or other

methods to encourage a community orientation” (Iler, 2021, Email). According to the Business Development Bank of Canada, a B Corp proponent, three elements are required in order to become a certified B Corp:

- First, “Believe in the power of business as a force for good, a vision of business as a force for good. Believe that the purpose of a company is to create inclusive, environmentally-sustainable prosperity, [...] making money while doing good [...] managed in a transparent way and be accountable to stakeholders, including local community” (BDC, 2021);
- Second, take a free B Corp Assessment, that provides an impact report for your business. In order to be eligible for B Corp status, “a business needs to score at least 80 points out of the maximum 200” (BDC, 2021);
- Third, the organization must “change the articles of incorporation to enshrine its commitment to a broader societal purpose” (BDC, 2021). Ontario has 126 certified B Corporations (B Local Ontario, 2021).

While the primary purpose of a corporation is to maximize shareholder value, it is possible for a for-profit enterprise to be a CIO. In order to reflect the purpose and efforts made, this organization can adopt the triple bottom line approach of profit, planet, and people. It can also try acquiring a B Corp certification. However, control of traditional for-profit companies is rarely decentralized, with one entity or individual typically holding the majority of the equity as well as having the power to unilaterally make decisions.

B. Non-Profit Corporation, or Non-Profit Organization (NPO) and Cooperatives Without Share Capital

This kind of legal structure could be either a non-profit corporation or a co-operative without share capital. To raise capital, they could issue debt, such as community bonds, to finance their project. Non-profit corporations can access government grants and donations, and some may issue tax receipts for donations if they have charitable status. Non-profit co-operatives may not have as many grants or non-profit options as non-profit corporations, but still more than their for-profit counterparts. Non-profit

organizations are “seen as more community oriented, and will be exempt from income tax, as their objects will be beneficial to the community” (Iler, Email, 2021).

One major similarity between Non-Profit Corporations and Cooperatives without share capital is that they cannot raise capital through equity. If either of those legal structures need to raise money, it would have to be by the use of debt instruments.

The distinction between Non-Profit Corporations and Co-operatives without share capital when it comes to bond raise resides in the fact that NPOs can use prospectus exemptions from the National Instruments while co-operatives must use their own set of exemptions for bond raise, according to the Cooperative Corporation Act. If a Cooperative without share capital needs to raise capital and the exemptions do not cover their capital need, they go through an Offering Statement process with the FSRA.

From an investor point of view, returns on interest are taxable at the same marginal tax rate as ordinary income, according to RBC (RBC, 2021). In theory, this would be interesting for retail investors but less so for accredited investors. This is because the marginal tax rate of retail investors is lower than for accredited investors. Non-profits cannot distribute their earnings to their members through dividends, regardless of whether they are co-operatives or corporations.

C. Co-operatives (for profit)

“The co-operative model is ideal where the enterprise is deeply rooted in a community that wants or needs the services provided by it, and the community is able to devote enough of its resources to capitalize the enterprise”(Brian Iler, email, 2021). Not every entrepreneur would opt for a co-operative legal structure; “It takes a special type of entrepreneur to accept the limitations on wealth accumulation that are intrinsic to the co-operative model” (Brian Iler, email, 2021). The democratic nature of co-operatives makes it an interesting model because each member has one vote. This brings more commitment from members and oftentimes results in better decision making, while being slower to take action. In Ontario, equity and debt are possible financing options for for-profit co-operatives; all shares are par value shares which means that at the time of sale, capital gains/

losses are unlikely, and risks remain. Co-operatives can distribute their earnings to their members through dividends (also called patronage dividend), which offer certain tax advantages for investors compared to interest but remain less advantageous than capital gains.

HIGH RISK OFFERINGS

In December 2020, the FSRA issued new guidance on how co-op securities, debt, and equity should be disclosed. “This Guidance, which contains both an Interpretation and an Approach, requires certain co-operative corporations (“co-ops”) to provide enhanced disclosure to investors when selling certain securities” (FSRA, 2020). In this new guidance, which can be found in the appendices, the main points relevant to CIOs, and more precisely community investment co-operatives (CICs), that makes them of higher risk (meriting the increased disclosure) are:

- They might appear to be an investment vehicle, resulting in a potential misalignment between members and investors;
- Is a “start-up” (i.e., it has no meaningful assets or relevant business history); or
- Markets the securities to *retail investors* and/or investors who are motivated by the potential for investment income, rather than the benefits to be obtained through participation in the co-op (beyond benefits available to the general public), or who consider the securities to be low-risk investments or to provide guaranteed returns on their investment” (FSRA, 2020).

Another important point that makes CICs a definite high-risk offering is that CICs will most probably “represent that the securities may be held in a registered account, such as a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA)” (FSRA, 2020). Since it is important for CICs to be able to reach out to retail investors as well as get the community involved, and that social finance advocates are adamant that CICs have a place in an RRSP or a TFSA, CICs therefore become a *de facto* High-Risk Offering.

While it may at first appear like another layer of difficulty for the creation of CIOs, this guidance is far from being solely negative. Instead, it provides

potential CIOs with a roadmap to help them approach an offering statement which did not exist before. If regulators are paying close attention to co-operative offerings, it is also an encouraging indicator that the sector could be seen as evolving rapidly, laying a path for co-operatives that have interest in raising capital. While this guidance did not reduce regulatory requirements, it did clarify how to work with them.

Aside from the end goal of providing investors “full, true and plain disclosure” for complete knowledge of the risk at hand, this guidance has other purposes (FSRA, 2020). It provided the following external guidance to co-ops, and internal guidance to FSRA:

- On who’s concerned;
- On how to provide detailed information;
- Why we need enhanced disclosure;
- Why CICs should be considered high risk; and
- What is required to be disclosed in an offering for investors to make informed decisions.

All High-Risk Offerings will be required to contain the Enhanced Disclosure. The Enhanced Disclosure required by FSRA to be provided in offering statements for High-Risk Offerings is included in the appendices of this report (FSRA, 2020).

However, strict compliance and disclosure requirements rapidly become expensive. In BC, “full disclosure documents for potential investors usually costs in the range of \$15,000—20,000 and BCSC audit standards can make the audit process be as much as \$20,000” (Behn Skovgaard Andersen, 2017). It was confirmed during an interview with Sean Campbell (Executive Director, UnionSD) that offering documents are extremely expensive, especially considering that co-operatives rarely start with ample capital sources and that there are some limitations on raising capital before having to fill an offering statement (see exemptions). Not only are professional consultants (lawyers, accountants, etc) expensive, but it is also the process of an offering statement, especially the first time around, can take several months of back and forth with regulatory bodies. In total, administrative fees can cost upwards of 40 000\$. This poses a significant barrier to equity capital raises, hindering financial sustainability and potentially preventing co-operatives from even launching in the first place.

Risks

The designation by the FRSA of CICs as High-Risk offerings is now forcing co-ops to perform additional administration surrounding their financial offerings, audits and reports. The nearly mandatory Offering Statement for new co-operatives that want to finance a project -- however small -- is putting even more pressure on co-ops, because an offering statement also means no annual audit exemptions. This has led to the creation of expensive prospectuses, amounting to over \$15,000 for otherwise small organizations. This drains the already small capital pool from which they draw money to carry out their core activities and disincentivizes the development of CICs in Ontario.

In contrast to Ontario, where CICs are designated High-Risk offerings, certain jurisdictions in the U.S. have relaxed their regulations of CICs due to their natural transparency in the disclosure process. An example of a jurisdiction that has relaxed restrictions on co-operatives is the state of Wisconsin, which has a 0% rate of fraud among cooperatives (Andersen, 2017. p. 62). This begs the question as to whether Ontario CICs are deserving of their High-Risk status, or that there are other elements at play, such as a general misunderstanding of the process resulting in a need for increased disclosure. In other words, it is possible that CICs are scarce, due to legislation that is incongruous to their development, and has created a negative feedback loop where CICs continue to be designated as High-Risk offerings due to their lack of use and corresponding lack of awareness.

A useful example to understand risks in social finance is the microlending business. In Alberta, a social finance initiative called Windmill Microlending was created to help migrant workers get their credentials recognized in Canada. Dr Maria Eriksen noticed that “among the janitorial staff at the hospital where she worked, [there] were internationally-trained health professionals” and was frustrated by the absence of recognition of their diploma, as well as the loss of a much needed skilled workforce (TIIP, 2021, p. 64). “She organized the first six loans to support the costs of training and re-accreditation” (TIIP, 2021, p. 64). Not only does this model help reduce unemployment after immigration, but studies have found that clients

using Windmill Microlending loans end up with a salary of 3.6 times greater than before the loan. Furthermore, the repayment rate is a staggering 98% (TIIP, 2021, p. 64). Another example of community loans is Community Development Financial Institutions (CDFIs) in the United States. CDFI loan repayment rates are also 98%, an important statistic since the loans are for economically distressed target markets. The investors’ repayment rate, based on experience of SVC, is 100% (SVC, Porter, 2021).

Co-op Exemptions in Ontario

As mentioned previously, Ontario’s co-ops cannot use any of the national instruments for securities exemptions. However, there are some exemptions, which are specific to co-ops, that can help in the start-up development of a co-operative or a CIC. Before making any offering statement, there are ways of raising capital that avoid flags being raised with the regulators. The exemptions are related to certain thresholds.

The 35 Security Holders Threshold: If a co-operative “has more than 35 security holders or if the [capital raise] would result in the co-op having more than 35 security holders, it must prepare an offering statement” (OCA, 2018). This means that if a co-op decides to have a maximum of 35 security holders, it could raise any amount of capital without going through the offering process. However, “Even when a [capital raise] will result in more than 35 security holders, [if one of the following conditions are met], an offering statement does not need to be prepared:

- the co-op has filed a prospectus for the securities with the Ontario Securities Commission,
- the co-op has decided, through its bylaws, to issue shares or loan certificates for part or all of a patronage return,
- 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 of the co-op total \$200,000 or less,
- securities are issued to a government entity, a financial institution, a broker, an investment dealer or securities dealer who is registered under the Ontario Securities Act” (OCA, 2018).

As inflation erodes the value of those dollar caps, these exemptions will be increasingly insufficient for communities to come together and start meaningful projects. “These limits were set when the regulation was last amended in 1995. Over the last 25 years the average annual rate of inflation was 1.84%. A basket of goods that cost \$200,000 in 1995 would cost \$310,000 in 2019” (OCA Pre-budget consultation, 2020).

Audited Financial Statement Exemption: Audited financial statements are financial statements of the co-op that have been reviewed by an external certified accountant and that are in line with the generally accepted accounting principles. Annual audits can be an expensive process, but one that can be avoided, as of 2019, given that certain conditions are met. According to the Ontario Co-operative Corporations Act, a co-operative can qualify for the exemption

- if it “has never issued securities or, if it has issued securities, it was exempt from the requirement to file an offering statement under section 34 in respect of the securities” (Ontario CCA, 2019) or;
- if it “has not received a grant or similar financial assistance from the federal government or a provincial or municipal government or an agency of any such government that has a condition requiring the co-operative to be audited in the financial year” (OCCA, section 123).

If both these conditions have been met, co-operatives have to ask members and shareholders alike if they unanimously consent to the exemption, in writing. In other words, the moment an offering statement is needed or that the co-op has received a grant, you no longer qualify for the audited financial statement exemption, and even if you do qualify, everyone has to agree.



CIO EXAMPLES IN ONTARIO

In this section, we will present two co-operatives that have been able to complete offering statements in order to raise money from retail and accredited investors alike. One of them is Union Sustainable Development (UnionSD), a real-estate investment co-operative. The other one is Ottawa Renewable Energy Co-op, a renewable energy producer. Research included discussions with both organizations in order to understand their history, model and the barriers they faced to raise capital. These examples show the complexity of the environment that co-operatives face and illustrate two successful cases despite those barriers.

A. Ontario's First Real-Estate Investment Co-operative: UnionSD

Union: Sustainable Development (UnionSD) is a co-operative that “democratizes city-building by empowering its members to collectively buy, upgrade, and manage commercial and residential property, while improving the economic, social, and environmental health of Waterloo Region” (UnionSD, 2021). They are the first community real-estate investment co-operative that we know of in Ontario.

Inspired by how the renewable energy sector launches and operates co-operatives and investment, and by the NorthEast Investment Co-operative in Minnesota (a pioneer in terms of real estate investment co-ops in the USA), the central idea behind UnionSD is to revitalize the Waterloo region by buying, renovating and leasing properties to businesses and tenants at a reasonable price. Members are either tenants, community residents, or both. For tenants, the incentive is having access to a stable and a long-term lease at a reasonable price. As for the community, the incentive is to get a good return on investment while revitalizing their neighborhood with good businesses. As of January 2021, the co-operative has 57 individual members without active recruitment. UnionSD incorporated in 2018 and got their first offering statement (161 pages long), accepted by the Financial Service Regulatory Authority on May 20, 2021. The summary of the offering statement is in Appendix 3. This offering statement is significant because it has been received after the High-Risk Offering guidance, and because

of the novelty of real estate investment co-operatives in Ontario.

