

CSA Staff Notice 51-353
Update on CSA Consultation Paper 51-404
Considerations for Reducing Regulatory Burden for
Non-Investment Fund Reporting Issuers

March 27, 2018

PART 1 – Introduction

On April 6, 2017 the Canadian Securities Administrators (**CSA** or **we**) published for comment CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* (the **Consultation Paper**).

Changes brought on by shifts in market conditions, investor demographics, technological innovation and globalization all have a real impact on reporting issuers. As capital markets evolve, our approach to regulation needs to reflect the realities of business for Canadian reporting issuers to remain competitive. Regulatory requirements and the associated compliance costs should be balanced against the regulatory objectives sought to be realized and the benefit provided by such regulatory requirements to investors and other stakeholders.

The purpose of the Consultation Paper was to identify and consider areas of securities legislation applicable to non-investment fund reporting issuers that could benefit from a reduction of undue regulatory burden, without compromising investor protection or the efficiency of the capital market. The Consultation Paper identified a number of options to reduce the regulatory burden associated with both capital raising in the public markets (i.e., prospectus related requirements) and the ongoing costs of remaining a reporting issuer (i.e., continuous disclosure requirements). The options identified in the Consultation Paper were grouped into the following categories:

1. Extending the application of streamlined rules to smaller reporting issuers
2. Reducing the regulatory burdens associated with the prospectus rules and offering process
 - a. Reducing the audited financial statement requirements in an initial public offering (**IPO**) prospectus
 - b. Streamlining other prospectus requirements
 - c. Streamlining public offerings for reporting issuers
 - d. Other potential areas
3. Reducing ongoing disclosure requirements
 - a. Removing or modifying the criteria to file a business acquisition report (BAR)
 - b. Reducing disclosure requirements in annual and interim filings
 - c. Permitting semi-annual reporting

4. Eliminating overlap in regulatory requirements
5. Enhancing electronic delivery of documents

The Consultation Paper also sought feedback as to:

- whether any of the options identified in the Consultation Paper would meaningfully reduce regulatory burden while preserving investor protection,
- whether there are any other options that were not specifically identified but which may offer opportunities to meaningfully reduce the regulatory burden on reporting issuers or others while preserving investor protection, and
- which options should be prioritized and whether such issues could be addressed in the short- or medium-term.

The comment period closed on July 28, 2017 (extended from July 7, 2017). We received 57 comment letters from various stakeholders across Canada. People expressed a wide range of views in these letters, which are summarized in **Appendix A**. We thank all participants for contributing to the consultation.

The purpose of this CSA Staff Notice is to update stakeholders on the status of this consultation, as well as outline the CSA policy initiatives we are undertaking and the next steps in this initiative.

PART 2 – Stakeholder feedback received

As noted above, in response to the Consultation Paper, we received 57 comment letters from stakeholders representing a diverse range of commenters including:

- reporting issuers,
- investors,
- investor advocacy groups,
- law firms,
- accounting firms and accounting regulatory bodies,
- stock exchanges,
- industry groups, and
- other stakeholders.

During the Consultation Paper comment period, staff from certain CSA jurisdictions also participated in a number of consultations in order to seek direct feedback from various advisory committees, industry groups and other commenters.

The policy initiatives we are undertaking, as set out in Part 3 of this CSA Staff Notice, are based on consideration of all of the stakeholder feedback received through the comment letters and the other consultations described above.

PART 3 – Upcoming CSA policy initiatives

Based on our consideration of the feedback received in response to the Consultation Paper, the CSA will initiate six options as CSA policy projects in the near term. We note that there are a number of steps that must occur in connection with any changes to our regulatory regime. There is no assurance that any changes to our regulatory regime will ultimately be adopted in any of the CSA jurisdictions.

We have taken into account the need to prioritize options and focus CSA regulatory resources on projects that: (i) are generally supported by stakeholders as an identified area of undue regulatory burden, (ii) are most achievable and within the scope of securities regulation, and (iii) will provide the most impact in terms of reducing potential burden on non-investment fund reporting issuers.

In addition, we note that there are a number of other options identified in the Consultation Paper or by commenters which we are not initiating as CSA policy projects at this time. Our reasons for not initiating CSA projects are based on one or more of the following key factors:

- Some options received little or no support from stakeholders, or suggested significant disagreement among market participants as to the merits of the proposal.
- Some options appeared to offer less potential for meaningful reduction of regulatory burden on non-investment fund reporting issuers.
- Some options were recently considered or are being considered in the context of another CSA policy initiative.
- CSA staff identified substantive policy concerns or concluded that certain options fell outside the scope of our securities regulatory mandate.

The CSA may revisit or reconsider some of these other options if we become aware of new developments in any of these areas.

3.1 Prospectus requirements

(a) Potential alternative prospectus model

CSA staff noted in the Consultation Paper that it was considering whether conditions are right to revisit the merits of an alternative prospectus offering model for reporting issuers with disclosure more concise and focused than under the current short form prospectus regime.

We heard support from several commenters for this project. Some commenters also provided support for alternative prospectus concepts previously proposed but not implemented, such as Continuous Market Access and the Integrated Disclosure System. In light of the feedback

received, certain CSA jurisdictions will begin research as an initial phase of a project to explore potential alternative offering models.

As part of this project, staff in such jurisdictions will consider any regulatory changes resulting from the separate CSA project to revisit certain continuous disclosure requirements discussed below.

(b) Facilitating at-the-market (ATM) offerings

The Consultation Paper identified that, while National Instrument 44-102 *Shelf Distributions* (NI 44-102) establishes certain rules for ATM offerings under Canadian shelf prospectuses, NI 44-102 does not establish a comprehensive framework for ATM offerings as it does not exempt ATM offerings from certain provisions of securities legislation applicable to all prospectus offerings. Consequently, a reporting issuer wishing to conduct an ATM offering must obtain exemptive relief from certain securities legislation requirements.

