

# Summary of Oversight and Regulatory Activities

September 2017

DIRECTION PRINCIPALE DU FINANCEMENT DES SOCIÉTÉS

THE *DIRECTION PRINCIPALE DU FINANCEMENT DES SOCIÉTÉS* (“CORPORATE FINANCE”) ENSURES INVESTOR PROTECTION AND PROMOTES EFFICIENCY IN THE MARKETS.



**OVERSIGHT** of compliance with requirements pertaining to continuous disclosure, securities distributions, take-over and issuer bids, and insider reports.



**DEVELOPMENT** and **IMPLEMENTATION** of orientations and regulations pertaining to securities distributions, mergers and acquisitions, and ongoing requirements of companies that are reporting issuers in Québec (“companies”) and insiders.

Profile	2
Fostering Awareness	8
Informing	23
Innovating	37



## Message from the Senior Director, Corporate Finance

The 2017-2020 Strategic Plan of the *Autorité des marchés financiers* includes measures intended to strengthen our role as a local regulator close to its markets. It is with this backdrop that we present the very first Summary of Oversight and Regulatory Activities of the *Direction principale du financement des sociétés*.

We have attempted to make this Summary a go-to tool for communications between the AMF and Québec companies that seek to raise capital through the markets, as well as their advisers.

Therefore, as in previous years, it includes information on the main deficiencies identified in the continuous disclosure documents of companies. In addition, we have incorporated information on the main deficiencies identified in various financing documents, such as prospectuses. It should be noted that material deficiencies can have consequences.

In order to help you prepare first-rate disclosure records, we have presented examples of corrected information as well as reminders about some regulatory requirements.

Given that fintechs are currently one of our primary concerns, this Summary highlights innovations in this field.

We invite you to read this Summary and to contact us directly with any questions, comments or suggestions you might have.

**Lucie J. Roy**

Senior Director, Corporate Finance



## Introduction

Since August 1, 2016, the *Direction principale du financement des sociétés* (“Corporate Finance”) consists of some 45 professionals and support staff spread out over four sections as well as the office of the Chief Accountant. This integrated structure is intended to ensure consistency in interactions with companies and insiders, and the ongoing improvement of its operations.

In parallel with this consolidation, Corporate Finance initiated an integrated supervisory framework project pertaining to the disclosure requirements of companies and insiders with respect to securities. This approach places greater emphasis on material risks, by keeping a more watchful eye on the markets and by developing regulatory initiatives tailored to changes in the financial sector and to new business models. This will contribute directly to the fulfilment of the AMF’s mission to promote efficiency in the securities market and protect investors.

Moreover, in connection with the implementation of the AMF’s 2017-2020 Strategic Plan, Corporate Finance will be in charge of certain initiatives intended to demonstrate the AMF’s leadership, added value and ability to innovate, including the following:

- Promote the implementation of a scheme facilitating access to the capital markets by companies with a first-rate continuous disclosure record;
- Where possible, establish a “regulatory sandbox,” i.e., a controlled environment, in collaboration with stakeholders in Québec’s fintech ecosystem;

- Contribute to discussions on the disclosure practices of companies regarding climate change and socially responsible investing;
- Where possible, promote the streamlining or simplification of the regulatory framework.

Again in keeping with the areas of intervention identified in the AMF’s Strategic Plan, Corporate Finance has set other objectives that will influence market efficiency and the quality of the continuous disclosures filed by companies, some of which are well under way:

- The development of a regulation governing non-GAAP financial measures;
- The modernization of Regulation 45-102.

Since communicating the progress achieved on these projects will be key, Corporate Finance will enhance its practices in this regard. Whether through advisory committees, newsletters or staff notices, it will increasingly seek comments from stakeholders. We are counting on your participation!

**NOTE:** For the sake of conciseness, the full name of regulations and notices are listed in Appendix A.

## Table of Contents

We begin by providing a **PROFILE** of companies and securities trading in Québec. Under the themes of **FOSTERING AWARENESS**, **INFORMING** and **INNOVATING**, we then discuss the securities regulatory issues pertaining to companies and insiders.

<b>PROFILE</b>	<b>2</b>
1 Profile of companies	2
2 Overview of distributions by Québec companies	3
3 Findings of the continuous disclosure reviews	7
<b>FOSTERING AWARENESS</b>	<b>8</b>
1 Non-GAAP financial measures	8
2 Operating segments	14
3 Disclosure for mineral projects	17
4 Certain requirements for prospectus offerings	18
<b>INFORMING</b>	<b>23</b>
1 Issue-oriented reviews to be carried out in 2017-2018	23
2 Act respecting transparency measures in the mining, oil and gas industries - a brief look	24
3 Transactions involving a Québec company	25
4 Exempt market distributions	26
5 More reminders	28
6 Regulatory initiatives	29
7 Collaboration between the AMF and IOSCO	35
8 Advisory committees associated with the activities of Corporate Finance	36
<b>INNOVATING</b>	<b>37</b>
1 AMF innovations	37
<b>APPENDIX A – List of certain regulations, policies and notices prescribed for companies</b>	<b>38</b>

# PROFILE

Read this section for a profile of companies and securities trading in Québec.

## 1

### Profile of companies

#### Some figures<sup>1</sup>

2,034 companies – reporting issuers in Québec

2 034 sociétés – émetteurs assujettis au Québec  
751<sup>2</sup> companies for which Québec is the principal regulator

59%: venture issuers

41%: other issuers

1 As at June 30, 2017.

2 Including 277 Desjardins caisses (credit unions) and 170 issuers subject to a cease trade order.

2

## Overview of distributions by Québec companies<sup>3</sup>

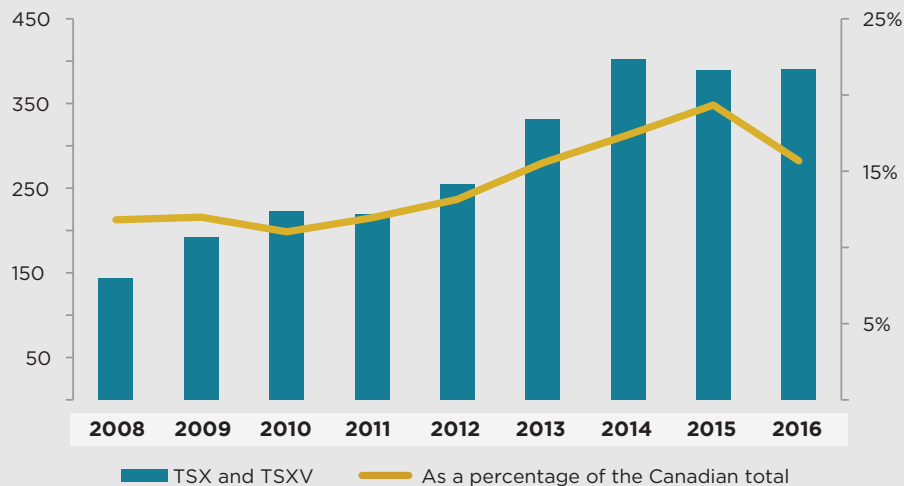
Québec companies finance their activities through a variety of sources. In this section, we will focus on the funds raised by Québec companies on the public market<sup>4</sup> and on the exempt market.<sup>5</sup>

### Profile of Québec companies listed on the Toronto Stock Exchange and the TSX Venture Exchange

The capitalization of Québec companies as a percentage of the national total increased by comparison with 2008, reaching 16% of the Canadian total. However, this percentage is slightly lower than the percentage of the national economy that Québec represents, which is approximately 20%.

#### Market Capitalization of Québec companies

(in billions of dollars)



Sources: TMX Group and the AMF

<sup>3</sup> Whose head office is in Québec.

<sup>4</sup> Public market data include distributions made by way of prospectus by Québec companies listed only on the Toronto Stock Exchange or the TSX Venture Exchange. The data therefore exclude distributions by way of prospectus made on a stock exchange other than those identified above, distributions by way of prospectus made within the scope of the Multijurisdictional Disclosure System and distributions made within the scope of the capital pool companies program.

