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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
Office of the Superintendent of Securities, Service NL
Northwest Territories Office of the Superintendent of Securities
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Nunavut

c/o

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Dear Sirs/Mesdames,

Re: Proposed Amendments to National Instrument 51-102 Continuous Disclosure Obligations and Other Amendments and Changes Relating to Annual and Interim Filings of Non-Investment Fund Reporting Issuers and Seeking Feedback on a Proposed Framework for Semi-Annual Reporting – Venture Issuers on a Voluntary Basis

Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the Canadian Securities Administrators (CSA) on the proposed amendments to National Instrument 51-102 and other amendments and changes relating to annual and interim filings of non-investment fund reporting issuers (Proposed Amendments) and provide feedback on the proposed framework for semi-annual reporting (Proposed Semi-Annual Reporting Framework). In developing our response, we consulted with our Canadian Performance Reporting Board and Mining and Oil and Gas Industry Task Forces.

We are supportive of the CSA's efforts to reduce disclosure burden while enhancing the usefulness and understandability of information for investors.

We support the proposals related to combining the financial statements, management's discussion and analysis (MD&A) and annual information form (AIF) into one reporting document because we believe this will provide benefits to investors and reduce the potential for duplication. However, we heard from some issuers that the combination will result in increased regulatory burden because of the requirement to file all three documents at the same time and the cost of having auditors involved with the AIF. We also question whether the current proposals go far enough in improving the quality of information given to investors. We believe more effort should be made to modernize and streamline the requirements and provide some examples later of improvements that could be made.

We believe there are merits to pursuing the Proposed Semi-Annual Reporting Framework but only for specific types of venture issuers. We heard concerns that voluntary semi-annual reporting would reduce transparency where information currently provided is important to investors. However, we also heard that semi-annual reporting may be beneficial to specific types of venture issuers, such as start-up entities and/or entities with no operating revenue, and that the provision of alternative information may be appropriate in such circumstances. Additional feedback on the Proposed Semi-Annual Reporting Framework is included in the Appendix.

We also noted several new disclosure requirements were introduced in areas like risk factors, quantitative information and debt covenants which go beyond clarifying existing proposals. In general, we think these new requirements require further consideration and guidance.

We elaborate further on these and other areas we believe require additional attention below. Responses to select questions in the Request for Comments are included in the Appendix to this letter.

1. Combining of Documents

We heard from stakeholders that combining the financial statements, MD&A and AIF is good in theory and provides an opportunity to streamline the three documents. However, stakeholders noted that the existing disclosure requirements for each of the documents were largely left intact without enough consideration of how they integrate with one another. While the Proposed Amendments eliminate some of the duplication between the financial statements, MD&A and AIF, there are certain areas where overlap in disclosure continues to exist. For example, we think there is still overlap between the MD&A requirements for disclosure of contractual obligations and related party transactions with those in International Financial Reporting Standards (IFRS) that could be reduced.

As noted in our response letter to the 2017 CSA Consultation Paper 51-404, *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*, we believe reducing regulatory burden should not be isolated from the need for broader consideration of the overall effectiveness of the existing reporting regime. While the combining of documents is a good start, we encourage securities regulators to initiate a comprehensive evaluation of existing reporting requirements to ensure they continue to meet the evolving needs of investors. This could result in a reduction of regulatory burden for issuers and a better reporting package for investors.

Stakeholders also expressed concern that filing all three documents at the same time will increase the burden on some reporting issuers and their auditors (e.g., additional requirement for issuers to prepare and for auditors to consider the AIF within the same time frame as the financial statements and MD&A). The adoption of these proposals may have other unintended consequences such as reduced quality of reporting, as some smaller issuers may have limited capacity to do more in a shorter period of time, and less timely reporting, as issuers delay issuing financial statements and MD&A until the AIF is complete.

Additional feedback on potential audit implications related to the annual disclosure statement is included in the Appendix.

2. Risk Factors

We repeatedly hear that risk factor disclosures are too generic and lack insightful information and we appreciate the CSA's efforts to make risk factor disclosure more informative. While improvement in risk

reporting is needed, a number of concerns were raised about both the existing and proposed disclosure requirements. We elaborate on these concerns in the Appendix.

3. Debt Covenants

Stakeholders noted that an issuer's list of debt covenants is often extensive, and that the proposals related to the disclosure of "any" debt covenants would increase regulatory burden. We believe that reporting of debt covenants should be limited to information material to investors. Further clarification on the objectives of these proposals and guidance on how they should be applied is needed.

4. Comparison with U.S. Reporting Requirements

We heard from stakeholders that it would be helpful for the CSA to highlight similarities and differences between the Proposed Amendments and U.S. regulatory reporting requirements and to confirm there are no impacts on the multi-jurisdictional disclosure system (MJDS) for cross-border issuers.

It also appears that certain proposals would result in Canadian reporting requirements becoming more onerous than those of the SEC (e.g., the proposals related to quantitative and qualitative disclosure of any debt covenants as per Paragraphs 5(5)(b) of the MD&A, the new requirements to provide a quantitative and qualitative analysis in the discussion of overall performance as per Instruction 1 to Section 3 of the MD&A). For the issues we have identified, we do not believe it is appropriate to have a greater regulatory burden for Canadian companies.

