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Translation

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RE: Draft *Regulation 51-103 respecting Ongoing Governance and Disclosure Requirements for Venture Issuers*

Dear Ms. Beaudoin:
Dear Ms. Lalonde:

The *Fonds de solidarité FTQ* (hereinafter the "Fonds") wishes to thank you for the opportunity to provide its comments on Draft *Regulation 51-103 respecting Ongoing Governance and Disclosure Requirements for Venture Issuers* ("Draft Regulation 51-103") as part of the consultation on the draft regulation.

The *Fonds de solidarité FTQ* in brief

The *Fonds de solidarité FTQ* is a union-based development capital fund, which was founded on the initiative of the *Fédération des travailleurs et travailleuses du Québec*. The Fonds was created in 1983 by *An Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* and has become a key player in the Québec economy.

The mission of the *Fonds de solidarité FTQ* is based on four cornerstones:

- investing in companies with an impact on the Québec economy, and providing them with services to further their development and to create, maintain and protect jobs;
- heightening the awareness of workers and encouraging them to save for retirement and to participate in the development of the economy by purchasing shares of the Fonds;
- promoting economic education for workers so they can increase their influence on the economic development of Québec;
- stimulating the Québec economy through strategic investments that benefit Québec workers and companies alike.

As at September 30, 2011, the Fonds had some 270 partner companies directly (excluding its investments in members of its network and by members of its network), and the securities of about 20% of them were listed. When all the members and investments of its network are taken into account, the Fonds has roughly 2,000 partner companies.[1]

The net assets of the Fonds as at May 31, 2011 stood at $8.2 billion, nearly $4 billion of which is invested in development capital. Of this amount, close to $680 million is invested in listed securities (also as at May 31, 2011).

The Fonds invests in a number of sectors, including natural resources, aerospace, transportation, agri-food, information technology and life sciences.

Draft Regulation 51-103

Although the Fonds generally agrees with the main goal of the Draft Regulation—which is to streamline and tailor venture issuer disclosure to reflect the needs and expectations of investors and to make the disclosure requirements for issuers more suitable and more manageable for them at this stage of development—it has concerns about some of the amendments proposed therein. It should be mentioned, however, that the Fonds views the proposal to combine information regarding venture issuers in one document (the annual report) favourably.

In this document, we answer the questions on the Draft Regulation submitted to market participants in the order in which they appear in the Notice and Request for Comment.

[1] As at May 31, 2011

1. *Do you support the proposal to replace the requirement to file three and nine month interim financial reports (and associated MD&A) with a prescribed framework for voluntary three and nine month financial reporting?*

(a) If you support this proposal, why? What are the benefits?

(b) If you do not support this proposal, why not? What are your concerns?

ANSWER

The Fonds does not support the proposal: It thinks that quarterly financial information is essential for the protection, valuation and monitoring of its investments in venture issuers, since they can be among its most high-risk investments. Recent financial information enables us to establish the best financial forecasts. Quarterly information is even more crucial in the case of venture issuers whose operations are seasonal.

The Fonds is not convinced that the financial report filing requirements provided for in the Draft Regulation will be systematically less burdensome than the present requirements, which include quarterly report filing.

The Fonds thinks that even if time and money could be saved by eliminating quarterly financial report filing, those savings would not offset the negative effects elimination could have on venture issuers themselves. The potentially negative effects of less complete disclosure include the difficulty of obtaining coverage by analysts, the difficulty of securing financing, and the fact that due diligence for private placements by investors could be more burdensome for management in the absence of quarterly information. In addition, if financial information for the first and third quarters is no longer available, investors may be required to take valuation discounts. In the present financial setting, which is characterized by significant volatility, we think it important for financial information to be available as quickly as possible.

For the Fonds, which is likely to intervene when businesses are experiencing financial difficulty, a period of six months to obtain financial information may be too long for it to react and intervene in a timely manner to support a venture issuer. For venture issuers with small market capitalizations, whose working capital can be tight, it is important that investors be able to monitor more frequently.

Fuller disclosure, including first and third quarter reporting, seems essential to us for a venture issuer that would like to be listed on a more senior market, since the issuer will have to provide quarterly comparatives for one or more of the years preceding its graduation to a more senior market. Even for venture issuers that do not intend to migrate to a more senior market in the short term, the Fonds thinks that quarterly disclosure is a good practice for attracting more sophisticated investors.

