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July 27, 2017

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Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
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

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Dear Sirs/Mesdames:

Subject: CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*

Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the Canadian Securities Administrators (CSA) on the potential options to reduce regulatory burden set forth in CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* (Consultation Paper).

The Canadian designation, Chartered Professional Accountant (CPA), is used by Canada's accounting profession across the country. The profession's national body, CPA Canada, is one of the

largest in the world with more than 210,000 members, both at home and abroad. The Canadian CPA was created through the unification of three legacy accounting designations (CA, CGA and CMA). CPA Canada conducts research into current and emerging business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada also issues guidance and thought leadership on a variety of technical matters, publishes professional literature and develops education and professional certification programs.

In formulating our response to the Consultation Paper, we have drawn on our knowledge of corporate reporting practices and challenges and solicited the input of strategic advisors to CPA Canada and volunteer advisory groups representing both small and larger issuers, investors, and auditors. Our responses to select Consultation Paper questions are included in Appendix A to this letter and take into account perspectives raised by these stakeholders through the outreach we performed.

We understand that the Consultation Paper is only a first step in soliciting input on a range of potential options to reduce regulatory burden. We support the proposal to remove redundant disclosure requirements. We also support further efforts by the CSA to evaluate the effects of the other possible reductions in requirements on investor protection.

In this covering letter, we highlight CPA Canada's views on important areas we believe require closer examination. Our views fall into five broad categories:

1. Re-evaluation of existing reporting requirements

We support the CSA's efforts to reduce regulatory burden on reporting issuers to promote capital formation and reduce compliance costs while maintaining investor protection. However, we believe that reducing regulatory burden should not be isolated from the need for broader consideration of the overall effectiveness of the existing reporting regime. We believe, for example, that concerns about short-termism can be more effectively addressed by modifications to the existing regime than by eliminating quarterly reporting. Encouraging more disclosure of long-term goals and progress towards them could help to counter the focus of some investors on only short-term results.

We believe this is an opportune time to re-think reporting – to focus, modernize and streamline it. We encourage securities regulators to initiate a comprehensive evaluation of existing reporting requirements

in the near term to ensure they continue to meet the evolving needs of investors, including demands for more integrated disclosure about how a company creates value over the short, medium and long term. Reporting requirements modified to be consistent with integrated reporting concepts could result in both a reduction of regulatory burden through a more cohesive reporting package and improved investor protection.[1]

We see opportunities for the CSA to re-examine requirements in the following specific disclosure areas:

- MD&A content

  We believe the content of the MD&A might be clarified to encourage more disclosure of:

  - reporting on business strategy and longer-term objectives
  - reporting on key financial and non-financial resources needed to achieve objectives[2]
  - key performance measures critical to successful implementation of corporate strategy and achievement of objectives
  - alignment of executive compensation with business strategy and objectives.

  Using an integrated reporting approach would likely involve taking relevant portions of documents such as the AIF, Information Circular and Statement of Executive Compensation and integrating them into the MD&A, thereby making some or all the requirements of these documents unnecessary.

- Reporting on environmental and social issues

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[1] In the context of this letter, "integrated reporting" refers to reporting that is largely aligned with or substantially influenced by the concepts, principles and disclosure recommendations in the International Integrated Reporting Framework.

[2] Non-financial resources might include, for example, technological developments and advances, workforce expertise, leadership/governance structure, organizational systems and processes etc.

We believe there are opportunities to better integrate disclosures on environmental and social issues into regulatory reporting. Many large reporting issuers currently produce sustainability reports to meet stakeholder information needs. While some information provided in these reports is already required (e.g., CSA Staff Notice 51-333 *Environmental Reporting Guidance*), securities administrators could be more specific in their requirements. We are supportive of the CSA's initiative focused on the disclosure of the financial impacts and risks associated with climate change.[3]

- Forward-looking information (FLI)

  FLI is important to investors. Companies are sometimes reluctant to communicate their expectations for the future because of legal liability concerns. In order to facilitate more meaningful forward-looking disclosure, we encourage the CSA to reconsider its FLI requirements for the various continuous disclosure documents. We also encourage the CSA to clarify when forward-looking disclosure is required versus voluntary.