Startup Funding: Sean Campbell, co-founder of UnionSD and a PhD student at the University of Waterloo’s Faculty of Environment was able to access funding through MITACS, a program that provides funding to students, which he was able to use to develop UnionSD. UnionSD also received \$183,400 in funding under the National Housing Strategy Solutions Labs [...]; \$45,143 from the Government of Canada’s Investment Readiness Program [...] \$46,500 from a project funded by Social Sciences and Humanities Research Council of Canada’s College and Community Social Innovation Fund” (UnionSD, 2021).

Partnerships: The co-op recently joined the Epp Peace Incubator program, an incubator that “advances expansive and innovative understandings and practices of peace locally and globally” (Kindred Credit Union Centre for Peace Advancement, 2021). This incubator is a perfect fit for UnionSD because “they plan to partner with Reception House Waterloo Region to provide rental housing for new government-assisted refugees in this first building” (The Record, Jackson, 2019).

Offering Statement Highlights: In order to reach their initial goals, UnionSD would have to raise a total of \$2.15 million. Membership shares cost \$500 and the “Board of Directors does not currently anticipate paying any dividends on Membership Shares” but preferred shares, which have a minimum purchase of \$1,000, can only be purchased by members (UnionSD Offering Statement, 2021). Limits of \$1,000 invested in preferred shares per year up to \$10 000 exempt UnionSD from issuing another offering statement when the document expires. The Board intends to issue a dividend for the preferred shares when and only when the co-operative is able to generate “sufficient net income and operating cash surplus to allow for the payment of dividends”, and they are not to exceed 5% of the par value shares (UnionSD Offering Statement, 2021). These shares are intended for community members and tenant members. The debentures (debt), secured and unsecured, for aggregate proceeds of \$1 million, are intended for foundations. Debentures will have an interest rate of no more than 4% depending on market conditions and will be redeemed 5 years after issuance. To invest,

you need to first apply for a membership, read the offering statement, so that you can then choose whether or not you want your shares in a RRSP for an annual fee of \$55. UnionSD has made available a summary of the offering statement, similar to mutual funds' fund facts, which is a summary of a mutual fund's prospectus.

B. The Case of Renewable Energy Co-ops OREC and CoEnergy

The Genesis of CoEnergy: The TIIP report notes that renewable energy co-operatives emerged as one of the only forms of grassroots CIOs in Ontario. Something that is not mentioned in the TIIP report, is that TREC has been instrumental in supporting “co-ops, Indigenous communities and social enterprises with [their] Community Member & Investment Services, and informing policy through [their] research and advocacy efforts” (TREC, 2021). TREC is an umbrella organization that founded Solarshare, Relay education, Windshare, and Tapestry Capital, the latter of which becoming extremely important in the social finance ecosystem, by helping non-profits issue community bonds. The province should be proud of their Renewable Energy co-ops and probably even be considered one of their great successes throughout Canada since “Ontario is home to 58% of the total co-ops utilizing renewable energy in Canada. This means that 52 co-ops are involved in the production of energy from renewable energy co-operatives out of a total of 89 co-ops in Canada” (Ogunleye, 2018). One of the models is the Ottawa Renewable Energy Co-operative, also known as OREC, “incorporated in 2010, has continued to grow as a local, green investment opportunity in Eastern Ontario” (OREC, 2020). A renewable energy producer, OREC, one of the remaining renewable energy co-ops, who incubated CoEnergy to expand the scope of their activity and be more economically sustainable. Strict regulations in the energy sector narrowed the range and scope of projects. At the time, OREC was focused on producing energy, but could not work on energy conservation projects with in-house expertise. CoEnergy incorporated as a multiclass service co-op in order to do both -- continue to work on the solar energy generation, but also add new lines of business in energy conservation and retrofit energy conservation systems. At the time, Ontario's Green Energy Act

had a procurement system in place that provided contracts to businesses and co-operatives in the renewable energy sector for green energy production. The feed-in tariff (guaranteed rate for electricity) in those contracts provided producers a secure cash flow for easier revenue projections. Unfortunately, applications for the feed-in tariff were closed as of 2018. In an interview, Aaron Thornell from CoEnergy said that there was a point in time where there were 85 to 90 energy co-ops in Ontario. One of the reasons behind that surge in co-operative incorporation is that being a co-operative gave your organization a bonus price for energy produced. Stable cash flow from operations made co-operatives a viable option, allowing them to borrow or raise capital through debt and equity. One notable element here is that some of them were able to survive and adapt even after the Green Energy Act was discontinued. However, the main point taken from this is the Ontario government, at the time, wanted to have cooperatives in the renewable energy business, and gave incentives to co-ops by giving them a bonus price per energy produced. The renewable energy business in Ontario is a clear illustration of the role incentives can play in stimulating investment and business development. However, Brian Iler mentioned that the drawback of these incentives is that a small number have used the cooperative legal structure only to have access to these incentives creating co-ops of convenience.

Partnerships: In 2014, OREC established a partnership with Beau's Microbrewery. Beau's microbrewery wanted eco-friendly practices and OREC needed a way to finance their solar installations. The “newly arranged partnership with Ottawa Renewable Energy Co-operative (OREC) that will see the local brewery contribute funds to accelerate OREC projects through the Greener Futures Project membership” (Beau's Microbrewery, 2014).

Offering Statement Highlights: In 2021, OREC made an offering for preferred shares with the following characteristics: 15-year term; RRSP & TFSA eligible working through the Canadian Worker Co-operative Federation (CWCF) and Caldwell Securities; annual dividend declared by board of directors beginning in 2022 (to date, the annual dividend has averaged 3%); capital return beginning in year 3 until year 15; minimum investment of \$2,500. ■



COMPARATIVE ANALYSIS

Other Jurisdictions in Canada

COMMUNITY ECONOMIC DEVELOPMENT INVESTMENT FUNDS (CEDIFS)

The CEDIFs model in Nova Scotia is probably one of the most successful and well-known cases for community investment in Canada. A key question is understanding what this province did right for it to work, what the key success factors were, and how the model can be transferred elsewhere.

“The Community Economic Development Investment Fund (CEDIF) program assists local (in-province), non-accredited investors to invest in local businesses. [...] CEDIFs are pools of local capital created to operate and/or invest in local economic development. Perry and Loewen (2014) suggest that the CEDIF program has evolved into an enduring and sustainable tool for CED by focusing on attracting local investment as well as establishing practical steps to facilitate provincial economic development. The program was implemented in Nova Scotia in 1999” (Behn Skovgaard Andersen, 2017). Like Ontario, the renewable energy sector is well represented, “Renewable energy CEDIFs have also been growing, with investments in wind and solar representing more than one-third of the total \$105 million raised since the program’s inception” (Karaphillis, 2021).

Administrative Process: The administrative process along with the bureaucratic nature of securities regulations is one of the major barriers in establishing CIOs across the country. It was no different in Nova Scotia. “Setting up a CEDIF is a bureaucratic and cumbersome process, and it took a few years from the initial launch of the CEDIF in 1999 for it to begin to be utilized” (Karaphillis, 2021, p.3). This barrier was tackled with “simplified filing and reporting procedures for CEDIF program participants” (Andersen, 2017, p. 28). The other element worth mentioning is the combined effort from the government and the Nova Scotia Securities Commission (NSSC) to help CEDIFs reduce bureaucratic burden by allowing them to “sell securities and offer investment opportunities to investors without having to go through the same disclosure, reporting, and auditing processes required with traditional investment institutions like mutual funds” (Andersen, 2017, p. 29). This special

relationship between regulators and government smooths out the administrative burden as well as encourages community leaders to pursue their social and economic endeavour. Standardized processes and forms lead to lower governmental cost and lower transaction fees for CEDIFs, in turn allowing for very small capital raises of about \$50,000. Those small capital raises could be interesting in Ontario for subsequent raises, since an initial raise of \$50,000 would fall into available exemptions.

Tax incentive: “In 1993, as a precursor to the CEDIF program, the NS Government created the Nova Scotia Equity Tax Credit (ETC) to offer an incentive to investors looking for local investment opportunities” (Andersen, 2017, p. 29). This provincial strategy for local economic development allowed investors to choose to directly invest in local eligible business “who are required to obtain a Certificate of Registration from the department of finance prior to issuing the shares to potential investors” or through CEDIFs (Chernoff, 2008, p. 47). As of 2019, investors can only receive the ETC through CEDIF (Nova Scotia Finance and Treasury Board, 2021). The ETC allows Nova Scotia investors in a CEDIF to claim a “30% tax credit for purchased shares, so long as the shares are held for five years, as well as an additional 20% credit for shares held for at least 10 years and another 10% credit if held for at least 15 years” (Chernoff, 2008, p. 50). To put this in perspective and understand how the tax credit can be seen as a return on investment, for \$50,000 in 2008, the 30% incentive gives you a maximum tax credit of \$15,000 (if you keep your money invested for 5 years). In 2010, the provincial government even upped the initial tax credit to 35% for individuals that make a “five-year equity investments of a maximum of \$50,000 annually in eligible corporations, co-ops, and CED initiatives” (Andersen, 2017, p. 29). It is important to understand that this “Credit is not refundable but may be carried forward for 7 years or carried back 3 years” (Nova Scotia Finance and Treasury Board, 2021). Moreover, the “government has created these additional incentives to encourage investors to hold their investments for longer periods” by giving more tax credit to investors that are willing to be patient and wait (Chernoff, 2008, p. 51). “At the fifth

anniversary (from their initial purchase of the shares), investors are entitled to an additional 20% tax credit. At the tenth anniversary investors are entitled to a further 10% tax credit on top of those already issued” (Chernoff, 2008 , p. 50). The rationale behind giving incentive for patient capital is to allow the funds a longer period of time to be financially sustainable, and able to absorb capital redemptions.

Focus on Local Economic Development: CEDIFs, while investing in different organizations with social or environmental benefits, are focused on economic development by keeping capital in Nova Scotia or by repatriation of capital back to the province. Local economic development is the strategy to reduce poverty, keep jobs in communities, grow GDP, and increase government tax revenues. One of the criteria to become a CEDIF (and for businesses to be eligible to receive CEDIF investments) is that at least 25% of the salaries and wages must be paid in Nova Scotia and they must provide a community development plan, with information on the community it serves, the amount of capital needed, the types of shares to be issued. All of the eligible businesses that CEDIFs can invest in must abide by the same rules (Chernoff, 2008, p. 49).

Rules, Regulations and Risks: Some rules and elements of the regulatory framework are worth mentioning. For example, CEDIFs can't be non-profit: they need to be incorporated as for profit, but they can be incorporated as a co-operative, which approximately 25% of the CEDIFs are. CEDIFs can access National Instruments that allow them to use exemptions, like the accredited investor exemption. They “have been recognized as pre-approved holdings for a self-directed RRSP by the federal government” (Chernoff, 2008 , p. 51). So not only do CEDIFs have a tax credit, but they also have a tax deduction through RRSP eligibility. Since rules and regulations are less strict than other provinces, the provincial government is offering some form of partial guarantee to alleviate the risks. For example, if a “CEDIF becomes insolvent within four years of a purchase of eligible shares, the province will compensate the individual investor at 20% of their initial investment” (Chernoff, 2008 , p. 51). Another example of rules being a little bit more lenient in Nova Scotia than in other provinces, is the fact that “CEDIFs generally do not play a role in providing technical

assistance to the community enterprises seeking investment” (Chernoff, 2008, p. 52). In contrast, funds face more rigid rules and regulations in British Columbia and Ontario. When you are considered a fund, reports and audits are more rigorous, and sales of securities must go through a dealer. One of the reasons the CIC model is not considered a Fund is because the co-operative provides assistance to the business they invest in, and even sometimes operates the business or organization (Eden Yesh, Interview, 2021).

Government Capacity: For much of the CEDIF program's existence, a dedicated government official was available to promote and support the development of the program, both with community leaders and within government. Because non-profit or community leaders who are typically interested in these programs tend to not have strong securities or financial expertise, uptake may not be as straightforward as for other traditional tax credit programs. Having a government official designated to answer questions and adapt the program based on emerging needs can make a significant difference.

Results: A recent economic impact study of the CEDIF model was the first to do a cost-benefit analysis of the program, finding remarkable results. “Assuming that all CEDIFs offer a 5-year reinvestment opportunity to the shareholders, the total potential equity tax credit cost to Nova Scotia treasury in 2019 would amount to \$2.7 Million: a small amount compared to the \$25 Million in taxes paid in 2019 by the companies funded by the CEDIFs, their suppliers, and their employees. For additional perspective, one can compare the \$2.7 million in equity tax credits per year against the economic impact of \$118 Million in GDP, 1,200 jobs, and \$52 Million in wages and salaries paid to Nova Scotians per year to the tax cost of \$2.7 million” (Karaphillis, 2021 , p. 11). **One of the findings of the study is that in 2019, every \$1,000 invested by the Nova Scotia government into the CEDIF tax credit resulted in the creation/maintenance of 1.75 jobs for Nova Scotians (approximately\$575/job) — far superior to wage subsidy programs offered to businesses by government.** Interestingly enough, over 10% of enterprises funded by CEDIFs are in the business of power generation and renewable energy and they make over 20% of revenues among active enterprises.

BC COMMUNITY INVESTMENT CO-OPERATIVES (CIC)

In 2017, Kootenay Employment Services (KES) was “interested in the creation of investment mechanisms that allow community residents to make financial investments in local initiatives through equity contracts” (Andersen, 2017, p. 8).

