

September 17, 2021

**Submitted electronically**

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission, New Brunswick  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Office of the Superintendent of Securities, Service NL  
Northwest Territories Office of the Superintendent of Securities  
Office of the Yukon Superintendent of Securities  
Superintendent of Securities, Nunavut

c/o The Secretary  
Ontario Securities Commission  
comment@osc.gov.on.ca

c/o Me Philippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
consultation-en-cours@lautorite.qc.ca

Dear Canadian Securities Administrators:

**Response to Request for Comments – Proposed Amendments to National Instrument 51-102 Continuous Disclosure Obligations and Other Amendments and Changes Relating to Annual and Interim Filings of Non-Investment Fund Reporting Issuers and Seeking Feedback on a Proposed Framework for Semi-Annual Reporting – Venture Issuers on a Voluntary Basis**

The Canadian Public Accountability Board (CPAB) is Canada’s independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB is pleased to respond to the Canadian Securities Administrators (CSA) Request for Comments.

CPAB's mandate as an audit regulator does not extend to all continuous disclosure obligations as required by National Instrument 51-102 but rather is focused on audits. As such we have limited our response to the Proposed Framework for Semi-Annual Reporting.

## Overall comment

We are concerned that less frequent reporting as contemplated under the Proposed Semi-Annual Reporting Framework could reduce the quality and integrity of financial reporting, and ultimately investor protection, by reducing the consistency and frequency with which reporting issuers perform and assess their internal control processes. We are also mindful that less frequent reporting would reduce access to information for many investors and increase the potential for information asymmetry.

## Proposed Framework for Semi-Annual Reporting – Venture Issuers on a Voluntary Basis

### Internal controls over financial reporting

CPAB is concerned that moving to a semi-annual reporting framework would result in reporting issuers performing internal controls over financial reporting semi-annually instead of quarterly. It is our view that consistent discipline and focus throughout the year by reporting issuers increases the quality of internal controls over financial reporting. Quarterly reporting reinforces existing processes and allows more frequent opportunities to identify areas for improvement. Even with current quarterly reporting requirements, in recent years CPAB has observed a steady increase in the number of findings in audits of reporting issuers not listed on the Toronto Stock Exchange (TSX) including venture issuers.

Reducing the frequency with which internal controls over financial reporting are performed could adversely impact the quality of financial reporting, reduce the effectiveness of internal controls and result in reporting issuers underinvesting in their financial reporting functions.

The comments contained within this letter are focused on the proposed semi-annual reporting framework for venture issuers and the matters currently under consultation. For instances where securities rules currently allow for semi-annual reporting, such as investment funds, we are not recommending changes as the financial reporting, internal control and broader fund disclosure frameworks appear to be appropriate in the circumstances.

### *Fraud*

Reduced reporting frequency could also impact a reporting issuer's ability to deter and detect fraud. In 2019, CPAB carried out a thematic review on fraud to evaluate auditors' compliance with International Standards on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. We

noted that effectively designed anti-fraud controls by management act as a strong deterrent to fraud. Conversely, poorly designed controls create opportunities for fraud to occur and remain concealed. If the frequency of management's anti-fraud controls decreases from quarterly to semi-annually there is a heightened risk of fraud occurring and not being detected for a longer period. Maintaining quarterly reporting is important to reduce the risk of deterioration in the quality and frequency of anti-fraud controls and their effectiveness to prevent and detect fraud in a timely manner.

### *Going concern*

Venture issuers may be at an elevated risk for going concern issues due to the nature and maturity of their operations. International Accounting Standard (IAS) 1, *Presentation of financial statements* paragraph 25 requires management to assess an entity's ability to continue as a going concern when preparing financial statements. If management were to only assess the entity's ability to continue as a going concern semi-annually, there is a risk that relevant information reflecting a reporting issuer's ability to continue operating would not be made available to investors in a timely manner. In addition, there is a risk that the alternative disclosure approach within the Proposed Semi-Annual Reporting Framework may not achieve the level of responsiveness to public interest that is currently provided under existing, well-defined going concern assessment and disclosure processes.

### **Investor ability to access relevant and timely information**

Removing quarterly reporting requirements for all venture issuers would provide less access to information for smaller investors compared to management and larger shareholders. Management would likely continue to prepare financial information on a monthly basis, that may be shared with management and board members with the potential for that information to be shared with others including bankers and other third parties. However, under the proposed framework investors would not have access to such information outside of alternative disclosures, impacting their ability to make informed investment decisions in a timely manner.

The proposed requirement that a reporting issuer disclose material information and events, including those related to changes to the financial condition of the reporting issuer, may help fill in the blanks left by the absence of quarterly reporting. However, there is a risk that the proposed alternative disclosures may not contain sufficient information to drive well-informed capital allocation decisions which could undermine trust in financial reporting. For certain reporting issuers, depending on company maturity, industry, and seasonality of operations, financial and operational issues may occur quickly between reporting periods. Increasing the length of time between reporting periods would only increase the risk that investors do not have access to relevant information in a timely manner.

## Streamlining the disclosure requirements

CPAB supports efforts to eliminate duplication and overlap in the information reported by reporting issuers in Canada. Eliminating duplicative disclosure requirements could allow management teams to focus more time and effort on the quality of financial reporting and internal control processes.

If you have any questions about our response or wish to discuss any of our observations in more detail, please contact me ([carol.paradine@cpab-ccrc.ca](mailto:carol.paradine@cpab-ccrc.ca)).

Yours truly,



Carol A. Paradine, FCPA, FCA  
Chief Executive Officer