- Risk disclosures

  We believe there should be a more integrated and enhanced discussion of risk exposure and mitigation among the various continuous disclosure documents and encourage the CSA to look at options to improve risk disclosure. We consistently hear there is a substantial amount of disclosure regarding risks, but that much of it is unhelpful (i.e., unnecessarily long with much disclosure of self-evident risks, boilerplate, repetitive and accompanied by pages of caveats).

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[3] A recent study by CPA Canada on climate-related disclosures made by Canadian public companies highlighted varying disclosure practices. Only a small percentage of disclosures included information on financial impacts. For the most part, disclosures did not address company plans to adapt to the longer-term impacts of climate change and the transition to a low-carbon future. In many instances, we questioned the practical use of the information disclosed by the companies surveyed.

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2. Focus on education and outreach

The Consultation Paper's focus on "reducing regulatory burden" inherently assumes a portion of existing requirements is excessive and can be eliminated with no adverse consequences to investors. We do not have the impression that reporting requirements have become unduly burdensome. Instead, we hear that a compliance-oriented mindset is contributing to "disclosure overload" (i.e., redundant, outdated, boilerplate, immaterial information) resulting from litigation concerns and pressures from regulators, lawyers, auditors and accounting standards setters. Accordingly, focusing on modifying or reducing regulatory requirements may not be an effective way to address this behavioural issue. We encourage a concurrent emphasis on improving the quality of corporate reporting through education, the issuance of guidance and other initiatives.

We see opportunities for greater education and outreach with capital market participants to illustrate how regulatory reporting can be communicated in a more effective and efficient manner. In this vein, we encourage securities regulators to provide greater focus and clarity around the disclosure objectives accompanying reporting requirements, including clarifications around the application of materiality. We believe this would result in more meaningful disclosure. We believe your consideration of the following would be helpful in doing this:

- CPA Canada's publication *Management's Discussion and Analysis: Guidance on Preparation and Disclosure* presents principles and a reporting framework to assist management and boards of directors when preparing and issuing MD&A reports.[4]
- Discussion Paper issued by the International Accounting Standards Board (IASB) in March 2017: *Disclosure Initiative – Principles of Disclosure.* We believe some of the principles discussed in the paper would be helpful in a regulatory disclosure context.[5]

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[4] https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/guidance-for-mda-preparation-and-disclosure

[5] http://www.ifrs.org/projects/work-plan/principles-of-disclosure/

3. Impact of technology

We note that the Consultation Paper does not address the implications of technological innovation in great detail. For example, what would corporate reporting look like in a future where smart phones are the biggest source of corporate reporting information and constitute a continuous stream of data customizable by the user? That time may not be far off. As investors embrace big data, developments in XBRL, and analytics, the location of disclosures within a securities filing will inevitably become less important. As a result, evolving technology will enable greater flexibility in how companies choose to satisfy disclosure obligations and facilitate greater use of cross-references and hyperlinks. It may also result in additional information being available on a more timely and less costly basis. Investors may even demand more frequent rather than less frequent reporting.

We encourage the CSA to explore how regulatory requirements should be adapted in response to technological advancements.

4. Smaller vs. larger reporting issuers

The comments we received on extending the application of streamlined rules to smaller reporting issuers were mixed. Some stakeholders expressed concerns about disclosure obligations for smaller reporting issuers being different from those for larger issuers. These stakeholders thought such differences would contribute to confusion in the marketplace and make it difficult for companies to adjust back and forth between regimes. Others expressed support for fewer and easier-to-apply rules for smaller issuers because they thought such changes would improve access to capital. They cite a view that smaller issuers are an important growth engine for the Canadian economy and that current requirements are discouraging capital formation.

We are open to the possibility of bifurcating regulatory reporting requirements for smaller and larger TSX-listed issuers by recognizing the different characteristics of smaller companies and the needs of their investors. Determining the appropriate metrics and criteria to define a "smaller reporting issuer" will require careful consideration in addition to specific rules outlining the transition between reporting categories (i.e., transition from small to large issuer and vice versa). We heard a variety of views on how this might be done with no consensus on a particular approach.

