

SVX | SOCIAL VENTURE EXCHANGE



Social Venture Exchange (SVX)
An Initiative of Social Innovation Generation (SiG) at MaRS
MaRS Discovery District
101 College Street, Suite 100
Toronto, ON M5G 1L7

April 17th, 2011

Hawaii State Legislature
Senate Committee on Commerce and Consumer Protection
The Honourable Rosalyn Baker, Chair
The Honourable Brian Taniguchi, Vice -Chair
415 S Beretania St # 317
Honolulu, HI 96813-2407 United States

RE: SCR 134, REQUESTING THE CONVENING OF A WORKING GROUP TO INVESTIGATE THE CREATION OF A LOCALLY-FOCUSED, HAWAII-BASED STOCK EXCHANGE

Dear Chair Baker, Vice-Chair Taniguchi, and Committee Members,

On behalf of the Social Venture Exchange (SVX), an initiative of Social Innovation Generation (SiG) at MaRS in partnership with the TMX Group Inc., I would like to offer strong support to the proposed Senate Concurrent Resolution 134 (SCR 134). In order to provide a case for support, I would like to describe the emerging precedent of the SVX initiative and outline a number of compelling reasons for you to advance the development of a local exchange.

The SVX is a local, impact-first market connecting social ventures, impact funds, and impact investors in order to catalyze new investment capital geared towards improved social and environmental outcomes. We are focused on increasing access to capital for small and medium ventures (<\$25M revenues) with a prioritized mission and earned revenues including nonprofits, co-operatives, and businesses advancing social and/or environmental sustainability in Ontario. The SVX will list ventures seeking debt or equity financing of up to \$10M, from basic bonds to common shares, and impact funds pursuing financing up to \$50M. The SVX allows investors to share due diligence, collaborate on deals, identify and access high quality, screened investment opportunities with detailed information reducing their burden of due diligence.

After 18 months of determining feasibility and building our business plan, we will be officially beginning the first phase of our initiative this summer with the launch of our online, private platform for accredited investors. Our objective over the next three years will be to establish a fully regulated public exchange for local, impact-first ventures and investors.

There are many reasons for you to begin the process of building a similar model, in line with many of the compelling factors that are pressing us to act.

1. Small and medium sized enterprises (SMEs) have inadequate access to capital. It is clear that a large number of small and medium sized enterprises, particularly sustainable ventures, have significantly inadequate access to capital. Our market research on a small sample of 250 ventures showed a total of \$170M in capital demand, with a clustering of capital need of between \$250K to \$1M. This is a phenomenon that is not limited to Ontario, but is reflective of conditions in North America, and indeed, around the world. We are still feeling the effects of the tightening of credit markets in the wake of the recent financial crisis that had a further negative effect on access to capital for small business (*The Economist, Surviving the drought - Access to finance among small and medium sized enterprises, 2009*). A local exchange would be more resilient to global shocks, with particular focus on those SMEs that require access to capital. This capital would be deployed in a sector of your economy that drives economic development and job growth.

There are many reasons that smaller ventures have inadequate access to capital, from connectivity with networks and capital pools to the cost of acquiring capital. For example, the cost of raising capital on the mainstream capital markets can be prohibitive for small and medium sized enterprises. The cost to raise capital on the NYSE Euronext is an average of \$175,000, and it can be up to \$500,000 annually for listed companies. A local exchange would be much less costly for local ventures to access the necessary capital they require for growth, infrastructure, or general operations.

2. It is possible to efficiently apply existing technology, regulations, and rigorous listings processes to a local exchange. The ability to build, manage and maintain a local exchange today is far less costly than it would have been even a decade ago. The relatively low-cost and high functionality of web applications have allowed for the development of robust online platforms for private marketplaces, including SharesPost, CapLinked, and SecondMarket, and other markets for good including Kiva, MyC4, Microplace, and Kickstarter. A registered, or fully regulated market with appropriate controls and processes, under the auspices of your local securities commission could be remarkably successful. Our own local efforts have been significantly aided by the listings and regulatory expertise of our local exchange group (the TMX Group Inc.) and capital markets experts, which have allowed us to model rigorous listings requirements and processes providing appropriate controls at a much smaller scale. Although it will be a continual work in progress, the combination of readily adaptable technology, appropriate regulatory controls, and adapted listings processes can make your local exchange efforts both efficient and effective.

3. An exchange provides a powerful, trusted platform to connect ventures and investors in order to catalyze new capital towards the desired outcomes of social, economic and environmental development. If it realizes its full potential, an exchange provides a powerful, trusted intermediary function in your state's economy to connect those with a need for capital and those who have capital. The ultimate result of these new capital flows is in line with your state's interest to attract investment, create jobs, and ideally, advance positive social and environmental change. The local, and possibly sustainable or shared value, focus of your exchange effort will increase the level of resiliency of the resulting transactions, and hence, the resiliency and success of your local economy.

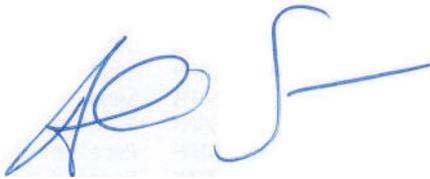
4. Other jurisdictions are supporting the development of local, impact-focused exchanges. Our work would not be possible without the support of the Government of Ontario. Our local government has provided both leadership and financial support to advance our work from feasibility and business planning to pilot stage. Given support across multiple government departments, we believe our government views this as a means of tackling social and environmental problems, advancing innovation, and supporting local economic development.

5. There is a growing constellation of local or regional, impact-focused exchanges in development around the world. The development of local and regional, impact-focused exchanges is moving from a random occurrence to a growing phenomenon. Markets are in development around the world in Kenya, Singapore, England, South Africa, the United States, and Canada. We are a part of that informal mutual support network, and we are particularly interested in the advancements being made in North America, including places like Hawaii and Lancaster. We believe there are great opportunities for collaboration, and we will continue to provide our research and resources to the ongoing development of these similar exchange models.

We hope that you will take the exciting step forward to pass this resolution. We had a similar experience when we began our work in earnest in 2009. It is wonderful that you are taking a similar path, and we are happy to provide support to your development. Please let us know how we can be helpful.

Thank you for your kind consideration of this testimony. Should you have any questions, please do not hesitate to contact me via phone at 416-673-8186 or via email at adam@socialventureexchange.org.

Sincerely,

A handwritten signature in blue ink, appearing to read 'AS', is written over a light blue horizontal line.

Adam Spence
Founder and Chair, Social Venture Exchange (SVX)
Manager, Special Projects, Social Innovation Generation (SiG) at MaRS