Improving Capital Raising Exemptions for BC Co-operatives

Proposal: Amend BC Instrument 45-530 to

COMMUNITY IMPACT INVESTMENT COALITION OF BRITISH COLUMBIA

a. Increase the $5,000 cap per investor by raising to a higher maximum, or by allowing a $5,000 maximum contribution per 12-month period,

b. remove the 12 month membership requirement for purchasing investment shares,

c. Consider increasing the maximum number of investors, currently capped at 150 and

d. Consider adding Community Investment Co-ops to the list of Eligible Business Corporations. This would allow an investor tax credit using the existing Venture Capital Program.

Co-operatives are democratic corporations with considerable investor protections and director accountability mechanisms built into the legislation under which they are incorporated. Because each member has only one vote no matter how many shares they hold, co-ops are unattractive vehicles for anyone seeking to take advantage of small investors.

BC Co-ops have a special exemption from the prospectus and registration requirements under BC Securities laws. That exemption has not been changed since its introduction in 2001, and requires updating to meet current circumstances. A couple of minor changes would make it a more useful exemption for co-operatives whilst providing sufficient protection for investors. Loosening the red tape would permit investors to make the choice to invest their own funds in their communities.

Under the current exemption, BC co-ops can issue any number of membership shares as long as no individual invests in excess of $5,000. For investment shares, there are two additional requirements: the co-op must have no more than 150 members in BC (excluding full-time employees), and the purchaser must have been a member of the co-op for at least 12 months (or since its inception, if the co-op has existed for less than 12 months). If a co-op had exactly 150 members, each of whom invested the maximum of $5,000, it could raise $750,000 from the combination of membership share and investment share issuances. In practice, that is unlikely.

The limit of $5,000 per investor was intended to limit risk. The number has not been changed since 2001, since when the consumer price index has risen by over 30% and the cost of British Columbia real estate has multiplied. The administrative costs associated with small investment amounts are inefficient and frustrating. A higher limit would not significantly increase investor risk.

The time requirement is also a deterrent; co-operatives seeking to raise capital from their members to undertake projects cannot be expected to wait more than a year, and investors do not want to wait a year before investing due to this technicality. There is no evidence that this waiting period advances investor protection; in fact, it may be counterproductive because it makes it harder for co-operatives to respond nimbly to business opportunities. Removing this would get rid of a significant barrier to investor choice.

These changes would increase the retention and circulation of British Columbian’s hard earned money in our own Province. This will lead to meaningful job creation, increased provincial tax revenues and local wealth and resiliency. Link to the discussed securities exemption can be found here:
https://www.bcsc.bc.ca/Securities_Law/Policies/Policy4/45-530_Exemptions_for_securities_issued_by_a_cooperative_association__BCI_/

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