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**VIA E-MAIL**

July 28, 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  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut

c/o:

**The Secretary**  
**Ontario Securities Commission**  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, Ontario M5H 3S8  
e-mail: [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

**Me Anne-Marie Beaudoin**  
**Corporate Secretary**  
**Autorité des marchés financiers**  
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Dear Sirs/Mesdames:

**Re: CSA Consultation Paper 51-404 (the “Consultation Paper”)  
Considerations for Reducing Regulatory Burden for  
Non-Investment Fund Reporting Issuers**

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Magna International Inc. (“Magna”) appreciates the opportunity to offer input on the subject of reducing the regulatory burden related to ongoing disclosure requirements and is submitting this letter in response to the request for comments contained in the Consultation Paper.

**Background of Magna**

Magna is a leading global automotive supplier with 321 manufacturing operations and 102 product development, engineering and sales centres in 29 countries. Our over 159,000 employees are focused on delivering superior value to our customers through innovative products and processes,

and World Class Manufacturing. In addition to complete vehicle engineering and contract manufacturing expertise, Magna's product capabilities include producing body, chassis, exterior, seating, powertrain, active driver assistance, vision, closure and roof systems, as well as electronic and software capabilities across many of these areas. Our common shares trade on the Toronto Stock Exchange (MG) and the New York Stock Exchange (MGA).

### **Magna's Submission**

We are offering input selectively on (a) three of the regulatory options identified in the Consultation Paper which are of relevance to Magna (sections 2.3, 2.4 and 2.5 of the Consultation Paper) and (b) certain of the consultation questions within each of those sections. For ease of reference, we have maintained the same section numbering as in the Consultation Paper.

#### **2.3.Reducing ongoing disclosure requirements**

As a general matter, we support efforts to reduce unnecessary or overly burdensome disclosure requirements. With respect to the matters that the CSA specifically requested comment, we address the following:

##### *a. Removing or modifying the criteria to file a BAR*

We have general questions regarding: (i) the interrelationship between the BAR significance tests and other materiality tests in applicable securities rules; and (ii) the utility of certain BAR requirements.

- i. Significance / Materiality:* Securities laws and rules contain different objective and subjective materiality tests for different purposes. The BAR significance test, which is a proxy for acquisition "materiality", is set at 20% of assets, investments or profit/loss. We note the following interesting outcomes in the context of an acquisition that meets the current BAR significance test:
  - Although the transaction would be sufficiently material to require the onerous BAR disclosure, on completion of the acquisition, the acquired entity would not be considered a "material subsidiary" for insider reporting purposes under NI 55-104 unless it met a 30% of assets or revenues test.
  - In spite of both the 20% BAR test and the 30% "material subsidiary" test, NI 51-102F2 requires AIF disclosure of intercorporate relationships for any subsidiary meeting a 10% of assets and revenues test. Thus, on completion of the acquisition, subsidiaries of the acquired entity may be considered sufficiently significant that their intercorporate relationships would need to be disclosed in the AIF.
  - Irrespective of any bright-line significance or materiality test, the acquisition would be considered a "material change" for purposes of timely disclosure under the *Securities Act* (Ontario) and NI 51-102 if it "...would reasonably be expected to have a significant effect on the market price or value of any of the securities of the reporting issuer".
  - Notwithstanding any of the tests under applicable securities laws, the acquisition would only require shareholder approval under Toronto Stock Exchange rules if the acquisition involved the issuance of shares exceeding 25% of the issued/outstanding shares of the issuer.

We recognize the different purposes served by each of the foregoing materiality or significance tests, but encourage Staff to revisit the rationale for each and consider whether the outcomes from application of each test are fully defensible when applied to an acquisition meeting the BAR significance test.