<sup>5</sup> As regards the exempt securities market, we have drawn our data from the information set out in the reports of exempt distribution filed with the AMF in accordance with section 6.1 of Regulation 45-106, which requires that such a report be filed for certain distributions. A significant number of distributions made by Québec companies are therefore not included in our data.

2

Overview of distributions by Québec companies (continued)

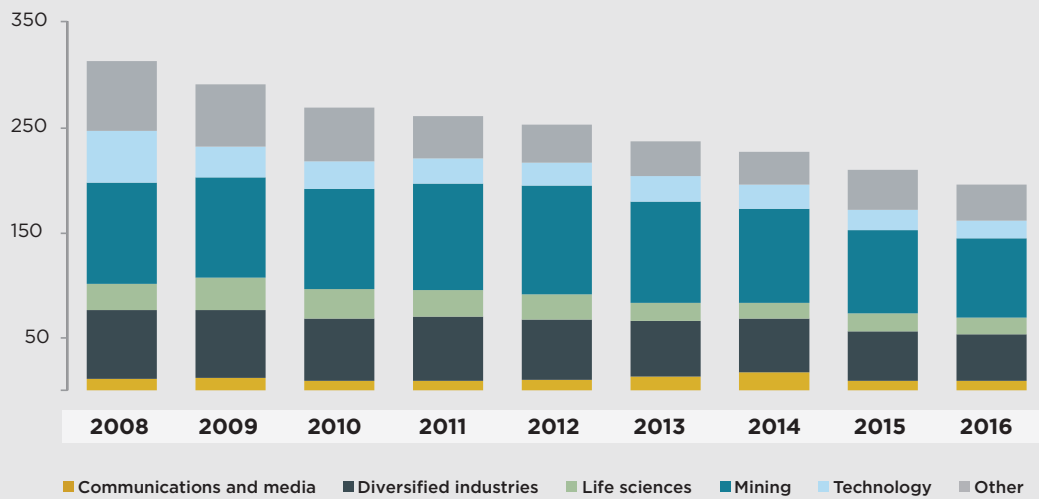
Over the past three years, Québec companies listed on the Toronto Stock Exchange and the TSX Venture Exchange posted a relatively more remarkable performance than the S&P/TSX composite index. Like the Québec economy, the sectorial distribution was diversified and a number of sectors generated solid growth.

However, for several years, there has been a strong trend among businesses to turn to stock exchanges less often to meet their capital needs. This is a worldwide trend, and Canada and Québec have not been immune to it.

The number of Québec companies listed on the Toronto Stock Exchange and the TSX Venture Exchange has dropped over the past few years. From 2008 to 2016, it dropped from 322 to 195. The decline is greater in the case of the TSX Venture Exchange, where smaller cap issuers are listed.

The number of companies in most industries also declined in Canada as a whole. There was a sharp reduction in Québec's mining industry, amid the drop in the price of commodities over the past few years.

Number of Québec companies by industry



Sources: TMX Group and the AMF

2

Overview of distributions by Québec companies (continued)

## Distributions by Québec companies on the public market and the exempt market

During the past year, Québec companies raised \$3.2 billion on the public market. This represents a slight decrease compared with \$3.6 billion in 2015, but is in keeping with the average for the three most recent years (\$3.24 billion).

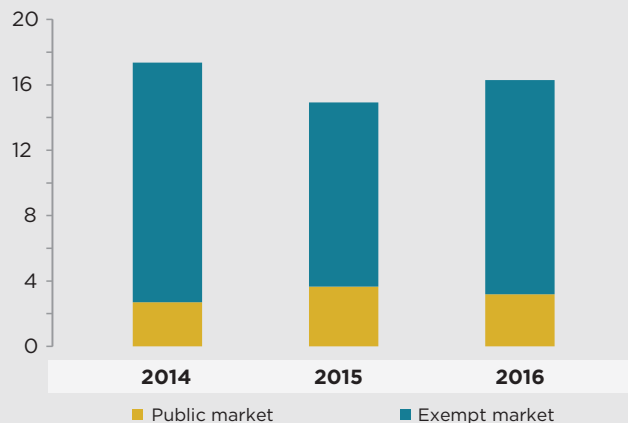
During 2016, 345 prospectuses were filed in Canada. Of these, 181 were filed in all the Canadian provinces (52%), while 109 were filed in all the Canadian provinces excluding

Québec (32%). The other 55 prospectuses were filed in a few Canadian provinces excluding Québec (16%).

In addition to raising capital on the public market, Québec companies raised \$13.1 billion on the exempt market. Thus, in all, they raised \$16.3 billion. This represents an increase compared with 2015 (\$14.9 billion) and is in keeping with the average for the three most recent years (\$16.2 billion).

### Total financing by Québec companies

(in billions of dollars)



Sources: TMX Group and the AMF

2

Overview of distributions by Québec companies (continued)

More specifically, below is a breakdown of data regarding the exempt market for distributions made by Québec companies under the four most commonly used exemptions under [Regulation 45-106](#), namely, accredited investor (section 2.3), family, friends and business associates

(section 2.5), offering memorandum (section 2.9) and minimum amount investment (section 2.10). The other exemptions used accounted for less than 1% of total distributions.

<b>Data for 2014, 2015 and 2016</b>		<b>ACCREDITED INVESTOR (2.3)</b>	<b>FAMILY, FRIENDS AND BUSINESS ASSOCIATES (2.5)</b>	<b>OFFERING MEMORANDUM (2.9)</b>	<b>MINIMUM AMOUNT INVESTMENT (2.10)</b>
<b>TOTAL DISTRIBUTIONS</b>					
2014	Reporting issuers	\$9,058,662,773	\$13,910,627	\$1,050,561	\$232,417,862
	Non-reporting issuers	\$5,261,192,161	\$4,290,055	\$1,584,180	\$19,753,917
Total 2014		\$14,319,854,934	\$18,200,682	\$2,634,741	\$252,171,779
		97.66%	0.12%	0.02%	1.72%
2015	Reporting issuers	\$6,983,048,750	\$10,425,865	\$887,494	\$116,430,404
	Non-reporting issuers	\$3,892,063,580	\$400,400	\$4,664,498	\$210,481,950
Total 2015		\$10,875,112,330	\$10,826,265	\$5,551,992	\$326,912,354
		96.49%	0.10%	0.05%	2.90%
2016	Reporting issuers	\$7,676,793,032	\$2,637,299	\$517,000	\$1,240,686,993
	Non-reporting issuers	\$2,023,997,291	\$13,288,572	\$13,923,626	\$2,039,575,710
Total 2016		\$9,700,790,323	\$15,925,871	\$14,440,626	\$3,280,262,703
		74.03%	0.12%	0.11%	25.03% <sup>6</sup>

6 In 2016, two issuers filed a total of four reports of exempt distribution for major distributions made under the minimum amount investment exemption. These distributions represent a total of \$3,247,985,309. If we exclude these distributions, 98% of the distributions made in 2016 were made by issuers under the accredited investor exemption.

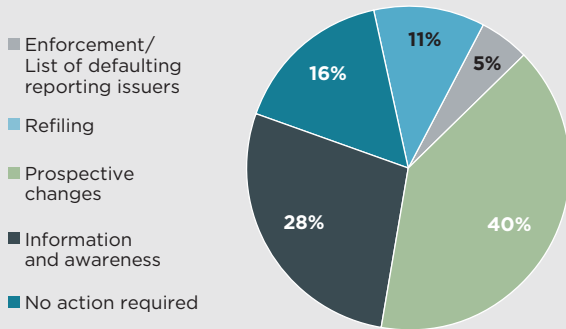


3

## Findings of the continuous disclosure reviews

The findings of the full reviews and issue-oriented reviews conducted within the scope of the Harmonized Continuous Disclosure Review Program (CDR Program) are divided into five categories.<sup>7</sup> Any given review can have more than one finding. For example, we can ask a company to refile certain documents and make prospective changes to others. The following are the findings for the fiscal year ended March 31, 2016.

