

Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 Token Funder Inc.

Headnote

CSA Regulatory Sandbox – Application for relief from the dealer registration requirement – Applicant proposing to launch an initial token offering by way of a private placement under the offering memorandum prospectus exemption – relief granted subject to certain conditions set out in the decision, including the completion of know-your-client and suitability, restrictions on listing and trading on cryptocurrency exchanges and quarterly reporting requirements – decision is time-limited to allow the Applicant to operate in a test environment and will expire in twelve (12) months – relief granted based on the particular facts and circumstances of the application with the objective of fostering capital raising by innovative businesses in Canada – decision should not necessarily be viewed as a precedent for other applicants in the jurisdictions of Canada.

Statute cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25, 74.

Instrument cited

Multilateral Instrument 11-102 Passport System, s. 4.7.

October 17, 2017

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

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
TOKEN FUNDER INC.
(the “Filer”)

DECISION

Background

The Canadian Securities Administrators have launched a regulatory sandbox to support financial technology businesses seeking to offer innovative products, services and

applications in Canada (the “CSA Sandbox”). The CSA Sandbox allows firms to obtain exemptive relief from the securities law requirements that may be an impediment to their innovative business models, provided that investor protection is not compromised.

In the context of the CSA Sandbox, the Filer submitted its business model and subsequently filed an application to be exempted from the dealer registration requirement. This Decision should not be viewed as a precedent for other filers.

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction of the principal regulator (the “Legislation”) for exemptive relief pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions* (“NP 11-203”) from the dealer registration requirement in the Legislation (the “Registration Relief”).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 – *Passport System* (“MI 11-102”) is intended to be relied upon in all of the provinces and territories of Canada.

Interpretation

Terms defined in National Instrument 14-101 – *Definitions* and MI 11-102 have the same meaning if used in this Decision, unless otherwise defined.

Representations

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

The Filer

1. The Filer is a blockchain business incorporated under the *Business Corporations Act* (Ontario) on November 14, 2016. Its head office is located in Toronto, Ontario.
2. All of the outstanding common shares of the Filer are held by Leading Knowledge Ltd., an Ontario corporation wholly-owned by Alan Wunsche.

3. The Filer was established for the purposes of creating a platform, known as the smart token asset management platform (the “**STAMP**”), which is intended to, among other things, facilitate third-party issuers raising capital through the offering of blockchain-based securities, including tokens and coins. In addition to facilitating issuances of blockchain-based securities, STAMP intends to, among other things, provide token and coin management and governance services for issuers and, subject to any regulatory approvals and/or exemptive relief required, provide for certain transferability of tokens and coins to ensure that a particular token or coin can achieve the access or use function for which it has been principally created. Also, subject to any regulatory approvals and/or exemptive relief required, the Filer intends the STAMP to operate as a platform to facilitate the raise of capital in accordance with National Instrument 45-106 – *Prospectus Exemptions* (“**NI 45-106**”) or as a crowdfunding portal pursuant to Multilateral Instrument 45-108 – *Crowdfunding*.
4. The Filer is proposing to complete a private placement of FNDR Tokens (as hereinafter defined) by way of an “initial token offering” (the “**Offering**”) to fund the completion of the STAMP and to facilitate subsequent transfers of FNDR Tokens pursuant to available prospectus exemptions.
5. The Filer will conduct know-your-client and a suitability review for each investor in the Offering. Each investor in the Offering will be required to undergo a comprehensive onboarding process, which will include the collection of information such its investment needs and objectives, financial circumstances and risk tolerance. This process will also include a survey to ensure the investor has a detailed understanding of cryptocurrency and digital token offerings. This will also require a detailed disclosure of personal information and corresponding electronic verification.
6. To fund the establishment of the STAMP and its ongoing working capital needs, the Filer will be creating 1,000,000,000 digital tokens through a smart contract on the Ethereum Blockchain (each a “**FNDR Token**”).
7. The Filer is not in default of securities legislation in any jurisdiction of Canada. Additionally, the Filer is not, and will not be as a result of the Offering, in default of securities legislation in any jurisdiction where it intends to offer FNDR Tokens.
8. The Offering will consist of the distribution of up to 200,000,000 of the 1,000,000,000 FNDR Tokens established by the Filer for total gross proceeds to the Filer of up to approximately CAD \$10,000,000 (depending on the exchange rate of Ether to Canadian dollars). The value of Ether, in respect of each subscription from an investor, will be determined at the time that such subscriber completes the onboarding process described in paragraph 5 above and is approved for participation in the Offering by the Filer. It will also be reconfirmed at the time that the subscription is completed to ensure that any applicable limit has not been exceeded. The Filer will take all reasonable measures to determine the value of Ether.
9. 100,000,000 FNDR Tokens will be held back by the Filer as payment currency for advisors in due course, including engineers, advisory board members and any other service provider that the Filer may determine it would be advantageous to compensate in this manner. Given the desire for many supporters of cryptocurrency to be compensated in this manner, this will enable the Filer to attract advisors to support the build-out of the STAMP. The remaining 700,000,000 FNDR Tokens created and not issued as a part of the Offering or reserved for advisors will be held back by the Filer for future financings and will be issued at such times as the Filer determines appropriate to fund the on-going operations of the Filer and development of the STAMP, subject to any regulatory approvals and/or exemptive relief required. It is not currently anticipated that any FNDR Tokens other than the FNDR Tokens issued to subscribers pursuant to the Offering will need to be issued.
10. The holders of the outstanding FNDR Tokens (other than the Filer) will share in the distributions from the Filer arising from the operation of the STAMP as set out in the Filer’s offering memorandum. These distributions will be made if and when the board of the directors of the Filer determines it can reasonably do so without adversely impacting the on-going operations of the STAMP.
11. Holders of FNDR Tokens will receive updates from management of the Filer regarding the milestones for development of the STAMP and any other material events concerning the business

