CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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Manitoba Securities Commission
Ontario Securities Commission
Authorité des marchés financiers
New Brunswick Securities Commission
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Prince Edward Island Securities Office
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

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Dear Ms.D'Aoust and Ms. Beaudoin:

Re: Proposed National Instrument 51-103, Ongoing Governance and Disclosure Requirements for Venture Issuers and Related Amendments

The Canadian Public Accountability Board (CPAB) is pleased to comment on proposed National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers and Related Amendments ("the proposed National Instrument")*. CPAB is supportive of the Canadian Securities Administrators (CSA) initiative to simplify compliance for venture issuers. The proposed National Instrument sets forth a new disclosure regime for the venture issuer market which is a very important

segment of Canada's capital markets. This approach raises important public policy questions which in our view need further study. CPAB has serious concerns with the proposed approach of reducing the disclosure and governance standards applicable to venture issuers. Venture issuers are already subject to reduced corporate governance, certification and continuous disclosure requirements. A further reduction in requirements is not in the public interest and could have the impact of eroding investor confidence and Canada's reputation for investor protection. Developments over the past six months with respect to venture issuers with significant operations in foreign jurisdictions also suggest more robust regulation is needed at this time rather than less.

We strongly encourage the CSA to conduct greater outreach with investors and perform a comprehensive cost-benefit analysis before proceeding further with these proposals.

Elimination of Requirement to File Three and Nine Month Interim Reports

The proposed National Instrument eliminates the requirement for venture issuers to file three and nine month interim financial reports and associated MD&A, and introduces a mid-year report that includes a six month interim financial report and associated MD&A. This would mean for a venture issuer with a calendar year end, the report for the half year ended June 30th, would be filed by August 31st and there would be no further financial reporting required for another 8 months, until April 30th when the annual report would be filed. We are concerned that investors will have less timely information to make informed investment decisions in areas such as cash flow information, the income statement, related party transactions, liquidity and going concern. The proposed move to a mid-year report will also mean that audit committees and directors of venture issuers will have less timely oversight over the financial reporting process for such entities.

The venture issuer population includes a diverse mix of companies; wherein the larger venture issuers have significant operations, substantial revenues and very large market capitalizations. A further weakening of the disclosure regime for venture issuers also increases the risk that issuers who might otherwise graduate to the TSX will remain on the TSX-V for purposes of limiting their disclosure and governance requirements. In this same vein, we believe that once a TSX-V company reaches an appropriate size threshold a move to the TSX should be automatic and not optional. It is not in the public interest for significant reporting issuers in the capital markets to be able to avail themselves of the reduced governance and disclosure regime available to venture issuers when their peers must adhere to the more robust requirements of the TSX.

In our view the usefulness of quarterly financial statements to investors outweighs any benefit accruing to venture issuers from their elimination, with perhaps the exception of the smallest exploration stage companies in certain sectors such as the resource sector where there may be merit in more streamlined and targeted quarterly disclosure requirements. For example, such disclosure might include cashflow and liquidity information, updated information on exploration activities and significant transactions in the period (e.g. related party transactions and financing transactions).

Audit Committee Requirements and Disclosures

Audit Committees play a critical role in contributing to the integrity of financial reporting and audit quality. Under existing requirements in National Instrument 52-110 *Audit Committees ("NI 52-110"),* Audit Committees of venture issuers are required to pre-approve non-audit services provided by the external auditor. The proposed National Instrument would eliminate the requirement for Audit Committees of venture issuers to pre-approve non-audit services. The independence of the external auditor is a key

prerequisite to audit quality and is important in promoting investor confidence in financial reporting. We believe pre-approval of non-audit services by Audit Committees is an important governance control to ensure that auditor independence is not impaired, and therefore should be retained in the proposed National Instrument. Existing requirements in NI 52-110 (Form 52-110F2) require disclosure of the education and experience of each audit committee member that is relevant to the performance of the member's audit committee responsibilities. The proposed National Instrument would eliminate this disclosure requirement. The Audit Committee is one of the most significant Committees of the Board and it is important for financial statement users to be provided with disclosure of the education and experience of audit committee members. To eliminate this disclosure requirement reduces Audit Committee transparency and may potentially lead to a deterioration in the quality of venture issuer Audit Committee members and the quality of governance. We believe this disclosure requirement is important to investors and should be retained.
We note that venture issuer audit committees are currently exempt from the independence and financial literacy requirements in NI 52-110, these proposals would further weaken the requirements for venture audit committees which is not in the public interest.

Given the increasing complexity of financial reporting we believe that the governance of venture issuer audit committees would be strengthened by introducing a new requirement for at least one member of a venture issuer's audit committee to be financially literate as described in NI 52-110.

Duties to Act Honestly and in Good Faith

We do not understand why the CSA are no longer proposing to introduce, into securities law, obligations on directors and officers to act honestly and in good faith and to exercise care, skill and diligence. Strong corporate ethics are an essential element of effective corporate governance and high quality financial reporting. The CSA should incorporate into the proposed National Instrument obligations on directors and officers to act honestly and in good faith and to exercise care, skill and diligence.

In conclusion we reiterate that venture issuers are already subject to reduced corporate governance, certification and continuous disclosure requirements. A further reduction in these requirements is not in the public interest and could have negative consequences for the integrity of financial reporting and public confidence in the Canadian capital markets.

CPAB appreciates the opportunity to provide input on the proposed National Instrument.

We would be pleased to discuss any of the above comments.

Yours very truly,

Brian Hunt, FCA
Chief Executive Officer