### Findings of CDR Program reviews



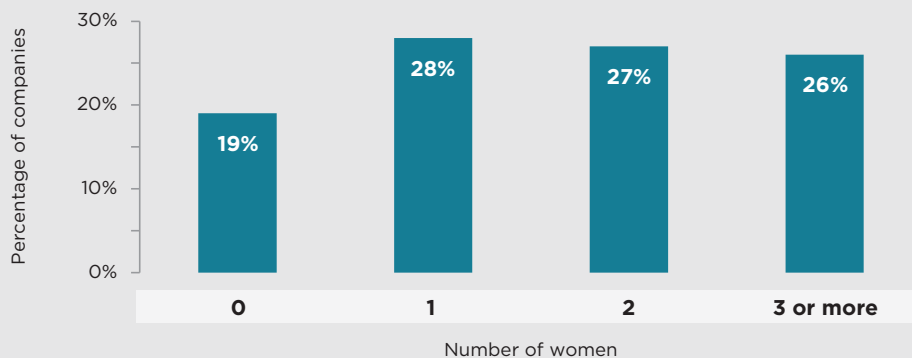
In 56% of the cases, we notified companies to take certain measures to improve or modify their continuous disclosure or we applied enforcement measures.

In 28% of the cases, our findings pertained to a study we carried out regarding disclosure of cyber security risks.

Lastly, in 16% of the cases, no action was required.

The issue-oriented reviews in progress include a review dealing with corporate governance practices, which contains information about the representation of women on boards. The following are some of the most recent statistics on the subject:

### Number of women sitting on the boards of directors of Québec companies<sup>8</sup> listed on the Toronto Stock Exchange



<sup>7</sup> For a description of the categories, consult CSA Staff Notice 51-346 - *Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2016*.

<sup>8</sup> With a year-end between December 31, 2016 and March 31, 2017 and having filed a management information circular before July 31, 2017.

# FOSTERING AWARENESS

Carefully read this section to learn about the deficiencies noted during our oversight activities, and for useful reminders and tips to help you prepare compliant documents.



## MATERIAL DEFICIENCIES CAN HAVE CONSEQUENCES!

You should know that in the event of material deficiencies, the AMF can impose various measures on companies in order to enforce securities legislation, including the following measures:

- Issue a cease trade order;
- Order that documents be corrected and refiled;
- Order that subsequent filings be modified;
- Refuse to issue a receipt in connection with prospectus financings.



## Non-GAAP<sup>9</sup> financial measures

### Properly inform investors, without misleading them

For a number of years, we have noted the proliferation of non-GAAP financial measures (“NGFMs”) in annual reports, including the MD&A, in press releases, prospectuses and marketing materials, and on company websites.

In disclosures using NGFMs – such as performance indicators – many companies choose to omit certain line items or certain non-recurring expenses in order to isolate, for example, the effects of a reorganization, impairment of assets or stock-based compensation. Thanks to these NGFMs, companies can sometimes embellish their financial performance and create some confusion.

Given that NGFMs can be misleading:

- We are continuing our monitoring activities in order to assess whether companies are meeting our expectations;
- Together with other members of the CSA,<sup>10</sup> we are analyzing how to strengthen NGFM oversight.

It should be noted that IFRS<sup>11</sup> compliant financial statements provide investors with a clearly defined basis for analyzing and comparing the financial performance of companies.

<sup>9</sup> Generally Accepted Accounting Principles.

<sup>10</sup> Canadian Securities Administrators.

<sup>11</sup> International Financial Reporting Standards.

## 1 Non-GAAP financial measures (continued)

### Reminder about obligations: Don't forget the seven guiding statements!

To avoid misleading investors when using NGFMs, it is crucial to include the information set out in **CSA Staff Notice 52-306 (revised)** (“Notice 52-306”), namely, the following seven guiding statements:

- 1 State explicitly that NGFMs do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.
- 2 Name the NGFM in a way that distinguishes it from items presented in IFRS compliant financial statements.
- 3 Explain why NGFMs provide useful information to investors and the additional purposes, if any, for which management uses NGFMs.
- 4 Present with equal or greater prominence to that of NGFMs, the most directly comparable measures determined under IFRS presented in the financial statements.
- 5 Provide a clear quantitative reconciliation from NGFMs to the most directly comparable measures presented in the financial statements, referencing to the reconciliation when the NGFMs first appear in the document or, in the case of content on a website, in a manner that meets this objective.
- 6 Ensure that NGFMs do not describe adjustments as non-recurring, infrequent or unusual, when a similar loss or gain is reasonably likely to occur within the next two years or occurred during the prior two years.
- 7 Present the NGFMs on a consistent basis from period to period. However, where a company changes the composition of the NGFM, explain the reason for the change and restate any comparative period presented.



## 1 Non-GAAP financial measures (continued)

### Some findings and examples to ensure higher quality disclosure

We noted a number of deficiencies in the disclosure made by companies on their websites and in their annual reports, press releases and MD&As. The following are some of our findings as well as typical examples of non-compliant disclosures for which we required corrections in keeping with the guidance set out in Notice 52-306.

#### WEBSITES



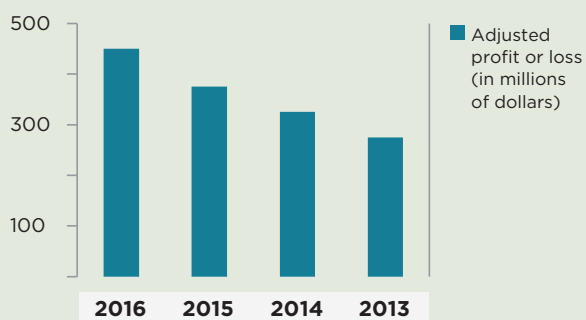
#### Finding

The content of company websites (corporate presentations, investor fact sheets, activity reports) often omits the financial measures presented in the company’s financial statements, in particular, profit or loss.

#### Example of a corporate presentation on a website

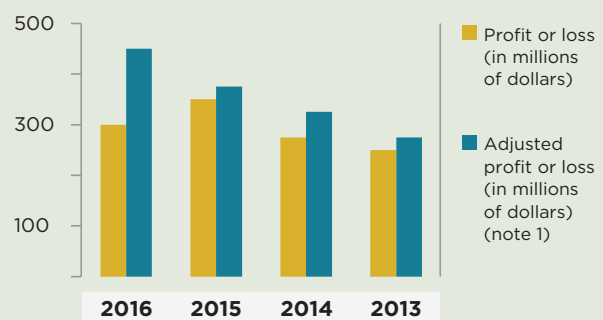
##### NON-COMPLIANT DISCLOSURE

COMPANY ABC – FINANCIAL HIGHLIGHTS



##### CORRECTED DISCLOSURE

COMPANY ABC – FINANCIAL HIGHLIGHTS



1 See the section on non-IFRS financial measures at the end of the presentation.

#### How to comply with the guidance in Notice 52-306:

Companies should always present the most directly comparable financial measure determined in accordance with IFRS presented in the financial statements, namely, profit or loss in this example, and refer to the location in the presentation that contains information about NGFMs, including information about the reconciliation setting out the adjustments between profit or loss and adjusted profit or loss.

# 1 Non-GAAP financial measures (continued)

## ANNUAL REPORTS



### Finding

Companies all too often give NGFMs too much prominence in their annual reports (message from the president, highlights, graphics). NGFMs should not form the key message conveyed to investors.

### Example of a “Message from the president”

#### NON-COMPLIANT DISCLOSURE

“Adjusted profit<sup>1</sup> increased by 30% to \$450 million. The improvement in adjusted profit confirms the progress we have achieved in ensuring sustained long-term profitability [...].

<sup>1</sup> See the section on non-IFRS financial measures on page x of the MD&A.”

#### CORRECTED DISCLOSURE

“Profits decreased by 14% to \$300 million. This decrease is due to impairment of goodwill in the ABC sector, which experienced a significant slowdown during the period [...].

### How to comply with the guidance in Notice 52-306:

Companies should always present the most directly comparable financial measure determined in accordance with IFRS presented in the financial statements, namely, profit or loss in this example. Any change in the IFRS measure may differ from that in the NGFM.



# 1 Non-GAAP financial measures (continued)

## PRESS RELEASES



### Finding

In their press releases, companies sometimes present NGFMs with a name that is identical or similar to a measure used in the IFRS compliant financial statements.

