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July 27, 2017

British Columbia Securities Commission
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
Financial and Consumer Services Commission, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

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Re: CSA consultation - 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers

Dear Sirs/Mesdames:

Québec Bourse would like to congratulate the Canadian Securities Administrators (the "CSA") for initiating this very important consultation on reducing the regulatory burden on public issuers.

Allow us first, to introduce Québec Bourse. We are the association that brings together Québec's public companies and the stakeholders that make up the public market ecosystem. Québec Bourse was officially created in 2016 and currently has over 90 members. Listed companies' members of Québec Bourse are of various sizes and from all industries. Listed companies' members of Québec Bourse have an aggregate market capitalization of more than $40 billion.

The association took shape following a CROP survey conducted on behalf of Québec Bourse in the fall of 2015. The survey results confirmed that the regulatory burden and the associated high compliance costs represent major irritants for public companies and significant barriers for anyone considering an IPO.

Québec Bourse is particularly well placed to convey the views of listed companies and its other members. The comments we are transmitting today are the outcome of discussions by the Québec Bourse board of directors and comments made by our members at a roundtable held on May 30, 2017 and during telephone interviews.

As you know, Canadian securities regulations have evolved considerably over the past 20 years, and new regulatory requirements have entailed many new obligations and high compliance costs for issuers. To a certain extend, the overload of information seems to work against the true needs of investors in terms of protection and information for investment decision purposes.

If the Canadian market (and the Québec market in particular given the production of information in both French and English) is to survive, it is crucial for us to take a close look at the current regulatory framework and the relevance and appropriateness of all the requirements. There is an urgent need to act if we want a dynamic, efficient stock market that can compete with the other available sources of capital and the early divestiture of companies.

Looking at the Canadian market, we observe the following:

1. A significant reduction in the number of initial public offerings (IPOs) and other new listings;

2. An important wave of privatization that has shrunk the pool of public companies (which also becomes an issue for investors);

3. A perceived significant imbalance between the regulatory burden, compliance costs and investor protection;

4. Canada has a much higher proportion of SMEs listed on a stock exchange than other international markets;

5. The lack of competitiveness of the Canadian regulatory framework with that of the United States;

6. The current system's failure to take into consideration technological advances in terms of access to information.

Our comments for the consultation are attached, cross-referenced to the numbering system used in the consultation document.

We would be pleased to meet with you at your convenience to discuss our comments and respond to any questions you might have. We would also very much like to invite your representatives to speak to our members in the fall of 2017 in Montreal to provide us with an update on your progress.

Finally, we would welcome the opportunity to participate in any initiatives or in any working groups the CSA might create to implement initiatives aimed at reducing the regulatory burden.

Thank you in advance for your consideration of our comments.

Sincerely,

Louis Doyle
Executive Director
Québec Bourse Inc.

Appendix: Québec Bourse's comments on the CSA consultation

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?**

   The options that meaningfully reduce the regulatory burden on reporting issuers are, without question, broadening the application of streamlined rules, removing the requirement to file a business acquisition report, permitting semi-annual reporting and eliminating overlap. These measures would not have any negative impact on investor protection, as they would not eliminate any material information.

   b) **Which should be prioritized and why?**

   All the elements identified in the above response are important and require the CSA's immediate attention.

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

   Enhancing electronic delivery of documents, eliminating overlap in regulatory requirements and permitting semi-annual reporting.

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.**

   We have identified three other areas that merit attention given the costs they entail for issuers:

   - CEO/CFO certification:

     We recognize the importance of internal control over the reliability of financial reporting, as well as the appropriateness of obtaining certifications from the President and Chief Executive Officer and the Chief Financial Officer.

     However, we think it is important to review the frequency with which those certificates must be produced.

     We suggest that the requirement should be annual rather than quarterly. An annual frequency would offer issuers some relief while still meeting the regulatory objective at no detriment to investors.

   - Material change report:

     Currently, for a material change, issuers are required to issue a press release immediately, and then file a material change report that essentially contains the information already disclosed in the press release.

