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NEO EXCHANGE

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Financial and Consumer Affairs Authority of Saskatchewan
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Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

c/o

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Dear Sirs/Mesdames:

Re: Canadian Securities Administrators Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*

Aequitas NEO Exchange (“NEO”) was launched in 2015. As part of our preparation we worked with staff of the Canadian Securities Administrators (the “CSA”) to ensure that NEO is considered a senior exchange and that issuers listed on NEO would be “non-venture issuers” for the purposes of various securities laws. It is in that context that we are responding to the request for comments by the CSA in Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* dated April 6, 2017 (the “Consultation Paper”). We appreciate the opportunity to provide our comments.

General Considerations

We commend the CSA for this initiative seeking to reduce the regulatory burden for publicly listed

companies.

We have been vocal advocates for revisions to the current reporting requirements for publicly listed companies in Canada, for the following reasons:

- they can be very costly for the issuers;
- they can be onerous on management of the issuers and take their attention away from running their businesses;
- they may inadvertently drive management into short term thinking and strategies that are not necessarily to the benefit of long term investors; and ultimately,
- they are generally regarded as only partially achieving their objective of putting investors in a position of making informed decisions, as the information they mandate can be overwhelming and sometimes difficult to understand.

Therefore, we strongly support any regulatory initiative that seeks to address these issues and challenges across all types of publicly listed companies, from small to large, as the majority of these issues applies to any company, regardless its size.

We do believe, however, that any regulatory initiative seeking to reduce undue regulatory burden should be assessed to ascertain whether it could negatively impact investor protection or be leveraged to enhance investor protection. We list below a number of initial suggestions for your consideration:

- while reducing the regulatory burden by reducing some current disclosure requirements, design a Fund Facts-like document for publicly listed companies that will provide investors with the key information about the issuer, in language they can easily understand, at a time that is relevant to their investment decision;
- ensure that reducing the regulatory burden will not lead to more companies going public that are not ready for it - the number of “orphan stocks” in the Canadian market is a testimony to going public too early and is detrimental to investors, the listed companies and the credibility of our markets; and
- support initiatives seeking to make the private market more efficient to the benefit of those companies that are not ready for a public listing and those investors that have the capacity to absorb higher risk investments and less liquidity.

Responses to specific questions in the Consultation Paper

While the above general considerations provide our overall point of view on many of the questions raised in the Consultation Paper, we wanted to provide some additional comments on a limited number of specific questions.

Consultation Paper Section 2.1 - Extending the application of streamlined rules to smaller reporting issuers

Question 4: Would a size-based distinction between categories of reporting issuers be preferable to the current distinction based on exchange listing? Why or Why not?

- As we discussed under our general considerations, we believe that all reporting issuers are impacted by being subjected to undue regulatory burden. While it may be true that larger companies are less affected by the cost burden or have more staff to manage the regulatory requirements that should not justify a different treatment and/or maintaining an undue burden.
- We also believe that further segmentation of reporting issuers would ultimately be detrimental to the market overall. It would result in more companies benefitting from or being imposed upon by different regulatory requirements. Today, many sophisticated institutional investors have policies in place whereby they will not invest in venture issuers, while any type of retail investor, accredited or not, can trade them. Further segmentation of reporting issuers could have the unintended consequence of causing institutional investors to exit or avoid investments in any new segment of listed companies that would be created, leaving the companies to rely more heavily on retail investment.
- Furthermore, we continue to believe that a substantial number of venture issuers went public too early, represent a risk profile that is substantially higher than for securities considered as non-venture, and are in a situation where their securities have become “orphan stocks”, as noted above. We believe that investors should be provided with the key information about these companies, in language they can easily understand, at a time that is relevant to their investment decision.
- Finally, on a side note, we believe that the use of the terms “venture” and “non-venture” based on exchange listing is no longer appropriate in the Canadian public markets since it is based on the historic environment following the exchange consolidation in Canada after which there was one senior exchange in Toronto and one venture exchange in Calgary and Vancouver. A more appropriate description for a “non-venture” issuer might be a “senior issuer”.

Question 6: If the current distinction for venture issuers is maintained, should we extend certain less onerous venture issuer regulatory requirements to non-venture issuers? Which ones and why?