### Example of a press release

#### NON-COMPLIANT DISCLOSURE

##### “Record performance in the first quarter

- Revenues up 3% to \$900 million
- Profit<sup>1</sup> of \$450 million
- Cash flows from operating activities of \$500 million [...].

1 Excluding impairment of goodwill of \$150 million.”

#### CORRECTED DISCLOSURE

##### “First quarter performance

- Revenues up 3% to \$900 million
- Profit of \$300 million
- Adjusted profit<sup>1</sup> of \$450 million
- Cash flows from operating activities of \$500 million [...].

1 See the section on non-IFRS financial measures at the end of the press release.”

### How to comply with the guidance in Notice 52-306:

NGFMs should be named in a way that distinguishes them from IFRS financial measures presented in the financial statements, such as “adjusted profit.” Companies should avoid using “profit or loss” with a footnote stating that an adjustment has been made. Furthermore, press releases should not carry titles such as “record performance” if the title applies only to NGFMs.



## 1 Non-GAAP financial measures (continued)

### MANAGEMENT'S DISCUSSION AND ANALYSIS



#### Finding

Some companies discuss NGFMs in their MD&A in detail without as much discussion about the most directly comparable financial measure determined in accordance with IFRS presented in their financial statements.

#### Example of an MD&A

##### NON-COMPLIANT DISCLOSURE

“Adjusted operating results<sup>1</sup> rose by 5%. This is a result of sustained efforts by our sales team, which was able to retain new clients.

<sup>1</sup> See the section on non-IFRS financial measures on page x of the MD&A.”

##### CORRECTED DISCLOSURE

“Operating results fell by 20%. The company had to recognize a loss on the write-off of inventories in the ABC product line, which the company stopped selling since last June [...].

Adjusted operating results<sup>1</sup> rose by 5%. This is a result of sustained efforts by our sales team, which was able to retain new clients.

<sup>1</sup> See the section on non-IFRS financial measures on page x of the MD&A.”

#### How to comply with the guidance in Notice 52-306 and the requirements of Form 51-102F1 of Regulation 51-102:

The MD&A must help investors understand the financial statements. Companies should therefore always present the most directly comparable financial measure determined in accordance with IFRS presented in the financial statements, namely, operating results in this example. The failure to give operating results as much prominence as the NGFMs and to explain the reasons for the difference between the two could mislead investors.

### Aim for better control over disclosure!

Companies are responsible for ensuring that the information they provide to the public is not misleading.



#### Disclosure controls and procedures

An NGFM may be misleading if it includes positive components of the measure presented in the financial statements, but omits similar negative components.

We remind “certifying officers” that, under [Regulation 52-109](#), they are required to issue certifications regarding no misrepresentations, fair presentation, and disclosure controls and procedures. Be vigilant and avoid sanctions!

# 2

## Operating segments

### In light of IFRS and MD&A requirements

#### DISCLOSURE OF OPERATING SEGMENTS: COMPLIANT AND TRANSPARENT

International Financial Reporting Standard 8, *Operating segments*, (IFRS 8) requires entities to disclose information to enable users of their financial statements to evaluate the nature and financial effects of the business activities in which they engage and the economic environments in

which they operate. Entities must therefore provide general and financial information about their operating segments as well as information about their products and services, the geographical areas in which they carry on their activities and their major customers.

#### SOME FINDINGS AND REMINDERS TO ENSURE HIGHER QUALITY DISCLOSURE

We noted certain deficiencies in the disclosure of operating segments made by companies in their financial statements and MD&A. The following are our findings, some reminders and an example to help you meet your obligations.

##### **Finding: In light of IFRS**

We noted certain deficiencies in the disclosure of operating segments made by companies in their financial statements, in particular:

- The aggregation of operating segments without this fact being mentioned;
- The absence of criteria and economic indicators for aggregation in the description of the judgments made by management;
- The presentation of a single segment, although the company seems to have several operating segments and has not provided any information describing their aggregation.

##### **Reminder about certain requirements under IFRS 8 regarding reportable segments**

IFRS 8 allows entities to aggregate two or more operating segments into a single operating segment if aggregation is consistent with the core principle of IFRS 8. Moreover, entities must describe, in their financial statements, the judgments made by management in applying the aggregation criteria for operating segments. In particular, they must provide the following disclosure:

- A brief description of the operating segments that have been aggregated;
- The criteria and economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.



## 2 Operating segments (continued)

### Finding: In light of the MD&A

We noted certain deficiencies in the disclosure of segment results made by companies in their MD&A, in particular:

- Inconsistency between segment results discussed in the MD&A and results presented in the notes to the financial statements;
- Lack of discussion of operating segments that are reportable segments as those terms are defined in the company's GAAP;
- Failure to comply with the guidance in Notice 52-306 regarding adjusted segment results.

### Reminder of MD&A requirements regarding reportable segments

Form 51-102F1 of [Regulation 51-102](#) requires issuers to discuss their financial performance. To do so, they must compare their performance in the most recently completed fiscal year to the prior year's performance. Operating segments that are reportable segments as defined in the company's GAAP must be analyzed in the MD&A.

### Example of the consistency between segment results discussed in the MD&A and those presented in the notes to the financial statements

#### Example of financial statements

“Note 15 **Segment information**

For the fiscal year ended December 31, 2016  
(in millions of dollars)

	SEGMENT A	SEGMENT B	TOTAL
Operating revenue	710	345	1,055
Operating costs	570	270	840
<b>Operating results</b>	<b>140</b>	<b>75</b>	<b>215</b>
Finance costs			35
Income taxes			40
<b>Net earnings</b>			<b>140”</b>

## 2 Operating segments (continued)

### Example of the consistency between segment results discussed in the MD&A and those presented in the notes to the financial statements (continued)

#### Example of an MD&A

##### NON-COMPLIANT DISCLOSURE

###### “Overall performance

Segment A continued the deployment of its network and expanded the range of products offered to clients. Growth in revenue and improved gross margins raised the adjusted EBITDA<sup>1</sup> for segment A from \$160 million in 2015 to \$205 million in 2016 [...].

<sup>1</sup> See the section on non-IFRS financial measures on page x of the MD&A.”

##### CORRECTED DISCLOSURE

###### “Overall performance

Segment A continued the deployment of its network and expanded the range of products offered to clients. Growth in revenue and improved gross margins raised operating results for segment A from \$135 million in 2015 to \$140 million in 2016. Depreciation expenses were up during the year due to new equipment purchased in June, which had a significant impact on operating results [...].”

#### How to meet the requirements of Form 51-102F1 of Regulation 51-102:

The MD&A must contain a discussion of the operating segments that are reportable segments as those terms are defined in the company’s financial statements. In this example, operating earnings must be discussed, not only adjusted EBITDA, which is an NGFM.

## OUR COMMENTS TO THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

The AMF, together with certain CSA members, **provided its comments** on the Exposure Draft, *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*, published in April 2017 by the IASB.

### Different reportable segments

We disagree with the IASB’s proposal to require entities to disclose in the notes to the financial statements an explanation of, and the reasons why, reportable segments identified in the financial statements differ from segments identified in other parts of the entity’s annual reporting package.

Based on our experience, issuers do not explicitly identify different operating segments in documents outside of the financial statements. Instead, they disclose information that suggests that there may be additional reportable segments compared with those disclosed in the financial statements. The IASB’s proposal does not address this discrepancy.

### Additional segment information

Moreover, we do not believe that the IASB’s proposal to add paragraph 20A is necessary, because entities are already required to disclose segment information in addition to the

information regularly reviewed by the chief operating decision maker, if such disclosure is necessary to meet the core principle in paragraphs 1 and 20 of IFRS 8.

# 3

## Disclosure for mineral projects

### Finding

We noted certain deficiencies in the disclosure of mineral resources made by companies in their technical reports, in particular:

- Inadequate presentation of the reasonable prospect for eventual economic extraction;
- Use of overly aggressive or unreasonable assumptions.

### Reminder about requirements

It is essential that disclosure of mineral resources comply with the definitions of the **Canadian Institute of Mining, Metallurgy and Petroleum** (“CIM”), which definitions are incorporated in **Regulation 43-101**.

## DETERMINATION OF MINERAL RESOURCES

After the discovery of a mineral deposit, the determination of the mineral resources is probably the most important milestone in the development of a mineral project. This key milestone often leads to the establishment of the project’s mineral reserves and the determination of its economic viability.