Administrative Process: The BC CIIC has written a start-up and operations guide to help communities with the administrative process of setting up a community investment co-operative. The 320-page guide explains every aspect of starting and operating a CIC in British Columbia in great detail. As for all small CIOs, the administrative process is a burden for CICs in BC. However, instead of a full prospectus or offering statement, CICs in BC can use an offering memorandum exemption. While the offering memorandum exemption does relieve the burden of producing an offering statement or prospectus, the knowledge and paperwork required to understand and apply an exemption is still intensive, as it is full of conditions, intricacies and forms to be completed.

Tax Incentive: One of the major levers to facilitate investment are tax incentives. Since investors are taking risks to address local challenges that might otherwise fall to governments, CIO advocates in BC have been asking legislators to recognize that investors are sharing a risk with them. The BC CIIC has been pushing for a tax incentive for a number of years now, unfortunately without success. In British Columbia -- as in Ontario -- there are no tax incentives yet for CIOs.

Rules and Regulations: BC has little enabling legislation and regulation for community investment compared with many other jurisdictions in Canada and the US, especially Nova Scotia. Examples of differences between BC and Ontario are that:

- Non-par-value shares are available for BC co-ops;
- Capital gains or loss are possible, but it is difficult to put a valuation on share;
- Businesses and other entities (First Nation communities, municipalities) can be on the board of director in BC;
- To buy investment shares in British Columbia (preferred shares) you need to be a member for at least 12 months which is not the case in Ontario; and
- It is at the discretion of the co-operative to put in place specific by-laws that preclude non-members from buying preferred shares.
- Investment shares are RRSP eligible, and the program is supported by CWCF.
- Co-ops in BC can use national instruments for exemptions (Accredited Investors, prospectus exemptions, friends and family exemption) which is not the case for Ontario co-ops. Ontario cooperatives need to rely on exemptions specific to co-ops who are ruled by the Ontario Cooperative Corporation Act.
- Investment cooperatives in British Columbia can use both debt and equity instruments.
- There is a limit of 150 investment shareholders (preferred shares), however there is a possibility for the co-operative to raise more capital through membership shares, but those shares would not be RRSP eligible.

In BC, there are multiple prospectus exemptions that have their own intricacies:

- Offering memorandum exemptions: co-operatives (or businesses) do not need to file a prospectus, but need, however, to file an offering memorandum with the BC Securities Commission which is different from an offering statement or a prospectus, in terms of the level of disclosure needed. However, to be eligible for the offering memorandum exemption, a signed risk acknowledgment is required from the purchaser after having read the offering memorandum. “This exemption can only be used by an issuer selling its own securities” (BCSC, 2021).
- Private Issuer Exemption: this exemption resembles the threshold of 35 security holders for co-ops in Ontario, but the limit is 50 for British Columbia.
- There is also a Family, Friends and Business Associates Exemption, Employee, Director, Officer and Consultant Exemption, Accredited Investor Exemption, \$150,000 (minimum investment non-individual Exemption and the Start-Up Crowdfunding Exemption.

Results: No extensive studies have been done on the impact of community investment co-operatives. However, even without enabling programs and legislation, several communities have established CIOs to allow residents to invest in the places where they live, work and play (Community Impact Investment Coalition of BC, Case studies, 2018).

British Columbia Community Impact Investment Coalition: It is interesting to note that a coalition was founded to share knowledge and advocate for the advancement of community impact investment throughout BC. “The BC Community Impact Investment Coalition brings together co-ops and other groups from across BC to build a movement for local ethical investing that benefits rural and urban communities” (BC CIIC, 2021). This coalition paved the way for several adaptations of the BC CIC Start Up and Operations Guide developed by Kootenay Employment Services. The Canadian Community Economic Development Network (CCEDNet) brought actors throughout the country together to advance community investment practices in multiple jurisdictions. This Guide is being adapted in several provinces because securities and incorporations are provincial jurisdiction. While Ontario and its regulatory bodies overseeing securities did not yet have an official statement concerning community investment co-operatives, the Guide is available for interested parties. Very few coalitions of social finance organizations have taken form in Ontario, but initiatives lead by SVX, OTF and Pillar Nonprofit Network to gather social finance stakeholders are important to highlight. As gaps are filled, capacity grows and there is greater cohesion through the ecosystem, assistance to communities wishing to apply the model to solve economic, social and/or environmental problems in their locality will be improved.

OPPORTUNITY DEVELOPMENT CO-OPERATIVES

An inspiring grassroots initiative is Sangudo Custom Meats in Alberta. Similar to that of the model of Community Investment Co-operatives in British Columbia, 30 concerned citizens of the city of Sangudo led by Carol and Dan Ohler, formed the Sangudo Opportunity Development Co-operative, a co-operative to stimulate the local economy by raising capital and investing in local businesses. These concerned citizens were worried that their city would no longer exist because over the years, “businesses closed and people moved away” (Kienlen, 2014). Another business was about to close when the meat processing shop owner was retiring, until Kevin Meier, Jeff Spenger and the SODC stepped in “to revitalize business in the town, increase volunteer action and acquire government support for programs to better the town” (Kienlen, 2014). The two entrepreneurs wanted to buy and operate the meat processing shop but did not have the capital to purchase the building, “so in came SODC, which raised \$250,000 in just 9 minutes from local cattle producers and other community members who recognized the value in having a butcher close by” (Thompson, 2019). They wanted to be members/ investors, purchasing equity, of this newly formed co-op. Pretty soon, business was doing so great that out of 300 citizens, 7 new hires were made, focused on young people - “a deliberate step with revitalization in mind, and one that inspires trust and loyalty in young residents who want to build lives in Sangudo” (Thompson, 2019). The SODC is yet another perfect example that showcases the importance of having a strong champion to lead the project. “Dan is a compassionate leader who cares a great deal about his town. He was kind enough to lead us on a tour of SODC’s accomplishments. As he led us around, he talked about the importance, not just of developing businesses in the community, but what those businesses bring along with them — a sense of pride and vibrancy, and a reason for people, young and old, to stay in Sangudo” (Thompson, 2019).

The success of SODC and other Opportunity Development Co-operatives contributed to the creation of Alberta’s Community Economic Development Corporation (CEDC) tax credit program in 2018 (CCEDNet, 2018). The program offered a 30% tax credit to Albertans who invest in registered CEDCs. Unfortunately, the program was eliminated in 2019 following a change in government.

LESSONS FROM OTHER JURISDICTIONS

It is worth noting that the Nova Scotia CEDIF model has been adapted and implemented in Prince Edward Island and New Brunswick.

The New Brunswick Small Business Investor Tax Credit provides a 50% (for investments made after April 1, 2015) non-refundable personal income tax credit of up to \$125,000 per year (for investments of up to \$250,000 per individual investor) to eligible individual investors who invest in eligible small businesses, community economic development corporations in the province ([New Brunswick](#), 2021).

The Prince Edward Island Community Economic Development Business (CEDB) program allows investors in an approved CEDB to receive a Community Development Equity Tax Credit of 35% of the investment made by the individual to a maximum annual investment of \$20,000 (maximum annual credit \$7,000). Investors are required to hold the investment for at least five years. An investment is eligible for RRSP tax deductibility ([PEI](#), 2021).

In Manitoba, a government tax incentive (the Community Economic Development Tax Credit) has enabled individual co-operatives to sell investment shares with a tax credit incentive since 2004 (Adeler, 2014, p. 56). This has been very supportive to the few co-operatives who have used this tool, mostly on their own to navigate the system, and a clear recommendation from the sector in 2008 has been for stable resources within government to administer the program (Adeler, 2014, p. 57). To date, apart from the Jubilee loan fund, no investment intermediaries or pools have emerged to help scale this model beyond individual enterprises (TIIP, 2021, Ch. 4).

Established and emergent models in British Columbia, Atlantic Canada and Alberta share a common developmental trajectory: they started small, to solve problems locally, and grew based on volunteer leadership, constrained or supported in large part by the absence or presence of an enabling environment.

Additionally, there are other small and local initiatives scattered across the country -- grassroots initiatives that are community-based, democratic and local. These initiatives mostly have an economic impact alone and the focus is on increased community action in the local economy instead of waiting for economic forces to intervene. In a survey done in 2017, one of the main themes among community investment practitioners was how it can be a vehicle to building communities by strengthening community ties and connections. Other terms used by these practitioners include “variations of community building such as building ‘community survival’ techniques in reference to rural communities and an understanding of community investment vehicles as drivers to develop a ‘social fabric’ complemented the literal references to community building” (Andersen, 2017, p. 48). A lot of importance has been put on high-net-worth individuals, accredited investors and institutional investors to finance social and environmental projects through big funds, but as stated above, “there are newer, exciting models initiated by grassroots entities realizing the economic agency they have in savings and small investments. These efforts by ‘ordinary people’ can empower local and diverse economies, and help maintain local economic activity in small or economically declining regions” (TIIP, 2021 , p. 87).

In the United States of America, Michael H. Shuman points to neighborhood exchanges as a way to fund small local businesses. In a commentary he gives the Maryland Neighborhood Exchange as a success story that truly is grassroots, helping 44 Baltimore businesses raise 3.3\$ Million from 6000 investors. The essence of his commentary is that even though the 2012 JOBS Act allowed investment crowdfunding and was a great financial success, it had to be done on a regulated federally licensed portal which weakened the connection between community investors and the businesses they invest in. Our southern neighbors have a national tool but this tool did not allow for proper community building. To try and strengthen these connections, the Maryland Neighborhood Exchange “create a listing of local companies looking for investment dollars on the national crowdfunding portals and provide your neighbors an easy place to review opportunities to invest locally” (Shuman, 2021). ■



FINAL
RECOMMENDATIONS

RULES AND REGULATIONS FOR CIOS

Comparisons of the securities and the regulatory environment between Ontario and other jurisdictions illustrates clearly the extent to which rules and regulations are a fundamental issue for the development of the CIO model in Ontario. Rules and regulations in Ontario are inhibiting the development of community investment in the province. A complex environment and heavy administrative process coupled with undercapitalization of CIOs are serious impediments to growth. It is possible to form a CIO, but it is uncertain whether regulators would put a stop to an initiative due to a lack of understanding of the CIO model or because of the active role a CIO may play in businesses they invest in, but do not operate in. While disclosure, understanding of risks undertaken by investors, and preventing fraud is undoubtedly critical to maintain confidence in our institutions and capital markets, co-ops and public companies have fundamental value differences. There is reason to believe these differences might have an impact on risks of bankruptcy, since statistics show that “co-operatives generally have twice the survival rate of other businesses” (OCA, 2012). Risks and perceptions of risks are an important factor of the need for enhanced disclosure. Treating co-operatives like public companies is not an accurate assessment of risk.

One key informant mentioned that it remains unclear if FSRA would accept an investment co-op. FSRA could potentially view it as an end-run around the OSC. Where co-op proponents have had success in the past is by taking their Board to a face-to-face meeting with senior FSRA staff. This was confirmed by another key informant. Regulators tend to feel much more comfortable knowing the calibre and genuineness of the board members. However, the lead time for completing an offering with the Financial Services Regulatory Authority is long and definitely needs to be shortened.

The success of Nova Scotia CEDIFs is instructive. The economic impact study confirms the benefits for all involved. In addition to the dedicated government

staff that was instrumental in promoting and growing the program, government action to facilitate offerings by streamlining the administrative process was significant. It is likely no coincidence that Nova Scotia has one of the most simplified administrative processes and that the special relationship between government and securities regulators is a noticeable difference.

Therefore, it is one of the recommendations to engage securities regulators, and consider them a stakeholder.

In Ontario, exemptions are supposed to be helping co-ops start-up their operations, but the limits do not reflect the financial needs of 2021. Buying a business can be costly, even more so when it comes with assets and needs a substantial capital raise. Just thinking of real estate prices in Ontario, one can wonder how an affordable housing co-op that wants to raise capital through retail investors can do it without going through FSRA. There are nearly no possibilities for co-ops to just use the exemptions to buy a business and expect to be financially sustainable, which makes it riskier from the start. The Ontario Co-operative Association summarizes why the exemptions in place are obsolete: “A raise of less than \$1 million for a small or new co-operative business requires the same high accounting and legal costs and the need for expensive outside consultants that a raise of much larger amounts for an established co-operative requires. Combining these costs with the uncertainty of using a lesser known corporate model and the time it takes to learn it and the barriers to incorporating a co-operative for new businesses and producing an offering statement are high” (OCA, 2020). That is why “OCA’s membership recommends government increase the 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” (OCA Pre-budget consultation, 2020).

RECOMMENDATIONS FOR SOCIAL FINANCE AND CIO STAKEHOLDERS

In order to make recommendations for Ontario's social finance and CIOs stakeholders, a small and partial SWOT analysis drawn from the TIIP report is in order. The strengths mentioned earlier are that there is no lack of capital in Ontario as a whole, Intermediaries are very knowledgeable, and the infrastructure to help build CIOs is already in place. The weaknesses are that the social finance and social economy lack a unifying voice and are fragmented in many ways, either geographically, the north being rural and south being urban, or fragmented with different missions, causes and objectives. The complexity of the rules and regulations brings several weaknesses to the sector, firstly being that it is hard to find champions and leaders to pursue a CIO project. Second, opportunities are scarce for retail investors. Opportunities lie in the high ceiling, and potential of CIOs, with investors being unaware of investment initiatives happening in their community. The same goes with accredited investors and institutions. There is also an opportunity in lens investing, for example "increasing the flow of capital into BIPOC communities" (TIIP, 2021, p. 53). There is a threat in the fact that one bad apple can scare off investors. Another threat would be a political shift in priorities.

