The Canadian Advocacy Council for Canadian CFA Institute Societies
ADVOCATING THE CFA INSTITUTE'S CODE OF ETHICS AND STANDARDS

July 28, 2017

BY EMAIL

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

The Secretary
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Ms. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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Dear Sirs/Mesdames:

Re: Request for Comments on CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-investment Fund Reporting Issuers* (the "Proposal")

The Canadian Advocacy Council[1] for Canadian CFA Institute[2] Societies (the CAC) appreciates the opportunity to comment on the Proposal.

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[1]The CAC represents more than 15,000 Canadian members of the CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at http://www.cfasociety.org/cac. Our Code of Ethics and Standards of Professional Conduct can be found at http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx.

[2] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 149,603 members in 163 countries, including 143,386 CFA charterholders and 148 member societies. For more information, visit www.cfainstitute.org.

We support the Canadian Securities Administrators' (the CSA) efforts in seeking to identify and consider areas of securities legislation that may benefit from a reduction of regulatory burden as it relates to non-investment fund reporting issuers. We support these efforts to the extent that duplicative regulations are eliminated and that information flowing from reporting issuers to the investing public is conveyed in a manner that reflects technological realities and consists of high quality disclosure.

We support the CSA in principle in so far as regulatory requirements are balanced against the significance of the objectives sought, and the value such requirements bring to investors. However, we worry about aspects of the Proposal aimed at reducing financial disclosure for smaller reporting issuers since that may limit usability of information for comparison purposes to make informed investment decisions and potentially have an adverse effect on investor protection. In our view, a focus on improving the quality of disclosure as opposed to reducing it would better serve investors in the long run.

We provide the following comments relating to each of the five areas set out in the Proposal.

Extending the Application of Streamlined Rules to Smaller Reporting Issuers

The Proposal is focused on the requirements associated with capital raising and the continuous disclosure regime. It specifically proposes scaling down disclosure requirements for smaller reporting issuers. Generally, issuers listed on a venture exchange benefit from less onerous regulatory requirements. The Proposal considers using a size-based quantitative metric (revenues, market capitalization, etc.) to distinguish between issuers and tailor regulation and reporting requirements based on the issuer's size. The CSA notes that a similar approach is used in the United States using a market capitalization metric for smaller issuers. We have certain concerns with this approach.

First, if regulatory requirements were to be scaled down using an approach based on size, investors will find it challenging to meaningfully compare issuers across disclosure regimes, and this may also deprive investors and analysts of pertinent information relating to those issuers for investment decision-making. We support scaled down disclosure for reporting issuers generally in so far as it eliminates duplicative or otherwise repetitive information, thereby improving the quality of disclosure. In our view, high quality disclosure is more meaningful for both investors and the public markets than any benefit that may be realized by less onerous disclosure.

Second, removing certain disclosure requirements for smaller issuers based on size may have a deleterious effect on investors when analyzing these issuers, many of which may have less experienced management and less developed internal/financial controls, and thus could benefit from stringent disclosure rules.

Third, a scaled down disclosure regime may create a dual-regulatory system for non-venture issuers that many investors may be unaware of and add confusion in the

marketplace. Since smaller non-venture issuers compete for the same capital as more senior issuers, it is prudent that investors be equipped with the same breadth of issuer information in order to allocate capital rationally. Finally, we query whether a scaled down disclosure regime for smaller non-venture issuers would create an incentive for venture issuers to move away from venture exchanges and list on more senior exchanges.

In our view, an alternative to a scaled down disclosure regime for smaller reporting issuers would involve amending existing regulation of venture exchanges and making listing requirements easier to understand and more attractive to issuers. If the venture and senior exchange regimes were easier to understand and clearly delineated, it may attract the right companies to the appropriate exchange. In addition, investors may become better informed of the reasons a company listed on a particular exchange and develop commensurate expectations of issuer disclosure. We think that current issuers listed on senior exchanges already understand the costs associated with such listings, otherwise they would list on other (venture or foreign) exchanges with different regulatory burdens. A scaled down disclosure regime could have negative effects on the quality of disclosure and potentially increase, rather than decease, the cost of capital for issuers. Perhaps focusing efforts on improving the quality of disclosure through plain language, elimination of duplication, and simplification of exemptions may be a more effective way to reduce regulatory burden without compromising investor protection.

Reducing the Regulatory Burden Associated with the Prospectus Rules and Offering Process

The CSA sets out various options in the Proposal relating to smaller reporting issuers and the prospectus rules. First, the CSA proposes that IPO prospectuses include two years of audited financial statements for all issuers or for smaller reporting issuers, instead of the current three year requirement. In our view, more financial disclosure serves the interests of the investing public and provides greater transparency. Further, while removing the auditor review of interim financial statements may reduce some regulatory burden, we are concerned that an auditor's review of financial statements provides investors with confidence and can identify and rectify issues with financial and internal controls that are often faced by new public issuers.