Investors closely monitor the publication of mineral resource estimates for a mineral project, particularly in the case of venture issuers, because an estimate is often an event that creates significant value.

### A MINERAL RESOURCE IS NOT MERELY A MINERAL INVENTORY

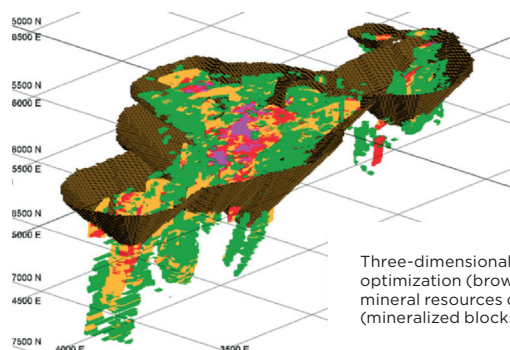
It is by assessing the economic potential of mineralized blocks that the qualified person in charge of making estimates can differentiate between a mineral resource and a mere inventory of the mineralization discovered.

The assessment of economic potential is carried out by applying technical and economic assumptions regarding a potential mining operation, including the costs for mining and processing the ore, the price or value of the products recovered, the metallurgical recovery rate, and the cut-off grade at which the mining of the mineralized blocks is considered potentially economical.

For example, in the case of an open-pit mine, the qualified person generally uses specialized software that analyzes the potential economic value of each mineralized block based on the selected assumptions. The result of the

analysis can then be used to establish the optimal pit limits within which the mineralized blocks are considered to indicate a reasonable prospect for eventual economic extraction.

analysis can then be used to establish the optimal pit limits within which the mineralized blocks are considered to indicate a reasonable prospect for eventual economic extraction.



Three-dimensional representation of pit optimization (brown outline) defining the mineral resources of the mineral project (mineralized blocks located inside the pit)

# 4

## Certain requirements for prospectus offerings

### Reminder about requirements for prospectus offerings

In accordance with section 13 of the *Securities Act*, a prospectus must provide full, true and plain disclosure of all material facts relating to the securities issued or proposed to be distributed. Thus, companies seeking to raise capital

by means of a prospectus must comply with the applicable disclosure requirements. The general requirements are set out in [Regulation 41-101](#).<sup>12</sup>

### Some findings and examples of disclosure to be included in a prospectus

We noted certain deficiencies in the required prospectus disclosure of the use of proceeds, liability for third-party information and the requirement respecting the review of unaudited financial statements included or incorporated

by reference in a prospectus. The following are some of our findings as well as typical examples of non-compliant disclosures for which we required corrections in order to meet the requirements applicable to prospectus offerings.

### Required disclosure of the use of proceeds

In order to allow investors to make an informed decision, the prospectus must contain clear information on the proceeds of distribution and the company's financial condition. We invite you to consult [CSA Staff Notice 41-307](#) in

particular, which describes the elements on which we may raise comments with regards to the financial condition of a company and the sufficiency of proceeds.



#### Finding

Some companies do not include in their prospectus full disclosure of the use of proceeds.

<sup>12</sup> Moreover, there are specific requirements for securities offered via a short form prospectus and securities distributed via a base shelf prospectus, set out, respectively, in [Regulation 44-101](#), [Regulation 44-102](#) and [Regulation 44-103](#).

4

Certain requirements for prospectus offerings (continued)

**First example of a prospectus section on the use of proceeds**

**NON-COMPLIANT DISCLOSURE**

“The net proceeds of distribution will be approximately \$10 million. The company will use the proceeds of distribution for general corporate purposes.”

**CORRECTED DISCLOSURE**

“The net proceeds of distribution will be approximately \$10 million. The company will use the proceeds of distribution as follows:

- \$5 million to pay for the purchase of the building;
- \$2 million to retire series A debentures;
- \$2.5 million to reduce the balance of credit facilities.

The balance will be used for general corporate purposes.”

**How to meet disclosure requirements:**

In general, it is not sufficient for a company to state in the prospectus that the proceeds of distribution will be used for general corporate purposes. The company should specify and quantify the use of proceeds in the prospectus. If it is impossible for the company to provide a specific amount or percentage for each of its general needs, it should state and explain this fact in the prospectus.

**Second example of a prospectus section on the use of proceeds**

**NON-COMPLIANT DISCLOSURE**

“The net proceeds of distribution will be approximately \$12 million and will be used to finance the acquisition of the building at a cost of \$15 million.”

**CORRECTED DISCLOSURE**

“The net proceeds of distribution will be approximately \$12 million and the net proceeds of the concurrent private placement will be approximately \$3 million. The Company intends to finance the acquisition of the building at a cost of \$15 million with the net proceeds of distribution and the net proceeds obtained from the concurrent private placement.”

**How to meet disclosure requirements:**

Disclosure in the prospectus should include all supplementary sources of financing needed to achieve the stated objectives.

## 4 Certain requirements for prospectus offerings (continued)

### Disclosure of a company's ability to continue as a going concern



#### Finding

Some companies do not seem to have sufficient funds to continue their operations for a reasonable period of time and meet their short-term liquidity requirements.

#### Example of comments raised by Corporate Finance and the disclosure to be provided by companies

In such a situation, we could require the following, in particular, from the company under review:

- A demonstration, including by means of cash flow forecasts, of its ability to continue its operations;
- A written representation of the number of months that it will be able to continue its operations given its financial condition;
- Inclusion of the representation in its prospectus;
- Additional disclosures in order to assess the reasonableness of the assumptions made.

In connection with a base shelf prospectus, we may require, as a condition for the issuance of a receipt, that a company provide an undertaking containing the following:

- A prohibition preventing the company from filing a prospectus supplement for purposes of a distribution if the proceeds from the sale of the securities being distributed, together with the company's other resources, will be insufficient to meet its short-term liquidity requirements;
- The presentation of the following additional disclosure in each supplement:
  - Information on the use of proceeds;
  - Negative operating cash flows;
  - Information on available funds;
  - The disclosure required under item 8.7 of Form 41-101F1 of Regulation 41-101.

#### How to meet disclosure requirements:

We will raise comments in respect of the financial condition of a company and the sufficiency of proceeds from a prospectus offering where we have concerns regarding certain elements. We invite companies and their advisers to carefully read the guidance in CSA Staff Notice 41-307.

## 4 Certain requirements for prospectus offerings (continued)

### Liability for third-party information contained in the prospectus

Companies cannot limit their liability for the information included in their prospectus, even if the information originates from a third party. Thus, they cannot exclude the statutory remedies for misrepresentations.



#### Finding

Some companies try to limit their liability with respect to third-party information contained in the prospectus.

#### Example of third-party information contained in a prospectus

##### NON-COMPLIANT DISCLOSURE

“The Company’s prospectus includes studies carried out by third parties. Although the Company considers these studies to be reliable, it has not independently verified the information they contain. Accordingly, the Company disclaims any liability for information drawn from the studies carried out by third parties.”

##### CORRECTED DISCLOSURE

“The Company’s prospectus includes studies carried out by third parties. Although the Company considers these studies to be reliable, it has not independently verified the information they contain.”

#### How to meet disclosure requirements:

Companies that present third-party information in a prospectus or continuous disclosure document, such as data originating from publications prepared for a particular industry, may state that the information has not been independently verified. However, companies must not try to limit their liability with respect to such information.

## 4 Certain requirements for prospectus offerings (continued)

### Requirement respecting the review of unaudited interim financial reports included or incorporated by reference in a prospectus

Unaudited interim financial reports included or incorporated by reference in a prospectus, other than pro forma financial statements, must have been reviewed in accordance with the relevant standards for the review of financial statements set out in the *CPA Canada Handbook – Assurance*.



#### Finding

Some companies incorporated by reference in their prospectus interim financial reports that had not been reviewed.

#### Example of a notice included in an unaudited interim financial report in connection with a prospectus

##### NON-COMPLIANT DISCLOSURE

“These condensed unaudited consolidated interim financial statements have not been reviewed by the independent auditor.”

##### REMINDER

No notice is required if the financial statements have been reviewed.