Some commenters observed that the limited number of ATM offerings in Canada may be partly attributable to regulatory burden associated with the requirement to obtain prior exemptive relief and the conditions typically imposed in connection with such relief. Commenters also suggested that some of the current restrictions on ATM offerings could be relaxed or eliminated without compromising necessary investor protection and the integrity of the capital markets.

In light of feedback that facilitating ATM offerings would be beneficial for Canadian reporting issuers, the CSA intends to initiate a CSA policy project in this area.

(c) Revisiting the primary business requirements

While not specifically identified as an option in the Consultation Paper, commenters suggested that CSA staff revisit the interpretation of Item 32 of Form 41-101F1 *Information Required in a Prospectus* (Form 41-101F1). These rules outline the historical financial statements required to be included in an IPO prospectus and commenters noted certain inconsistencies between staff's interpretation of these requirements across the CSA.

In light of this feedback received from stakeholders, CSA staff is considering ways in which we can provide greater clarity to issuers preparing an IPO prospectus regarding these issues.

3.2 Continuous disclosure requirements

(a) Removing or modifying the criteria to file a business acquisition report (BAR)

Reporting issuers frequently apply for and are granted certain relief from the BAR requirements. We heard from some commenters that the preparation of a BAR entails significant time and cost, and that the information necessary to comply with the BAR requirements may, in some instances, be difficult to obtain. Some of these stakeholders also questioned the value of the BAR disclosure. Commenters also provided a wide range of suggestions on how the CSA can reduce regulatory burden in this area.

In light of this feedback, a CSA policy project will be pursued in this area.

(b) Revisiting certain continuous disclosure requirements

We received a number of comments pertaining to existing continuous disclosure requirements as set out in National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102). Some commenters supported:

- eliminating duplicative disclosure among the financial statements, management's discussion and analysis (MD&A), and other NI 51-102 forms,
- consolidating two or more of the financial statements, MD&A and annual information form (AIF) into one reporting document, and
- examining whether the volume of information in annual and interim filings can be reduced in order to prevent excessive disclosure from obscuring key information or otherwise improving the quality and accessibility of disclosure.

In light of this feedback received from stakeholders, a CSA policy project will be initiated to review certain continuous disclosure requirements, with a view to reducing the burden of disclosure on issuers, while enhancing its usefulness and understandability for investors. We expect that this will be a staged project with a majority of the work requiring a longer timeframe.

3.3 Other securities regulation requirements

(a) Enhancing electronic delivery of documents

The Consultation Paper noted that some market participants are of the view that reporting issuers continue to incur significant costs associated with printing and delivering various documents required under securities legislation. Commenters were generally supportive of developments which would further facilitate electronic delivery of documents and, in particular, switching the current default to electronic delivery, provided that investors retained an option to receive paper documents.

In light of this feedback received from stakeholders, a CSA policy project will be initiated in this area. We note that some legal aspects of electronic delivery fall outside of the scope of securities legislation. As a result, the CSA is limited on the potential changes that can be made in this area.

PART 4 – Next steps

The CSA will initiate each of the above options in the near term. This will involve establishing CSA working groups consisting of staff from participating CSA jurisdictions and identifying the project mandate, scope, timelines and resources required. Certain projects may involve longer timeframes for completion than others. Any potential changes to our regulatory regime will need to follow our standard policy-making process, including publishing any proposed amendments for

comment. As noted in Part 3, there is no assurance that any changes to our regulatory regime will ultimately be adopted in any of the CSA jurisdictions.

PART 5 – Questions

If you have any comments or questions, please contact any of the CSA staff listed below.

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**APPENDIX A
SUMMARY OF COMMENT LETTERS RECEIVED^{1,2}**

General

General comments (Consultation Questions #1, 2 and 3)

General support

The majority of commenters expressed support for this initiative. One commenter noted that “regulatory requirements for reporting issuers have become increasingly burdensome. This is as true for larger public companies as it is for venture issuers.” Another commenter stated that “the indication in some studies that public markets and the number of IPOs are in decline is a concern and we believe that the regulators have a role to play in helping to stem or reverse this trend.”

Impact of technology

Seven commenters recommended that the CSA consider the impact of technology on securities regulation. Specific considerations raised include recommendations for improving the System for Electronic Document Analysis and Retrieval (**SEDAR**) and the System for Electronic Disclosure by Insiders.

Re-evaluation of existing reporting requirements

Four commenters indicated that reducing regulatory burden should not be isolated from the need for broader consideration of the overall effectiveness of the reporting regime.

Empirical evidence

Two commenters noted that obtaining and considering empirical evidence should be part of any process to reduce regulatory burden.

Alignment with the U.S.

Two commenters recommended that the implementation of any significant reforms to Canadian securities regulations should only be made after a balanced consideration of existing regulations and ongoing regulatory initiatives in the U.S.

2.1 Extending the application of streamlined rules to smaller reporting issuers

Adopting a size-based distinction (Consultation Questions #4 and 5)

Supportive

13 commenters supported the use of a size-based distinction instead of the current exchange-based distinction for reasons including: the current exchange-based delineation is arbitrary (a size-based metric would provide a more fair distinction), and smaller issuers typically have less complex capital structures as well as fewer resources to devote to regulatory compliance.

¹ All comment letters received have been published and may be viewed at <http://www.osc.gov.on.ca/en/54097.htm>.

² Rows in this document have been intentionally left blank where no applicable comments were received.

