

## 2.1.2 Angellist, LLC and Angellist Advisors, LLC

### Headnote

OSC LaunchPad initiative – Application for relief from certain registrant obligations contained in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and from the prospectus requirement set forth in section 53 of the Securities Act (Ontario) – Filers proposing to operate novel online platform for accredited investors with experience in venture capital and angel investing and start-ups that primarily operate in the technology sector – relief granted subject to certain terms and conditions set out in the decision – decision is time-limited to allow the firm to operate in a test environment and will expire in two years – decision may be amended by the Commission on written notice to the Filers – relief granted based on the particular facts and circumstances of the application with the objective of fostering capital raising by innovative start-up businesses in Canada – decision should not necessarily be viewed as a precedent for other filers in Ontario or in other jurisdictions.

### Applicable Legislative Provisions

#### Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 53, 74.

#### Instrument Cited

National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, ss. 12.10(2), 13.2(2)(c)(i), 13.3, 13.16, 14.2(2)(i), (j) and (k), 15.1 and Division 5.

October 24, 2016

**IN THE MATTER OF  
THE SECURITIES LEGISLATION OF  
ONTARIO  
(the “Jurisdiction”)**

**AND**

**IN THE MATTER OF  
ANGELLIST, LLC  
 (“Angellist”)**

**and**

**ANGELLIST ADVISORS, LLC  
 (“ALA”, collectively with Angellist, the “Filers”)**

**DECISION**

### Background

The Ontario Securities Commission (**Commission**) has established a pilot program (**OSC LaunchPad**) to assist innovative businesses, particularly financial technology (**fintech**) and start-up companies, understand the securities regulatory environment, how the regulatory framework applies, and how to register their businesses in Ontario. The Commission recognizes that to keep abreast of and facilitate innovation, an environment to test novel business models, products and services is required. Additionally, the Commission also recognizes that some new businesses may have limited experience in dealing with securities regulators. In working with these types of businesses, OSC LaunchPad allows for a flexible approach to addressing regulatory requirements applicable for these businesses while ensuring appropriate investor protection.

The Filers have been engaged in discussions with the Commission about becoming registered for a test period of two years in light of the novel nature of their business. The Filers operate an online platform that offers a number of services to start-up businesses that operate primarily in the technology sector (**Start-ups**), including services to facilitate venture capital and angel investing in Start-ups that meet certain criteria. The Filers offers these services through a business model that reflects the business requirements of the venture capital and angel investing community it serves. An investor must actively seek to join the Filers’ platform and, in addition to being an accredited investor (as defined in section 73.3(1) of the *Securities Act* (Ontario)), must also have prior experience in venture capital and angel investing, such that they have an understanding of the risks of

investing in Start-ups, through the platform. The Filers do not hold or handle money or assets of investors or Start-ups. AngelList is responsible for operating the online platform and ALA facilitates the syndication of offerings through the platform.

Pursuant to the OSC LaunchPad initiative, the Filers have approached the Commission regarding the registration of ALA as a restricted dealer. In conjunction with ALA's application for registration, ALA is seeking relief from certain requirements under securities legislation of the Jurisdiction. This decision (the **Decision**) should not be viewed as a precedent for other filers in Ontario or in other jurisdictions.

### **Relief from registrant obligations**

1. The Filers have applied for a decision of the Director under the securities legislation of the Jurisdiction (the **Legislation**) pursuant to section 15.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) for exemptive relief for ALA from the following:
  - (a) the requirement in subsection 12.10(2) [*Audited financial statements*] of NI 31-103 that the annual financial statements delivered to the regulator must be audited (the **audited financial statement requirement**);
  - (b) the requirement in subparagraph 13.2(2)(c)(i) [*Know-your-client*] of NI 31-103 that a registrant must take reasonable steps to ensure that it has sufficient information regarding the client's investment needs and objectives (the **know-your-client requirement**);
  - (c) the requirement in section 13.3. [*Suitability*] of NI 31-103 that a registrant must take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, the purchase or sale is suitable for the client (the **suitability requirement**);
  - (d) the requirement in section 13.16 of NI 31-103 [*dispute resolution service*] that a registered firm have a certain dispute resolution service provider (the **dispute resolution requirements**); and
  - (e) the requirement to deliver the disclosure and reporting requirements in paragraphs 14.2(2)(i), (j), and (k) [*Relationship Disclosure Information*] and 5 [*Reporting to clients*] of Part 14 of NI 31-103 (the **disclosure and reporting requirements**) (together with the preceding paragraphs, referred to as the **Registrant Obligations Relief Sought**),

provided that ALA ensures only Quality Investors (as defined below) access the Restricted Services (as defined below) and registration is limited to two years from the date of this Decision.