In Nova Scotia, some elements that are making CEDIF work are bright leaders, available expertise, incentive for patient capital, needed projects from the community and clear, simple, and enabling policy framework.

Given these factors as well as feedback from stakeholders about how they might address the local environment for community investing, we recommend the following actions or changes to enable the CIO model in Ontario.

Investors

The beauty in this is that CIOs investors are usually first and foremost citizens, involved citizens, they are or could become community investors. For investors to help in the development of CIOs, they should gather, learn, and be patient with their capital. Moreover, they should also be supportive and understand the importance of the champion's leading projects. They could also play a significant role in helping identify social problems in their

localities for intermediaries since they most likely will be the ones experiencing these problems. Community Investors and already established organizations also play a vital role in explaining to other concerned citizens on how to help, peer-to-peer knowledge sharing is key to grow CIO's and make a significant local impact.

A major key success factor is that a CIO must be demand driven, meaning that in order to work, it must solve an actual problem in the community. Citizens can play a role in pointing it out. CIO being a grassroots solution to a grassroots problem makes this stakeholder particularly important in the first step to finding a solution by noticing the problem and the cause. Investors must also learn about CIOs, learn about the risks, impacts and how to measure return on investment with an impact investing lens.

Initiatives like [Impact United](#) are a great way to start establishing interest among Canadian investors. The initiative is "a national peer-led movement and community of investors seeking to mobilize capital towards social, economic and environmental justice, comprised of individuals, families, institutions, faith-based organizations, foundations, and other asset owners" ([Impact United](#), 2021). This kind of movement is important to start building awareness throughout investors base around the country. Another initiative is to build awareness throughout the investor base is the Open Impact website, a project led by Rally Asset and the Lee Chin Institute, which lists impact investment possibilities ([Open Impact](#), 2017).

Another recommendation for CIOs investors would be to be patient with their capital as well as take impact into account in their assessment of return. Once the risks, the financial return expectations are understood, the Nova Scotia government had incentive in place to foster that patience because it is well known that in community projects democratically managed, and sometimes volunteer operated, things take more time, same goes for CIOs. It takes time to build financial stability and investors should be aware.

The power of CIOs investors resides in the sheer fact that they have multiple hats and can actually have an influence on the organizations that they invest in by volunteering their time and voicing their opinions. This is even more true in cooperative structures

and non-profits corporations. This makes it a great opportunity for marginalized groups (Rural, BIPOC, LGBTQ+, french speaking Ontarian) to be truly heard and give them their power of self-determination.

Social Finance Intermediaries

Intermediaries have a great range of roles and the CIO model in Ontario needs major support to develop in the current landscape. Social finance funds and platforms, convenors, accelerators, social finance service providers, financial institutions and even CIOs are considered as social finance intermediaries, which can be confusing. As financial intermediaries are Ontario's strength, they can be a major catalyst in developing it by playing a role to each and every individual stakeholder (Investors, Government, Champions, Regulators, Communities) and by helping each other (other intermediaries) in the spirit of collaboration. **Therefore, to fulfill their role to champions, it is pressing to have an Investor Relation Manager (or back office). To give more clarity for champions, it would be interesting to differentiate intermediaries by area of expertise.**

It will also be instrumental in Ontario to develop a platform where CIO champions could redirect investors or community members for information on the model and where investors and community members could list or send their ideas about opportunities in their locality. It is important to showcase the positive impact (economic, social, environmental, etc.) and potential Return On Investment (ROI) to the government. The Nova Scotia CEDIF ROI research is a great example and similar research could be done in Ontario by using the renewable energy sector and the incentive the government of Ontario gave with the now discontinued Green Energy Act. Another major element is to develop a relationship with regulators and government to be part of the discussion as they are integral to the development of CIOs in the province.

In order to facilitate and support CIOs, it will be instrumental to let the champion focus on building the project in itself and also work on building support from the community, less so on administrative tasks, because that's why



intermediaries exist and are extremely important; to be the support system, the research center, the network creator, the experts and the infrastructure. It has been noted in BC that one of the major pain points of champions in developing a CIO is the colossal amount of paperwork and time wasted on administrative tasks. One of the roles is being a transfer agent, the link between investors and the CIO. Part of this role is fulfilled by the CWCF so that impact/social investors can hold their investments in a RRSP or a TFSA. However, the annual cost to hold your investment is 55\$, a substantial amount for small investments. For a 1000\$ investment, the CIO must return 5.5% annually to investors, just so that they can break even. Moreover, self-directed brokerage firms might not accept CIOs investments, because of illiquidity of the secondary market and inability of closing accounts with investments that are not transferable or that cannot be written off or sold at a fair market value. It has been well explained by a study from MaRS with respect to community bonds, that “Mainstream financial institutions hesitate to process community bonds into the RRSP accounts of retail investors because, from

the financial institution’s perspective, the risks and costs—especially the administrative expense and the risk of a fair market value event—outweigh the return on the bond” (Farthing-Nichol, 2017, p. 8).

Coupled with the Investor Management tool, which would help champions greatly, a CIO Informative platform or website with a clear investor education approach with information on the model, guidebooks, resources on social finance, list of opportunities or investment, could take a weight off the shoulders of champions of gathering all the information and explaining it to investors. One of the results of the report *Getting Ontario ready for Social Finance* was that there was a lot of discussion about social finance, but not enough action attempting to start projects. To start a community economic development project, it must first start from a community’s need, therefore being proactive in looking for economic, social, and environmental problems in different localities could be a way of having a finger on the pulse as to what project could solve problems and list opportunities that could be of interest in different localities. It could be a great way for intermediaries to find new potential



demand for CIOs and even find champions amongst people interested in the model. Once you have your finger on the pulse, it could be interesting to help find champions or leaders in the community facing the problems so you can give them the tools and knowledge to start a CIO. The entrepreneurial spirit of the millennial generation (Simpson, 2018) and the need for them to have fulfilling endeavours (Futurpreneur, 2013) makes them the perfect generation to lead CIOs, and intermediaries could help find them and show them the opportunities.

It will be important to showcase CIOs potential to legislators to advocate for enabling policy and regulatory framework because these enabling policies and framework are essential to the advancement of CIOs. More research on the economic, social, and environmental impact needs to be done in order to make the case that CIOs are in fact leveraged expenditures for the government and that investors are taking on some of the risks, which is in turn taking off part of risks and responsibilities off of the government's shoulders. This research could and should be the basis for more understanding of the model and for CIOs intermediaries and government to speak the same language and cultivate a much needed relationship.

The same goes for regulatory bodies overseeing CIOs. Relationships between intermediaries and regulators are really important to develop a framework that aligns both their mission. Government needs to see potential where regulators need to see safety. There's nothing simple about navigating rules and regulations. The relationship with the ones making the rules is also extremely important. Developing the investor relation management tool could be a great way to build a common ground with them.

Supporting Champions

In order for CIOs to flourish in Ontario, there should be a program to identify and develop community leaders. The goal would be that these community leaders would unify and build a community around a CIO. Resources required to undertake such an initiative would be the creation of compensated positions to facilitate a network of community leaders and ensure their training. Another necessary support would be the support of the CIO network identified below. Investors

should also apply terms in their investments such as patient capital and lower financial return expectations in order to lower the speed and urgency at which the CIO must meet obligations.

Champions are essential to most community-driven projects, and certainly to the success of CIO's. These leaders galvanize support and often do the heavy lifting when it comes to navigating a complex regulatory environment, sometimes as volunteers. We need to find a way of finding, fostering and incentivising Champions to lead successful CIOs. It would definitely help to be able to identify Champions that could lead one or multiple projects. As difficult as it is to find leaders with a strong sense of community, it is even more difficult when they are giving almost all of their time without having financial incentive at all to lead the community project. Champions who lead the CIO, depending on the size and scope, should be able to make a living. It will also be important to not put undue pressure nor alleviate some of the pressure on CIOs for them to be able to execute on their purpose. Having to account for financial returns, positive impact and the heavy task of executing and reporting on both fronts while not having sufficient capital to start with is not a recipe for success. It is a recipe for burnouts. This is why patient capital and lower financial return expectations are key.

Government and Regulators

The provincial government is voting laws and financing programs, while regulators are approving or denying capital raises. Needless to say, they have a lot of power when it comes to the existence of CIOs. While it is not yet clear whether or not CIOs can exist without actively managing and operating the businesses they invest in, the provincial government and regulators have the ability to foster their development through the use of certain regulatory tools and policies at their disposal. One way governments and regulators could develop CIOs would be by reducing unnecessary regulatory barriers surrounding CIOs and their offering statements. Moreover, the government could clarify requirements and expectations in the development of CIOs, to ensure that CIOs are developed quickly and efficiently, to solve a community need. Governments could directly fund CIOs as well as explore giving CIOs

and/or CIOs investors certain tax incentives, by allowing investments to be eligible for registered savings vehicles such as a RRRSP or a TFSA. As the Ontario Cooperative Association asked previously, and reiterated in recommendations earlier in this report, it would be important to update the old exemptions to reflect the needs of cooperatives today. As mentioned previously in this report, Nova Scotia has been implementing these practices since the 90's with a high degree of community impact and success. Their model should be further developed in provinces like Ontario, to ensure CIOs are created swiftly and with community impact in mind, and at heart.

Adeler confirms this reality in their report, stating that: *“co-operative development is partially correlated to the nature of the supportive environment, the strength of the sector infrastructure, and government commitment toward enabling the development of this environment and infrastructure through policy, programming, and funding.”* Moreover, *“The role of government appears to be significant in strengthening and providing resources for this infrastructure, either through direct financial contributions or creating policy mechanisms that provide the necessary resources for the federations and associations to play their roles in cooperative development”* (Adeler, 2014, p. 57).

It is important that we have a regulatory framework that not only gives investors confidence with the sector, but also lets them invest in their own community. Rules and regulations are not fit for community investment organizations and the proof of concept has been made in Nova Scotia that a dollar invested in social finance can garner tremendous reward for the community. It is important that the government understands that they can leverage investors' capital in order to create and maintain jobs while addressing social and environmental risks. In an interview with Sean Campbell, it was discussed that investors should be incentivized to invest in CIOs and that the government, by enabling CIOs, are tackling economic, social and environmental problems at a fraction of the price, and therefore are reducing risk by sharing it with investors. Regulatory bodies, being risk averse by nature, ask for a significant amount of disclosure, even more so in the social economy. Simplified processes and reduced regulatory barriers need to go in conjunction with new or updated

exemptions in order to ease the offering statement process for CIOs.

We ask investors to have patient capital investing in community projects. It is safe to say that change won't happen overnight, and that the economic, social and environmental impact of different CIOs would take time to materialise. It is therefore important for the government to be patient with their programs as well, because over time we have seen them come and go. CEDIFs were launched in 1999, and 22 years later, we can now say with confidence that there is “nothing that came close to the cost-effectiveness of CEDIFs in creating and maintaining jobs” (Karaphillis, 2021, p. 3) that CEDIF had more impact than other form of wage subsidy programs offered to businesses by government (Karaphillis, 2021, p. 3).

The state of the current relationship between regulators, governments, and stakeholders from the social economy is not for a lack of effort in reaching out from the latter. In order to understand the reality of stakeholders, governments and regulators should engage them with the goal of fostering their relationship.

Ontario's CIO Coalition:

Ontario CIOs need a strong network, where resources are easily found and not scattered throughout the province. Moreover, aligned definitions of key concepts could help every stakeholder understand each other.

As said in the TIIP report, Social finance initiatives in Ontario are diverse and fragmented, which makes stakeholders scattered in the province without direction and with clear gaps that need addressing for the advancement of the model. BC CIIC is a useful model to follow to give the support group to future champions and leaders as well as leverage in advocating for better policy and regulation for CIOs. A guide for Community Investment Cooperatives will be available for Ontario champions that want to develop a community investment project.

In all discussions, definitions seem to be a major pain point. The meaning of words or concepts being different depending on the context and point of view. To have a coalition with clearly defined concepts would keep the discussion set on the common goal of each stakeholder, which is to make an impact.

BEST PRACTICES FOR GRASSROOTS MOVEMENTS

Through the literature review along with different interviews, some best practices emerged for the strength and effectiveness of grassroots efforts. First and foremost, they must be **demand driven**, since a project imposed on a community might not have as many supporters, volunteers or investors. Intermediaries and support systems (consultants) in social finance are knowledgeable, allowing grassroots leaders to reach out and not feel obliged to do everything alone.

To give yourself credibility, it will be important for **investors to know they can redeem their investment** after a certain period of time. Liquidity is a deciding factor in investors' minds, even for community investors. However, as mentioned above, **investors' patience** is a key factor of success.

As a community investment organization, one of the best practices is to first **use the exemptions available** to your legal structure. If it is not possible to avoid regulatory bodies through exemptions because the project is capital intensive, and as mentioned earlier with comments from experts in the field, it is important to have a good relationship with the regulatory authorities and comply with what they are asking, since they have the last word on if you can or cannot raise capital. Brian Iler mentioned that it all comes down to **having a great and detailed business plan** where the **risks are disclosed**, which is a big part of what FSRA needs in the offering statement.