	11 commenters indicated that market capitalization (either in isolation or in combination with other metrics) would be the best metric to use if a size-based distinction is introduced. Some commenters also provided specific suggestions to reduce potential volatility and increase transparency.
Supportive in certain circumstances	One commenter supported use of a size-based distinction dividing larger and smaller non-venture issuers in addition to the current exchange-based distinction.
Not supportive	15 commenters indicated that they do not support a change to the current delineation between venture and non-venture issuers for reasons including: the current exchange-based method works well (it is straightforward, stable, transparent, and gives the issuer the ability to choose which exchange they are listed on), and a third category would add confusion, cost of capital may increase and may result in Canadian issuers being less competitive among investors.
Extending certain less onerous venture issuer requirements to non-venture issuers (Consultation Question #6)	
Supportive	Four commenters supported extending certain venture issuer requirements to non-venture issuers. Some commenters specifically cited the <i>pro forma</i> financial statement requirements and the BAR significance test thresholds as areas where the venture issuer requirements could be extended to non-venture issuers.
Supportive in certain circumstances	Two commenters expressed support for the extension of certain (but not all) venture issuer requirements to non-venture issuers.
Not supportive	Four commenters indicated that the current venture issuer regulatory requirements should not be extended to non-venture issuers for reasons including: it would add confusion to the capital markets, and it may increase the cost of capital for issuers as less disclosure provides less comfort for investors.
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 (Consultation Questions #7 and 8)	
Supportive	Seven commenters supported extending the eligibility criteria for the provision of two years of financial statements in an IPO prospectus to all issuers that intend to become non-venture issuers. Reasons cited by commenters include: the third year of information may not be overly useful or relevant to investors, it would assist in alleviating the burden for issuers which have multiple entities considered the “primary business” of the issuer

	under Item 32 of Form 41-101F1, and it would more closely align the CSA's rules with the U.S. requirements for emerging growth companies.
Supportive in certain circumstances	Nine commenters expressed support for this option in certain circumstances, such as where issuers had pre-IPO revenues under certain thresholds, or if the delineation between venture and non-venture issuers is modified to be based on size rather than exchange listing.
Not supportive	Eight commenters indicated that they did not support reducing the audited financial statement requirement in an IPO prospectus from three to two years for reasons including that three years of historical data is necessary for investors.
(b) Streamlining other prospectus requirements: (i) auditor review of interim financial statements included in a prospectus (Consultation Question #9)	
Supportive	Four commenters supported removing the requirement for auditor review of interim financial statements included in a prospectus. Some commenters noted that the value of an auditor review does not outweigh the increased time and cost.
Supportive in certain circumstances	Four commenters expressed support for this option in certain circumstances only, including for: non-venture issuers, interim financial statements included in a BAR that is incorporated by reference in a short form prospectus, non-IPO prospectus filings, and entities that are already reporting issuers.
Not supportive	14 commenters did not support this option. Many of these commenters indicated that auditor review of the interim financial statements included in a prospectus provides an additional layer of comfort (for investors, as well as for underwriters, agents, and the issuer's directors) on the most current financial information in a prospectus. Some commenters also noted that under Canadian auditing standards, auditors must perform review procedures on unaudited financial statements included in an offering document in accordance with Section 7150 <i>Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document</i> .
(b) Streamlining other prospectus requirements: (ii) pro forma financial statements for a significant acquisition (Consultation Question #10) ----> See section 2.3(a) for comments related to pro forma financial statements	
(b) Streamlining other prospectus requirements: (iii) tailoring disclosure requirements for non-IPO prospectuses (Consultation Question #10)	
Supportive	<u>General support</u> 17 commenters indicated support for the CSA examining whether prospectus requirements can be removed or modified to reduce issuers' preparation costs, particularly where information is not helpful from an investor protection point of view or is disclosed elsewhere and can be cross-

	<p>referenced.</p> <p>The most commonly cited short form prospectus disclosure requirements that commenters recommended the CSA examine were: description of business, description of authorized share capital, prior sales, risk factors, and trading data.</p> <p><u>BAR disclosure required to be included in a short form prospectus</u> Four commenters indicated support for revisiting the requirements for BAR disclosure in a short form prospectus.</p> <p>One commenter recommended that the CSA consider separately the two significant acquisition disclosure requirements (i.e. BAR filing requirements on a continuous disclosure basis and information about significant (probable) acquisitions in a prospectus).</p> <p><u>Use of proceeds</u> One commenter suggested that more focus and discussion should be given to use of proceeds and future projections/plans.</p> <p><u>Listing representations</u> One commenter recommended that prohibitions on listing representations be modified to allow issuers to state that application will be made to list the offered securities, without having previously made such application or obtaining a prior consent, if the issuer already has a listed class of securities on the relevant exchange.</p>
Supportive in certain circumstances	
Not supportive	One commenter noted that fulsome and current disclosure is preferable; 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.
(c) Streamlining public offerings for reporting issuers: (i) short form prospectus offering system and eligibility (Consultation Questions #11 and 12)	
Supportive	<p><u>Eligibility</u> Four commenters indicated support for extending short form prospectus eligibility to all reporting issuers. Some commenters specified that use of the short form prospectus system should be conditional on an issuer’s continuous disclosure record being complete and up-to-date.</p> <p>One commenter supported making use of a short form prospectus the general</p>

rule with long form information required only in specific cases.

Notice of intention to qualify

Two commenters questioned whether filing a notice of intention to be qualified to file a short form prospectus serves a useful purpose, noting that it can represent a 10 business day delay in accessing capital markets. These commenters suggested that, provided that a reporting issuer has a current AIF and is in compliance with its continuous disclosure obligations, it should be permitted to file a short form prospectus.

Personal Information Forms (PIFs)

Three commenters noted that PIFs consist of a lengthy questionnaire that can be difficult to complete, particularly on a bought deal timeline. These commenters recommended changes including: exploring alternative ways to obtain PIF information (e.g. requiring all new directors and officers to file a PIF with the securities regulator at the time of joining the board/management team of the issuer), condensing the required information in a PIF, and extending the number of years for which a PIF remains valid.

Prospectus receipting process

Three commenters suggested considering the prospectus receipting process and whether it can be streamlined or automated.

Right of withdrawal

Two commenters indicated the current two business day right of withdrawal provided to investors under a prospectus offering should be revisited.

