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TORONTO HYDRO

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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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary - Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
E-mail: comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
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Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Dear Ladies and Gentleman,

Re: Comments on CSA Consultation Paper 51-404

The following comments are submitted in response to CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*, dated April 6, 2017.

Toronto Hydro Corporation ("THC") is a holding company which wholly owns two subsidiaries: (i) Toronto Hydro-Electric System Limited ("THESL"), which distributes electricity and engages in conservation and demand management activities, and (ii) Toronto Hydro Energy Services Inc., which provides street lighting and expressway lighting services in the city of Toronto. The principal business of THC and its subsidiaries is the distribution of electricity by THESL, which owns and operates the electricity distribution system for Canada's largest city. A leader in conservation and demand management, it has 764,000 customers located in the city of Toronto and distributes approximately 18% of the electricity consumed in Ontario.

THC, whose common shares are solely owned by the city of Toronto, is a reporting issuer in each province of Canada and issues debentures pursuant to a short form base shelf prospectus (dated May 8, 2017) that have not been listed on any securities exchange unless otherwise determined. For purposes of certain Canadian securities regulations, THC is a "venture issuer" as defined in National Instrument 51-102 – Continuous Disclosure Obligations.

This letter represents the undersigned's personal views (and not those of THC) and are submitted without prejudice to any position that may be taken by THC or any other related person or entity.

(1) Venture Issuer Definition ***(CSA Consultation Question 4, 5 & 6)***

The "venture issuer" definition should more closely reflect and better accommodate the different types of venture issuers operating in the Canadian markets, including Toronto Hydro, so that appropriate and useable exemptions can be tailored to their circumstances.

The current qualification criteria, based on stock exchange listings, produces an overly broad and uneven set of accommodations (for issuers at opposite ends of the spectrum) that do not properly address regulatory need and investor protection.

One result is that venture issuers like Toronto Hydro are granted relief from rules that they otherwise still need to comply with on account of their capital market activities. For example, since an Annual Information Form ("AIF") is required for an issuer to be eligible to file a short form prospectus for a shelf program, relief from AIF rules for venture issuers like Toronto Hydro do not provide adequate accommodation.

A revenue and market capitalization (size) test, as well as consideration of the nature and type of securities issued, would help to better identify types of issuers that could benefit from relevant exceptions, without negatively impacting investors.

Consideration should also be given to establishing a more bespoke regulatory regime for large venture issuers like Toronto Hydro (who only issue unlisted debt securities) where the regulatory burden would be more proportionate to the risks. Elements could include, for example, greater reliance on Toronto Hydro's existing continuous disclosure documents (provided duplicative requirements in such documents are eliminated), along with a more simplified form of AIF/MD&A and term sheets describing debt issuances in lieu of repetitive and detailed prospectus documentation. This is also discussed further in sections 2 and 4 below.

(2) Prospectus Disclosure Changes and Alternative Prospectus Offering Model ***(CSA Consultation Question 10 and 13)***

Requiring a full AIF to be produced for issuances of investment grade debt securities (via the current short form prospectus rules) is both excessive and overly burdensome to issuers like Toronto Hydro whose debt is typically purchased by sophisticated institutions on the basis of credit rating and financial disclosure information.

Reliance on an issuer's continuous disclosure, along with an abridged AIF, that is accompanied by offering term sheets specific to the securities being issued, could help form the basis of a more simplified public offering model for investment grade issuers instead of the current prospectus-driven regime.

Continuous market access could also be facilitated via reliance on an issuer's continuous disclosure documents, and the 25-month shelf life rules which often duplicate disclosure and unnecessarily drive up issuer costs with regular program renewals, could be eliminated.

(3) Marketing Regime ***(CSA Consultation Question 17)***

The rules need to better reflect how an MTN public debt offering is marketed (which is simplified compared to other public offerings) in order to reduce the amount of marketing filings made at the time of an offering. Under the current regime, Toronto Hydro has been required to file as many as 6 different versions of marketing materials for each debt offering (and each one is translated, resulting in the total number of marketing filings being 12).

Many of these required filings are unnecessary and can be potentially confusing. Accordingly, the marketing rules would likely benefit from clarifications and other changes that would result in better disclosure that is not duplicative of the prospectus and pricing supplement.

For example, the current rules provide for "standard term sheets" (essentially shorter/simplified versions of currently filed marketing materials) which can be provided to investors, but do not need to be filed on SEDAR since they only describe the basic features of the issuer, the offering and the securities. Current practice is that these term sheets, however, are being treated as "marketing materials" which trigger numerous filings on SEDAR for an issuer.

To avoid such multiple filings, one idea is that the rules should better clarify that the customary short-form term sheets used in MTN programs can be considered "standard term sheets" and therefore do not need to be filed on SEDAR. Doing so would help reduce the burden on issuers without having any negative impact on investors.

(4) Annual and Interim Disclosure Requirements ***(CSA Consultation Question 21)***

It is also worthwhile mentioning that because there are distinct types of venture issuers in the Canadian capital markets (ranging from very small to very large organizations) a "one-size-fits-all" regime does not work well. In my view, the CSA should consider introducing a reduced disclosure regime for debt-only issuers, like Toronto Hydro, on account that several of the compliance obligations under the current rules are not adequately reflective of the lower risks associated with such forms of investment (versus, for example, a publicly traded company with equity securities where an investor's investment could be substantially reduced or even eliminated). In addition, being required to repeat the same disclosure in multiple documents is both inefficient for issuers and confusing for investors.

One suggestion, where an annual disclosure document is required, would be to create a new short and simplified format that would both represent a substantial reduction from the current AIF form and eliminate disclosure repetitions[1], and that would also include reduced and more simplified executive compensation disclosure for debt-only issuers (keeping in mind that debt investors, with fixed returns, do not generally view executive compensation information in the same way that equity investors do). Although current executive compensation disclosure rules already include an abridged form for venture issuers, in my view the disclosure obligations are not reduced enough in comparison to what mainstream equity-traded issuers are required to provide. Given the lack of meaningful difference, many of the larger venture issuers do not even bother to take advantage of the abridged format and instead seem to elect to comply with the longer format. This is evidence that the current abridged format does not work and should be further reduced and amended.

Creating a separate disclosure framework with rules specifically aimed at debt-only issuers can not only be arranged in a way that is more responsive to the needs of debt investors, but if it is done correctly, it would also considerably help to reduce redundant compliance obligations without any negative implications for investors.

Thank you for the opportunity to provide these comments and please do not hesitate to let me know if you would like to discuss further.

Regards,

Conrad Sheppard
Director, Legal Services and Corporate Secretary

[1] For example, by combining select portions of AIF and MD&A disclosure into a single format for debt-only issuers.