5. Sustainability/Environmental, Social and Governance (ESG) Disclosures

We noted the Proposed Amendments include no additional disclosure requirements for expanded sustainability information. We believe there are opportunities to better integrate and improve the quality of sustainability disclosures within current regulatory reporting. It would be helpful to understand the CSA's current and future plans in this area given growing investor demand for sustainability disclosures.

We would be pleased to discuss our comments in greater detail and answer any questions you may have related to them. Please contact Rosemary McGuire, Director, Research, Guidance and Support (rmcguire@cpacanada.ca).

Yours truly,

Gordon Beal, CPA, CA, M.Ed
Vice-President, Research, Guidance & Support

Appendix

Question 2: Would it be beneficial for reporting issuers if we provided further clarity on what "seriousness" means and how to determine the "seriousness" of a risk?

We believe it would be beneficial for reporting issuers if the CSA provides further clarification of the term "seriousness".

Stakeholders expressed concern with the existing reporting requirement to rank risks in order of seriousness from the most serious to the least serious. While it may be helpful in certain circumstances to think of "seriousness" in terms of impact and probability assessments, this implies quantification of risks and not all risks can be easily quantified (e.g., a pandemic risk). Further, the criteria for conducting risk assessments differ among issuers and involve significant judgment by management.

We encourage the CSA to provide additional guidance on the requirement to rank risks in order of seriousness (e.g., through use of illustrative examples) and to clarify whether ranking of risks using alternative methods (e.g., grouping of risks by "high", "medium" and "low") is acceptable.

Question 3: If we adopted similar requirements to the SEC's amendments, what would be the benefits and costs for investors and reporting issuers?

Stakeholders were not supportive of adopting similar requirements to the SEC's amendments. The costs of providing this additional risk information outweigh the benefits.

Question 7: Considering that the annual disclosure statement will include annual financial statements, MD&A and, where applicable, AIF, do you think there will be an impact, including on auditing requirements, if a reporting issuer amends or re-files only one of these documents, or re-files the annual disclosure statement in its entirety?

From an audit perspective, we understand that for certain issuers, the AIF will now fall within the scope of the auditor's responsibilities. This constitutes a change from existing practice where the AIF is currently out of scope, resulting in incremental work for the auditors and increased costs for reporting issuers.

In the event an issuer amends or re-files only one of these documents or re-files the annual disclosure statement in its entirety, there will be an impact on the auditor's responsibilities. For example, if the issuer amends or refiles the financial statements, the auditor may need to reconsider the auditor's responsibilities relative to the other information, including potentially issuing an updated auditor's report. The auditor reporting guide, *Reporting Implications of the Canadian Auditing Standards (CAS)*[1], includes further information on the auditor's responsibilities for other information and the impact on the auditor's responsibilities and reporting under different scenarios.

[1] Auditor reporting guide: Reporting Implications of Canadian Auditing Standards (CAS) (cpacanada.ca)

Question 9: Should we pursue the Proposed Semi-Annual Reporting Framework for voluntary semi-annual reporting for venture issuers that are not SEC issuers? Please explain.

Question 10: Are there specific types of venture issuers for which semi-annual reporting would not be appropriate? For instance, should semi-annual reporting be limited to venture issuers below a certain market capitalization or those not generating significant revenue? Please explain.

Question 11: Would the proposed alternative disclosure requirements under the Proposed Semi-Annual Reporting Framework provide adequate disclosure to investors? Would any additional disclosure be required? Is any of the proposed disclosure unnecessary given the existing requirements for material change reporting and the timely disclosure requirements of the venture exchanges? Please explain

Question 12: Do you have any other feedback relating to the Proposed Semi-Annual Reporting Framework?

Please note the following comments relate to questions 9 to 12 inclusive:

As noted in our covering letter, we heard views both opposed to and in favour of various approaches to semi-annual reporting.

Those who believed semi-annual reporting should not be permitted indicated that investors are increasingly requiring more (not less) information and that quarterly reporting provides important disclosures that satisfy investor needs. They added that many issuers may not choose semi-annual reporting (despite having the option) due to ever-increasing stakeholder demands for information. Creating a reporting regime that may have minimal utilization does not seem to be a worthwhile objective.

Those who supported semi-annual reporting for some issuers believed it is fitting in the context of the Canadian landscape, which consists of many small reporting issuers. Semi-annual reporting may help alleviate pressure and costs for smaller issuers, particularly those still in the start-up phase and/or generating zero operating revenues, and the provision of alternative information may satisfy the needs of their investors.

In light of the above, we are open to the CSA exploring the option of semi-annual reporting for specific types of venture issuers. Specific rules outlining how to make the transition between reporting frequencies (i.e., transition from semi-annual reporting to quarterly reporting and vice-versa) will need to be established.

It was also noted that semi-annual reporting may prove onerous to issuers and their auditors in the event certain scenarios materialize (e.g., in the event of an offering, if an issuer initially adopts semi-annual reporting and then switches to quarterly reporting). Further consideration of these scenarios and additional guidance is required.