Non-issuer submission to jurisdiction

One commenter suggested requiring non-resident directors/signing officers to file one non-issuer submission to jurisdiction and appointment of agent for service at the time such director/officer is appointed to the board or becomes an officer that will apply to all security issuances under prospectus financings in the future, subject to a requirement to update information for changes.

Translation

One commenter noted that the requirement for French translation is a significant burden that does not enhance investor protection.

Consents of Qualified Persons (QPs)

One commenter questioned the value of obtaining QP consents for experts included in an AIF that is incorporated by reference in a prospectus where the related prospectus disclosure is not material or where the prospectus does not include an extract from the technical report.

	<p><u>Well-Known Seasoned Issuers (WKSI) program</u> Two commenters recommended introducing a program similar to the U.S. WKSI program, noting that this system permits issuers of a certain size and who meet specific criteria to file an automatic shelf registration statement that is not subject to Securities and Exchange Commission (SEC) review.</p>
Supportive in certain circumstances	
Not supportive	<p><u>General changes to the short form prospectus system</u> Six commenters indicated general support for the current short form prospectus system, noting that significant changes are not necessary.</p> <p><u>Eligibility</u> Four commenters indicated that the current qualification criteria work well.</p>
(c) Streamlining public offerings for reporting issuers: (ii) potential alternative prospectus model (Consultation Question #13)	
Supportive	<p>12 commenters indicated support for exploring a prospectus offering model for reporting issuers that is more closely linked to continuous disclosure.</p> <p>Three commenters specifically indicated support for a prospectus model similar to the previously considered Continuous Market Access system.</p> <p>One commenter specifically indicated support for a prospectus model similar to the previously considered Integrated Disclosure System.</p>
Supportive in certain circumstances	One commenter noted that small public companies should be allowed to buy and sell up to 10% of the public float on a continuous basis based on a targeted price range determined by the issuer.
Not supportive	Three commenters did not support a move to an alternative prospectus model for reasons including: the current model works well, concerns regarding the implications on liability, and concerns that the costs associated with any additional burdens placed on the issuer's continuous disclosure record may offset any benefit.
(c) Streamlining public offerings for reporting issuers: (iii) facilitating at-the-market (ATM) offerings (Consultation Questions #14 and 15)	
Supportive	10 commenters supported the adoption of the facilitative aspects of the exemptive relief that has historically been granted by the CSA in respect of ATM offering. Some commenters noted that Canadian reporting issuers are at a competitive disadvantage to their counterparts in the U.S. and more issuers, particularly those that are dual-listed, will pursue financing by way of a U.S.-only ATM offering.

	<p>Some commenters indicated that certain requirements of prior exemptive relief decisions should not be adopted, including: the 25% limitation on the number of common shares that may be sold on any trading day, the monthly reporting requirement, and the 10% of market capitalization limit on the size restriction.</p> <p><u>Cross-border ATM offerings</u> Two commenters recommended providing additional relief for ATM offerings in order to better align with the requirements and conditions applicable to a concurrent U.S. ATM offering.</p>
Supportive in certain circumstances	One commenter suggested that ATM offerings should only be available to small issuers that have disclosed higher risks and where it is a more important financing strategy.
Not supportive	One commenter indicated that fulsome and current disclosure is preferable, including in the context of ATM offerings.
(d) Other potential areas: (i) facilitating cross-border offerings (Consultation Question #16)	
Supportive	<p><u>Multijurisdictional Disclosure System (MJDS)</u> Two commenters highlighted the importance of the MJDS and noted it is critical that any changes made by the CSA do not jeopardize the continuation of the MJDS system.</p> <p>One commenter noted that in the context of a bought deal offering the Canadian rules allow an issuer to commence soliciting expressions of interest prior to filing the short form prospectus subject to complying with Part 7 of National Instrument 44-101 <i>Short Form Prospectus Distributions</i>, however, to the extent that the offering is an MJDS offering an issuer cannot avail themselves of the ability to solicit expressions of interest prior to filing the short form prospectus as the issuer is required to file the prospectus in the U.S. prior to soliciting expressions of interest. The commenter indicated that although this is beyond the jurisdiction of the CSA, it would be beneficial to Canadian issuers to the extent that the CSA could work with the SEC to further streamline the MJDS rules so that a Canadian issuer could utilize the Canadian rules for soliciting expressions of interest when pursuing an offering under the MJDS rules.</p> <p>One commenter indicated that MJDS generally works well, except in circumstances where issuers have not filed a shelf prospectus, noting that in the U.S., an issuer can use a shelf prospectus immediately without signalling to the market.</p> <p><u>Foreign issuer definition</u> One commenter noted that the definition of “foreign issuer” and “foreign</p>

	<p>reporting issuer” under National Instrument 71-101 <i>The Multijurisdictional Disclosure System</i> and National Instrument 71-102 <i>Continuous Disclosure and Other Exemptions Relating to Foreign Issuers (NI 71-102)</i> are too restrictive and should be revised to permit issuers to access the Canadian system (as foreign issuers or foreign reporting issuers) even if they are incorporated federally or under a provincial or territorial statute so long as the connection to the Canadian market is minimal.</p> <p><u>Regulatory passport reciprocity</u> One commenter recommended advocating regulatory passport reciprocity for disclosure and financing requirements with other jurisdictions that have similar financial systems.</p> <p><u>Other areas</u> One commenter provided recommendations in the following areas: distributions outside of Canada, the exceptions for U.S. cross-border offerings, offshore marketing, form 10-K exhibits for SEC issuers, and shelf prospectus supplements.</p>
Supportive in certain circumstances	
Not supportive	
(d) Other potential areas: (ii) further liberalizing the pre-marketing and marketing regime (Consultation Question #17)	
Supportive	<p>Eight commenters noted that the rules surrounding the pre-marketing and marketing regime are overly strict. Recommendations by commenters included: revisiting the rules on standard term sheets, permitting issuers to confidentially solicit interest before a deal is certain in the case of a shelf offering, and revisiting some of the mechanics of the regime to prevent such outcomes as the filing of many similar sets of marketing materials, or the filing of a prospectus amendment only to support changed marketing materials.</p>
Supportive in certain circumstances	
Not supportive	