#### How to meet the requirement respecting the review of financial reports:

Companies must ensure that unaudited interim financial reports included or incorporated by reference in a prospectus, other than pro forma financial statements, have been reviewed. Where no notice is provided, the review is presumed to have been carried out. Note that the AMF may require confirmation of the date on which the interim financial statements were reviewed.



# INFORMING

Carefully read this section for essential information about certain oversight activities and recent initiatives.

## 1

## Issue-oriented reviews to be carried out in 2017-2018

### During 2017-2018, we will focus on the following issues:

#### CLIMATE CHANGE

We will examine a number of issues pertaining to disclosure of the risks and financial repercussions associated with climate change. This includes a review of international disclosure requirements and voluntary disclosure

frameworks, a review of the continuous disclosure documents of companies, and consultations with a variety of stakeholders.

#### NEW IFRS

We will examine the disclosure included in the MD&A in order to ensure that the requirements of Form 51-102F1 of **Regulation 51-102** and the guidance provided by IOSCO are followed and that the potential material repercussions of new IFRS pertaining to revenue, financial instruments and leases are properly described.

##### **New IFRS contemplated:**

- IFRS 15, *Revenue from Contracts with Customers*;
- IFRS 9, *Financial Instruments*;
- IFRS 16, *Leases*.

#### NON-GAAP FINANCIAL MEASURES (“NGFMS”)

We will re-examine the disclosure provided in annual reports and press releases and on company websites in order to ensure that the guidance set out in

**CSA Staff Notice 52-306 (revised)** is followed and that any NGFM presented does not mislead investors.

#### REPRESENTATION OF WOMEN ON THE BOARD AND IN EXECUTIVE OFFICER POSITIONS

We will re-examine the disclosure provided in circulars by companies listed on the TSX in order to ensure that these companies are complying with the requirements of

**Regulation 58-101** aimed at increasing the transparency of disclosure to investors of the representation of women on the board and in executive officer positions.

# 2

## Act respecting transparency measures in the mining, oil and gas industries – a brief look

In October 2015, the *Act respecting transparency measures in the mining, oil and gas industries* (“ATM”) was enacted. Under the ATM, some enterprises operating in the targeted industries are required to declare certain payments equal to or greater than \$100,000 made to the payees specified in the ATM (primarily government entities). Its purpose is to discourage and detect corruption, as well as foster the social acceptability of projects.

The *Ministère de l'Énergie et des Ressources naturelles* (“MERN”) (Québec Energy and Natural Resources) is responsible for the application of the ATM, but its administration has been entrusted to the AMF.

If you have not already done so, we invite you to determine whether your company is subject to these new reporting requirements.



THE ATM IMPOSES SIGNIFICANT PENALTIES FOR FAILURE TO COMPLY WITH ITS PROVISIONS.

### Regulation respecting the application of the ATM

On August 3, 2017, the *Regulation respecting the application of the Act respecting transparency measures in the mining, oil and gas industries* came into force.

The Regulation specifies the format of the statement to be provided to the AMF by enterprises subject to the ATM, its method of transmittal and the manner in which foreign currencies are to be converted in order to determine the value of payments. It also contains a list of authorities whose requirements are recognized as an acceptable substitute for the requirements of the ATM.

### Transitional measures

A statement required under the ATM for a fiscal year beginning between October 22, 2015 and July 31, 2016 must be provided not later than **December 31, 2017**.

In the other cases, the statement must be provided by entities not later than the 150th day following the end of their fiscal year.

### Guidelines

The MERN and the AMF are working together to draft guidelines to help enterprises subject to the ATM prepare and transmit the annual statement. These guidelines will set out the Québec government's expectations for enterprises subject to the ATM.

### Framework for penalties

The ATM provides for significant monetary administrative penalties and penal proceedings for subject enterprises that violate its provisions. A general framework for the application of monetary administrative penalties and penal proceedings will be drawn up. This document will set out the orientations and general criteria for the application of the ATM as regards monetary administrative penalties and penal proceedings.

# 3

## Transactions involving a Québec company

### Did you know that Corporate Finance conducts real-time tracking of corporate transactions?

As part of its oversight activities, Corporate Finance conducts real-time tracking of mergers and acquisitions, combinations, restructurings and other similar transactions to which at least one company with a head office in Québec is a party. Through real-time tracking, we can oversee the

application of securities legislation with respect to the information contained in disclosure documents, such as an information circular, where a related party is involved in a transaction.

### What do we expect?

We expect issuers to pay special attention to the information they present in their disclosure documents to ensure it is consistent with information previously published, and we

expect issuers to provide the necessary updates, in a timely manner, where new facts should be disclosed to the public.

### Do you know the issues considered in connection with applications for exemptions that may affect the rights of minority security holders?

In connection with an application for an exemption from a requirement under securities legislation pertaining to requirements affecting the rights of minority security holders, Corporate Finance analyzes the impacts of the proposed transaction on the rights of minority security holders and ensures that the proposed transaction respects the principles underlying the measures for the protection of minority rights set out in our legislation.

Where the situation requires it, we can impose additional measures as a condition for granting the exemption. For example, within the scope of an application for an exemption in connection with a transaction that would significantly dilute the interests of minority security holders, the AMF could require, as a condition for granting the exemption, that the issuer hold a meeting of its security holders so that a vote on the proposed transaction can take place.

# 4

## Exempt market distributions

### Two equity crowdfunding schemes available to Québec companies



There are currently two equity crowdfunding schemes in Québec, namely, the [start-up crowdfunding exemption](#)<sup>13</sup> and the scheme set out in [Regulation 45-108](#).

The start-up crowdfunding exemption differs from [Regulation 45-108](#) in that it offers the possibility of an exemption from the registration requirement, and it sets lower investment limits and a lower aggregate fundraising ceiling.

Since the start-up crowdfunding exemption was granted, over half of the funds raised in Canadian jurisdictions that made this exemption available was raised by Québec

companies. Indeed, three Québec companies were able to raise \$306,100 in reliance on the exemption. In addition, these companies made their distribution via a portal exempt from the registration requirement.

It should also be noted that, at present, no portal is specifically registered as a restricted dealer in Canada, as permitted under [Regulation 45-108](#). Although certain dealers registered as exempt market dealers are entitled to act in such capacity, no crowdfunding activities have yet taken place in Canada under the Regulation.

### New continuous disclosure requirements for recent distributions made with an offering memorandum

We wish to remind issuers who have made a distribution since April 30, 2016, under the exemption set out in section 2.9 of [Regulation 45-106](#), that they are now subject to continuous disclosure requirements. Thus, they must

send to the AMF and make reasonably available to purchasers their audited annual financial statements together with a notice of use of proceeds, if required.

13 2016-PDG-0095 (which replaced Decision No. 2016-PDG-0015).

## 4 Exempt market distributions (continued)

### Exempt market distributions: Did you know that non-reporting issuers must file their documents using SEDAR?<sup>14</sup>

Since May 24, 2016, certain documents pertaining to the exempt securities market must be filed electronically using SEDAR.

#### Tips for non-reporting issuers:

- Create a new profile using the “Other Issuer” profile rather than the “Other Filer” profile;
- Don’t forget to file the offering memorandum required under section 2.9 of [Regulation 45-106](#) and the marketing materials, if any;
- Select the appropriate category when filing documents: “offering memorandum” or “marketing material”;

- Avoid additional fees by filing restated reports of exempt distribution under the initial project number, rather than creating a new project.

If you avail yourself of section 2.3 of [Regulation 45-106](#) (accredited investor) and you have prepared an offering memorandum or other disclosure document for investors, you do not need to file these documents using SEDAR.

### Syndicated mortgages in brief

The syndicated mortgage market is not very transparent. While these mortgages have made the headlines elsewhere in Canada, this is not the case in Québec. We conducted research in order to better understand the extent of this market in Québec and to assess the framework for market participants.