We suggest that the material change report requirement be waived in cases where a press release is issued and filed on SEDAR. The material change report requirement is a clear example of duplication that is of no benefit to investors.

- Executive compensation disclosure requirements:

  Executive compensation has significantly evolved. The information issuers present to comply with the regulatory requirements is complex that the disclosure fails to achieve the intended objective. Disclosure in its current form involves complex components of compensation, and we would submit that few shareholders grasp the full scope of this disclosure.

  For shareholders, the most relevant information is the total compensation paid (with carefully distinguishing earned compensation from compensation payable in the future and conditional upon future objectives being met). Disclosure in a table is the most effective form of disclosure.

  Our members also tell us that under the current requirements, they must disclose strategic elements of their compensation model, which could be of benefit to their competitors. The analysis of compensation requires explanation of key components, in particular the short term incentive program's objectives, what they are designed to compensate, quantitative and qualitative performance matrix, results rating (which may go as far as detailed calculations supporting the compensation paid under these programs). Often these objectives are strategic in nature. Disclosure of such objectives and of achieved results, force companies to reveal their corporate strategies.

  Bonus allocations under these short terms and long-term incentive programs are subject to robust processes and to sub-committees of the Board of Directors approval (normally independent from management) and subsequently to Board approval. This rigor and independence should allow for a reduction of the extend of the disclosure requirements of objectives and results in order to prevent prejudice to companies by having to disclose strategic information.

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?

As mentioned above, there is an urgent need to provide SMEs with a regulatory regime that corresponds to their reality. We would submit that the exchange on which the issuer is listed is not an appropriate distinction criterion. Canada differs from other major world markets in that it has large number of relatively small issuers compared to other markets. According to statistics published by TMX Group, as at May 31, 2017, more than half of "other issuers" (other than listed exchange traded funds products) had a market capitalization of less than $500 million, representing $114.5 billion out of a total of $2,876.5 billion.

While the streamlined rules for venture issuers are fairer (apart from issues discussed below), the normal regulatory framework imposes disproportionate requirements on the issuer that not "venture issuers (whose market capitalization is less than $500 million), both in terms of regulatory burden and compliance costs.

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

a) **What metric or criteria should be used and why? What threshold would be appropriate and why?**

The goal is to properly identify issuers who should benefit from a regulatory framework that fits their profile. It is relevant to distinguish between the large companies and those of smaller sizes.

We submit that the two main characteristics that define issuer size are market capitalization and revenues earned by the issuer. These two separate criteria should therefore be included in the new eligibility rules.

In addition, we recommend that the designation of issuers that qualify for the streamlined rules be changed to "SME issuer" ("émetteur PME" in French).

The application of the streamlined rules should be extended to all issuers with:

i) A market capitalization of less than $500 million; and

ii) Revenues of less than $100 million.

b) **What measures could be used to prevent reporting issuers from being required to report under different regimes from year to year?**

Issuer eligibility should be assessed at the end of the fiscal year for the revenue criterion, and on the basis of the 60 days preceding the end of the fiscal year for the market capitalization criterion.

An issuer that was previously a large issuer would not be able to qualify for the streamlined rules without first obtaining a confirmation of non-objection from its principal regulator.

c) **What measures could be used to ensure that there is sufficient transparency to investors regarding the disclosure regime to which the reporting issuer is subject?**

Two measures could be put in place to facilitate the identification of an issuer's status:

i) The SEDAR profile could include a "marker" identifying issuers subject to the streamlined rules; and

ii) A "notice to reader" could be added to the materials produced by the issuer indicating that the issuer is an "SME issuer" within the meaning of the relevant Canadian regulations.

d) **How could we assist investors in understanding the distinction made and the requirements applicable to each category of reporting issuer?**

The CSA should conduct an investor awareness campaign to inform the investing public of the new definition and the nature of the streamlined rules.

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?

That is not desirable, as it would increase confusion in the market. It would create three types of issuers: those that are eligible for the streamlined rules, those that are eligible for a portion of the streamlined rules, and those that are ineligible.