2.3 Reducing ongoing disclosure requirements

(a) Removing or modifying the criteria to file a BAR (Consultation Questions #18, 19, and 20)

Supportive	<p><u>Removing the BAR requirements entirely</u> Four commenters recommended removal of the BAR requirements entirely. Two commenters recommended the CSA conduct a broader review of the BAR requirements, particularly whether the current significance tests are appropriate and whether BAR disclosure (including <i>pro forma</i> disclosure) is considered necessary by investors.</p> <p><u>Increasing the significance test thresholds for non-venture issuers</u> 14 commenters supported increasing the significance test thresholds for non-venture issuers for reasons including: BAR disclosure is of little value to investors particularly given its lack of timeliness, and it is costly to prepare and can impede the completion of a transaction. The most commonly recommended threshold was 50%.</p> <p><u>Profit or loss test</u> 10 commenters supported removal of the profit or loss significance test (with and without a replacement) for reasons including: anomalous results are often produced, the use of absolute values can distort the results, and there can be a disproportionate impact on smaller issuers. Three commenters who supported the removal of this test specifically recommended that it should not be replaced. Some commenters suggested that, if the CSA believes that measuring significance based on income is important, financial indicators appropriate for the applicable industry should be utilized (such as net operating income for real estate issuers).</p> <p>Three commenters suggested introducing an optional significance test based on revenue that could be applied in situations where only the profit or loss test has indicated that the acquisition is significant.</p> <p>Three commenters recommended replacing the profit or loss test with a test based on revenue.</p> <p>One commenter recommended eliminating the profit or loss test for smaller reporting issuers, particularly those that are pre-revenue.</p> <p><u>Asset test</u> Two commenters supported removal of the asset significance test.</p> <p><u>Investment test</u> Two commenters supported replacing the current investment test with a test that compares the purchase price against the issuer's market capitalization if readily available (or the carrying value of total assets, if not).</p>
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	<p>One commenter recommended the investment test be based on proceeds agreed to by both parties at a certain point in time, preferably the date of announcement.</p> <p><u>Audit requirement</u> One commenter suggested reducing or eliminating auditor involvement in BAR financial statements.</p> <p><u>Pro forma financial statements</u> Six commenters questioned the relevancy of including <i>pro forma</i> financial statements in BAR disclosure (and in some cases, in prospectuses as well) given significant assumptions and estimates are required in the preparation of such statements and they are retrospective to a historical point in time.</p> <p><u>Alignment of Item 14.2 of Form 51-102F5 Information Circular requirements</u> Four commenters supported alignment of these rules with the BAR requirements rather than the current requirement to provide prospectus level disclosure as the relevant information for shareholders would be included in BAR-level disclosure.</p> <p>One commenter supported this option for pre-revenue issuers and for transactions where only some of the assets of the vendor are acquired.</p> <p><u>Carve-out financial statements</u> Three commenters noted that it can be very difficult for a company to prepare full carve-out financial statements, due to the significant co-mingling of costs and other activities.</p> <p>One commenter suggested that for acquisitions of non-revenue generating assets, a <i>pro forma</i> balance sheet showing the effect of the transaction would be sufficient.</p> <p><u>Other comments</u> Two commenters suggested that the CSA should provide additional clarity as to what is considered to be a “business” for the purpose of the significant acquisition tests.</p> <p>One commenter suggested that the CSA codify some of the case-by-case BAR relief granted to issuers.</p> <p>One commenter recommended the CSA provide an exemption from BAR level financial statement disclosure where historical financial statements for the acquired business or portion thereof are not reasonably available.</p> <p>One commenter noted that in some instances, the CSA has imposed a “super</p>
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	<p>significance test” on issuers which has resulted in additional financial statement requirements. The commenter noted that this test is not found in NI 51-102 and its use results in uncertainty for issuers. The commenter suggested that to the extent that members of the CSA have unwritten significance tests such tests should either be formalized or abandoned.</p> <p>One commenter suggested that BAR disclosure must be made in clear language; the BAR should explain the cost of the acquisition, how it fits with the current business, why the acquisition was made and what value-added it will bring, and the potential effect on current share value.</p> <p>One commenter indicated that the CSA should revisit the rationale of all materiality tests in securities legislation (i.e. BAR significance tests, material subsidiary for insider reporting purposes, AIF disclosure of intercorporate relationships, material changes, and shareholder approval of an acquisition under Toronto Stock Exchange (TSX) rules), and ensure each test is appropriate for its intended purpose.</p>
Supportive in certain circumstances	<p>Four commenters expressed support for various changes to the BAR requirements in certain circumstances only, such as elimination of the BAR requirements for smaller reporting issuers below a certain size threshold.</p>
Not supportive	<p>Five commenters did not support any changes to the existing BAR regime. These commenters noted that BARs provide relevant information for making investment decisions and that in the absence of a BAR, an issuer’s analysis of the impact of an acquisition is not disclosed to the public.</p> <p><u>Pro forma financial statements</u></p> <p>Five commenters did not support the removal of <i>pro forma</i> financial statements from the BAR disclosure requirements, noting that they provide an understanding of complex financings and implications for capital structure going forward, particularly when the transaction is combined with other capital transactions such as a share issuance or debt refinancing.</p> <p>One commenter recommended that the CSA provide more robust guidance regarding how <i>pro forma</i> financial statements should be prepared, noting that currently guidance is limited and this may be contributing to inconsistencies in their preparation on common issues.</p> <p><u>Alternative tests for specific industries</u></p> <p>One commenter noted that it would be difficult to adopt alternative tests for all various industries, however if alternative tests were adopted, the significance tests for oil and gas issuers should address the impact of the acquisition on the reserves and/or production of the issuer as opposed to tests which are seemingly based on book value only.</p>