### **Prospectus Relief**

2. ALA has applied for a ruling of the Commission pursuant to section 74(1) of the *Securities Act* (Ontario) (the **Act**) for exemptive relief from the prospectus requirement set forth in section 53 of the Act in connection with distributions by ALA to Quality Investors (as defined below) who acquire securities of syndicates through the platform (as described in this Decision) (the **Prospectus Relief Sought**).

### **Interpretation**

1. For the purposes of this Decision:
  - (a) **Approved Incubator Program** means an incubator, accelerator, Technology Transfer Office or similar organization that meets all of the following criteria:
    - a. has a program for Start-ups and the program has been delivered for at least two years;
    - b. receives funding from (A) a federal, state, provincial/territorial, or municipal government or a crown corporation or a government-owned corporation or authority, or (B) an accredited university or college;
    - c. has a competitive application process with clear criteria to select Start-ups for the program;
    - d. reviews the founders and other key individuals involved in the Start-up to ensure they meet the criteria for admission into the program;
    - e. provides entrepreneurial advice and mentorship support over a reasonable period of time; and

- f. in respect of which ALA has received the [approval from staff of the Commission](#) that the organization qualifies as an “Approved Incubator Program”.
- (b) **Credible Investor** means an investor that meets one of the following criteria:
- a. a Venture Capital Fund that has at least \$10 million in assets under management; or
  - b. an individual investor who has led or participated in at least five investments in a Start-up, of which at least two of those Start-ups have completed a Successful Liquidity or Financing Event; or
  - c. is an Experienced Founder.
- (c) **Eligible Canadian Start-up** means a Start-up that is operating from or doing business in Canada where either a. or b. applies:
- a. (i) the start-up is incorporated or organized under the laws of Canada or any jurisdiction of Canada, (ii) the head office of the start-up is located in Canada, and (iii) at least 25% of the directors and 25% of the Executive Officers or founders of the start-up (or at least one director and one Executive Officer or founder, if there are less than four directors and less than four Executive Officers or founders, respectively) reside in Canada; or
  - b. at least 25% of the consolidated payroll of the Start-up and its subsidiaries is for employees and consultants who reside in Canada.
- (d) **Executive Officer** means an individual who is:
- a. a chair, vice-chair, or president,
  - b. a vice-president in charge of a principal business unit, division or function including sales, finance, production, technology or engineering, or
  - c. performing a policy-making function in respect of the issuer.
- (e) **Experienced Founder** means a founder of a Start-up who has:
- a. management, product or engineering experience, typically with the title of “director” or equivalent, at a large technology company (500+ plus employees), or
  - b. co-founded, or served at the vice-president level or above of (in either case, with executive responsibilities), a Start-up that has achieved a Successful Liquidity or Financing Event.
- (f) **Quality Investor** means an accredited investor (as defined in section 73.3(1) of the Act) who has been determined by ALA’s procedures, as described in paragraphs 57 to 59, to have sufficient experience in venture capital and angel investing.
- (g) **Successful Liquidity or Financing Event** means:
- a. an initial public offering (IPO);
  - b. an acquisition of all or substantially all the securities or assets of the Start-up; or
  - c. the completion of a follow-on round or “up round” of venture capital or angel financing for the Start-up involving external investors to the Start-up at that time, at a valuation in excess of the Start-up’s previous round of financing or that triggered the automatic conversion of previously issued debt or equity securities. (For example, a Series Seed round to a Series A round.)
- (h) **Technology Transfer Office** means an office at a university with an academic research program or at a research institute that is established to handle the intellectual property and licensing rights for faculty and student investors.

- (i) **Venture Capital Fund** means:
- a. In the United States (**U.S.**), shall mean a “venture capital fund” as defined in Rule 203(l)-1 under the *Investment Advisers Act of 1940*; and
  - b. In Canada, a venture capital fund that focusses primarily on venture capital or angel investing, and that is a non-individual permitted client.
2. Terms used in this Decision that are defined in the Act or National Instrument 14-101 *Definitions (NI 14-101)*, and not otherwise defined in the Decision, shall have the same meaning as in the Act or NI 14-101, as applicable, unless the context otherwise requires.