It will also be important to look for every opportunity to capitalise your project since financial sustainability is paramount in accomplishing the economic, social and environmental impact you've set out at first. That means **using exemptions and finding grants when and where you can**. Since your investor base is investing for impact, it will be important to **measure success against impact indicators** whether it be Economic Impact, Social Impact, Environmental Impact as well as showing financial sustainability.

PROSPECTS FOR CIOs IN ONTARIO

This report is exploratory in nature, and mostly puts the spotlight on the policy framework and regulatory environment, as it seemed to be the main handicap for the development of the CIO model in the province of Ontario, and most likely other provinces as well. However, several subjects could be in line for future reports in respect to the place that could be taken by CIOs in Ontario. Roles that CIOs could play in the future include: business succession and social acquisition, prominent role in social procurement, as it was seen in the renewable energy sector in Ontario, and the role that CIOs could play in giving economic self-determination to minorities throughout the province. The democratic nature of CIOs makes it really interesting, especially for minority communities (BIPOC, rural communities, linguistic or cultural minorities) giving them a voice.

As mentioned in the *Getting Ontario ready for Social Finance* report, numerous social problems need addressing in the province. However, instead of talking about them, a strong need to take action with the goal of solving those problems was pointed out in several answers from the sector: Less talking, more walking. Thematics cited were Housing, Youth, Employment, Health, Food Production, Indigenous, Arts, Green technology, Information technology, and Information sharing. CIOs prospect is inherently tied to local problems and the model gives communities the means to provide concrete solutions and act on them. ■



CONCLUSION

There is a growing need to address large-scale social
and environmental problems

It is not an easy task to conclude this report as there is much more to be explained with respect to CIOs, as they are a new model. Throughout Canada, there is tremendous interest and a growing need to address large-scale social and environmental problems at a local and national level. In the face of this growing interest and need, the federal government launched the call for expressions of interest to become a capital wholesaler under the Social Finance Fund. More than ever, community members are playing a dual role of consumer and investor. These community members are choosing with conviction to consume locally made and sourced goods. The investment vehicles at their disposal unfortunately prevent their preferences from being reflected in the way that they invest. Therefore, this report recommends the use of CIOs to provide community members with solutions to support their locales through investment as well as consumption to avoid the negative impacts of capital flight and community wealth leakage. Social finance and local investing are the next steps in the ESG investing trend, in order to ensure community capital directly impacts their quality of life. For example, Community Economic Development practitioners believe that if such opportunities were available to local investors, they “would choose to direct a portion of investment capital to support local initiatives and small businesses in their community” (Andersen, 2017, P. 22). This would allow investments to curb community wealth leakage, solve environmental and social problems, while having the added benefit of weaving the social fabric of a community democratically. While CIOs may be the obvious method by which to enact these investments, the current social finance regulatory environment creates several barriers to entry, especially given contrasting provincial policies. This is why assessing the landscape of local community finance in Ontario was so important. Conducting this analysis, through an extensive literature review, interviews, as well as a focus group, provided diverse insight from other jurisdictions on the development of a model for CIOs in Ontario.

The recently published TIIP Report compliments the findings of this report and was referenced thoroughly in assessing the current state of Ontario’s community finance sector. The TIIP Report provides evidence of strong financial expertise in Ontario that is helping Canada’s social finance sector grow. While Ontario,

more specifically Toronto, is a hub for philanthropic investors, social finance funds and platforms, convenors, accelerators, social finance service providers and financial institutions, Ontario is lagging behind other provinces in their adoption of social finance and community investment solutions. Ontario needs a more organized social finance sector, and a unified voice that advocates for regulatory reform, the primary culprit of Ontario’s underdeveloped social finance sector. The regulatory environment created by the provincial government and administered by the OSC and now FSRA creates barriers to entry in the development of social finance and is the first place where reform is necessary. CIOs as presented in this report are an effective vehicle for community economic development, and it is a shame that the current process is far from optimized. The current process is long and arduous, and disincentivizes the development of CIOs when compared to other capital raising solutions. Therefore, community champions who seek to develop CIOs can achieve limited success under current regulations. However, this framework does nothing to ensure CIOs are properly understood and leveraged to their utmost potential as solutions for community economic development.

CIOs are a versatile concept that may adopt the legal structure of that organization’s choosing, and each structure has its advantages and exceptions that make them more or less desirable, depending on the organizational mandate. However, for-profit co-operatives provide structural advantages, being able to raise capital through equity and debt, lowering the cost of capital and ensuring democratic, co-operative values remain at the core of the organizational mandate. A guide to launch a community investment co-operative (CIC) in Ontario has been adapted from a report published by the Kootenay Employment Services in BC. CICs provide another tool in the development of CIOs in Ontario, as organizations currently rely heavily on community bond issuances. Allowing communities to acquire equity in projects and organizations may improve community engagement in development projects as well as improve outcomes in the process. While this statement proves to be logical, it is outside of the scope of this report, and must be the subject of future research on the development of CICs.

At a high level, investments are built on trust, with risk perception being the yardstick by which investors measure trust. Since co-operative offerings are considered “High-Risk Offerings”, it sends a message of mistrust to investors that isn’t necessarily merited. “Enhanced Disclosure” regulations are more stringent for co-operatives than they are for other for-profit entities, in turn further disincentivizing co-operative and community economic development and must be reviewed.

The Key Success Factors of CIOs, as identified through the analysis of CEDIFs and BC CICs, are:

- Bright Leaders;
- Available Expertise;
- Incentive for Patient Capital;
- Needed Projects from the Community;
- Clear, Simple and enabling policy framework; and
- A government with a willingness to foster community investment initiatives by being patient and adapting rules should the need arise.

A list of the Key Recommendations to develop CIOs in Ontario are elaborated below:

- Community Investors
- Be patient with their capital
- Helping identify social problems in their localities
- Share knowledge

Social Finance Intermediaries

- Clarify areas of expertise
- Have an Investors Relations Manager (Back Office)
- Build a platform to connect with communities and understand their needs
- Build a platform to showcase Return on Investment and Impact
- Identify community leaders and offer training and support

Champions

- Use exemptions, build capacity and credibility before going through an offering
- Look for support whenever possible
- Use past successes as templates

Provincial Government and Regulators

- Reach out to intermediaries and develop a relationship with regulators around Social Finance
- Streamline the Offering process for CIOs
- Well thought Tax incentive for CIOs and Community investors
- RRSP and TFSA eligibility for community investments
- Update out-dated exemptions

This report serves as an introduction to the CIO landscape in Ontario, presenting the challenges facing the social finance sector, and providing avenues by which social finance experts can begin to remedy these problems. To this end, this report identified three possible avenues for future research:

1. Policy instruments are an important avenue for future research as they may assist in the adoption of more accessible legislation for CIOs. For example, should an indivisible reserve policy be mandated for capital raisers? Should CIOs have a cap on maximum return? Future research must be conducted in order to assess the feasibility and risk associated with the recommendations and changes proposed in this report.
2. Assessing CIOs ability to play a critical role in social procurement, social acquisition and business succession is outside the scope of this report. However, research assessing the impact of CIOs in these key areas would be an important next step to build a case for the adoption of more CIOs in Ontario.
3. CIOs have had storied success on an international scale. Research in identifying and cataloguing these success stories would improve visibility of CIOs in Ontario, and provide a base on which education may be more accessible as well.

Trailblazers such as Sean Campbell, must continue challenge the status quo of finance in Ontario, in order to improve outcomes for cooperatives and nonprofits working to increase their impact. Education must be a priority for future social finance initiatives as imperfect information leads to an artificially high perception of risk. Programming that increases the visibility of social finance initiatives will create opportunities for knowledge and value exchange, ensuring a stable transfer of knowledge and an ability to continue innovating in the sector. Ontario must learn from these experiences in order to build a stronger social finance sector, where expertise reflects impact. ■

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APPENDICES

Appendix 1

Summary of Key Capital Raising Prospectus Exemptions

Appendix 2

Co-op Comparisons (Legal Characteristics)

Appendix 3

High risk offerings (Enhanced Disclosure)

- “Details of upcoming debt repayments, by year and instrument;
- Ranking of the security in insolvency or bankruptcy proceedings;
- Confirmation that the co-op has not defaulted on and is not in breach of any of its debt or covenants, or details if it has defaulted or is in breach of a covenant;
- Information concerning interest rate sensitivity or other financial market risks;
- Information as to how a co-op will satisfy its financial obligations if the co-op is unable to raise capital pursuant to the offering statement;
- Minimum amount of the offering that needs to be raised to meet contractual financial obligations of the co-op during the year following the offering; and
- Quantification of the risks that could affect the operations of the co-op.”

Appendix 4

UnionSD offering statement summary

CCO.COOP

CONSEIL DE LA
COOPÉRATION
DE L'ONTARIO



COOPERATION
COUNCIL OF
ONTARIO

APPENDICES

COMMUNITY INVESTMENT IN ONTARIO

STATUS AND PROSPECTS

CONSEIL DE LA
COOPÉRATION
DE L'ONTARIO



COOPERATION
COUNCIL OF
ONTARIO



APPENDIX 1

Summary of Key Capital Raising Prospectus Exemptions

SUMMARY OF KEY CAPITAL RAISING PROSPECTUS EXEMPTIONS IN ONTARIO

JANUARY 28, 2016

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The information provided in this summary describes each prospectus exemption as it applies in Ontario only. It is provided for general informational purposes only and does not constitute legal or accounting advice. Information has been summarized and paraphrased for publication purposes. Responsibility for making required disclosure and complying with applicable securities legislation remains with the company. Information in this summary reflects securities legislation and other relevant standards that are in effect as of the date of the publication of this summary.

BACKGROUND

This summary provides an overview of key capital raising prospectus exemptions in Ontario that were amended or introduced as a result of the Ontario Securities Commission's (OSC) broad review of the exempt market regulatory regime (the Exempt Market Review) beginning in 2011.

Original scope of the review

The original scope of the Exempt Market Review was on the existing accredited investor and minimum amount investment prospectus exemptions. The original purpose of the review was to assess whether the two exemptions remained appropriate given the investor protection concerns associated with these exemptions that were highlighted during the financial crisis in 2007-2008. The OSC worked with the Canadian Securities Administrators (CSA) to publish final amendments to these two exemptions, which came into force in Ontario on May 5, 2015.

Expanded OSC review

As a result of feedback received during the original Exempt Market Review, in 2012 the OSC decided to expand the focus of the review to consider whether there was potential to facilitate greater access to capital through the exempt market, particularly for start-ups and small and medium-sized enterprises (SMEs), while maintaining an appropriate level of investor protection. On March 20, 2014, the OSC published a proposal to introduce four new capital raising prospectus exemptions in Ontario.

Since that time,

- the existing security holder prospectus exemption came into force in Ontario on February 11, 2015,
- the family, friends and business associates (FFBA) prospectus exemption came into force in Ontario on May 5, 2015,
- the offering memorandum (OM) prospectus exemption came into force in Ontario on January 13, 2016, and
- the crowdfunding prospectus exemption came into force in Ontario on January 25, 2016.

The OSC also worked with other CSA members to see if the existing rights offering prospectus exemption available across Canada could be streamlined to improve its efficiency and effectiveness. Final amendments to the existing rights offering prospectus exemption were published by the CSA on September 24, 2015 and came into force in Ontario on December 8, 2015.

Links to more information

- For further information on the **accredited investor and minimum amount investment prospectus exemptions**, please see the Notice of Amendments published on February 19, 2015: https://www.osc.gov.on.ca/en/SecuritiesLaw_ni_20150219_45-106_amendments.htm
- For further information on the **existing security holder prospectus exemption**, please see the Notice of Amendments published on November 27, 2014: https://www.osc.gov.on.ca/en/SecuritiesLaw_rule_20141127_45-501-amd-prospectus-registration.htm
- For further information on the **FFBA prospectus exemption**, please see the Notice of Amendments published on February 19, 2015: https://www.osc.gov.on.ca/en/SecuritiesLaw_ni_20150219_45-106_amendments.htm
- For further information on the **OM prospectus exemption**, please see the Notice of Amendments published on October 29, 2015: https://www.osc.gov.on.ca/en/SecuritiesLaw_ni_20151029_45-106_amendments.htm
- For further information on the **crowdfunding prospectus exemption**, please see the Notice of Publication published on November 5, 2015: http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20151105_45-108_multilateral-crowdfunding.htm
- For further information on the **rights offering prospectus exemption**, please see the Notice of Amendments published on September 24, 2015: https://www.osc.gov.on.ca/en/SecuritiesLaw_ni_20150924_45-106_amd-rights-offerings.htm

PURPOSE OF SUMMARY

The purpose of this summary is to highlight features of the key capital raising prospectus exemptions available in Ontario following the Exempt Market Review. Table 1 provides a high-level comparison of these prospectus exemptions. Tables 2 to 8 provide an overview of each of the prospectus exemptions.

Please note that the availability of a prospectus exemption to distribute securities does not mean there is a corresponding registration exemption. An issuer distributing securities under one or more of these prospectus exemptions must consider whether its activities result in it being "in the business" of trading in securities. An issuer that is "in the business" of trading in securities, would generally be subject to the dealer registration requirement. The Companion Policy to National Instrument 31-103 *Registration, Exemptions and Ongoing Registrant Obligations* (NI 31-103) provides a list of factors we consider in determining whether the activity is for a business purpose and, therefore, subject to the dealer registration requirement.