5. Importance of quarterly reporting

We heard that quarterly reporting provides important information for investors. Nevertheless, we acknowledge that some quarterly MD&A reporting in practice has deviated from its intended and stated purpose, which is to “update” the company’s annual MD&A. In many instances, quarterly reporting is accompanied by unnecessary, lengthy and repetitive disclosures. Given the unprecedented availability of investment information in the Information Age and the need for quarterly reporting to be aligned with this, we encourage the CSA to focus on efforts to improve the quality of quarterly reporting as opposed to decreasing the frequency of such reporting. If the right focus is placed on the quarterly MD&A, it might achieve the same purpose as the “quarterly highlights” approach discussed in the Consultation Paper.

On the issue of whether an over-emphasis on quarterly reporting is resulting in short-termism, we did not hear that short-termism is a pervasive problem. Even if it is a problem, we also did not hear that allowing semi-annual reporting would contribute to alleviating the issue.

The U.K. semi-annual reporting model is cited as an example in the Consultation Paper. A recent study by the CFA Institute on the impact of reporting frequency on U.K. public companies found that over 90% of U.K. companies surveyed continued to report on a quarterly basis after the semi-annual reporting requirement was introduced in 2014. The same study also concluded that the shift from quarterly reporting to semi-annual reporting was “not an effective remedy for undue corporate emphasis on short-termism. If quarterly reporting leads company executives to focus on profits during the next three months, then a shift to semiannual reporting might plausibly lead corporate executives to focus on profits during the next six months – not on corporate investments with good prospects over the next three to five years.”[6]

Additional research and study of the issue is required and CPA Canada is willing to assist in these efforts.

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[6] https://www.cfainstitute.org/learning/products/publications/rfbr/Pages/rfbr.v3.n1.1.aspx

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We appreciate the opportunity to participate in this important consultation. If you have any questions or would like to discuss our views further, please contact Gord Beal, Vice-President, Research, Guidance and Support (gbeal@cpacanada.ca).

Yours truly,

Joy Thomas, MBA, FCPA, FCMA, C. Dir.
President and Chief Executive Officer
Chartered Professional Accountants of Canada

Appendix A – Responses to Select Consultation Questions

Please note that we have not responded to all the consultation questions.

General consultation questions

1. Of the potential options identified in Part 2:

a) Which meaningfully reduce the regulatory burden on reporting issuers while preserving investor protection?

In our opinion, the following options would most meaningfully enhance disclosure and simplify compliance efforts by reporting issuers while preserving investor protection:

- Eliminate overlap in regulatory requirements and IFRS disclosures (see Questions 27-28).
- Explore reduced reporting requirements for smaller reporting issuers (see Questions 4-5).
- Consider the consolidation of the MD&A, AIF and financial statements into one document (see Question 29).

b) Which should be prioritized and why?

Priority should be given to eliminating overlapping disclosure requirements as it should be non-controversial, relatively easy to implement, and does not reduce information available in the capital markets.

2. Which of the issues identified in Part 2 could be addressed in the short-term or medium-term?

We hope that the items we have identified in our response to question 1 a) could all be addressed in the short term.

3. Are there any other options that are not identified in Part 2 which may offer opportunities to meaningfully reduce the regulatory burden on reporting issuers or others while preserving

investor protection? If so, please explain the nature and extent of the issues in detail and whether these options should constitute a short-term or medium-term priority for the CSA.

Please refer to our general comments on opportunities to re-evaluate existing reporting requirements.

2.1 Extending the application of streamlined rules to smaller reporting issuers

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?

Our outreach activities resulted in a number of people supporting a size-based distinction between categories of reporting issuers and others supporting the current distinction based on exchange listing.

5. If we were to adopt a size-based distinction:

a) What metric or criteria should be used and why?

We expect that a substantial amount of study is needed to develop appropriate criteria.

b) – d) No response**.**

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

Without further study, we are unable at this time to comment on which companies should qualify for the reduced regulatory requirements.

2.2 Reducing the regulatory burden associated with the prospectus rules and offering process

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

a) How would this amendment assist in efficient capital raising in the public market?