### Representations

This Decision is based on the following facts represented by the Filers:

#### *The Filers*

3. ALA has applied for registration as a restricted dealer in Ontario pursuant to section 25(1) of the *Securities Act* (Ontario) (the **Act**) and NI 31-103.
4. ALA is a limited liability company formed under the laws of the state of Delaware. ALA is a subsidiary of AngelList, a limited liability company formed under the laws of the state of Delaware. A minority interest in ALA is held by AngelList EI, LLC (which is wholly-owned by employees of ALA or ALA's affiliates). The head offices of the Filers are in San Francisco, California, United States of America.
5. ALA is an “exempt reporting adviser” in the U.S. ALA relies on an exemption from U.S. Securities and Exchange Commission (**SEC**) investment adviser registration requirements under sections 203(l) [*venture capital fund adviser exemption*] of the *Investment Advisers Act of 1940* and related rules. As an exempt reporting adviser, ALA is subject to oversight by the SEC, including the requirement to pay fees to the SEC, to report annually certain information to the SEC and to have policies regarding the dissemination of material, non-public information and anti-fraud measures. ALA is also subject to review by the SEC.
6. The Filers are not registered as broker-dealers with the SEC under U.S. federal securities laws. The Filers rely on a no action letter issued to them by the SEC dated March 28, 2013 regarding the scope of their permitted activities in the U.S. without registering as broker-dealers in accordance with section 15(b) of the *Securities Exchange Act of 1934*. The Filers also rely on the no action letter issued to FundersClub Inc. and FundersClub Management LLC by the SEC dated March 26, 2013 with respect to their activities as an exempt reporting adviser. The Filers also rely on section 201(c) of the JOBS Act.
7. AngelList Ltd., an affiliate of the Filers, is authorized by the Financial Conduct Authority to carry on the following limited regulated activities in the United Kingdom: arranging (bringing about) deals in investments, dealing in investments as agent, and making arrangements with a view to transactions in investments. Through a passport process, AngelList Ltd. is permitted to carry out its permitted activities to countries in the European Economic Area.
8. The Filers wish to offer certain of the services (as described below) to issuers and investors in Ontario. As these services will involve the facilitation of trades in securities of issuers to Quality Investors for the purposes of venture capital and angel investing, ALA wishes to become registered as a restricted dealer in accordance with Ontario securities law. As the Filers' business model is novel in Canada, ALA's registration will be for an initial test period of two years.
9. Although the Filers are initially seeking registration and relief from certain registrant obligations and prospectus requirements in Ontario, the Filers may, at a later date, propose to allow Quality Investors and issuers resident in other Canadian jurisdictions to access the Restricted Services (as defined below). Prior to allowing Quality Investors and issuers in another Canadian jurisdiction to access the Restricted Services, the Filers will apply for and obtain registration as a restricted dealer in that jurisdiction and obtain any required prospectus relief as required by the regulator or securities regulatory authority in that jurisdiction.
10. The Filers are not in default of securities legislation in any province or territory in Canada, subject to the matter to which this Decision relates. The Filers are in compliance in all material respects with U.S. and U.K. securities laws.

11. The Filers do not currently prepare financial statements that are audited. During the two year period to which this Decision relates, the Filers will be working towards providing the Commission with annual financial statements audited in accordance with U.S. generally acceptable accounting principles and standards.

**Services**

*Public Services*

12. AngelList operates an online networking website (the **Platform**) that allows start-ups, accelerators, incubators, angel investors and other individuals in the start-up sector (together, the **Participants**) to connect with each other and to raise their profile in the start-up community. The Platform is primarily aimed at technology or technology-enabled Start-ups.
13. Any Participant can post a profile on the Platform that contains general information about itself, including, as applicable, its products or services, and its management team (a **Profile**). A Profile is publicly available to anyone accessing the Platform. A Start-up may also post confidential information and grant access only to certain Participants.
14. After setting up a Profile, a Participant may request a connection by visiting another Participant's profile (the **Connection Services**). AngelList will confirm the relationship between the Participants. A verified connection is required in order for a Participant to send other Participants a message or request an introduction to other Participant's connections.
15. Any Start-up can also post job openings on the Platform and seek applicants from Participants on the Platform for such job openings (the **Recruiting Services**) (together with the Connection Services, the **Public Services**).