Table 1: Comparison Table of Key Capital Raising Prospectus Exemptions in Ontario

	Accredited Investor	Crowdfunding	Existing Security Holder	FFBA	Minimum Amount Investment	OM	Rights Offering
Who can use the exemption?	All companies ¹ and investment funds	Canadian companies except blind pools	Public companies listed on specified exchanges	All companies	All companies and investment funds	All companies	Public companies ²
Who can buy securities under the exemption?	Accredited investors	Any investor	Existing security holders holding the type of security being offered	Specified principals of the company, specified family members, close personal friends, close business associates	Non-individual investors	Any investor	Rights to purchase a security issued by the company are distributed to each security holder. Rights holders may exercise their right to acquire the security.
Are there limits on how much investors can invest under the exemption?	No	Yes, for retail investors and accredited investors	Yes, unless suitability advice is obtained from an investment dealer	No	No, but the purchase price of the securities must be at least \$150,000	Yes, for individual investors except accredited investors or investors who qualify under the FFBA exemption	No
Is disclosure required to be provided to investors at the point of sale?	No	Yes	No	No	No	Yes	Yes
Do investors have the right to withdraw from the investment after buying the securities?	No	Yes	No	No	No	Yes	No
Are the securities subject to restrictions the first time they are resold?	Yes	Yes	Yes	Yes	Yes	Yes	Generally freely tradeable
Does a report of exempt distribution have to be filed with the OSC?	Yes	Yes	Yes	Yes	Yes	Yes	No

¹ References to companies in this document include corporate and non-corporate entities, but do not include investment funds.

² In general, a public company is a company whose shares are bought and sold by the general public on a stock market or exchange.

Table 2: Overview of the Accredited Investor Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows companies to cost-effectively raise funds from investors who have certain characteristics, such as the ability to withstand financial loss and the financial resources to obtain expert advice.
Who can use the exemption?	All companies and investment funds.
Who can buy securities under the exemption?	An accredited investor, which includes an individual with income, net assets or financial assets that exceed the amounts set out in the exemption. ³ Accredited investors also include non-individuals, such as Canadian and foreign governments, Canadian financial institutions, pension funds, charities and other entities set out in the exemption.
Are there limits on how much investors can invest under the exemption?	NO
Is a risk acknowledgement form required?	YES. A risk acknowledgement form is required to be completed and signed by individual accredited investors, except those who qualify as permitted clients. ⁴ Investors must indicate in the form how they meet the criteria for an accredited investor. The form also requires identification of any salesperson who meets with or provides information to the investor with respect to the investment.
Is disclosure required to be provided to investors at the point of sale?	NO
Do investors have the right to withdraw from the investment after buying the securities?	NO
Are the securities subject to restrictions the first time they are resold?	YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met). Securities of a non-public company are subject to an indefinite hold period and can only be resold under another prospectus exemption or under a prospectus.
Does a report of exempt distribution have to be filed with the OSC?	YES. A report of exempt distribution must be filed by a company within 10 days of the distribution and by an investment fund no later than 30 days after the financial year-end of the investment fund.

³ Under National Instrument 45-106 *Prospectus Exemptions*, an accredited investor means an individual with:

- Net income before taxes was more than \$200,000 in each of the two most recent calendar years and is expected to be more than \$200,000 in the current calendar year
- Net income before taxes combined with a spouse was more than \$300,000 in each of the two most recent calendar years and their combined net income is expected to be more than \$300,000 in the current calendar year
- Financial assets, alone or with a spouse, of more than \$1 million before taxes but net of related liabilities
- Net assets, alone or with a spouse, worth more than \$5 million

⁴ A permitted client is defined under NI 31-103.

Table 3: Overview of the Crowdfunding Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows Canadian companies, particularly start-ups and SMEs, in their early stages of development, to raise funds online from the public through a single funding portal registered with securities regulators.
Who can use the exemption?	All companies incorporated or organized in Canada, with their head office in Canada, a majority of their directors resident in Canada, and their principal operating subsidiary (if any) incorporated or organized in Canada or the USA. Blind pools and investment funds cannot use the exemption.
Who can buy securities under the exemption?	Any investor.
Are there limits on how much investors can invest under the exemption?	<p>YES</p> <ul style="list-style-type: none"> • A retail investor cannot invest more than \$2,500 per investment, and cannot invest more than \$10,000 in total in the same calendar year. • An accredited investor (other than a permitted client) cannot invest more than \$25,000 per investment, and cannot invest more than \$50,000 in total in the same calendar year. <p>There are no investment limits for permitted clients.</p>
Is a risk acknowledgement form required?	YES. Investors must complete and sign a risk acknowledgment form requiring them to positively confirm having read and understood the risk warnings and information in the crowdfunding offering document. An investor must also complete a form confirming that the investor is within the investment limits, where applicable.
Is disclosure required to be provided to investors at the point of sale?	YES. A crowdfunding offering document must be provided to investors. An issuer may also provide purchasers with a term sheet, a video or other materials summarizing the information in the crowdfunding offering document.
Do investors have the right to withdraw from the investment after buying the securities?	YES. Investors have the right to withdraw from an agreement to buy the securities within 48 hours.
Are the securities subject to restrictions the first time they are resold?	YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met). Securities of a non-public company are subject to an indefinite hold period and can only be resold under another prospectus exemption or under a prospectus.
Does a report of exempt distribution have to be filed with the OSC?	YES. A report of exempt distribution must be filed within 10 days of the distribution.

Table 4: Overview of the Existing Security Holder Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows public companies listed on specified exchanges (listed below) to cost-effectively raise funds from existing security holders holding securities.
Who can use the exemption?	Public companies listed on the Toronto Stock Exchange, TSX Venture Exchange, Canadian Securities Exchange or Aequitas NEO Exchange. Investment funds cannot use the exemption.
Who can buy securities under the exemption?	Existing security holders that hold the type of listed security of the company being offered. The offer must be made to all security holders.
Are there limits on how much investors can invest under the exemption?	YES. There is an investment limit of \$15,000 per investor in any 12 month period, which can be exceeded if the investor has obtained advice regarding the suitability of the investment from an investment dealer.
Is a risk acknowledgement form required?	NO
Is disclosure required to be provided to investors at the point of sale?	NO. However, the company is required to issue a news release about the proposed sale of the securities and file any offering materials (other than the subscription agreement) with securities regulators on the same day it provides materials to investors.
Do investors have the right to withdraw from the investment after buying the securities?	NO
Are the securities subject to restrictions the first time they are resold?	YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met).
Does a report of exempt distribution have to be filed with the OSC?	YES. A report of exempt distribution must be filed within 10 days of the distribution.

Table 5: Overview of the FFBA Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows early stage companies to raise capital from investors who are principals of the business or within the personal networks of the principals of the business.
Who can use the exemption?	All companies. Investment funds cannot use the exemption.
Who can buy securities under the exemption?	<ul style="list-style-type: none"> • Director, executive officer, control person or founder of the company, or • Specified family member, close personal friend or close business associate of a director, executive officer, control person or founder of the company.
Are there limits on how much investors can invest under the exemption?	NO
Is a risk acknowledgement form required?	<p>YES</p> <p>A risk acknowledgment form must be completed and signed by:</p> <ul style="list-style-type: none"> • the investor, • the director, executive officer, control person or founder of the issuer with whom the investor has asserted the relationship, if applicable, and • the issuer. <p>The investor must disclose, if applicable:</p> <ul style="list-style-type: none"> • the identity of the director, executive officer, control person or found of the issuer with whom they assert a relationship, • that person’s position at or relationship with the issuer, • the category of the relationship asserted by the investor, and • how long the investor has known that person.
Is disclosure required to be provided to investors at the point of sale?	NO
Do investors have the right to withdraw from the investment after buying the securities?	NO
Are the securities subject to restrictions the first time they are resold?	YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met). Securities of a non-public company are subject to an indefinite hold period and can only be resold under another prospectus exemption or under a prospectus.
Does a report of exempt distribution have to be filed with the OSC?	YES. A report of exempt distribution must be filed within 10 days of the distribution.

Table 6: Overview of the Minimum Amount Investment Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows companies to cost-effectively raise funds from investors (who are not individuals) that have the ability to withstand financial loss and the financial resources to obtain expert advice.
Who can use the exemption?	All companies and investment funds.
Who can buy securities under the exemption?	Any investor that is not an individual.
Are there limits on how much investors can invest under the exemption?	NO. However, the purchase price of the securities purchased by the investor must be at least \$150,000, which must be paid in cash at the time of distribution.
Is a risk acknowledgement form required?	NO
Is disclosure required to be provided to investors at the point of sale?	NO
Do investors have the right to withdraw from the investment after buying the securities?	NO
Are the securities subject to restrictions the first time they are resold?	YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met). Securities of a non-public company are subject to an indefinite hold period and can only be resold under another prospectus exemption or under a prospectus.
Does a report of exempt distribution have to be filed with the OSC?	YES. A report of exempt distribution must be filed by a company within 10 days of the distribution and by an investment fund no later than 30 days after the financial year-end of the investment fund.

Table 7: Overview of the OM Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows companies at different stages of development, including SMEs, to raise funds from a wide range of investors based on an OM being made available to investors.
Who can use the exemption?	All companies. Investment funds cannot use the exemption.
Who can buy securities under the exemption?	Any investor.
Are there limits on how much investors can invest under the exemption?	<p>YES. Investment limits apply depending on whether the investor is an individual or not, and whether the investor is an eligible investor or non-eligible investor:</p> <ul style="list-style-type: none"> • An eligible investor is a person with net income or net assets that exceed the amounts set out in the exemption.⁵ An eligible investor also includes an accredited investor, an investor that qualifies under the FFBA exemption and a number of other listed entities set out in the OM exemption. • A non-eligible investor can also buy securities under the exemption. However, non-eligible investors are subject to more restrictive investment limits than eligible investors. <p>The following investment limits apply:</p> <ul style="list-style-type: none"> • For a non-eligible investor that is an individual, the purchase price for all securities purchased under the exemption in the preceding 12 months cannot be more than \$10,000. • For an eligible investor that is an individual, the purchase price for all securities purchased under the exemption in the preceding 12 months cannot be more than \$30,000. • For an eligible investor that is an individual that receives advice from a portfolio manager, investment dealer or exempt market dealer that an investment above \$30,000 is suitable, the price for all the securities purchased by the investor under the exemption in the preceding 12 months cannot be more than \$100,000. <p>There are no investment limits for individual investors that are accredited investors or qualify under the FFBA exemption. There are also no investment limits for investors that are not individuals, such as companies.</p>

⁵ Under the OM exemption, an investor can qualify as an eligible investor under certain income and asset tests. For example, an eligible investor includes a person whose:

- Net assets, alone or with a spouse, in the case of an individual, exceeds \$400,000
- Net income before taxes exceeded \$75,000 in each of the two most recent calendar years and who reasonably expects to exceed that level in the current calendar year
- Net income before taxes, alone or with a spouse, in the case of an individual, exceeded \$125,000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year.

Table 7: Overview of the OM Prospectus Exemption in Ontario

<p>Is a risk acknowledgement form required?</p>	<p>YES. All investors must complete and sign a risk acknowledgment form. In addition, individual investors must complete two schedules in conjunction with the form:</p> <ul style="list-style-type: none"> • One schedule asks investors to confirm their status, as an eligible investor, non-eligible investor, accredited investor or an investor who would qualify under the FFBA exemption. • The other schedule requires confirmation that that the investor is within the investment limits, where applicable.
<p>Is disclosure required to be provided to investors at the point of sale?</p>	<p>YES. An OM in the required form must be provided to investors. Any marketing materials used by the company must also be incorporated by reference in the OM.</p>
<p>Do investors have the right to withdraw from the investment after buying the securities?</p>	<p>YES. Investors have the right to withdraw from an agreement to buy the securities within two business days.</p>
<p>Are the securities subject to restrictions the first time they are resold?</p>	<p>YES. Securities of a public company are subject to a 4-month hold period (subject to certain other conditions being met). Securities of a non-public company are subject to an indefinite hold period and can only be resold under another prospectus exemption or under a prospectus.</p>
<p>Does a report of exempt distribution have to be filed with the OSC?</p>	<p>YES. A report of exempt distribution must be filed within 10 days of the distribution.</p>

Table 8: Overview of the Rights Offering Prospectus Exemption in Ontario

What is the purpose of the exemption?	Allows public companies to quickly and cost-effectively raise funds from existing security holders holding securities of the company.
Who can use the exemption?	Public companies. Investment funds subject to National Instrument 81-102 <i>Investment Funds</i> cannot use the exemption.
Who can buy securities under the exemption?	Rights to purchase a security issued by the company are distributed to each security holder on a pro rata basis. ⁶ Rights holders may exercise their right to acquire the security.
Are there limits on how much investors can invest under the exemption?	NO
Is a risk acknowledgment form required?	NO
Is disclosure required to be provided to investors at the point of sale?	YES. A rights offering circular in a question and answer format must be filed on SEDAR and a rights offering notice must be sent to investors and filed on SEDAR informing them about how to access the rights offering circular electronically.
Do investors have the right to withdraw from the investment after buying the securities?	NO
Are the securities subject to restrictions the first time they are resold?	Securities are only subject to a seasoning period on resale and are therefore generally freely tradeable.
Does a report of exempt distribution have to be filed with the OSC?	NO

⁶ This means that the company must offer the rights to all security holders holding securities of that class.