The options set out in the Proposal have a central theme of removing certain prospectus disclosure requirements, including the short form prospectus requirement, or alternatively increasing the eligibility of issuers using it. Generally, we take the view that fulsome and current disclosure is preferable, including in the context of at-the-market offerings. In our view, it would be worthwhile to explore opportunities to make offerings easier for issuers such as exploring new prospectus exemptions tailored at issuers of a specific ongoing disclosure profile instead of eliminating disclosure requirements that provide pertinent information to investors.

Reducing Ongoing Disclosure Requirements

Some of the measures in the Proposal are aimed at reducing ongoing disclosure requirements with respect to the Business Acquisition Report (the BAR) and to permit semi-annual reporting.

First, we recognize that the BAR provides helpful information in the context of certain transactions but is not as helpful in the context of other transactions. Many non-venture issuers satisfy the BAR requirements earlier than required or seek exemptions from them. We recognize that preparing the BAR takes time for issuers. However, we also understand that without a BAR, a company's analysis of the impact of an acquisition is not disclosed to the public. We would be pleased to learn more from regulators about the scope of exemptions that are sought and granted with respect to the BAR. Absent that information, in our view, it is important that BAR requirements are maintained but simplified. We are also uncertain what impact an increase in the significance threshold test for filing the BAR would have on issuers, namely, how many issuers would be impacted, and the aggregate benefit gained, if any.

Second, we understand that there have been various efforts in the past with respect to permitting semi-annual reporting in lieu of quarterly reporting with the view that quarterly reporting may be counter to long-term value creation. In this Proposal, the CSA explores the option of permitting issuers to report quarterly or semi-annually. Based on a recent study of public companies in the United Kingdom, researchers found no reason to believe that less frequent reporting would dissuade companies from engaging in the pursuit of short-term profit instead of long-term value creation.[3] Further, even when companies were not required to report quarterly, the study found that most companies continued reporting on a quarterly basis. We think that less frequent reporting of financial information is not beneficial to the capital markets. We also query whether permitting semi-annual reporting for certain issuers (or all issuers), will disharmonize reporting with issuers who are cross-listed on a U.S. based exchange and frustrate issuers who regard U.S. based investors as important to their businesses. Rather than making reporting less frequent for issuers, it is important in our view to streamline reporting metrics and requirements so smaller issuers can easily prepare them.

Eliminating Overlap in Regulatory Requirements

The CSA indicates that there are areas of similarity between IFRS disclosure and National Instrument 51-102 F1 *Management's Discussion and Analysis* Forms relating to financial instruments, critical accounting estimates, change in accounting policies and contractual obligations. In addition, the CSA notes that there is potential duplication such as disclosure of the risk factors required both in the MD&A and AIF Forms.

We strongly support streamlining the requirements of MD&A, the AIF and financial statements, and where possible, removing duplication and repetitive information. It may be

[3] R. Pozen et al, *Impact of Reporting Frequency on UK Public Companies,* Research Foundation Briefs (March 2017) http://www.cfapubs.org/doi/full/10.2470/rfbr.v3.n1.1

challenging for investors to clearly understand the relationship between, and navigate, the annual report including the MD&A and the AIF of issuers. In our view, streamlining the requirements and removing duplication may help investors improve accessibility of information and gain confidence in the available information. Higher quality disclosure is also more meaningful to investors, as investors are able to effectively discern information and make better investment decisions. However, any duplication and streamlining of disclosure requirements should ensure that disclosure is not otherwise eliminated.

Enhancing Electronic Delivery of Documents

We strongly support CSA's efforts in exploring various ways for electronic delivery of documents. Given the current technological realities and investors' wide access to the internet, it would save reporting issuers costs if information and disclosure is fully available online. We recognize that there may be exceptions and investor preferences on mailed delivery of documents, but in our view, those should be the exception and not the norm, applicable to all issuers.

The notice-and-access method is a great way to save issuers costs relating to printing circulars and proxy voting documents, in addition to printing financial statements and MD&A. To the extent that the CSA can support and facilitate systems for electronic disclosure of information and filings, it will save issuers costs, including improving or replacing current filing systems such as SEDAR with other systems to give investors meaningful and easier access to information. For example, we support the use of structured data protocols like Inline Extensible Business Reporting Language (iXBRL) that enhances the ability to analyze vast amounts of data precisely and automatically.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *The Canadian Advocacy Council for*
CFA Institute Societies

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