*Restricted Area and Restricted Services*

16. The Platform includes a password protected area (the **restricted area**). Participants must apply to enter the restricted area, and ALA only permits accredited investors to enter the restricted area.
17. Once Participants have been approved for access to the restricted area, they may further apply to access certain services, which are referred to below as **Restricted Services**. ALA only permits Quality Investors to access the Restricted Services. Based on the Filers' experience in the United States, approximately 30% of U.S. accredited investors that apply to access the Restricted Services meet ALA's Quality Investor standard and are approved to use the Restricted Services.
18. The Restricted Services consist of the following:
  - a. ALA allows both Start-ups and Lead Investors (as defined below) the ability to raise money for a specific Start-up by forming a syndicate of investors through the Platform (the **Syndicate Services**).
  - b. ALA provides a transaction update email (the **Transaction Update**) to Quality Investors. ALA has an algorithm that uses objective criteria to identify Start-ups seeking to raise capital from a syndicate of investors and provides a list of these Start-ups to Quality Investors who request this information.
  - c. ALA offers a program for Quality Investors who plan to invest over USD\$600,000 through the Platform (the **Professional Investor Program**). Under this program, ALA introduces these Quality Investors to Start-ups that do not wish to make it known publicly that they are raising capital through a syndicate.
19. In the U.S., accredited investors who are not Quality Investors may invest in diversified funds created by ALA (referred to as **Funds**) that invest in a wide variety of syndicates on the Platform. ALA is seeking registration only as a restricted dealer. ALA may, at a later date, wish to offer Ontario investors the opportunity to invest in the Funds. Prior to allowing Ontario investors the opportunity to invest in the Funds, ALA will apply for and obtain registration as required by the Commission.

*Services to be Offered in Canada*

20. AngelList proposes to make the Public Services available to investors.
21. ALA proposes to make the Syndicate Services available to:
  - a. Start-ups and Lead Investors (described below), and

b. Quality Investors,  
subject to certain restrictions set out below.

22. ALA will make the Professional Investor Program available to Quality Investors who qualify as a “permitted client” as defined in section 1.1 of NI 31-103.

*Syndicate Services*

23. Syndicates can be formed by the founder or management of a Start-up itself or by an investor who is investing in a single Start-up, who wishes to make this investment opportunity available to other investors (co-investors) on the same terms and conditions, and who has been reviewed and approved by ALA as described in paragraphs 61 to 68 (a **Lead Investor**). Each syndicate only invests in securities of a single Start-up (a **syndicate**).

24. A Start-up or Lead Investor requests approval from ALA to establish the syndicate.

25. ALA reviews the request from the Start-up or Lead Investor and determines whether to allow the Start-up or Lead Investor to form a syndicate. In reviewing a request to form a syndicate, ALA reviews the Start-up for the following features:

- a. Whether the Start-up is a growth-oriented technology or technology-enabled company that has the potential to develop into a large stand-alone business;
- b. Whether the Start-up is focused on a product or service that will provide social, economic or environmental benefits or that is likely to meet a strong market demand; and
- c. Whether, in ALA’s opinion, the Start-up is likely to appeal to Quality Investors.

26. ALA will not permit reporting issuers or any public company in any other jurisdiction to form a syndicate on the Platform.

27. If ALA grants approval to form a syndicate, the Start-up or the Lead Investor, as applicable, completes and posts an investor note (the **investor note**) about the syndicate on the restricted area of the Platform. The investor note contains factual information about the proposed capital raise, the Start-up to be invested in, any co-investors, the risks associated with investing in the Start-up, past financing of the Start-up, and other key investment terms and conditions.

28. Interested Quality Investors may conduct due diligence on the Lead Investor and/or the Start-up. Quality Investors use their own judgement whether to invest in a syndicate.

29. Neither ALA nor the Lead Investor nor the Start-up:

- a. provide specific recommendations or advice to particular Quality Investors about the suitability of an investment in a syndicate; or
- b. recommend or solicit any particular purchase or sale by a Quality Investor of a syndicate’s securities.

30. Interested Quality Investors may submit non-binding requests for additional information through the Platform to either the Start-up or Lead Investor about the Start-up that is being syndicated.

31. If there is sufficient interest to proceed with closing the investment in the syndicate, ALA establishes a special purpose entity (**SPE**) to accept the funds from committed investors and to acquire the Start-up’s securities. The SPE formed to invest in the Start-up is required under U.S. securities law to have 99 or fewer investors. For investments in Eligible Canadian Start-ups, for tax reasons Canadian investors may be aggregated into a parallel Canadian SPE. The parallel Canadian SPE will otherwise invest on identical terms and conditions to a standard SPE.

32. ALA has engaged an arms’ length consulting and fund administration firm (the **SPE Manager**) to provide administrative services in relation to the SPEs. On behalf of ALA, the SPE Manager handles the formation and organization of each SPE, certain closing procedures for the syndicate investments, securities filings, ongoing administration, and winding up the SPE where applicable.