(b) Reducing disclosure requirements in annual and interim filings (Consultation Questions #21 and 22)	
Supportive	<p>19 commenters indicated that it is important to examine whether the volume of information in annual and interim filings can be reduced, as excessive information can obscure the focus on key information. Support was also expressed for the CSA to provide additional guidance and educational materials to give issuers further clarity on disclosure expectations. Some commenters recommended additional guidance with respect to the application of materiality to disclosures.</p> <p><u>MD&A</u> Nine commenters supported removal of either or both the prior period results discussion and eight quarter summary of results in the MD&A.</p> <p>Three commenters suggested a significant streamlining of the quarterly MD&A requirements with more emphasis on key information and referencing to the annual disclosures.</p> <p><u>Question and answer regime</u> One commenter recommended a question and answer continuous disclosure regime, akin to that used in Form 45-106F14 <i>Rights Offering Notice for Reporting Issuers</i> for rights offerings.</p>
Supportive in certain circumstances	
Not supportive	<p>Four commenters did not support the removal of disclosure from annual and interim filings for reasons including: information available to investors should be reduced only when it can be clearly shown that it is undue and that no harm is likely to result to investors, disclosure is an essential mechanism to ensure issuers are held responsible and prevents inaccurate financial reporting through transparency requirements, and concerns that modifying or reducing regulatory requirements may not be an effective way to address the deficiencies in the quality and accessibility of disclosure.</p>
(c) Permitting semi-annual reporting (Consultation Questions #23, 24, and 25)	
Supportive	<p>Nine commenters supported permitting semi-annual reporting for all reporting issuers for reasons including: addressing short-termism, the continued requirement for issuers to disclose material changes and material information in a timely manner, and time and cost savings would allow issuers to better allocate limited resources. Some commenters also raised the experience in other jurisdictions such as the U.K., certain European countries and Australia as having positive experiences with respect to permitting semi-annual reporting.</p>

Supportive in certain circumstances	17 commenters expressed support for this option in certain circumstances only, such as for issuers with no revenues or operations, or as the option pertains to the MD&A but not the financial statements.
Not supportive	<p>16 commenters indicated that they were not supportive of permitting semi-annual reporting for reasons including: quarterly reporting provides investors with timely, consistent disclosure, and it instills discipline and accountability in reporting practices. Some commenters also noted that extending the period between reports may increase the risk of selective disclosure.</p> <p>Some commenters noted that issuers listed in the U.S. would not benefit from a semi-annual reporting requirement, and that a move to semi-annual reporting could have an impact on the market value of Canadian issuers in comparison to U.S. counterparts.</p> <p>Some commenters questioned the impact permitting semi-annual reporting would have on short-termism. Certain commenters cited a March 2017 study by the CFA Institute Research Foundation which looked at the U.K. experience where mandatory quarterly reporting was initiated in 2007 and discontinued in 2014 and found no reason to believe that removing quarterly reporting requirements would stop companies from engaging in short-termism.</p> <p><u>Disclosure of long-term goals</u> Two commenters suggested the CSA require or encourage issuers to do a better job of identifying long-term goals and measures and report their progress towards these goals to relieve some of the focus from the issuer's short-term quarterly performance.</p>
Use of quarterly highlights by non-venture issuers (Consultation Question #26)	
Supportive	11 commenters supported this option, noting that quarterly highlights can focus investors on key information in the quarter and reduce the duplication of information.
Supportive in certain circumstances	<p>Four commenters expressed support for this option in certain circumstances only, such as for non-venture issuers with no revenue.</p> <p>Four commenters indicated they are open to further exploration of this option but would require additional guidance, particularly regarding the eligibility and information that would need to be included in a quarterly highlights document.</p>
Not supportive	One commenter noted that a quarterly highlights document, rather than a full MD&A, would allow too much discretion for the issuer to highlight information they want investors to know, rather than the information that the investor wants to know.

2.4 Eliminating overlap in regulatory requirements	
Eliminating overlap between the financial statements and MD&A, and within NI 51-102 forms (Consultation Questions #27, 28 and 30)	
Supportive	<p>36 commenters supported eliminating duplicative disclosure for reasons including: it would improve the quality of disclosure by providing users with more relevant, concise and clear information, and the time and cost savings for issuers.</p> <p>The areas of overlap in International Financial Reporting Standards (IFRS) and MD&A disclosure requirements most frequently cited by commenters were: accounting policies and future accounting changes, contractual obligations, financial instruments, off-balance sheet arrangements, related party transactions, and significant accounting judgments, estimates and assumptions.</p> <p>Some commenters also noted that while there are many subtle differences between IFRS and MD&A requirements, these differences do not provide additional useful information; the existing disclosure requirements under IFRS adequately cover these areas.</p> <p>The areas of overlap in the disclosure requirements of the NI 51-102 forms most frequently cited by commenters were director information and risk disclosures.</p> <p><u>AIF</u> Five commenters suggested reviewing the value of some of the information currently required to be included in the AIF.</p> <p><u>Cross-referencing</u> Four commenters recommended encouraging preparers to cross-reference to other documents when information is duplicative.</p>
Supportive in certain circumstances	<p><u>Critical accounting estimates and changes in accounting policies</u> Two commenters noted that the MD&A requirements regarding critical accounting estimates can be helpful to a user in understanding how events and the passage of time will impact the financial statements in the future. One commenter indicated that the CSA should consider a principles-based requirement that is focused on providing investors with an understanding of the estimation process and areas in which changes in the assumptions would have a material impact on the financial statements.</p> <p>One commenter noted that the MD&A requirements regarding changes in accounting policies can also be helpful to a user in understanding the impact of such changes on the financial statements. The commenter indicated that the CSA should also consider a principles-based requirement in this area.</p>