- ii. *BAR requirements:* Generally, we believe that investors assess acquisitions based on the short- to medium-term future impact on the acquiror's cash flows, earnings and other financial metrics. Accordingly, we encourage Staff to engage with investors to understand whether the prior period and pro forma information required by the BAR provides relevant information. We can think of a number of situations in which prior period financial statements are of only modest relevance, including where a business is acquired out of bankruptcy. In such a situation, the manner in which the business was run up to the bankruptcy may have little or no relevance once acquired and integrated into the acquiror.

*b. Reducing disclosure requirements in annual and interim filings*

Magna supports the general principle of refocusing annual and interim filings on key information which is most relevant to investors. Having said that, it seems unlikely that such a goal can be achieved solely through changes to securities regulation, when much of the complexity added to disclosures in recent years arises out of accounting rules and guidance by accounting regulators.

*c. Permitting Semi-Annual Reporting*

In principle, we support the idea of allowing reporting issuers the option of reporting quarterly, as this may serve to reduce some of the cost and administrative burden associated with interim MD&A. To the extent that semi-annual reporting is optional, each issuer will have the opportunity to decide, based on its own specific circumstances, whether such a reporting frequency makes sense. As a dual-listed issuer with primarily U.S. domestic issuer peers, we do not expect that Magna would transition to semi-annual reporting since this would place investors in Magna securities at an informational disadvantage as compared to investors in the securities of our U.S. peers.

While the Consultation Paper contemplates semi-annual reporting within the context of reducing the short-term focus of public companies, we do not believe that the proposed solution will address the problem. We respectfully submit that, at its core, short-termist tendencies pervade capital markets due to the gap between:

- market expectations as to company performance based on stock analysts' financial models, estimates and assumptions of company performance; and
- the actual financial results reported by a company.

The greater the gap (in either direction) between analysts' estimates and issuers' actual results, the greater the market impact on an issuer's stock. Despite the irrationality of an issuer's actual quarterly results being assessed against analyst estimates, the potentially significant market impact naturally drives companies to focus on minimizing any shortfall against those quarterly estimates. However, a reduction in the frequency of financial reporting would likely result in larger gaps between market expectations of issuers' performance and actual results, which may result in greater market volatility but no reduction in short-termism. Other potential unintended effects may include:

- Increased risk of selective disclosure as investors and analysts pressure companies' investor relations and finance teams for current information (which may include

undisclosed material information) necessary to update the analysts' financial models.

- Greater reliance by investors and analysts on unreliable data and information, faulty assumptions and/or mistaken estimates.
- Deterioration in issuers' financial discipline as robust financial reporting and control processes for interim financial reporting are weakened by decreased reporting cycles.
- Increased audit risks and year-end audit burden as external auditors would have only one interim period of review work/procedures on which to rely.

As much as Magna would welcome any potential reduction in administrative burden due to a change to semi-annual reporting, we do not foresee such a change impacting short-termist tendencies in the market and are concerned that the potential adverse consequences of such a change significantly outweigh the benefits.

## **2.4 Eliminating overlap in regulatory requirements**

Magna prepares its financial results in accordance with U.S. GAAP and does not express a position regarding IFRS-specific overlap with securities law. Generally, we support the elimination of regulatory overlap between accounting rules and securities law requirements where such overlap leads to repetitive disclosure that is of little or no additional value to investors. We agree that there is unnecessary overlap between the risk factor disclosure requirements in the MD&A and the AIF forms and, accordingly, we support the consolidation of the requirement into a single document.