33. The first time a Quality Investor makes a syndicate investment, prior to closing of that syndicate, the Quality Investor is asked to confirm his or her interest in investing in Start-ups generally, and to acknowledge a series of risk warnings including warnings as to risk of total loss of the investment, illiquidity of the securities and dilution risk, and the need for

the Quality Investor to conduct his or her own due diligence on the Start-up. Detailed risk warning acknowledgements are not obtained from Quality Investors on subsequent investments; however, certain risks are acknowledged upon each Quality Investor's acceptance of the provisions of the Closing Documents (as defined below).

34. For each syndicate investment, prior to closing that syndicate, the Quality Investor is also asked to reconfirm its accredited investor status. If a Quality Investor indicates that its status has changed such that it is no longer an accredited investor, the investor is not permitted to invest in the syndicate and is not permitted to access to the restricted area of the Platform. Quality Investors electronically agree to and sign the SPE's closing documents on the Platform and are provided with wire instructions for their investment amounts.
35. After a Quality Investor commits to making an investment in a syndicate, the Quality Investor receives the following documents: the SPE's operating or limited partnership agreement, the SPE's private placement memorandum, the subscription or purchase agreement for the purchase of securities of the SPE, an investor statement (which is a screen confirming how much the Quality Investor invested in the SPE and the corresponding investment in the Start-up as of the specific date), a signature certificate (which is a screen showing the investor that documents have been digitally signed and a digital fingerprint provided for security reasons) and the investor note (collectively, the **Closing Documents**). The SPE Manager will retain the Closing Documents for eight years.
36. Either the Filers or SPE Manager will deliver electronically to the Commission any of the Closing Documents that constitute an offering memorandum under the Act. The Filers will inform the Start-up that the Start-up must deliver electronically to the Commission a copy of any document that constitutes an offering memorandum under the Act provided to Ontario investors that has not already been delivered to the Commission by the Filers or SPE Manager.
37. Prior to closing a syndicate, ALA uses a third party service (such as Blockscore or Jumio) to verify the identity of each Quality Investor. ALA also runs anti-money laundering and terrorist financing checks. The verification process and anti-money laundering and terrorist financing checks are performed on both individual and non-individual Quality Investors (entities). For non-individual Quality Investors, the Filers contact the investor by email to determine the identity of the individual principal(s) of the Quality Investor. AML and terrorist financing checks are performed through a politically exposed person (**PEP**) list and/or Office of Foreign Assets Control (**OFAC**) list search. Similar verification processes and checks will be performed for Ontario investors.
38. ALA conducts a review of each Start-up's constating documents and Closing Documents to ensure they are consistent with the information in the Profile and the investor note, the results of any background checks and any accompanying materials or information provided to it by an investor, the Lead Investor and/or the Start-up and determines if the Closing Documents are complete, consistent and not misleading. If it appears to ALA that the Closing Documents are incomplete, inconsistent or misleading, ALA will require the Closing Documents to be corrected, made complete, or clarified.
39. Neither the Filers nor the SPE holds, handles or controls any investor or issuer funds. The funds are held by and deposited in a single trust account that has been established by a FDIC-member U.S. bank in the name of the bank for the benefit of investors investing through the Platform. The Filers do not intermingle their own monies in this account.
40. Once all expected funds have been received by the bank, the bank notifies ALA. ALA then issues advice to the bank to initiate funds transfer to the Start-up.
41. All Quality Investors in the syndicate are e-mailed to inform them that the SPE investment, and the investment by the SPE in the Start-up, is finalized and to provide them with a copy of the final Closing Documents.
42. The Filers will utilize the same bank and procedures for investments in Eligible Canadian Start-ups completed on the Platform. Although initially the Platform will only support transactions denominated in U.S. dollars, the Filers plan to support transactions in Canadian dollars and utilize Canadian banking services as required for transactions in Canadian dollars.
43. Quality Investors have access to an individual account on the Platform where they may view information about the transaction and access copies of the Closing Documents. The Closing Documents will be retained and made available to Quality Investors through the Platform for at least eight years.
44. For their role in a syndicate, ALA and the Lead Investor will only receive compensation equal to a portion of the increase in value, if any, of the investment as calculated at the termination of the investment in the SPE (the **Carried Interest**), and will not receive any transaction-based compensation. None of the Filers, the Lead Investor, nor any of their officers or directors receive any other form of commission or transaction-based compensation related to the Restricted Services, including the Syndicate Services.

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45. ALA requires that each investor in a syndicate pay a portion of the costs associated with the closing of the syndicate investment (such as legal fees) in proportion to the investor's investment in the Start-up.
46. Neither the syndicate nor the SPE borrows funds from investors or the public for any reason. The syndicate, the SPE and the Filers do not loan money or extend margin to investors that wish to invest in a Start-up through a syndicate.
47. The Filers do not facilitate any secondary trading of previously issued securities, whether originally issued through a syndicate or otherwise.