2.2 Reducing the regulatory burdens associated with the prospectus rules and offering process
(a) Reducing the audited financial statement requirements in an IPO prospectus

7. Is it appropriate to extend the eligibility criteria for the provision of two years of financial statements? If so:

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

The requirement to file a third year of audited financial statements is a significant burden for new issuers. Furthermore, prospectus requirements are also imposed on the disclosure document required for qualifying transactions on the TSX-V and for reverse takeover transactions.

We submit that two years are sufficient, for the following reasons:

- For many growth issuers, the third year of financial reporting is often not representative of the issuer's current reality and therefore provides the investor with little or no useful information.
- Also, bear in mind that for most issuers, the financial statements for the third year were prepared in accordance with some other accounting standards (Canadian, private company), and converting them to IFRS represents a significant cost.
- We propose one year of audited financial statements for issuers eligible for the streamlined rules and two years for other issuers.

The issuer could be required to present key performance indicators for a period of three years as supplementary information. Presentation for a longer period should be left to the discretion of the brokerage firms responsible for the initial public offering.

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

We do not anticipate any negative consequences in this regard. The prospectus in its current form has been around for many years, and many people consider that it contains so much information that investors rarely read it through.

It is worth noting that in the United States, an issuer with revenues of under US $1 billion is only required to produce two years of audited financial statements. We are not aware of any comment to the effect that reducing the number of years of financial reporting has had a negative impact on investors.

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?

The same eligibility criteria as the criteria for the streamlined rules should be used, with the IPO issue price used to calculate market capitalization.

d) If a threshold is appropriate, what threshold should be applied to determine whether two years of financial statements are required, and why?

Please refer to our comments to question c) above.

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

Issuers of all sizes and sectors list on the stock exchange. The importance of a three-year trend analysis varies greatly from one issuer to the next.

The brokers in charge of the financing are in the best position to determine which financial information is relevant and the period for which that information is required, on a case-by-case basis. In our opinion, key performance indicators are sufficient for trend analysis.

2.2 (b) Streamlining other prospectus requirements

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

In the normal course of business, a review of quarterly financial statement does not represent significant workload and costs. It becomes a significant burden, however, when a prospectus is required and the issuer has not yet obtained a review of its latest quarterly financial statements. In addition to the direct costs involved, the review limits the issuer's agility, and the resulting delays can cause the issuer to miss market opportunities.

We suggest that the review of interim financial statements no longer be required. The interim financial statements have already been filed on SEDAR and the information provided is already covered by the civil liability regime which provides rights for persons who feels adversely affected.

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

The prospectus format needs to be updated to make it more relevant for investors. The following existing requirements should be removed:

- MD&As:

  MD&A should only cover the latest 12-month period. MD&A for other periods is both a significant burden to prepare and less relevant for the investor. Furthermore, the information required in the MD&A should not repeat information presented elsewhere in the prospectus.

- Pro forma financial statements:

As discussed in the section on business acquisition reports below, we suggest that in the case of a material acquisition, the pro forma financial statement requirement should be eliminated.

- Predecessor financial statements:

  The requirement to file predecessor financial statements should be eliminated if the financial information is included in the issuer's most recent annual financial statements.

- Carve-out in the case of a resource company (that acquires a property).

  In a large proportion of cases, information is difficult to access (especially if the property was previously owned by a large company.) We submit that for a mineral property, geological information is more useful than carve-out financial statements.

2.2 (c) Streamlining public offerings for reporting issuers
i) *Short form prospectus offering system*

11. Is the current short form prospectus system achieving the appropriate balance (i.e., between facilitating efficient capital raising for reporting issuers and investor protection)? If not, please identify potential short form prospectus disclosure requirements which could be eliminated or modified in order to reduce regulatory burden on reporting issuers, without impacting investor protection, including providing specific reasons why such requirements are not necessary.

Under the current regime, using the short-form prospectus entails a series of prior requirements that significantly lessens its appeal (particularly for venture issuers in the resource sector). The time required for the regulator's review of the Annual Information Form and the Technical Report (two prerequisites) can be such that by the time the review is complete, the window for funding has closed and the issuer is unable to proceed with the financing.