APPENDIX 2

Co-op Comparisons (Legal Characteristics)

Co-op Comparisons

Legal Characteristics of Co-operative, Private and Not-for-Profit Corporations

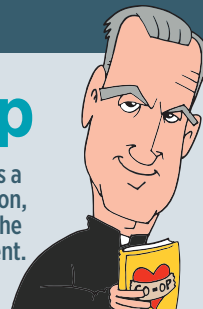
Co-operative Corporation	Business Corporation	Not-for-profit Corporation
Principles		
Limited Liability	Limited Liability	Limited Liability
Primary purpose is to provide goods and service to members.	Primary purpose is to maximize shareholders' wealth.	Primary purpose is to further community, social, cultural or environmental objectives.
Control by members.	Control by shareholders.	Control by members.
Surplus, if distributed, primarily to members as patronage dividends, after reasonable return paid on invested capital. No capital gains.	Unlimited return on shareholders' capital through dividends and capital gains.	Business is carried on without the purpose of gain for members. Surplus is retained to further the organization's purposes.
Co-operative's income is taxable (unless not-for-profit); patronage dividends are deductible from co-op's taxable income.	Income is taxable; dividends are paid from after-tax income.	Normally exempt from income tax.
Voting		
Each member has one vote, regardless of the amount invested.	Shareholders' voting rights are based on the number of voting shares held.	Members are generally entitled to one vote, but may have multiple votes or no votes.
Shares		
May, or may not have share capital; every member must hold one membership share to have voting rights. Preference shares may be held by non-members.	No restrictions on the purchase or sale of shares.	No share capital.
Shares are sold by the co-operative and can be transferred only with Board approval.	Shares may be traded if a market exists, subject to any shareholders' agreements to the contrary.	
Securities Regulation		
Sale of shares (and other securities) regulated under the <i>Co-operative Corporations Act</i> ; offering statement is required unless exemption available: less than 35 security holders, less than \$200,000 capital, securities sales to members of less than \$1,000/year.	Sale of shares (and other securities) regulated under the <i>Securities Act</i> . Prospectus required unless exemption available: less than 35 security holders if no offering to the public, sophisticated investors.	Sale of bonds, debentures and other securities generally exempt from regulation.
Distribution of Surplus		
Surplus, if distributed is normally paid to members as patronage dividends, based on their use of the co-op (often as shares, rather than in cash).	Surplus (or profits) is principally distributed as dividends and paid to shareholders based on the number of shares held	No surplus may be distributed to members.
Dissolution		
Distribute all assets (after payment of debts and liabilities), and the par value of shares to their holders, either equally among all members, among members based on patronage dividends accrued over the preceding five years, or, if not-for-profit, to another co-op or charitable organization.	Common shareholders have the right to receive all assets remaining after payment of all debts, liabilities and other shareholders' entitlements.	Upon dissolution, all remaining assets must be distributed to a charitable organization or other organization whose objects are beneficial to the community. Some "member-benefit" not-for-profits may be permitted to distribute net assets among members.

Developed by Brian Iler, Iler Campbell LLP for the Ontario Co-operative Association



ontario.coop

Moses Coady (1882-1959) was a Canadian co-op champion, educator, priest and leader of the Antigonish Movement.



Co-op Comparisons

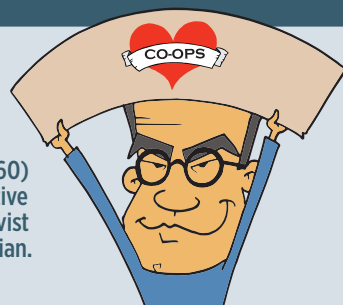
Co-operatives and Private Business Models

Considerations	Co-operative corporation	Business corporation	Partnership	Sole proprietor
Values	Democratic equality, sharing, community focus, needs-based; International Co-operative Principles.	Hierarchical, profit-focused, maximize shareholders' wealth.	Depends on partners' value system.	Personal values of owner.
Application	Applies to any kind of business or need.	Applies to any kind of business.	Usually small businesses and some professionals.	Usually small businesses.
Ownership	Worker – 3 or more employee-members Other – 5 or more members	One or more individuals or corporations.	Two or more individuals or corporations.	Individual.
Decision-making	Democratic – one member one vote.	Based on number of voting shares held.	Informal or as set out in written partnership agreement.	Owner makes the final decisions.
Legal Set-up • Legislation • Cost	Simple to Complex • <i>Co-operative Corporations Act</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • <i>Ontario Business Corporations Act (Ontario Not-for-Profit Corporations Act for NFPs)</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • Business Registration • \$150 plus drafting partnership agreement	Simple • Business Registration • \$150
Profit and Not-for-profit	Both are possible.	Only profit.	Only profit.	Only profit
Capitalization (for profit)	• Member (voting) shares. • Preference (non-voting) shares (various classes). • All shares are par value-bonds, debentures, loans. More than 35 security holders – must issue Offering Statement unless meet exemption criteria.	• Shares may be voting or non-voting. • At least one class of shares must participate in distribution of surplus. • Shares do not have par value; allows capital gains. • Bonds, debentures, loans. More than 35 security holders – must issue Prospectus.	Usually limited to partners, family, friends and bank loans.	Usually limited to owner, family, friends and bank loans.
Market for Shares	Limited – usually sold back to co-op on termination of membership. Do not significantly appreciate or depreciate in value (i.e. par value).	Limited market for private company shares – sale is usually constrained by shareholders' agreement. Public companies' shares are freely traded on stock exchanges. Appreciate and depreciate in value (capital gains and losses are recognized on sale).	No shares – sale of partnership interest often only to remaining partners.	No shares – assets (including goodwill) may be sold as an ongoing business.
Ease of Start-up	Depends on size, complexity, capital required, teamwork	Depends on size, complexity, capital required, teamwork	Requires team work to be simple and quick	Usually simple and quick
Return on Investment (if profitable)	After payment of fair return on capital, surplus is distributed in proportion to the business that members transact with the co-op.	Unlimited return on investment, including capital gains on the sale of assets or shares traded on stock exchanges	Unlimited return	Unlimited return
Financial Liability	Limited to investment – members and shareholders have no liability for business debts.	Limited to investment – shareholders have no liability for business debts.	All partners' personal assets, can be limited. Unlimited liability for debts of business.	All personal assets – unlimited liability for debts of business
Income Tax	Patronage rebates are expensed before calculating corporate taxes. Patronage and share dividends are usually taxed in the hands of members. Patronage dividends by retail co-ops are general tax exempt.	Dividends are expensed on after-tax corporate income. Dividends are taxed in the hands of shareholders.	Income is taxable at in hands of partners; provides flow through income tax benefit	Income is taxable in hands of owner. Provides flow through income tax benefit
Agility	Democracy takes longer, but can result in better decisions and more commitment.	Depending on size and management style, can be extremely agile.	Depends on partners' relationship and management style	Depends on owner's decision-making style
Local Economy	Money and jobs stay in the local economy.	Money goes to shareholders, jobs to cheapest jurisdiction.	Money and jobs usually stay local	Money and jobs usually stay local
Survival Rate	Co-operatives generally have twice the survival rate of other businesses: > 60% after five years > 40% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years

Developed by Russ Christianson, Rhythm Communications, for the Ontario Co-operative Association



Toyohiko Kagawa (1880–1960) was a Japanese co-operative champion, educator, activist and humanitarian.



ontario.coop

Agnes Macphail (1890–1954) was an activist, journalist, first woman member of Canadian Parliament and voted Ontario's Greatest Female in 2005.





APPENDIX 3

High risk offerings (Enhanced Disclosure)

Guidance

Interpretation

Approach

Information

Decision



Effective Date: December 14, 2020

Identifier: No. CC0001INT

High-Risk Offerings issued under the Co-operative Corporations Act

Purpose

This Guidance, which contains both an Interpretation and an Approach, requires certain co-operative corporations (“**co-ops**”) to provide enhanced disclosure to investors when selling certain securities^[1] defined herein as “High-Risk Offerings” through an offering statement required under section 34 of the Co-operative Corporations Act (“**Co-op Act**”). This Guidance will require such co-ops to provide enhanced disclosure, failing which the Financial Services Regulatory Authority of Ontario (“**FSRA**”)^[2] will not issue a receipt for an offering statement pursuant to subsection 36(1) of the Co-op Act. FSRA’s objective in providing this Guidance is to ensure that investors in co-ops are better protected by requiring co-ops to provide enhanced disclosure of the risks of investing in “High-Risk Offerings” of securities issued by a co-op. It is also intended to help co-ops understand what additional disclosures FSRA requires and why.

Scope

This Guidance applies to “High-Risk Offerings” (defined below) of securities issued through the offering statement regime under the Co-op Act. It also affects the members of a co-op, and other any persons, who may wish to purchase securities in a High-Risk Offering.

Rationale and Background

Rationale

This Guidance is intended to assist investors in a “High-Risk Offering” to make more informed investment decisions. It is also intended to promote high standards of business conduct for co-ops, and to improve the transparency of FSRA’s decision-making process. All of these outcomes are consistent with a number of FSRA’s objects, as set out in the Financial Services Regulatory Authority of Ontario Act,^[3] specifically:

- a. to regulate and generally supervise the regulated sectors;
- b. to contribute to public confidence in the regulated sectors;
- c. to promote transparency and disclosure of information by the regulated sectors;
- d. to promote high standards of business conduct; and
- e. to protect the rights and interests of consumers.

Background

Section 34 of the Co-op Act prohibits the sale of securities by a co-op or a person unless an offering statement has been filed with, and receipted by FSRA or an exemption applies.^[4] Subsection 35(1) of the Co-op Act requires an offering statement to provide “full, true and plain disclosure of all material facts relating to the securities proposed to be issued”. An offering statement must contain the information, statements and documents specified in section 12 of Regulation 178, R.R.O. 1990, c. 35 (the “**Regulation**”).

Subsection 36(1) of the Co-op Act authorizes FSRA to issue a receipt for an offering statement unless it appears to FSRA that the offering statement or any document required to be filed with it:

1. Fails to comply in any substantial respect with the Co-op Act or the Regulation;



2. Contains any statement, promise, estimate or forecast that is misleading, false or deceptive; or
3. Conceals or omits to state any material facts.

In addition, if it appears to FSRA that the proceeds from the sale of securities, together with other resources of the co-op, are insufficient to accomplish the stated purpose of the issue, clause 36(1)(b) of the Co-op Act prohibits FSRA from issuing a receipt for an offering statement.

Principles

The key principles guiding FSRA's interpretation of "full, true and plain disclosure of all material facts" for High-Risk Offerings as requiring Enhanced Disclosure (as defined below), and its approach to exercising its discretion to issue a receipt for an offering statement for High-Risk Offerings of securities, consist of the following:

1. **Investor protection:** The Enhanced Disclosure requirement is intended to ensure that investors better understand the risks involved before purchasing securities in High-Risk Offerings. This will promote transparency and protect investors' rights and interests.
2. **High standards of business conduct:** This Guidance will promote high standards of business conduct for co-ops proposing to issue High-Risk Offerings.
3. **Transparency:** This Guidance will promote transparency by helping co-ops better understand the additional disclosures that FSRA requires before it will issue a receipt for an offering statement involving a High-Risk Offering.
4. **Contribute to public confidence in the co-op sector:** Better informed investors and higher quality disclosure in High-Risk Offerings will contribute to increasing public confidence in the co-op sector.
5. **Deter deceptive or fraudulent conduct, practices and activities:** The Enhanced Disclosure requirement will serve to reduce the risk of deceptive or fraudulent conduct related to the distribution of High-Risk Offerings in the co-op sector.



Interpretation

The legislative liquidity requirements detailed in section 84 and 85 of the Act and sections 21 to 23 of the Regulation require that credit unions maintain adequate and appropriate forms of liquidity and establish and adhere to liquidity policies. This Guidance interprets these legislative requirements under the Act and Regulations in addition to outlining FSRAs approach to supervising against the standards, including reporting requirements.

Principles

FSRA interprets “full, true and plain disclosure”, as required by subsection 35(1) of the Co-op Act, to include Enhanced Disclosure where the securities offering is considered to be a “High-Risk Offering”. This Enhanced Disclosure is in addition to the information, statements and documents specified in section 12 of the Regulation.

FSRA defines a “**High-Risk Offering**” to mean a securities offering:

1. of a co-op that:
 - a. has a business model that is not focused on serving the specific needs of its members or a well-defined community^[5];
 - b. appears to be intended as an investment vehicle, resulting in a potential misalignment between members and investors;
 - c. uses promoters to sell the securities;
 - d. is a “start-up” (i.e., it has no meaningful assets or relevant business history); or
 - e. markets the securities to “retail investors”^[6] and/or investors who are motivated by the potential for investment income, rather than the benefits to be obtained through participation in the co-op (beyond benefits available to the general public), or who consider the securities to be low-risk investments or to provide guaranteed returns on their investment.



