

The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON Canada M5V 3H2
Tel: 416 977.3222 Fax: 416 977.8585
www.cica.ca

L'Institut Canadien des Comptables Agréés
277, rue Wellington Ouest
Toronto (ON) Canada M5V 3H2
Tél. : 416 977.3222 Téléc. : 416 977.8585
www.icca.ca



November 4, 2011

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
New Brunswick Securities Commission
Prince Edward Island Securities Commission
Office of the Superintendent of Securities, Government of Newfoundland and Labrador
Department of Community Services, Government of Yukon
Office of the Superintendent of Securities, Government of the Northwest Territories
Legal Registries Division, Department of Justice, Government of Nunavut

Ladies and Gentlemen:

Proposed National Instrument 51-103

Thank you for the opportunity to comment on this proposed National Instrument (NI).

Small public companies are significant value and job creators in the Canadian economy. It is important that these organizations operate in a reporting and regulatory environment that is both attractive and protective of investors' interests. These entities find it increasingly difficult to thrive, however, in an environment of ever more complex and voluminous regulatory and reporting requirements. Accordingly, we applaud the Canadian Securities Administrators for this initiative to simplify governance and disclosure requirements for entities on the Venture exchange.

The CICA's Canadian Performance Reporting Board is generally supportive of the proposals set out in the proposed NI, particularly those dealing with interim reporting and the Business Acquisition Report (BAR). In fact, smaller entities with whom we consulted suggest the proposed changes to the BAR alone would constitute a significant improvement to the reporting environment.

The proposed changes to interim reporting and the BAR will result in more reliance being placed on the material change report. Accordingly, it may be useful for any new instrument to remind issuers of their responsibility to provide complete and timely information in these reports. As well, to ensure that the proposed revisions are workable and avoid abuses, we believe that the mechanisms for some processes and procedures may need to be reviewed.

Our specific comments focus primarily on reporting matters in the proposed instrument. These are set out overleaf. If you would like to discuss our comments in more detail, please contact Chris Hicks, CA at chris.hicks@cica.ca

Yours truly,

A handwritten signature in black ink, appearing to read 'T.S. Chambers', written in a cursive style.

Thomas S. Chambers, FCA
Chair, Canadian Performance Reporting Board



COMMENTS ON PROPOSED NATIONAL INSTRUMENT 51-103

1. Mid-year financial reporting

Voluntary three and nine month financial reporting

We support the proposal to replace the current interim reporting requirements with a semi-annual reporting requirement and a prescribed framework for voluntary three and nine month financial reporting. Quarterly interim financial performance information for many Venture companies that are in exploration or development stages is not important. Further, it seems unlikely that small public companies that find it difficult to attract capital would not publicly disclose the information their investors want. Accordingly, those entities at a stage of development when interim financial performance information is more valuable will voluntarily provide interim financial reports. The flexible approach set out in the proposed NI allows entities to provide financial reports that meet investors' needs while significantly reducing the time and cost devoted to financial reporting. Management and the board are then able to focus on strategy development, operational excellence and managing the business.

We understand that the proposed requirement for a two year commitment to voluntary interim reporting is designed to ensure entities cannot opt in and out of voluntary reporting, depending on a quarter's performance. However, we believe more thought needs to be given to the mechanics of entities ceasing to provide interim reports. For example, the proposed NI may need to address circumstances such as a major disposition early in the two-year window that results in voluntary interim reporting no longer being useful.

Management's Discussion and Analysis (MD&A) is a core element of financial reporting that helps users understand the financial statements. Accordingly, we believe that when an entity provides a voluntary interim financial report, it should be accompanied by an MD&A prepared in accordance with the current interim reporting requirements in NI 51-102. As well, when an entity elects to provide interim financial statements, users will expect that information to be reliable. Therefore, we also believe voluntary interim financial reports should be subject to the interim CEO and CFO certifications.

It may also be necessary to consider whether steps should be taken to ensure that mandatory interim financial reporting is not replaced with publication of selected information that readers might perceive as a substitute for interim financial statements and MD&A, such as statements of production volumes or sales figures. Perhaps the CSA could discuss this type of issue in the instrument and set out some circumstances that might be regarded as misleading or inappropriate, or alternatively suggest that entities not providing a voluntary Q1 or Q3 report stay silent about performance in the absence of a material change.

Significance of other proposals

While the interim reporting aspects of the proposal should provide a significant benefit to many small entities, other aspects of the proposal are sufficiently important on their own to justify this initiative. The proposed changes to the Business Acquisition Report will be a significant improvement. As well, having all the requirements for Venture issuers in one instrument will facilitate understanding the requirements.

Interim reporting work effort

Even when an entity does not prepare interim external reports at Q1 and Q3, it will be most likely that some form of interim report will be prepared for management, the board, or a third party, such as a lender. That activity, however, generally involves much less effort than that necessary to provide external reports in compliance with securities regulations. If the CSA were to mandate a subset of interim reporting, we believe the processes and procedures necessary to provide information for external purposes in accordance with



securities regulations would likely not result in any significant reduction to the current work effort for interim reporting.

2. Other financial statement requirements

Business Acquisition Reports

We do not believe that Business Acquisition Reports provide useful information on a timely basis. Accordingly, we agree with the change to the 100% threshold. As well, we do not believe that pro-forma financial statements as contemplated in the current requirements provide any useful information.

Long-form prospectus

We believe that one year of audited financial statements with unaudited financial statements for the second most recently completed year should be sufficient for all Venture issuers that in many cases have only basic accounting records for prior periods.

3. Governance requirements and executive compensation disclosure

Audit committee composition

It is difficult to recruit audit committee members for small public companies. Adding control persons to the list of people who would not be counted in the majority determination for the instrument would result in significant difficulty for many of these entities. As well, we believe such a requirement would likely impair the quality of their governance because less qualified individuals would likely replace those with greater competency and knowledge of the business. While control persons might bring their own biases, this risk seems minor in view of the other governance requirements and is outweighed by the above-noted negative consequences of excluding control persons from the majority determination.

Director and executive officer compensation disclosure

We believe duplication of information should be avoided whenever possible. Accordingly, when information about executive compensation is provided in the annual report, reference to that effect should be made in the information circular, as currently proposed.

The proposals would require an entity to disclose criteria and goals for executive compensation and the weight assigned to each. We do not believe such disclosure is meaningful in a small public company and that this will result in boilerplate disclosure. Instead we believe entities should be asked to explain how they determined compensation.

Stock option disclosure

The financial statements will disclose the weighted average fair value of share options granted during the period and information on how fair value was measured. While this aggregate information is useful, we agree that individual director and executive compensation disclosure should focus on amounts realized on the exercise of options and that available to be realized on unexercised options.

4. Annual report

We acknowledge the benefits of providing all the required information in one annual report. However, we believe many small entities will have logistical issues with preparing and distributing a longer annual report. Accordingly, we believe entities should have the option of continuing to be able to incorporate certain documents by reference, for example board and governance matters.