The Offering

8. The Offering will be made pursuant to the offering memorandum prospectus exemption set out in Section 2.9 of 45-106 through the website of the Filer. For purposes of the Offering, it will be
12. Holders of FNDR Tokens will receive updates from management of the Filer regarding the milestones for development of the STAMP and any other material events concerning the business

of the Filer, including all disclosure required pursuant to NI 45-106 and other applicable securities laws, and annual audited financial statements. These updates will be provided to the e-mail addresses provided to the Filer by the holders of FNDR Tokens and periodic updates will be provided on the Filer's website. The other material terms of the FNDR Tokens are described in the Filer's offering memorandum to be provided to investors in connection with the sale of the FNDR Tokens. Holders of FNDR Tokens will not have any voting rights in respect of the Filer's governance or operational matters; however, holders of FNDR Tokens, other than the Filer, will have certain voting rights on the entities entitled to use the STAMP.

13. Immediately following the completion of the Offering, the Filer will use the proceeds of the Offering to fund its build-out and launch of the STAMP, including concurrently seeking to become a registrant pursuant to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and any exemptive relief that may be required. The STAMP will not be launched prior to the Filer becoming a registrant and obtaining any exemptive relief that may be required.

14. Each subscriber shall subscribe for FNDR Tokens through a digital smart contract established by the Filer and using the Ethereum Blockchain and may subscribe by the payment of Ether or Canadian dollars. The suitability analysis conducted by the Filer results in a limit assigned to the subscriber in the smart contract. This limit shall not exceed CAD \$2,500 unless an additional review is completed as described in paragraph 8 above. Proceeds from the Offering will be returned to subscribers in the event that a minimum of CAD \$500,000 is not raised in the Offering. The smart contract established for purposes of the Offering will not permit the Filer to receive any Ether proceeds from the Offering if less than CAD \$500,000 is raised in the Offering and it shall return such funds to the accounts provided by the subscribers for their digital currency (as applicable). Any Canadian dollar subscriptions will be held in an escrow account maintained by the Filer's legal counsel or an independent escrow agent and returned to subscribers if a minimum of CAD \$500,000 (or the Ether equivalent thereof) is not raised in the Offering.