As for the prospectus regime, and on the basis of what was mentioned above, the Fonds is not comfortable with the fact that quarterly reports are no longer included in the long form prospectus; it would therefore like the most current quarterly information on the prospectus filing date to be included in the prospectus.

2. *If we choose not to eliminate mandatory quarterly financial reporting, are the other elements of the Draft Regulation significant enough to justify changing the venture issuer regulatory regime?*

ANSWER

The Fonds thinks that the other elements of the Draft Regulation are significant enough to justify changing the regime: The fact that most requirements are combined in a single regulation will simplify matters for venture issuers which, often, do not have the financial means to retain an advisor to analyze every regulation that contains requirements that apply to them.

The Fonds views the new governance rules favourably, as well as the requirement that the majority of the members of the audit committee be independent.

3. *If you do not support the proposal to replace the requirement to file three and nine month interim financial reports and associated MD&A with a prescribed framework for voluntary three and nine month financial reporting, do you think it is necessary for venture issuers to file full financial statements and MD&A for their first and third quarters?*

(a) If you think full financial statements are necessary, why do you think so? Specifically, how do you use this information?

(b) If you do not think that full financial statements are necessary, is there something other than full financial statements that could provide you with the information that is necessary or relevant for your purposes? Please specify what financial or other information would suffice and explain why.

(c) Does the information noted in (b) vary for issuers based on industry, size or whether the issuer generates revenues? If so, please explain.

ANSWER

The Fonds is favourable to a streamlining of financial reporting for the first and third quarters, in that it does not think it is necessary for such reports to be accompanied by a management analysis or the associated MD&A, especially since there will be an MD&A with the semi-annual reporting.

For the Fonds, adequate quarterly reporting would include the balance sheet, income statement, statement of cash flows (as well as the related notes), but the MD&A would not be necessary.

The Fonds does not see any advantage to creating different regimes for venture issuers according to their industry, size or whether they generate revenues, and thinks that such distinctions could create confusion. The Fonds also thinks that the creation of several regimes would be at odds with the goal sought by the Draft Regulation.

***4**. If venture issuers were not required to file first and third quarter financial statements, would this deter you from investing in all venture issuers? Why or why not?*

ANSWER

The absence of quarterly statements would not systematically deter the Fonds from investing in all venture issuers: Each company is analyzed on an individual basis. It would, however, require even more caution in the analysis of the companies and could lead to valuation discounts, as mentioned in our answer to question no. 1.

***5.** If you currently invest in issuers in jurisdictions that prescribe semi-annual reporting, please explain why you are comfortable doing so, particularly if you oppose the elimination of mandatory first and third quarter financial statements.*

ANSWER

N/A

***6.** Would it be less burdensome, or would there be significant time savings, to prepare some subset of quarterly financial reporting, or would the work required to prepare alternative quarterly financial reporting be as onerous as preparing interim financial statements?*

ANSWER

As mentioned in our answer to question no. 3, the Fonds would be satisfied with quarterly reporting that included the balance sheet, income statement and statement of cash flows (as well as the related notes) without an MD&A.

***7.** The Draft Regulation eliminates the requirement to file business acquisition reports (BARs) for significant acquisitions. Instead, it requires venture issuers to provide financial statements of an acquired business if the value of the consideration transferred equals 100% or more of the market capitalization of the venture issuer. Is 100% the correct threshold?*

(a) If you think that 100% is the correct threshold, explain why.

(b) If you do not think that 100% is the correct threshold, explain why. Should the threshold be lower? Please provide your views on an alternative threshold, with supporting reasons.

(c) Should financial statements be required at all for these transactions?

ANSWER

If the requirement to file quarterly financial statements is maintained, a provision that the Fonds supports, the threshold of 100% would be acceptable since the financial information on an acquisition should be included in the quarterly reporting.

However, if the filing of quarterly financial reports is not required, the Fonds thinks the threshold of 100% of the market capitalization of the venture issuer to activate the requirement to file relevant information on the acquisition (as provided for in the former *Business Acquisition Report* or in the material change disclosure for a significant acquisition) would be too high compared with the present threshold of 40%.

In such a scenario, the Fonds thinks that a material change disclosure for significant acquisitions (which includes the date of acquisition, the consideration paid for the acquisition, the details of the transaction and what is acquired, and the financial statements of the acquisition within the time specified by the Draft Regulation) should be filed at a threshold of 50% of the market capitalization of the venture issuer, if the issuer consolidates the acquisition in its financial statements.