OR

2. that has any of the following characteristics:
 - a. sets an expectation of financial appreciation, return, profit or distribution for the purchaser of the securities;
 - b. promises to return the investor's principal;
 - c. provides insufficient disclosure of the risk of non-payment, refinancing risk, security backing the instrument, or value of the co-op's assets;
 - d. provides future projections that rely on assumptions that are risky or not highly probable; or
 - e. represents that the securities may be held in a registered account, such as a Registered Retirement Savings Plan ("**RRSP**") or a Tax-Free Savings Account ("**TFSA**").

All High-Risk Offerings will be required to contain the Enhanced Disclosure described below in their offering statements.

The "**Enhanced Disclosure**" required by FSRA to be provided in offering statements for High-Risk Offerings includes, but is not limited to:

1. Details of upcoming debt repayments, by year and instrument;
2. Ranking of the security in insolvency or bankruptcy proceedings;
3. Confirmation that the co-op has not defaulted on and is not in breach of any of its debt or covenants, or details if it has defaulted or is in breach of a covenant;
4. Information concerning interest rate sensitivity or other financial market risks;
5. Information as to how a co-op will satisfy its financial obligations if the co-op is unable to raise capital pursuant to the offering statement;
6. Minimum amount of the offering that needs to be raised to meet contractual financial obligations of the co-op during the year following the offering; and
7. Quantification of the risks that could affect the operations of the co-op.



Please note that this is not an exhaustive list of information that a co-op must provide to FSRA with respect to High-Risk Offerings. Depending on the circumstances of the proposed High-Risk Offering, a co-op should identify and disclose any additional information and risks that may be relevant in order to fulfil the “full, true and plain disclosure” requirement under subsection 35(1) of the Co-op Act.

For High-Risk Offerings, FSRA interprets the “full, true and plain disclosure” requirement under subsection 35(1) of the Co-op Act to include the Enhanced Disclosure. An offering statement must therefore contain the Enhanced Disclosure (and any additional relevant information) before FSRA will issue a receipt for it pursuant to subsection 36(1) of the Co-op Act.

Approach

The Approach component of this Guidance is intended to define the processes and practices that FSRA will employ in exercising its discretion to issue a receipt for an offering statement for securities issued in a High-Risk Offering, based on its interpretation of the Enhanced Disclosure requirements.

Processes and practices

FSRA reviews all offering statements submitted by co-ops for compliance with the Co-op Act. FSRA’s review process is intended to verify that an offering statement fully discloses all of the relevant information and risks associated with the securities, particularly for High-Risk Offerings. The objective of this Approach Guidance is to ensure that potential purchasers of the securities have all of the information they need to make informed investment decisions.

An offering statement for a High-Risk Offering must include the Enhanced Disclosure and any additional disclosures identified by the co-op in order to satisfy the statutory requirement for “full, true and plain disclosure”. If such disclosure is not provided, FSRA will refuse to issue a receipt for the offering statement. If a co-op provides such additional disclosure, FSRA may consider exercising its discretion and issue a receipt for the offering statement.



If a co-op does not provide the Enhanced Disclosure (and any additional disclosures identified by the co-op that are necessary to satisfy the “full, true and plain disclosure” requirement) in its offering statement, FSRA will refuse to issue a receipt for the offering statement. However, prior to making such a determination, FSRA would give the co-op an opportunity to be heard, in accordance with subsection 36(2) of the Co-op Act. If, following that opportunity to be heard, FSRA nonetheless determines that the offering statement does not comply with subsection 36(1) of the Co-op Act as interpreted in this Guidance, FSRA will exercise its discretion and make an order or ruling in writing, refusing to issue a receipt for the offering statement.

Effective Date and Future Review

This Guidance became effective on December 14, 2020. It will be reviewed no later than December 14, 2025.

About this Guidance

As Interpretation guidance, this document describes FSRA’s view of requirements under its legislative mandate (i.e. legislation, regulations and rules).

As Approach guidance, it describes FSRA’s internal principles, processes and practices for supervisory action and application of the Chief Executive Officer’s discretion. Approach Guidance may refer to compliance obligations but does not in and of itself create a compliance obligation.

Visit FSRA’s [Guidance Framework](#) to learn more.

Effective Date: December 14, 2020

^[1] “Security” is defined in subsection 1(1) of the Co-op Act to mean “any share of any class or series of shares or any debt obligation of a corporation”.

^[2] Pursuant to subsection 36(1) of the Co-op Act, the receipt for an offering statement is provided by the CEO of FSRA. However, for the purposes of this Guidance, reference will be made to FSRA, instead of the CEO, as the CEO may delegate his authority within FSRA, as permitted by applicable law.



^[3] See subsections 3(1) and 3(2) of the Financial Services Regulatory Authority of Ontario Act and section 1 of the regulation made under that act.

^[4] Exemptions from the offering statement requirement are found in subsection 34(2) of the Co-op Act and sections 11.1 and 12.6 of the Regulation.

^[5] An example of a “well-defined community” is a group of persons who participate economically in the co-op and purchase and benefit from the products or services (beyond benefits available to the general public) provided by the co-op.

^[6] FSRA considers a “retail investor” to be an individual who is not an “accredited investor”, as defined in subsection 73.3(1) of the Securities Act and paragraphs (j)-(l) of section 1.1 of National Instrument 45-106 Prospectus Exemptions.





APPENDIX 4

UnionSD offering statement summary



OFFERING INFORMATION SHEET

This document is only a summary of the Offering Statement received May 20, 2021.
See important disclaimer notice below.

Offering to Individuals	Membership Shares Vote, run for and elect directors, eligible to purchase preference shares Class A, Series 1 Preference Shares Annual Board-declared dividends; holder may request redemption 5 years after issue	ABOUT THE CO-OPERATIVE Union Co-operative is working to buy residential and commercial properties in Waterloo Region for permanent affordability through community ownership. The Co-operative was founded in response to rising rental rates in Waterloo Region that are becoming unaffordable for a growing share of residents and local businesses. Union Co-operative's main source of income will be the rental charges it receives from tenants.
Offering to Foundations	Debentures Matures 5 years after original issue date; earns fixed rate of interest set at the original issue date; security offered to significant investors (subject to mortgage lender approval)	THE NEED Statistics Canada data for the period of 2018–2019 shows Kitchener-Cambridge-Waterloo to have been the fastest-growing Census Metropolitan Area in Canada. The Region of Waterloo's 2019 Building Permit Activity and Growth Monitoring report found that "the total value of building permits issued for new construction in Waterloo Region was a record \$1.7 billion in 2019, an increase of 68% from the previous year's values, and 44% higher than the 10 year average." The Provincial Growth Plan instructs the Region to accommodate an additional 158,500 residents over the period from 2016 to 2031, equivalent to nearly 10,567 new residents each year, primarily through urban intensification.
Risk Factors	See Section 7 of the Offering Statement for risk factors associated with investing in the Co-operative.	Average market rents increased by approximately 41% between 2009 and 2019. The Consumer Price Index increased by approximately 19% during this same 10-year period. The City of Kitchener's Housing Needs Assessment found that "the difference between the rent of an occupied unit and asking rent of a vacant unit was approximately \$250," as landlords raise the rents of vacated units. The vacancy rate stayed at or below 3% for most of the period between 2009 and 2019. The City of Kitchener states that "a vacancy rate of 3% is generally accepted as a healthy vacancy rate."
Directors	Aaron Stauch President & Chair Aleksandra Szaflarska Secretary Nicole Langlois Treasurer Joel Marcus Director Ray Gormley Director	CMHC's study of <i>Recent Refugee Housing Conditions in Canada</i> found that 57.4% of government-assisted refugee-led households experienced core housing need. CMHC defines housing affordability as spending less than 30% of a household's before-tax income on housing. To be considered affordable, a private apartment with an average monthly rent of \$1,138 requires an annual household income of \$45,520. According to the 2016 Census, 52,690 households in the Kitchener-Cambridge-Waterloo Metropolitan Census area earned less than \$45,000 per year.
Auditors	Pollard Gagliardi Navickas LLP 490 Dutton Drive, Suite C1 Waterloo, ON N2L 6H7	
Contact	Union Co-operative c/o Kindred Credit Union Centre for Peace Advancement 140 Westmount Road North Waterloo, ON. N2L 3G6 info@unionsd.coop	

Union: Sustainable Development Co-operative Inc.

- www.unionsd.coop -

OVERVIEW OF THE BUSINESS

Union is a mission-driven and member-owned organization. However, the intended activities of the Cooperative are similar to those of a traditional corporation that owns and leases real estate.

- Accumulate a portfolio of high-quality real estate assets.
- Renovate properties to improve property value and increase tenant attraction.
- Effectively manage and maintain the properties to retain satisfied tenants.
- Attract investors and pay out a consistent return which is, by design, anticipated to be significantly lower than comparable risk-adjusted returns for similar real estate investments (see *Section 7* of the Offering Statement for material risks related to the payment of consistent returns).

Holding properties for the long-term benefit of the community has several ramifications for the business of the Co-operative:

- Preventative maintenance is of heightened importance.
- Real estate equity can be leveraged to finance the purchase of additional properties.
- The financial benefit for investors is derived from the income earned through tenant rents, and not from the appreciation in equity through the eventual sale of the property.

TENANTS

Residential Tenants: It is anticipated that the first property will have existing tenants at the time of acquisition. An existing residential tenant may apply to become a Tenant Member of the Cooperative, but is not required to apply for membership. A residential tenant who becomes a tenant after the Co-operative has acquired the first property will become a Tenant Member.

Charity Tenants: Union Co-operative has entered into a non-binding understanding with Reception House Waterloo Region, a charity that is contracted by Immigration, Refugees and Citizenship Canada to provide settlement supports for arriving government-assisted refugees who are referred to Canada for resettlement by the United Nations Refugee Agency or another referral organization. Reception House will hold a headlease in the first property for units that are suitable for residential occupancy. The charity is a commercial Tenant Member and rent is paid by the charity to Union Co-operative. Union Co-operative does not have a landlord-tenant or Co-operative-Member relationship with the client of the charity (sublessee). The charity has a landlord-tenant relationship with the sublessee. The Board of Directors will, in consultation with Reception House, determine the proportion of units to be leased to Reception House, and the proportion of units to be leased at affordable rates to residential tenants who are not clients of Reception House.

TARGET CHARACTERISTICS FOR THE FIRST PROPERTY

Financial	
Target Purchase Price	Up to \$3,200,000. The Co-operative may acquire a suitable property at an amount above the target purchase price range depending on available financing and market conditions.
Loan to Value	Not to exceed 85%
Debt Service Coverage Ratio	Greater than or equal to 1.1
Amortization Period	Up to 40 years
Building	
Building	Existing building without need for significant repairs or renovations prior to leasing
Site Contamination	No significant contamination
Leasing	
Tenants	Multi-unit residential prioritized, where dwellings are compliant, or it is cost-effective to make compliant (e.g., fire code)

USE OF PROCEEDS

The proceeds raised under this Offering Statement are intended to be used for costs associated with the acquisition, ownership, and renovation of the first property of the Co-operative.

GOVERNANCE

Union's membership is comprised of two membership groups: Community Members and Tenant Members. Both membership groups finance, own, and benefit from the Co-operative's assets. A requirement of membership in the Co-operative is that applicants live or work in Waterloo Region, or have a demonstrable relationship with Waterloo Region. Debenture holders are not permitted to become members.

GRANT SUPPORT

Union Co-operative has received \$183,400 in funding under the National Housing Strategy Solutions Labs, a program delivered by the Canada Mortgage and Housing Corporation (CMHC); \$45,143 from the Government of Canada's Investment Readiness Program, and \$46,500 from a project funded by Social Sciences and Humanities Research Council of Canada's College and Community Social Innovation Fund. As of the date of the Offering Statement, grants have covered most of the Co-operative's start-up costs.

DISSOLUTION OF THE CO-OPERATIVE

The articles place restrictions on the distribution of the Co-operative's assets on dissolution. After the payment of all debts and liabilities, and the redemption of shares at par value, the remaining assets of the Co-operative shall be distributed to one or more qualified donees. The by-laws place additional restrictions on the sale and distribution of the Co-operative's assets. Additional steps may be taken at the discretion of the Board of Directors to further enforce the asset lock.

RISKS

Investments in the Co-operative do not offer a risk-adjusted rate of return. The Co-operative is targeting social investors who are willing to accept a lower financial return and increased risks, in exchange for the possibility of non-financial social returns, such as the affordability of rents. The mission, business model, articles, and by-laws of the Co-operative intentionally limit the potential for speculative gains on the Co-operative's future real estate assets. Investing in Membership Shares; Class A, Series 1 Preference Shares; Subordinate Secured Debentures (Series 2021); and Unsecured Debentures (Series 2021) involves a high degree of risk. Investors may not receive any return on their investment and could lose some or all of their investment. See *Section 7* of the Offering Statement for material risks not included in this Information Sheet.

IMPORTANT DISCLAIMER NOTICE

Investing in Union Co-operative involves risks. This document does not provide full disclosure of all material facts relating to the securities offered, and does not contain all of the information that a prospective investor may need in order to evaluate an investment in the securities of Union Co-operative. Investors must read the Offering Statement (received May 20, 2021) for disclosure of those facts, especially risk factors relating to the securities offered, before making an investment decision.

CCO.COOP

CONSEIL DE LA
COOPÉRATION
DE L'ONTARIO



COOPERATION
COUNCIL OF
ONTARIO