	<p><u>Related-party disclosures</u></p> <p>One commenter supported limiting the MD&A requirements in this area to only the disclosures that are incremental beyond the financial statement disclosure, such as the identification of the related person or entity.</p>
Not supportive	<p>One commenter noted that, while overlap may exist, the purpose of the financial statements and the MD&A are different and are used by investors in different ways; as a result, overlap is necessary.</p> <p>One commenter expressed concerns about the CSA abdicating responsibility for the overlapping financial statement and MD&A disclosures to the accounting standard setters and the preparers of financial statements.</p>
Consolidating the financial statements, MD&A and AIF into one annual reporting document (Consultation Question #29)	
Supportive	<p>20 commenters supported the consolidation of the financial statements, MD&A and AIF into one annual reporting document for reasons including: facilitation of the elimination of duplication, presentation of information to investors in a more cohesive manner, and streamlining of the preparation and review process for issuers.</p> <p>Three commenters recommended including the annual National Instrument 52-109 <i>Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109)</i> certifications in the consolidated annual reporting document.</p> <p>Two commenters recommended including annual meeting proxy circulars in the consolidated annual reporting document.</p> <p>Two commenters suggested making the use of a consolidated document optional to accommodate issuers that may have resourcing constraints.</p>
Supportive in certain circumstances	<p>13 commenters expressed support for this option in certain circumstances, such as integrating the annual MD&A and AIF only, integrating the financial statements and MD&A only, or if the use of a consolidated document was voluntary and not mandatory.</p>
Not supportive	<p>Four commenters did not support this option for reasons including: consolidation would raise questions about the extent of information covered by an audit opinion that could result in additional audit costs and might have an impact on an issuer's legal liability, and it would apply additional time pressure on preparers due to the simultaneous preparation of the AIF. These concerns were also raised by many supporters of this option as well.</p>

2.5 Enhancing electronic delivery of documents (Consultation Questions #31, 32 and 33)

Supportive

General support

28 commenters expressed support for developments which would further facilitate the electronic delivery of documents for reasons including: investor preference has changed (requests for printed materials are now very rare), the significant costs and timing delays associated with the printing and delivery of various documents, and the environmental benefit of reduced printing.

Electronic delivery without consent

20 commenters indicated that electronic delivery of financial statements and MD&A should not require consent from the securityholder. 19 commenters extended this support to proxy materials. 16 commenters indicated broader support for electronic delivery of all documents without consent. Some commenters recommended that some form of notice be provided to investors to indicate that the documents are available electronically. Some commenters also indicated that paper documents should be provided if an investor specifically requests them.

Other comments regarding notice-and-access

Three commenters encouraged providing all issuers the ability to utilize notice-and-access to ensure consistency across all jurisdictions.

Three commenters recommended that the CSA consider the timelines for use of notice-and-access.

One commenter recommended expanding the notice-and-access model to include beneficial shareholders.

One commenter recommended the creation of a new notice-and-access process for financing documents (prospectuses, offering memoranda, and private placement subscription documents).

One commenter noted that currently, issuers using the same transfer agent are not permitted to make use of security holder consents previously obtained by other issuers, including in situations where a new company is created through a spin-off mechanism, which results in an initial share register for the spin-off company that is an exact duplicate.

One commenter noted that there is a disconnect in the process used by issuers when they choose to mail meeting material directly to their Non-Objecting Beneficial Owners.

One commenter noted that the requirement to include a toll-free number in the notice- and-access is expensive for issuers and not helpful to investors.

Access equals delivery

Four commenters indicated support for an “access equals delivery” model. Some commenters referred specifically to prospectus offerings, whereas others recommended a broader application to all documents required to be sent to investors. Some commenters noted that in the U.S., the SEC implemented such a policy in 2005 for prospectus offerings and current rules suggest the CSA is comfortable that investors participating in short form prospectus offerings have the ability to access any prospectus-incorporated documents filed on SEDAR. One commenter noted that the CSA has further demonstrated its comfort with a deemed prospectus delivery concept through the relief routinely accorded to reporting issuers with ATM programs.

One commenter recommended with respect to preliminary prospectuses that any delivery obligation should be satisfied by access to the preliminary prospectus on SEDAR alone without regard to whether the investor has opted for physical delivery of the final prospectus.

Use of technology

Four commenters recommended the CSA consider how new technologies can be used for electronic delivery as they emerge (e.g. cloud communication, blockchain).

Two commenters recommended encouraging or requiring issuers to utilize hyperlinks.

One commenter indicated that a centralized website where investors could get information to vote proxies would facilitate voting at shareholders’ meetings.

One commenter suggested that the CSA may want to consider a similar scheme to that of the Enhanced Broker Internet Platforms, a concept introduced by the SEC and the New York Stock Exchange in 2010 to increase electronic delivery adoption.

Ease of use

One commenter noted that issuers should always communicate with investors using plain language and a readable, clear font. All communication should be meaningful and have sufficient context and clarity to make it useful for investors. The commenter indicated that communications should also be easily accessible to investors.