Through our outreach, we heard from users that three years of financial statements is important for trend analysis. However, we also heard that the CSA should consider providing relief in the rare situations where it is not practicable to provide a third year of information. A cost-benefit analysis would be a key determinant in this decision.

b) How would having less historical financial information on non-venture issuers impact investors?

As discussed above, some users indicated that the third year of financial information is important.

c) Should we consider a threshold, such as pre-IPO revenues, in determining whether two years of financial statements are required? Why or why not?

We heard mixed opinions on the application of a size test for determining whether two years of financial statements are required. While some stakeholders supported consideration of a threshold, others believed that the application of a size test might cause confusion in the markets.

d) No response.

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

Please see our response to Question 7.

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

Almost all the stakeholders we consulted agreed that auditor review of interim financial statements included in a prospectus is critical to investor protection and necessary to satisfy due diligence requirements.

Under Canadian auditing standards, auditors must perform review procedures on unaudited financial statements included in an offering document in accordance with Section 7150 *Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document.*

We encourage the CSA to consult with the Auditing and Assurance Standards Board (AASB) when contemplating changes to auditor requirements under securities legislation. In such circumstances, it is critical to understand the implications for auditors and any conflicts or other issues with auditing and assurance standards.

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

In general, stakeholders supported the requirement to include pro-forma financial statements for significant acquisitions. It was argued that this is the only way for investors to understand the preliminary allocation of the purchase price and the potential impact on future earnings.

Some stakeholders support further reductions in disclosure requirements for non-IPO prospectuses and see greater opportunity to incorporate information into a prospectus by reference to information readily available to investors elsewhere.

11. – 17. No response.

2.3 Reducing ongoing disclosure requirements

18. Does the BAR disclosure, in particular the financial statements of the business acquired and the pro forma financial statements, provide relevant and timely information for an investor to make an investment decision? In what situations does the BAR not provide relevant and timely information?

We heard from users that BAR disclosures (i.e., financial statements of the business acquired and pro-forma financial statements) provide relevant information in connection with significant acquisitions. Concerns were raised, however, about the timeliness of the BAR since it is filed in some cases after the quarterly report (including the acquisition) has been filed.

We also heard support to modify the test for determining when an acquisition is a major acquisition (in particular, increasing the threshold applied to the significance test) and for aligning the definition of a business with International Financial Reporting Standards (IFRS).

19. – 20. No response.

21. Are there disclosure requirements for annual and interim filing documents that are overly burdensome for reporting issuers to prepare? Would the removal of these requirements deprive investors of any relevant information required to make an investment decision? Why or why not?

We did not hear that there are *overly* burdensome annual and interim disclosure requirements. However, there is concern about the duplication of required disclosures and, in some cases, the inconsistencies across disclosure requirements. The issues associated with disclosures may be behavioural in nature and stem from (among other things) a perceived lack of flexibility in how regulatory reporting rules should be applied.

As indicated in our general comments, we encourage securities regulators to clearly articulate objectives for various disclosure requirements, supplemented with educational materials, to help issuers apply better judgment about what should be disclosed in their particular circumstances. This could also include clarifications with respect to the application of materiality to disclosures.

22. Are there disclosure requirements for which we could provide more guidance or clarity? For example, we could clarify that discussion of only significant trends and risks is required, or that the filing of immaterial amendments to material contracts is not required under NI 51-102.

Please refer to our general comments on opportunities to re-evaluate existing reporting requirements, which include suggestions for targeted improvements in specific disclosure areas.

23. What are the benefits of quarterly reporting for reporting issuers? What are the potential problems, concerns or burdens associated with quarterly reporting?

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?

25. Would semi-annual reporting provide sufficiently frequent disclosure to investors and analysts who may prefer to receive more timely information?

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26. Similar to venture issuers, should non-venture issuers have the option to replace interim MD&A with quarterly highlights?

Please note the following comments relate to questions 23 to 26 inclusive:

We heard limited support for providing a semi-annual reporting option to all reporting issuers. There are different views on the cost/benefits of quarterly reporting from the perspective of reporting issuers and users. Additional research and study is needed before such an option is permitted.