15. Accordingly, the Registration Relief is being granted on the basis that:

(a) promptly upon the consummation of the Offering, the Filer will seek to become a registrant and will not facilitate any capital raising efforts by issuers through the STAMP in the absence of such registration;

(b) the Registration Relief is only being sought for a limited period of time;

(c) full and complete disclosure will be provided to all prospective investors in the FNDR Tokens through the Filer's offering memorandum, including audited financial statements required by applicable securities laws indicating all expenses incurred and paid or accrued by the Filer; and

(d) know-your-client and suitability reviews will be conducted by the Filer despite the granting of the Registration Relief.

Decisions

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Registration Relief sought is granted for a twelve (12) month period from the date of this Decision provided that the following conditions are met:

1. The Filer complies with the terms and conditions of this Decision with respect to the Registration Relief sought.
2. The Filer will conduct know-your-client and a suitability review for each investor and will determine for each investor who represents itself as either an eligible investor or an accredited investor, and who seeks to invest an amount exceeding CAD \$2,500, whether the investor is an eligible investor or accredited investor, as the case may be.
3. The FNDR Tokens issued in the Offering will not be listed and traded on any exchange, cryptocurrency exchange or organized market unless such listing and trading is done in accordance with applicable securities laws and approved in advance by the Ontario Securities Commission.
4. The Filer will deal fairly, honestly and in good faith with its investors.
5. The Filer will establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices, including with respect to the Ethereum Blockchain, cybersecurity and conflicts of interest between the Filer and its investors.
6. The Filer or any representatives of the Filer do not provide recommendations or advice to any investor in FNDR Tokens.

7. In addition to any other reporting required by securities laws, including Form 45-106F1 *Report of Exempt Distribution*, the Filer must provide to the Ontario Securities Commission, in a format reasonably acceptable to staff, (i) details of investor complaints received by the Filer within 10 days of any such complaint, and (ii) quarterly reporting (within 10 days of the end of each quarter) with sufficient information on the following:

- (a) average subscriber purchase amounts, indicating Canadian dollar amounts and Ether amounts;
- (b) regional subscriber purchase totals, indicating Canadian and global subscriber participation; and
- (c) such other information as the Director may reasonably request.

Notwithstanding the requirement to provide reporting within 10 days of each quarter, the Filer will provide the first report within 10 days of the earliest of (i) a capital raise of CAD \$10,000,000, (ii) the closing of the Offering, and (iii) three months from the date hereof.

8. This Decision shall expire twelve (12) months after the date of the decision.

9. This Decision may be amended by the principal regulator from time to time upon prior written notice to the Filer.

“Grant Vingoe”
Vice-Chair
Ontario Securities Commission

“William J. Furlong”
Commissioner
Ontario Securities Commission

2.1.2 Cheverny Capital Inc. and Cordiant Capital Inc.

Headnote

Relief under paragraph 4.1(1)(b) of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations a registered firm must not permit an individual to act as a dealing, advising or associate advising representative of the registered firm if the individual acts as dealing, advising or associate advising representative of another firm registered in any jurisdiction of Canada. These individuals will have sufficient time to adequately serve both firms. The firms have policies in place to handle potential conflicts of interest. The firms are exempted from the prohibition.

Applicable Legislative Provisions

Multilateral Instrument 11-102 Passport System, s. 4.7.
National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, ss. 4.1, 15.1.

October 16, 2017

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
QUÉBEC AND ONTARIO
(the Jurisdictions)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
CHEVERNY CAPITAL INC.
(Cheverny)

AND

CORDIANT CAPITAL INC.
(Cordiant) (the Filers)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Maker**) has received an application from the Filers for a decision under the securities legislation of the Jurisdictions (the **Legislation**) for relief from the requirement in paragraph 4.1(1)(b) of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registration Obligations* (**NI 31-103**) pursuant to section 15.1 of NI 31-103 to permit Jean-François Sauvé (**Sauvé**) and James Kiernan (**Kiernan**), (together, the **Representatives**) to be registered as dealing representatives of the Filers and to permit Kiernan to be