### *Professional Investor Program*

48. ALA is involved with a number of syndicates in which the Start-up does not wish to disclose publicly that it is seeking funding (the **Private Syndicates**).
49. These Private Syndicates are only made available to Quality Investors who:
  - a. intend to invest over USD\$600,000 in syndicates through the Platform;
  - b. invest, on average, at least USD\$50,000 per month in syndicates;
  - c. sign a non-disclosure agreement with ALA; and
  - d. are able to make investment decisions in a timely manner.
50. ALA has automated functionality that matches between one to five Private Syndicates with the Quality Investor's selected objective criteria, based on filters that the Quality Investor selected when the Quality Investor signed up for the Professional Investor Program.
51. ALA provides the list of Private Syndicates to the Quality Investor.
52. The Quality Investor conducts its own due diligence on the Start-up of the Private Syndicate.
53. The Quality Investor will make its own decision as to which Private Syndicate to invest in. The same investment procedures that are used for a typical syndicate also apply to a Private Syndicate.
54. There are no fees for participating in the Professional Investor Program.

### **Participants**

#### *Investors*

55. When opening an account with AngelList, each investor provides the Filers with the following information:
  - a. The category of accredited investor the investor meets, which for Ontario investors will correspond to the definition of accredited investor in section 73.3(1) of the Act;
  - b. The amount the investor has budgeted for investing in Start-ups on the Platform;
  - c. The investor's net worth band (e.g., > \$1 million, > \$2 million, > \$5 million, with currency being denominated in U.S. dollars). For Canadian investors, bands will be denominated in Canadian dollars;
  - d. The proportion of the investor's net worth that the investor's budget for investing in Start-ups represents; and
  - e. The investor's experience in investing in Start-ups or working for or with private equity firms and venture capital firms and the investor's connection to other investors and Start-ups on the Platform.

The above-listed information is retained on the Platform by the Filers for 8 years.

56. In addition to providing the information in paragraph 55, each investor acknowledges the following risks associated with investing in Start-ups generally when signing up to access the Public Services and Restricted Services:
  - a. Risk of loss of an investor's entire investment in a Start-up;

- b. Illiquidity risk;
- c. No due diligence of a Start-up is conducted by the Filers;
- d. Dilution risk;
- e. Risk of change in the Start-up's plans, markets and products; and
- f. No recommendation or advice is provided by the Filers to the investor.

In addition:

- g. Prior to making an investment, the investor must acknowledge that it will receive limited or no initial or ongoing information about the investment; and
- h. The investor note will disclose any conflicts of interest that may exist.

The above-listed information is retained on the Platform or by ALA for 8 years.

57. ALA assesses each investor's experience and knowledge with respect to venture capital and angel investing based upon the following information:
- a. The investor's previous venture capital and angel investments and the size of those investments (as declared by the investor);
  - b. The investor's connections to other founders and investors, and ALA's assessment of those founders and investors; and
  - c. ALA's judgement about an investor's previous venture capital and angel investing experience with other top investors and the investor's reputation.
58. Using a computer algorithm, ALA rates each investor on a scale of one to ten based on the information provided by the investor (a **Quality Investor Score**). Only investors with a Quality Investor Score of at least 6.5 out of 10 are approved by ALA as "quality investors" (**Quality Investors**). In order to access the Restricted Services an investor must first be approved as a Quality Investor.
59. ALA does not initially approve an investor if the investor has an initial Quality Investor Score of less than 6.5 out of 10 or if the investor has indicated that he or she plans to invest more than 9% of his or her net worth in Start-ups. ALA may conduct a further review of these investors who are not initially approved. If ALA's manual review of the investor discloses information which would materially increase the investor's Quality Investor Score (for example, the investor has significant venture capital or angel investing experience that was not reflected on its profile on the Platform), the investor may be approved as a Quality Investor and permitted invest in syndicates through the Platform.
60. In Canada, accredited investors (as defined in section 73.3(1) of the Act) that are not Quality Investors will not be permitted to invest in syndicates through the Platform and will not be permitted access to the Restricted Services.