Many of the views expressed during our outreach were similar to the views expressed during the consultation on National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers* in 2011 where the shift to semi-annual reporting was also contemplated.[7]
We also heard that the relative importance of quarterly reporting is driven by a number of entity-, industry-, and market-specific considerations.

Those who believed semi-annual reporting should *not* be permitted had the following views:

- Preparation and dissemination of interim financial reports are relatively straightforward and do not represent a significant additional burden.
- Less frequent disclosure could result in more private conversations/selective disclosure.
- Discipline of quarterly reporting drives improved controls over financial reporting and governance.
- Quarterly financial reporting is crucial to investors in entities with highly cyclical operations such as those entities impacted by changes in commodity prices.
- The introduction of semi-annual reporting could impact the Canada-U.S. multijurisdictional disclosure system (MJDS) for cross-border issuers.

To the extent there was support for semi-annual reporting, it was not attributable to the problem of short-termism. Some arguments for semi-annual reporting included:

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[7] http://www.osc.gov.on.ca/en/SecuritiesLaw_ni_20120913_51-103_rfc-venture-issuers.htm

- a voluntary option for larger, more established entities with predictable results
- substantial reduction in costs to prepare and distribute quarterly reports
- reduction of the “Canada first” issue with respect to adoption of accounting standards (IFRS) as Canada generally is the first jurisdiction to report under new accounting standards because of quarterly reporting requirements.

2.4 Eliminating overlap in regulatory requirements

27. Would modifying any of the above areas in the MD&A form requirements result in a loss of significant information to an investor? Why or why not?

Stakeholders indicated there is no need for repetition of information. This would remove “clutter” in the disclosures and assist in ensuring important information is not obscured by duplicative disclosure requirements.

We support the CSA’s efforts to identify and eliminate overlap in regulatory requirements and in International Financial Reporting Standards (IFRS). We encourage the CSA to work with the Accounting Standards Board (AcSB) in these matters and to continue to monitor accounting standards developments to limit instances of duplicative disclosures in the future.

28. Are there other areas where the MD&A form requirements overlap with existing IFRS requirements?

We heard there is overlap between the MD&A and IFRS requirements in the following areas:

- related-party transactions
- off-balance-sheet disclosures
- contractual obligations
- legal proceedings.

29. Should we consolidate the MD&A, AIF (if applicable) and financial statements into one document?

We heard opposition to consolidating the MD&A, AIF and financial statements on the grounds that it would be difficult for users to differentiate audited from unaudited information.

We also heard support for the consolidation option. Where there was interest in combining documents, different permutations were contemplated. These included:

- combining the MD&A, AIF and financial statements into an "Annual Report"-type document

  Support for this option centered on reducing duplicative disclosures and on improving readability and users' ability to navigate the various disclosure documents. It was acknowledged there may be some challenges when consolidating the three documents for the first time. It was recommended that relief in filing deadlines be considered for the year the requirement is implemented.

- combining the MD&A and financial statements into one document

  Support for this option centered on the complementary nature of the MD&A and financial statements. The AIF was viewed as serving a distinct purpose. Because of its "point in time" orientation, stakeholders who supported this option did not believe it was appropriate to combine it with the other two documents.

Despite the different views, CPA Canada believes there is merit in further study of whether combination or consolidation of some or all of these documents would be valuable to users. This could, in and of itself, reduce regulatory burden, but the issues around distinguishing what information is audited and what is not also need to be addressed.

30. No response.

2.5 Enhancing electronic delivery of documents

31. No response.

32. No response.

33. Are there other ways electronic delivery of documents could be further enhanced through securities legislation?

As described in our general comments, we encourage securities regulators to look beyond “enhancing” electronic delivery of documents and examine how investors access and consume information to develop principles for the electronic delivery of documents.

During our consultation, stakeholders also indicated opportunities to enhance electronic reporting in the following areas:

- Development of a “one-stop” portal is important. We heard that the System for Electronic Disclosure by Insiders (SEDI) is not user friendly.
- Inclusion of a centralized website where investors could get information to vote proxies would facilitate voting at shareholders’ meetings.