In the number of material indicators of an acquisition, the Fonds thinks it could be relevant to consider, together with the percentage of the market capitalization, the decision to consolidate the financial statements of the acquisition in the venture issuer's financial statements.

8. *The Draft Regulation does not include a pro forma financial statement requirement for acquisitions that are 100% significant. Do pro forma financial statements provide useful information about acquisitions that is not provided elsewhere in the venture issuer's disclosure?*

(a) If you are of the opinion that pro forma financial statements do provide useful information, specifically, what information do they provide and how do you make use of that information?

ANSWER

The Fonds is comfortable with elimination of the requirement to file pro forma financial statements in the case of a significant acquisition. It would, however, be important to obtain information on the goodwill generated by the transaction.

9. *The proposed long form prospectus form for venture issuers provides the subset of "junior issuers" with an exemption that allows them to provide only one year of audited financial statements together with unaudited comparative year financial information in their initial public offering prospectus. This is consistent with current requirements for junior issuers under Form 41-101F1. Should this exemption be expanded to apply to all venture issuers?*

(a) If you think the exemption should be expanded, explain why.

(b) If you do not think that the exemption should be expanded, explain why.

ANSWER

The Fonds would be quite favourable to having this exemption (allowing for the provision of only one year of audited financial statements together with unaudited comparative financial information in the IPO prospectus) apply to some other venture issuers, but not all systematically. This exemption should be at the discretion of the AMF and should be granted in accordance with a relevance criterion based, for example, on the stage of development and size of the venture issuer.

10. *The Draft Regulation requires an audit committee to be composed of at least three directors, a majority of whom are not executive officers or employees of the venture issuer or an affiliated entity of the venture issuer. Should control persons be added to this list, similar to section 21(b) of Policy 3.1 of the TSX Venture Exchange Corporate Finance Manual?*

(a) If you think that control persons should be added, explain why.

(b) If you do not think that control persons should be added, explain why.

ANSWER

The Fonds is favourable to the introduction of a requirement for the majority of directors to be independent. The Fonds does not think that control persons—who have an interest in financial reporting being reliable—should be added to the list.

11. *The Draft Regulation requires that director and executive officer compensation as well as corporate governance disclosure be provided in a venture issuer's annual report instead of in its information circular. The information circular directs investors to the issuer's annual report for this information. We are attempting to reduce duplication for venture issuers, but want to balance that goal with ensuring that investors have adequate information available for decision making purposes, namely when they make their decision to elect directors.*

(a) Should venture issuers be required to duplicate director and executive officer compensation disclosure in the document that shareholders have on hand when they vote for directors, the information circular?

(i) If you think that executive compensation and corporate governance disclosure should be provided in both the annual report and the information circular, explain why.

(ii) If you do not think that it is necessary to provide executive compensation and corporate governance disclosure in both the annual report and in the information circular, explain why.

ANSWER

The Fonds completely agrees that disclosure should not be in two documents and that investors should be directed to the annual report.

12. *In the Draft Regulation, we have replaced the requirement to disclose the grant date fair value of stock options or other securities-based compensation in the executive compensation disclosure with a requirement to disclose other details about stock options, including amounts earned on exercise. We made this change as a result of feedback received regarding the relevance and reliability of the grant date fair value of stock options for venture issuers. Does specific disclosure of the grant date fair value and the accounting fair value of stock options or other securities-based compensation provide useful information for venture issuers? If so, please explain.*

ANSWER

For the Fonds, disclosure of the grant date fair value of stock options is not essential. What is highly important is having a thorough knowledge of stock option exercise terms and conditions, i.e. the number of options, the exercise price and the duration of options.

13. *The Draft Regulation would permit a capital pool company (CPC) to satisfy certain of its annual report disclosure obligations by referring to disclosure previously provided in its initial public offering prospectus. Should CPCs be exempted from further aspects of the annual or mid-year report requirements? If so, which requirements?*

ANSWER

When it comes to capital pool companies, the Fonds thinks that if no change has occurred since the prospectus was filed, the CPCs should be exempted from annual and quarterly reporting requirements, except those related to the financial statements, executive officer compensation and the steps taken for the purpose of their acquisition.

Should you require further information, do not hesitate to contact Maître Sylvie Drouin or the undersigned.

Yours truly,

(signed)

Philippe Bonin
Director, Corporate Affairs and
Assistant Corporate Secretary