A syndicated mortgage is a mortgage in which at least two persons participate as lenders in a debt obligation that is secured by the mortgage, as defined in

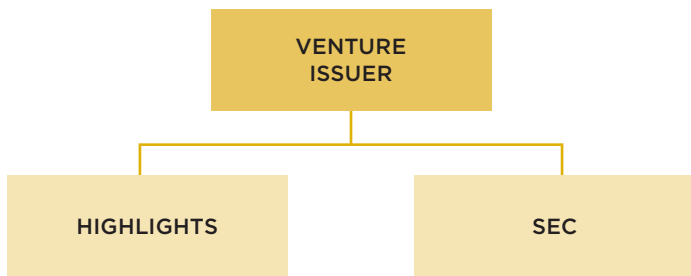
[Regulation 45-106](#). This type of mortgage differs from a conventional mortgage, which involves only one lender. The distribution of syndicated mortgages in certain jurisdictions, including Québec, cannot be made under a specific prospectus exemption, as is the case for conventional mortgages (exemption provided for in section 2.36 of [Regulation 45-106](#)).

<sup>14</sup> System for Electronic Document Analysis and Retrieval.

# 5

## More reminders

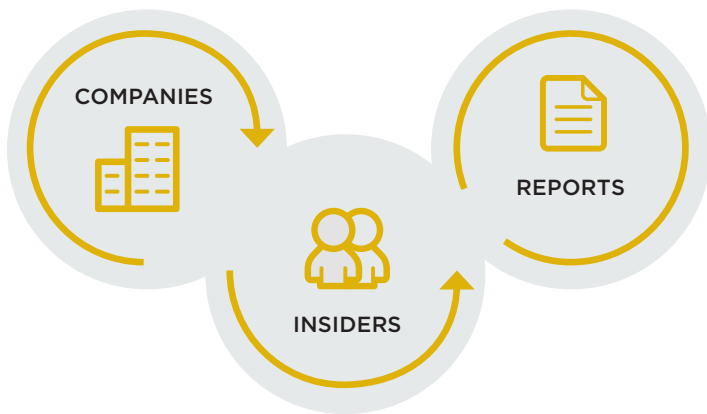
### Did you know that venture issuers can benefit from regulatory relief? Take advantage of it!



We noted that few companies that qualify as venture issuers relied on the regulatory relief pertaining to quarterly highlights and the statement of executive compensation (“SEC”).

These companies are invited to read the requirements set out in Form 51-102F1 and Form 51-102F6V of [Regulation 51-102](#), and take advantage of them if they meet their needs.

### Are you a “reporting insider” of a company? Avoid recurring deficiencies! Late insider reports can be costly.



**Tips:**

- Make sure the transaction code is correct. For example, use code 16 for the purchase of securities under [Regulation 45-106](#);
- Ensure the transaction date is correct;
- Ensure that the relationship to the issuer is correct.

If you are turning to a third party for your SEDI<sup>15</sup> filings, you are still entirely responsible for those filings.

To reduce the risks related to late or incorrect filings, check your SEDI profile and filings periodically.

Did you cease to be an insider? If so, don't forget to report the date on which this change occurred.

15 System for Electronic Disclosure by Insiders.

# 6

## Regulatory initiatives

Below is an overview of regulatory initiatives and staff notices relating to the financing and continuous disclosure obligations of companies. They came into force during the past year, are pending or are being proposed.

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>CSA Notice and Request for Comment - Draft Regulation to amend Regulation 45-102 respecting Resale of Securities</b></p>	<p>The CSA is proposing to repeal the exemption set out in section 2.14 of Regulation 45-102 and introduce a new prospectus exemption for the resale of securities of a foreign company that is not a reporting issuer in any jurisdiction of Canada. To do so, the following conditions would apply:</p> <ul style="list-style-type: none"> <li>● The resale must take place on an exchange, or a market, outside of Canada or to a person outside of Canada.</li> <li>● The proposed exemption sets aside the 10% securities ownership threshold as a condition that sought to determine a minimal connection to Canada and introduces the condition that the issuer must be a foreign company.</li> </ul> <p>The AMF co-leads this initiative, which follows the publication of two blanket orders by the AMF in 2016 (Decision No. 2016-PDG-0093 and Decision No. 2016-PDG-0094).</p> <p>This work also forms part of a general review of the resale regime in Canada to determine whether it continues to be relevant in today's markets and to assess the impact of alternative regulatory approaches.</p>	<p>The comment period will end on September 27, 2017.</p>
<p><b>Multilateral CSA Staff Notice 61-302 - Staff Review and Commentary on Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions</b></p>	<p>Participating jurisdictions would like to advise market participants of the following:</p> <ul style="list-style-type: none"> <li>● Current and proposed review and oversight of transactions subject to Regulation 61-101.</li> <li>● Views with respect to:                             <ul style="list-style-type: none"> <li>● The role of boards of directors and/or special committees of independent directors in negotiating, reviewing and approving or recommending material conflict of interest transactions;</li> <li>● Disclosure obligations that enable a company's security holders to make informed decisions when voting on such proposed transactions or when tendering their securities in response to a take-over bid, issuer bid or exchange offer giving rise to a material conflict of interest.</li> </ul> </li> </ul> <p>The AMF co-leads this initiative.</p>	<p>This Notice was published on July 27, 2017.</p>

## 6 Regulatory initiatives (continued)

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>CSA Staff Notice 46-307 – <i>Cryptocurrency Offerings</i></b></p>	<p>The CSA has noted an increase in the number of cryptocurrency offerings. Cryptocurrency offerings can provide new opportunities for businesses to raise capital and new investment opportunities for investors, but they can also raise concerns regarding investor protection and illegal schemes.</p> <p>These offerings may, in certain cases, constitute distributions of securities or they may be derivatives. In such cases, fintechs should determine whether prospectus, registration or market-place requirements apply to them.</p> <p>Thus, the Notice includes the following:</p> <ul style="list-style-type: none"> <li>● Guidance on the applicability of securities legislation to cryptocurrency offerings and what the CSA will consider in connection with such offerings;</li> <li>● The steps fintechs can take in order to comply with securities legislation if they are raising capital;</li> <li>● The role of the CSA regulatory sandbox in assisting fintechs (for more information on this initiative, consult the section entitled “Innovating” in this report).</li> </ul>	<p>This Notice was published on August 24, 2017.</p>
<p><b>CSA Multilateral Notice and Request for Comment – <i>Draft Regulation to amend Regulation 45-106 respecting Prospectus Exemptions relating to Reports of Exempt Distribution</i></b></p>	<p>Participating jurisdictions are proposing to amend the reports of exempt distribution for the purpose of:</p> <ul style="list-style-type: none"> <li>● Providing greater clarity and flexibility regarding the certification requirement;</li> <li>● Streamlining certain information requirements to assist filers in completing the report of exempt distribution.</li> </ul>	<p>The comment period ended on September 6, 2017.</p>
<p><b>CSA Notice and Request for Comment – <i>Regulation 25-101 respecting Designated Rating Organizations</i></b></p>	<p>The CSA is proposing to amend Regulation 25-101 in order to:</p> <ul style="list-style-type: none"> <li>● Ensure equivalency between the requirements for designated rating organizations recognized in Canada and the European requirements that will come into force in June 2018;</li> <li>● Update the Regulation following the new requirements in the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies published in March 2015;</li> <li>● Designate Kroll Bond Rating Agency Inc. as a designated rating organization for purposes of the eligibility of certain issuers to file a short form prospectus as provided for in the regulations.</li> </ul>	<p>The comment period will end on October 4, 2017.</p>