- Current venture requirements that would address some of the undue burden applicable to non-venture issuers should definitely be considered.
- When considering what requirements might be appropriate to apply to non-venture issuers, the CSA should carefully consider the contribution to, and impact on, investor protection and the cost-benefit assessment of such amendments. Certain obligations - for example, the requirement to file a current AIF, for management to certify as to the design, adequacy and weaknesses in D&CP and ICFR, and to meet enhanced governance requirements and governance disclosure requirements, should not be relaxed since issuers listing on a senior exchange should be expected to meet these higher standards. Other requirements might be

able to be relaxed without significantly impacting investor protection. For example, it may be appropriate for the CSA to increase the threshold to trigger the Business Acquisition Report requirement.

Consultation Paper Section 2.2 - Reducing the regulatory burdens associated with the prospectus rules and offering process

Question 7: Is it appropriate to extend eligibility criteria for the provision of two years of financial statements to issuers that intend to become non-venture issuers?

- One of the differentiators of a senior listing versus a “venture” listing is that the issuer generally should have an established and demonstrated track record to enable investors to assess an investment in the issuer. Three years of financial statements is generally an appropriate standard for senior issuers. However, in cases where three years of financial statements may be less important to the assessment by investors, as the CSA points out in cases where pre-IPO revenues are under certain thresholds, two years of financial statements may be appropriate.

Question 8: How important is the ability to perform a three year trend analysis?

- Trends are difficult to identify on a two year basis – a three year trend analysis is generally more meaningful to the reader of the financial statements.

Question 9: Should auditor review of interim financial statements continue to be required in a prospectus? Why or Why not?

- Auditor review of interim financial statements can improve the accuracy and quality of financial statements, but comes at a cost (time, money and resources). For non-venture issuers who already must file quarterly certifications of the design, adequacy and weaknesses in D&CP and ICFR, arguably the interim financial statements for such issuers will already be of higher quality, and therefore an auditor review may be of limited additional utility. For venture issuers that do not certify as to the design, adequacy and weaknesses in D&CP and ICFR, an auditor review of interim financial statements may still serve a purpose from the perspective reliability and enhancing investor protection.

Question 10: Should other prospectus disclosure requirements be removed or modified, and why?

- We are supportive in general of periodic reviews by the CSA that consider whether disclosure and other requirements add to the investor protection framework. We agree that redundancy between disclosure in the prospectus, AIF, MD&A and elsewhere should be eliminated as much as possible, and disclosure that is not helpful from an investor protection point of view, or is otherwise readily available (historic trading prices), should be eliminated.

Consultation Paper Section 2.3 - Reducing ongoing disclosure requirements

Question 19: Are there certain BAR requirements that are more onerous or problematic than others?

- Given the makeup of the Canadian public markets, there are many companies listed or eligible to list on TSX and NEO that have relatively modest size, assets and/or revenues. When applying the current 20% threshold to these smaller senior issuers, a BAR could be triggered for the acquisition of a target, which could be quite a small company. Smaller acquisition targets are less likely to have prepared historical financial statements to the standard required in a BAR. Preparing historical financial statements for the acquisition target to the standard required in a BAR can be onerous for the issuer, and in some cases cannot be achieved at all; in either case, this can become an impediment to completing a transaction. We feel that increasing BAR thresholds is appropriate for this reason.

Question 24: Should semi-annual reporting be an option provided to reporting issuers and if so under what circumstances? Should this option be limited to smaller reporting issuers?

- We believe that moving from quarterly to semi-annual reporting is a major opportunity to both reduce undue regulatory burden and reduce short-termism amongst publicly listed companies. Based on the experience to date in other jurisdictions, notably the UK, it should be applied to all reporting issuers.
- Issuers that feel it is important to keep their investors apprised about particular developments within their corporation within shorter time intervals can provide such information through the channels they deem most appropriate or voluntarily file quarterly financial statements.

Yours truly,

“Joacim Wiklander”

Joacim Wiklander
Chief Business Officer
Aequitas NEO Exchange Inc.

cc: Jos Schmitt, Chief Executive Officer
Cindy Petlock, Chief Legal Officer