Proxy process

One commenter expressed concerns with the role of a service provider in the proxy communication process. The commenter indicated that the service provider currently enjoys a monopolistic position with respect to beneficial shareholders and operates within a framework in which accountability for its

	<p>services is divorced from responsibility for payment for such services.</p> <p><u>Certificates</u> One commenter recommended eliminating all paper certificates and for CDS shares, eliminating the Objecting Beneficial Owner Shareholder category. The commenter indicated that there should be one class of digital shareholder (Non-Objecting Beneficial Owner) which will ensure direct, efficient, fair and timely distribution of all material information to all shareholders.</p>
Supportive in certain circumstances	
Not supportive	<p><u>General</u> Two commenters indicated that no changes are required to the guidance provided in National Policy 11-201 <i>Electronic Delivery of Documents</i> as a change in the process would result in a significant and irreversible decline in investors’ engagement with disclosure materials, and behavioural economics have shown that fewer investors will review a document if it is not delivered to them.</p> <p><u>Notice-and-access</u> One commenter expressed dissatisfaction with the existing notice-and-access model as it is time-consuming and cumbersome to get the desired paper documents. The commenter suggested asking investors whether they want to receive proxy materials at the same time as asking whether they want to receive hard copies of annual and interim financial statements.</p> <p><u>Electronic delivery of proxy materials</u> One commenter indicated that for meeting materials, it is necessary to provide securityholders with a paper proxy containing the control number or other means to allow securityholders to vote. The commenter noted that requiring a securityholder to access information such as their proxy control number themselves would be expected to lead to decreased voter participation.</p> <p>One commenter expressed concerns with the impact allowing issuers to make documents publically available electronically without prior notice or consent would have on operational processes surrounding security holder validation and voting.</p>
Other recommendations (options that were not identified in the Consultation Paper)	
	<p><u>Revisit the “primary business” requirements</u> Six commenters suggested that the requirements under Item 32 of Form 41-101F1 for an issuer to include three years of historic financial statements for</p>

each entity considered the “primary business” of the issuer should be revisited. Commenters noted that considerable time and resources can be required to create these statements if none have been prepared, and this may delay or prevent the issuer from completing an IPO.

Revisit National Policy 51-201 *Disclosure Standards* (NP 51-201)

Five commenters provided recommendations regarding NP 51-201, including eliminating duplicative dissemination of information, and reconsidering what constitutes “generally disclosed”.

Shelf offerings

Four commenters provided recommendations regarding the base shelf prospectus regime, including: remove the requirement to file an amendment to a final prospectus after closing of a base offering but prior to the exercise of the over-allotment option, extend the life of a shelf beyond the current 25 months, and permit an unspecified amount of securities to be qualified by the shelf.

Executive compensation

Four commenters recommended revisiting the executive compensation disclosure requirements as the required information is complex and not understood by investors.

Confidential filings

Three commenters recommended the CSA consider adopting a process for confidential filings of prospectuses. These commenters indicated that this would be consistent with policy changes adopted by the SEC in June 2017 which permit all issuers to confidentially submit draft registration statements for review by SEC staff in certain circumstances.

One commenter expressed concern that this development could mean less transparency in the U.S. market and, while acknowledging that Canada must remain competitive, indicated that the CSA should be cautious of reducing regulation in our unique market in an effort to keep up with others at any given moment in time.

Fund Facts-like document

Two commenters supported the introduction of a new Fund Facts-like document for corporate reporting issuers which would provide investors with key information about the issuer, in language they can easily understand, at a time that is relevant to their decision making.

Earnings guidance

Two commenters suggested prohibiting issuers from providing earnings guidance entirely, or limiting issuers to providing such guidance annually. These commenters indicated that this may be a more direct driver of short-

termism than quarterly reporting as it risks incentivizing management and boards to make decisions that focus on meeting guidance rather than focusing on long-term strategy.

Designated foreign jurisdictions

Two commenters suggested expanding the list of “designated foreign jurisdictions” included in NI 71-102, indicating that the limited number of jurisdictions named therein risks excluding countries that have the same or substantially similar requirements for prospectuses or similar offering or disclosure documents as those countries that are listed.

Forward-looking information

One commenter noted that forward-looking information is important to investors, however companies are sometimes reluctant to communicate their expectations for the future because of legal liability concerns. The commenter suggested that the CSA reconsider its forward-looking information requirements to facilitate more meaningful disclosure, and clarify when forward-looking disclosure is required versus voluntary.

Proxy advisory groups

One commenter noted that proxy advisory groups add to the expense and frustration for reporting issuers. The commenter noted that trying to comply with the ever changing set of voting and corporate governance guidelines issued by these groups is difficult, time consuming, and expensive. The commenter indicated that these guidelines amount to pseudo regulatory requirements due to the impact such groups can have on voting at shareholder meetings.

Use of U.S. Generally Accepted Accounting Principles (U.S. GAAP)

One commenter noted that restricting the application of U.S. GAAP to SEC issuers is not in the interest of Canadian investors. The commenter indicated that Canadian issuers are electing to register with the SEC (the incremental cost of which is significant) primarily to qualify as an SEC issuer to facilitate their use of U.S. GAAP.

One commenter recommended that the CSA permit the historical financial statements included in an IPO prospectus to be prepared using U.S. GAAP.

Promoter

One commenter noted that CSA staff’s interpretation of the definition of “promoter” is broader than what is provided for in the legislation.

Share ownership disclosure

One commenter recommended requiring greater transparency of share ownership information so that issuers can proactively identify and engage with investors.

NI 52-109 Certifications

One commenter recommend modifying the NI 52-109 certification requirements to allow newly public entities, especially those listing on the TSX, additional time to comply with the full NI 52-109 certification requirements.

One commenter recommended requiring annual certifications only.

Changes to National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101)

One commenter noted that in NI 43-101, the requirement to file a current technical report in support of a preliminary long form prospectus, an AIF and other base disclosure documents specified in subsection 4.2(1), should be modified to align with the requirement for a preliminary short form prospectus.

Contingent resources

One commenter noted that the requirement to have any and all contingent resources volumes which are disclosed in an issuer's AIF to be either evaluated or audited by an Independent Qualified Reserves Evaluator/Auditor (**IQRE**) is more stringent than the requirement for reserves disclosure (in which case the IQRE must evaluate or audit at least 75% of the future net revenue, and review the balance).

Capital Pool Company (CPC) qualifying transactions

One commenter suggested that CPCs that are reporting issuers in Ontario should not be required to file a non-offering prospectus in connection with a qualifying transaction involving non-mining and non-oil and gas assets outside Canada and the U.S.