*Lead Investors*

61. Only accredited investors (as defined in section 73.3(1) of the Act) can apply to be Lead Investors. ALA retains the right and full discretion to determine whether a person may act as a Lead Investor.
62. ALA reviews a potential Lead Investor for previous experience related to venture capital and angel investing by reviewing the Lead Investor's activity on relevant social media and other websites (such as Crunchbase and Google).
63. ALA also reviews references provided by each Lead Investor related to the Lead Investor's prior Start-up investments.
64. If ALA is not satisfied that a Lead Investor has sufficient knowledge and experience related to Start-up and/or venture capital investing, ALA will also consider whether there is a Credible Investor involved in the syndicate and who is investing on the same terms and conditions as the investors in the syndicate.
65. Where ALA approves a Lead Investor to form a syndicate, ALA requires each Lead Investor to sign an agreement with ALA. For so long as the Lead Investor has an interest in the Start-up that the Lead Investor has syndicated, this agreement requires, among other things, the Lead Investor:

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- a. To assist ALA and the SPE Manager as necessary to allow ALA and the SPE Manager to comply with applicable regulatory requirements pertaining to the syndicate and the investment in the Start-up,
  - b. To provide ALA with information about the Start-up as required by ALA or the SPE Manager to service the syndicate, and
  - c. To provide ALA with written notice of certain events, including subsequent investment in the Start-up by the Lead Investor, sale or transfer of the Lead Investor's securities in the Start-up, and how the Lead Investor has voted.
66. Lead Investors are required to disclose all conflicts of interest to ALA and to potential Quality Investors. Conflicts of interest that must be disclosed include whether the Lead Investor invested in previous round of financing by the Start-up, is an employee or officer of the Start-up, or has family members working at the Start-up, any other circumstances judged by ALA to constitute conflicts or potential conflicts.
67. The Lead Investor invests either directly with the Start-up or alongside other investors in the syndicate on the same terms and conditions as the investors in the syndicate.
68. Prior to the closing of the syndicate, ALA conducts a background check on the Lead Investor (through a third party service provider), including criminal record, securities regulatory, AML, terrorist financing, and economic and political sanctions watch-lists.

### *Start-ups*

69. ALA conducts background checks on the Start-up and each officer and director of the Start-up (through a third party service provider) before the close of a syndicate.
70. The background checks conducted by ALA include: criminal record, securities regulatory, AML, terrorist financing, and economic and political sanctions watch-lists.
71. ALA does not permit a syndicate to close, if any of the Start-up, its president or chief executive officer has pled guilty to or has been found guilty of an offence related to or has entered into a settlement agreement in a matter that involved fraud or securities violations or if the Start-up is bankrupt.

### **Additional Requirements**

72. Ontario investors will only be permitted to invest in a Start-up that seeks to raise capital through a syndicate on the Platform in one of the following circumstances:
- a. **Permitted Clients.** Ontario investors who qualify as permitted clients (as defined in section 1.1 of NI 31-103) and who waive the requirement for ALA to conduct a suitability assessment, in accordance with subsection 13.3(4) of NI 31-103, may invest in any syndicate on the Platform and participate in the Professional Investor Program.
  - b. **The Start-up is participating in or within the past 24 months has successfully completed an Approved Incubator Program.** Ontario Quality Investors may invest in syndicates where the Start-up is an Eligible Canadian Start-up that is participating in or has successfully completed an Approved Incubator Program.
  - c. **Other Start-ups – Subject to limits on the number of Ontario Quality Investors.** Over the two-year period that this Decision relates to, up to a maximum of 500 Ontario Quality Investors may invest in one or more syndicates that meet one of the following criteria:
    - i. The founder of the Start-up is an Experienced Founder.
    - ii. Either the Lead Investor of the syndicate or at least one investor in the Start-up that the syndicate is investing in, other than the Lead Investor, is a Credible Investor, and the syndicate is investing in the Start-up on the same terms and conditions as the Credible Investor.
    - iii. The Start-up has, within the previous three years, received funding from a federal, state, provincial or territorial government program that supports small business or Start-ups as part of its mandate, such as Business Development Bank of Canada, BDC Capital, the Investment Accelerator Fund, Ontario Centres of Excellence, and the Federal Economic Development Agency for Southern Ontario.

The 500 Quality Investors limit is measured from the period commencing on the date of this Decision and ending on the expiry of this Decision.

**Decision**

The Commission and the Director are satisfied that the Decision meets the test set out in the Legislation for the Commission and the Director to make the Decision.

