

JULY 2014

SECURITIES ALERT

Streamlined Venture Issuer Disclosure?

Another Attempt by Canadian Securities Administrators (“CSA”)

The CSA recently published a notice and request for comment regarding proposed amendments to the continuous disclosure obligations and audit committees of venture issuers the “Venture Issuer Amendments”). This is a follow on initiative to the CSA’s previous more comprehensive proposal to streamline and tailor venture issuer disclosure while improving venture issuer corporate governance. Feedback from the venture issuer community indicated that the benefits of the earlier proposals were outweighed by the burden of transitioning to a new venture issuer regime and the previous CSA proposal was eventually withdrawn in July 2013. The CSA’s new initiative retains important elements of its earlier proposal, including streamlined quarterly financial reporting. However, rather than packaging its proposal into a complete new regime for venture issuers, the CSA now proposes a more limited set of amendments on a targeted basis.

The Venture Issuer Amendments are designed to focus venture issuer disclosure requirements on information that reflects the needs and expectations of venture issuer investors and to eliminate disclosure obligations that may be less valuable to those investors. The Venture Issuer Amendments will also streamline the disclosure requirements for venture issuers, thereby allowing management more time to focus on the growth of their business.

The Venture Issuer Amendments would allow venture issuers without significant revenue to provide a streamlined and highly focused report of quarterly highlights instead of the interim management discussion and analysis (MD&A”) that is currently required. The quarterly highlights financial disclosure would consist primarily of a short discussion of the venture issuer’s operations and liquidity. Venture issuers could either comply with the streamlined disclosure or continue to comply with the existing interim MD&A requirement.

The Venture Issuer Amendments would also allow venture issuers to implement a new tailored form of executive compensation disclosure. Currently, the executive compensation disclosure requirements for venture and non-venture issuers are nearly identical. The Venture Issuer Amendments would: (i) reduce the number of individuals for whom disclosure is required from a maximum of five to a maximum of three – CEO, CFO and one additional officer; (ii) reduce the number of years of disclosure from three to two and (iii) eliminate the requirement to disclose the grant date fair value of stock options and other share based awards. Venture issuers can choose whether to continue with the original disclosure requirements or to adopt the proposed new disclosure requirements.

The Venture Issuer Amendments would also reduce the instances in which a business acquisition report (“**BAR**”) must be filed by venture issuers. Currently, all issuers must file a BAR within seventy-five days of a significant acquisition. The Venture Issuer Amendments would increase the “significant” reporting threshold for venture issuers from forty percent to one hundred percent,



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thereby reducing the instances where BARs are required. They would also eliminate the requirement for venture issuers to include *pro forma* financial statements in a BAR.

The Venture Issuer Amendments would require all venture issuers to have an audit committee consisting of at least three members, the majority of whom cannot be executive officers, employee or control persons of the issuer. This is already a requirement for TSX Venture Exchange listed venture issuers.

The Venture Issuer Amendments would also simplify the prospectus disclosure requirements for venture issuers filing a prospectus in order to become a reporting issuer by reducing the number of years of audited financial statements from three to two in any IPO prospectus where an issuer will become a venture issuer on completion of the IPO. They would also reduce the requirement to describe a venture issuer's business and history from three to two years and allow venture issuers to use the quarterly highlights described previously instead of interim MD&As in their prospectus.

The Venture Issuer Amendments are subject to adjustment after the receipt of public comments, which are due by August 20, 2014. However, if the amendments are enacted substantially as described above, they will provide improved information to venture issuer investors while reducing the burden of disclosure for venture issuers.

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Contact us today and speak with a member of our securities law team.

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