The Consultation Paper indicates that Staff is considering consolidating the requirements of the AIF, MD&A and financial statements into one document. Subject to concerns cited below, we believe there is merit to the idea of a single, integrated disclosure document which addresses the requirements of the AIF, annual MD&A, annual financial statements and annual meeting proxy circulars. In recommending inclusion of the annual meeting proxy circular, we note that, when voting on regular items of annual meeting business, shareholders typically consider a wide range of factors not technically required to be addressed in the proxy. Such factors may include: financial performance; corporate strategy; demonstrable achievements in strategy execution; corporate sustainability / environmental and social factors; general human capital policies and practices; code of conduct, and other policies, practices and training promoting ethical behaviour and legal compliance; dividend history; share capital structure; credit ratings; and other items which are disclosed in other disclosure documents. We submit that a single disclosure document could have the following additional benefits:

- Facilitation of a more holistic consideration by investors and analysts of corporate strategy, financial and operating performance, director oversight, management compensation and other factors.
- Promotion of longer-term thinking by investors and analysts through the placement of discussion and disclosure of financial performance more directly in the context of non-financial considerations.
- Elimination of the following disclosure requirement overlaps:
  - risk factor disclosure in the MD&A and AIF;
  - material litigation/contingencies disclosure in the MD&A, AIF and financial statements;

- director background disclosure in the AIF and proxy circular; and
- disclosure of interests of management and others in material transactions in both the AIF and proxy circular.

Considerations against an integrated disclosure document include:

- The potential for such a document to become too large, complex and unwieldy.
- The need to ensure auditor opinions remain limited only to the financial statement portion of such a document.
- Scope and method of document delivery, including applicable costs.

### **3. Enhancing electronic delivery of documents**

Magna has chosen to use the “notice-and-access” method for delivery of proxy-related materials and we support further expansion of electronic delivery methods. We believe that issuers and investors benefit from enhanced electronic delivery, including through lower costs and reduced delivery time. This would especially be the case for issuers, like Magna, with a largely institutional shareholder base that we believe no longer relies on printed materials. To fully achieve the benefits of electronic delivery, we support the removal of the requirement to provide paper copies on request. Moreover, we recommend that electronic delivery be expanded beyond the proxy circular to include annual financial statements and MD&A.

Magna was a relatively late adopter of notice-and-access due to concerns that the system entrenches the role of Broadridge within the proxy process. Broadridge currently enjoys a monopolistic position with respect to beneficial shareholders, as a result of high barriers to entry and Broadridge’s long-standing relationships within the financial community. In addition to the benefits of its monopolistic position, Broadridge operates within a framework in which accountability for its services is divorced from responsibility for payment for such services – issuers pay Broadridge’s (non-negotiable) fees, but Broadridge answers only to its financial intermediary clients. We submit that this disconnect creates an unjustifiable accountability gap. Unsurprisingly, the concerns we had before adopting notice-and-access were realized in our first year utilizing the system – fees paid to Broadridge increased, while those paid to agents and service providers accountable to Magna all declined.

In order to fully achieve the cost savings and efficiencies intended by electronic delivery, issuers need solutions which could promote greater cost efficiency and accountability in the proxy process. We propose that Staff consider:

- Any amendments which may be required to enable issuers to fully satisfy their delivery obligations to beneficial shareholders through electronic delivery directly to financial intermediaries appearing on the CDS participant list. To the extent that such financial intermediaries engage Broadridge to further distribute the issuer’s documents (electronically or otherwise) to their clients, the applicable costs should be borne by the intermediary or the ultimate client, not the issuer. We believe that this will help eliminate the accountability gap discussed above and should facilitate lower Broadridge fees as the financial intermediaries utilize their leverage to negotiate favourable rates from Broadridge.
- Elimination of any remaining obstacles under corporate or securities law with respect to direct, uncertificated securities registration systems which could provide all

shareholders with the same convenience and benefits of electronic share ownership/registration. By "levelling the playing field" between registered and beneficial shareholders:

- shareholders will have meaningful options relating to how they hold their shares;
- competition among Broadridge, transfer agents and (potentially) other service providers should drive greater efficiency; and
- issuers may have greater opportunities to directly connect with a greater proportion of their shareholder base.

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We respectfully submit the comments in this letter for your consideration and would welcome an opportunity to discuss them with you.

Regards,



Bassem A. Shakeel  
Vice-President and Corporate Secretary