12. Should we extend the availability of the short form prospectus offering system to more reporting issuers? If so, please explain for which issuers, and why this would be appropriate.

The short-form prospectus regime should be accessible by any issuer whose continuous disclosure file is complete and up-to-date.

ii) *Potential alternative prospectus model*

13. Are conditions right to propose a type of alternative prospectus model for reporting issuers? If an alternative prospectus model is utilized for reporting issuers:

a) What should the key features and disclosure requirements of any proposed alternative prospectus model be?

The CSA should use the rights offering circular as a guide in terms of basic information required for disclosure purposes.

b) What types of investor protections should be included under such a model (for example, rights of rescission)?

Simplification of prospectus content should have no impact on investor's rights. The same protection rights should apply.

c) Should an alternative offering model be made available to all reporting issuers? If not, what should the eligibility criteria be?

Eligibility should be restricted to issuers listed on recognized stock exchange which the CSA is satisfied with such exchange standards. Exchange's listing imposes to the issuer obligations, transparency and some level of liquidity on its securities. This differentiates them from none-listed reporting issuers.

2.3 Reducing ongoing disclosure requirements
(a) Removing or modifying the criteria to file a BAR:

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?

In most cases, the BAR is not worthwhile in terms of the benefits to investors and the burden and costs for the issuer. The requirement to file a BAR containing audited and pro forma financial statements may influence the decision on whether or not to proceed with an acquisition.

The acquisition has already been disclosed via press release, and any material information has therefore already been disclosed.

The first financial statements to be filed on SEDAR post transaction must already provide consolidated information with pro forma information on key indicators, as required under IFRS.

Many issuers enjoy regular financial analyst coverage and institutional tracking, which means that the marketplace is perfectly capable of assessing disclosure relating to a significant acquisition.

We would submit that the requirement to produce a BAR should be eliminated for issuers eligible for the streamlined rules. For larger issuers, should the requirement be maintained, the materiality threshold should be increased to 50%.

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

Many listed companies have a strategy of growth through acquisition. Target private companies are often unable to provide the required IFRS financial statements in time. The requirement to file a BAR containing audited and pro forma financial statements is a major barrier for many reporting issuers.

20. If the BAR provides relevant and timely information to investors:

Information produced within 75 days of the closing of a transaction is already dated and arrives too late. The information provided by a BAR is irrelevant because it is not timely.

2.3 (b) Reducing disclosure requirements in annual and interim filings

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?

In recent years, new regulatory requirements and obligations have been introduced by the CSA, often in response to events that have often occurred in countries other than Canada (CEO and CFO certification requirements, for instance). Other elements, such as the adoption of IFRS accounting standards, have been imported. The introduction of each new element has added to the burden imposed on issuers. It is the whole set of requirements that has become too burdensome for issuers.

Among the excessively restrictive elements, we would highlight:

- CEO/CFO certification: prerequisites, content and frequency

- MD&A: content and frequency

  MD&As should cover only the current period. Repetition of information from period to period makes for bulky disclosure and distracts the reader from the relevant information.

  For the vast majority of listed SMEs, the MD&A in its present form contains far too much static, historical information that weighs down the information presented. Highlights would provide the reader with more relevant information.

- Executive compensation disclosure: see our response to Question 3.

2.3 c) Permitting semi-annual reporting

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

Quarterly financial reporting and the related obligations impose extremely tight deadlines on corporate management (particularly for first quarter reporting).

For companies with limited activity or stable operations, semi-annual reporting would be sufficient for investors.

If a material financial event occurs during the six-month reporting period, the issuer would be required to disclose it in accordance with its timely disclosure obligations, and investors would therefore be informed.

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 propose that venture issuers, new defined based on a market capitalization and revenue threshold, be eligible for an exemption from filing quarterly financial statements. A company would only avail itself of the exemption if it deemed that it would not be penalized by investors for doing so, i.e., if the benefits outweigh the risks.