It is the decision of the Commission that the Prospectus Relief Sought is hereby granted, provided that all of the following conditions are met:

1. The Filers have their head office or principal place of business in the U.S. or Canada.
2. The Filers are in compliance with the no action letter relating to broker-dealer registration issued to them by the SEC dated March 28, 2013 and the no action letter has not been modified or revoked.
3. ALA is an exempt reporting adviser in the U.S.
4. The Filers ensure that securities of syndicates are only distributed to investors in Ontario in accordance with the terms, conditions, restrictions and requirements of the accredited investor exemption as set out in subsection 73.3(2) of the Act, including those prescribed by regulation, except the requirements in s. 2.3(6) and (7) of NI 45-106 to obtain and retain a signed risk acknowledgement in the prescribed form.
5. The Filers ensure that
  - a. The accredited investor status of each investor is verified when the investor first signs up to the Platform and verified again when the investor makes any investment through the Platform, and
  - b. Upon account opening, the investor acknowledges the risks as described above in paragraphs 55 and 56.
6. The Filers limit access to the Restricted Services to accredited investors (as that term is defined in section 73.3(1) of the Act) who are Quality Investors.
7. The Filers will immediately remove an investor from being able to access the Restricted Services if it knows or suspects that the investor is not an accredited investor (as defined in section 73.3(1) of the Act).
8. The Filers ensure that Ontario investors invest in syndicates through the Platform in accordance with paragraph 72.
9. The Approved Incubator Programs are NEXT Canada (previously known as The Next 36), Creative Destruction Lab, and any other Approved Incubator Program as approved by the Commission from time to time.
10. ALA notifies the Commission in writing at least 30 days prior to any material change in either Filers' business operations or business model, including any material addition to or material modification to the Restricted Services.
11. The Filers notify the Commission promptly in writing of any regulatory action, criminal charges, or material civil actions initiated after the date of this Decision in respect of the Filers or any specified affiliate (as defined in Form 33-109F6 *Firm Registration*) of the Filers.
12. This Decision shall expire two years after the date of the Decision.

"Monica Kowal"  
Vice Chair  
Ontario Securities Commission

"D. Grant Vingoe"  
Vice Chair  
Ontario Securities Commission

## Decisions, Orders and Rulings

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It is the decision of the Director that the Registrant Obligations Relief Sought is hereby granted, provided that all of the following conditions are met:

1. The Filers comply with the terms and conditions of the Decision with respect to the Prospectus Relief Sought.
2. otherwise exempted by a further decision of the decision maker, ALA must comply with all of the terms, conditions, restrictions and requirements applicable to a registered dealer and to a registered individual under Ontario securities laws, including the Act and NI 31-103, and any other terms, conditions, restrictions or requirements imposed by a securities regulatory authority or regulator on ALA.
3. The Filers will deal fairly, honestly and in good faith with Participants.
4. The Filers, any representatives of the Filers, any Lead Investors, and any Start-ups do not provide recommendations or advice to any investor or prospective investor on the Platform.
5. The Filers ensure Lead Investors of a syndicate invest in the Start-up on the same terms and conditions as the syndicate.
6. The Filers ensure that any Start-up that raises capital in Ontario through the Platform is not an investment fund and not a reporting issuer.
7. Neither ALA nor any Lead Investor will solicit investors, aside from the restricted area of the Platform itself.
8. Neither the Filers nor the SPE holds, handles or controls any investor or issuer funds.
9. Neither Filers permit any secondary trading of previously issued securities to take place on the Platform.
10. The only compensation that ALA and the Lead Investor receive for their role in a syndicate is Carried Interest and such compensation is disclosed to investors. None of the Filers, the Lead Investor nor any of their officers or directors receive any other form of commission or transaction-based compensation related to the Restricted Services, including the Syndicate Services.
11. ALA will disclose any conflicts of interest as described in paragraph 66 to investors in the syndicate.
12. The Filers will immediately remove a Start-up from the Platform, and the posting of any syndicate in relation to such Start-up, if:
  - a. Either Filer makes a good faith determination that the business of the Start-up may not be conducted with integrity because of the past or current conduct of the Start-up or of the Start-up's directors, executive officers or promoters; and
  - b. Either Filer becomes aware that the Start-up is not complying with applicable securities laws.
13. The Filers will immediately remove any Participant from the Platform or prohibit any person or company from accessing the restricted area of the Platform at the request of the Commission in the Jurisdiction.
14. In addition to any other reporting required by law, including Form 45-106F1 *Report of Exempt Distribution*, the Filers provide the following information to the Commission on a quarterly basis:
  - a. The name of each Start-up that has raised capital in Ontario through a syndicate on the Platform, the name of the associated SPE(s), whether the Start-up is an Eligible Canadian Start-up and the name of the Approved Incubator Program, and the total amount raised by the Start-up, and
  - b. The number of Ontario accredited investors that applied during the quarter to be approved as Quality Investors and the number who were approved by ALA as Quality Investors.
15. This Decision shall expire two years after the date of the Decision.
16. This Decision may be amended by the Director from time to time upon prior written notice to the Filer.

"Debra Foubert"  
Director  
Ontario Securities Commission