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

We recognize that some issuers will be reluctant to stop producing financial statements on a quarterly basis. We therefore recommend that the measure be voluntary.

Again, in the event that a financial material change occurs during a period, the issuer would be required to inform the market via press release.

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

Yes. In its current form, the MD&A provides a significant quantity of information which can also be found in other material produce by the issuer or which are not that relevant for investor focusing on financial information. Reliance on highlights would have the benefit of focusing on the issuer financial performance information. Many issuers are structuring their MD&A by having highlights presented right at the beginning.

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?

No. The investor would simply have to refer to the financial statements, where much of the information overlap is evident.

The goal is not to limit information. However, we believe it is essential to eliminate any overlap in the various documents already filed. The basic principle is that “information only has to be disclosed once”. Duplication and overlapping of regulatory requirements is a major issue. It entails costs and resources and is a burden for issuers, and creates confusion for investors. Moreover, investors are ill-served by the volume of information produced and the existing duplication. More structured information would clearly be beneficial.

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

The CSA would need to look at the origin of the requirement and the purpose of each document required under the regulations, and eliminate the elements that do not serve the intended purpose.

We believe that CSA staff is very well placed to do this exercise, to identify all the overlaps and propose a solution to eliminate them.

Moreover, as part of such an exercise, consideration should be given to the fact that, in the digital age, ease of access to information in other documents justifies the elimination of overlaps.

29. Should we consolidate the MD&A, AIF (if applicable) and financial statements into one document? Why or why not?

A single document containing the financial statements, annual information form (for non-venture issuers and for venture issuers who wish to produce it), an MD&A or highlights, and the CEO and CFO certificates would be a definite improvement.

Consolidating all the information into one document would make it easier to identify and eliminate overlaps.

30. Are there other areas of overlap in continuous disclosure rules? Please indicate how we could remove overlap while ensuring that disclosure is complete, relevant, clear, and understandable for investors.

See question 28. We must simply determine where the information is mandatory and most relevant (in the examples given, the information is mandatory in the audited annual financial statements under IFRS, and it would therefore be appropriate for the information to only appear in the financial statements).

2.5. Enhancing electronic delivery of documents

32. The following consultation questions pertain to the "notice-and-access" model under securities legislation and consideration of potential changes to this model:

a) Since the adoption of the "notice-and-access" amendments, what aspects of delivering paper copies represent a significant burden for issuers, if any? Are there a significant number of investors that continue to prefer paper delivery of proxy materials, financial statements and MD&A?

In Canada, the Management Proxy Circular has to be printed. This constitutes an unnecessary burden, as the document is available on SEDAR and often on the issuer's website. In our experience, only 5% of investors request hard copies.

b) Do you think it is appropriate for a reporting issuer to satisfy the delivery requirements under securities legislation by making proxy materials, financial statements and MD&A publicly available electronically without prior notice or consent and only deliver paper copies of these documents if an investor specifically requests paper delivery? If so, for which of the documents required to be delivered to beneficial owners should this option be made available?

We submit that document delivery requirements should be replaced by a document availability requirement, which could be met by filing a document on SEDAR and posting it on the issuer's website.

Given that scenario, the CSA should develop a campaign to inform investors.

c) Would changes to the "notice-and-access" model as described in question (b) above pose a significant risk of undermining the protection of investors under securities legislation, even though an investor may request to receive paper copies?

Printing and mailing documents is outdated and costly and does not deliver the material in a timely manner. This is exacerbated by the fact that many investors hold securities in different accounts and receive more than one copy of the mailed documents.

Issuers could perhaps inform investors via email of the availability of a new document (provided that the shareholder has given the issuer an email address).

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

Notwithstanding the improvements that have been made to National Instrument 54-101, there is still work to be done to adapt the transmission (or availability) of documents to today's technological reality.

The CSA should use all the necessary resources to enhance SEDAR for both those who use it for disclosure and investors who wish to consult it.

It is crucial that SEDAR become a user-friendly, easily accessible, state-of-the-art database.

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