## 6 Regulatory initiatives (continued)

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>CSA Consultation Paper 51-404 - Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers</b></p>	<p>The CSA is seeking 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.</p> <p>The following options are being considered:</p> <ul style="list-style-type: none"> <li>● Extending the application of streamlined rules to smaller reporting issuers;</li> <li>● Reducing the regulatory burdens associated with the prospectus rules and offering process;</li> <li>● Reducing ongoing disclosure requirements;</li> <li>● Eliminating overlap in regulatory requirements;</li> <li>● Enhancing electronic delivery of documents.</li> </ul>	<p>The comment period ended on July 28, 2017. We are reviewing the comments received.</p>
<p><b>CSA Consultation Paper 52-403 - Auditor Oversight Issues in Foreign Jurisdictions</b></p>	<p>The CSA published a consultation paper that describes a proposal from the Canadian Public Accountability Board (CPAB) to the CSA to amend Regulation 52-108 to require certain audit firms involved in the audit of a reporting issuer's financial statements to register as a participating audit firm.</p> <p>This paper was published in light of the concern expressed by CPAB with the number of instances where it was denied access to inspect audit work performed in a foreign jurisdiction.</p>	<p>The consultation period ended on June 24, 2017. We are reviewing the comments received.</p>
<p><b>CSA Staff Notice 51-348 - Staff's Review of Social Media Used by Reporting Issuers</b></p>	<p>CSA staff reviewed the social media disclosure made by a sampling of reporting issuers to determine whether it adhered to the principles outlined in National Policy 51-201 <i>Disclosure Standards</i> and the requirements of Regulation 51-102.</p> <p>The results identified areas where issuers are expected to improve their disclosure practices.</p> <p>The Notice explains that disclosure provided on social media must not be:</p> <ul style="list-style-type: none"> <li>● unbalanced</li> <li>● misleading, or</li> <li>● selective</li> </ul>	<p>This Notice was published on March 9, 2017.</p>

## 6 Regulatory initiatives (continued)

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>CSA Staff Notice 54-305 - Meeting Vote Reconciliation Protocols</b></p>	<p>The protocols published by the CSA contain:</p> <ul style="list-style-type: none"> <li>● CSA staff expectations on the roles and responsibilities of the key entities that implement meeting vote reconciliation;</li> <li>● Guidance on the kinds of operational processes that these entities should implement to support accurate, reliable and accountable meeting vote reconciliation.</li> </ul> <p>More specifically, the protocols address the following areas:</p> <ul style="list-style-type: none"> <li>● Generating and sending vote entitlement information;</li> <li>● Setting up vote entitlement accounts;</li> <li>● Sending proxy vote information and tabulating and recording proxy votes;</li> <li>● Informing beneficial owners of rejected/pro-rated votes.</li> </ul>	<p>This Notice was published on January 26, 2017.</p>
<p><b>CSA Multilateral Staff Notice 51-347 - Disclosure of cyber security risks and incidents</b></p>	<p>Participating jurisdictions reviewed the disclosure made by a sampling of reporting issuers of their exposure to cyber security risks.</p> <p>The review revealed that:</p> <ul style="list-style-type: none"> <li>● 61% of issuers had addressed cyber security issues as a material risk to their business.</li> <li>● Issuers from a wide range of sectors indicated in general that their dependence on information technology systems makes them vulnerable to cyber security attacks, and that disruptions due to cyber security incidents could adversely affect their business, results of operations and financial condition.</li> </ul> <p>The Notice also provides guidance on risk factor disclosure and incident reporting.</p>	<p>This Notice was published on January 19, 2017.</p>

## 6 Regulatory initiatives (continued)

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>Multilateral CSA Staff Notice 45-322 – Potential Concerns with the Structure of Rights Offerings</b></p>	<p>Participating jurisdictions highlighted potential concerns regarding the use of the rights offering prospectus exemption under section 2.1 of <i>Regulation 45-106 respecting Prospectus Exemptions</i>.</p> <p>The main concerns pertain to:</p> <ul style="list-style-type: none"> <li>● How the rights offering exemption is being used, for example, where a rights offering is structured in such a way as to discourage participation by existing security holders.</li> <li>● The terms and conditions of stand-by commitments. For example, a stand-by commitment that is conditional on limited security holder participation could create uncertainty for security holders and discourage participation.</li> </ul>	<p>This Notice was published on January 12, 2017.</p>
<p>Draft <i>Regulation respecting real estate prospectus and registration exemptions</i></p>	<p>The Regulation seeks to prescribe and simplify the framework governing certain real estate distributions by proposing a prospectus exemption in respect of the sale of real estate investment contracts specified therein.</p> <p>As well, the Regulation proposes a prospectus and registration exemption in respect of the distribution of a security giving a right of exclusive use in an immovable.</p>	<p>The comment period ended on December 24, 2016.</p>
<p><b>CSA Staff Notice 45-308 (Revised) – Guidance for Preparing and Filing Reports of Exempt Distribution under Regulation 45-106 respecting Prospectus Exemptions</b></p>	<p>The CSA seeks to assist issuers, underwriters and their advisers in preparing and filing reports of exempt distribution.</p> <p>The Notice includes:</p> <ul style="list-style-type: none"> <li>● Clarification regarding certification of the report;</li> <li>● Guidance on the reasonable steps the underwriter filing the report should undertake to obtain and confirm the required information regarding the issuer;</li> <li>● Guidance on the procedures that an issuer or underwriter could implement in order to reasonably confirm that a purchaser meets the conditions for a particular exemption;</li> <li>● Guidance on the increased flexibility for completing Schedule 1 for purchasers in certain circumstances who may qualify under more than one paragraph of the definition of “accredited investor;”</li> <li>● Guidance on disclosure of an issuer’s North American Industry Classification Standard (NAICS) code that corresponds to the issuer’s primary business activity where there is ambiguity on the appropriate code.</li> </ul>	<p>This Notice was published on September 29, 2016.</p>

## 6 Regulatory initiatives (continued)

DRAFT REGULATIONS AND NOTICES	SUMMARY OF INITIATIVES	IMPORTANT DATE
<p><b>CSA Multilateral Staff Notice 58-308 – Staff Review of Women on Boards and in Executive Officer Positions</b></p> <p><b>Compliance with Regulation 58-101 respecting Disclosure of Corporate Governance Practices</b></p>	<p>Participating jurisdictions reviewed the corporate governance disclosure made by 677 non-venture issuers with year-ends between December 31, 2015 and March 31, 2016 as it relates to the representation of women in prominent roles.</p> <p>This is the second review since the application of the requirements set out in Regulation 58-101, whereby non-venture issuers must provide disclosure of the representation of women on boards and in executive officer positions.</p> <p>The results of the review indicate that:</p> <ul style="list-style-type: none"> <li>● The requirements have generally resulted in enhanced disclosure by issuers.</li> <li>● The requirements have had a positive impact on the representation of women on boards.</li> </ul> <p>The results of the third review of non-venture issuers with year-ends between December 31, 2016 and March 31, 2017 will be published during the fall of 2017.</p>	<p>This Notice was published on September 28, 2016.</p>

# 7

## Collaboration between the AMF and IOSCO



OICU-IOSCO

### Did you know that the AMF is involved in the work of IOSCO?

Committee 1 of the International Organization of Securities Commissions (“IOSCO”), on which the AMF sits, is dedicated to improving the development of accounting and auditing standards, and enhancing the quality and transparency of the information that investors receive from listed firms, including financial institutions. It also considers matters related to the application of these standards in practice.

Over the past few years, Corporate Finance has participated in work leading to the following statements:

#### STATEMENT ON IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

IOSCO published the *Statement on Implementation of New Accounting Standards*, which provides issuers with guidance on the disclosure to be provided regarding the possible impact of the new IFRS pertaining to revenue, financial instruments and leases. These new standards are likely to significantly affect the financial statements of many issuers globally given the financial statement line items affected and the breadth of their applicability.

The Statement emphasizes the importance of the process for implementing these new standards and the role of audit committees in overseeing the process. It also emphasizes the importance of providing detailed, accurate and timely disclosure of the possible impact of the adoption of the new standards.

#### STATEMENT ON NON-GAAP FINANCIAL MEASURES

IOSCO published the *Statement on Non-GAAP Financial Measures*, which provides issuers with guidance on the presentation of NGFMs. The guidance deals with the information that should accompany such measures in order to provide users with a better understanding and enhance transparency.

In the Statement, IOSCO has set out specific guidance regarding the definition of NGFMs, their unbiased purpose, the prominence of the presentation of GAAP measures versus NGFMs, reconciliation to comparable GAAP measures, the presentation of NGFMs consistently over time, recurring items and access to associated information.

#### STATEMENT ON CYBER SECURITY IN SECURITIES MARKETS

IOSCO published *Cyber Security in Securities Markets – An International Perspective – Report on IOSCO’s cyber risk coordination efforts*. This report, which discusses some of the main regulatory issues and challenges related to

cyber security for all securities market participants, was prepared by the AMF in co-operation with regulatory authorities in China and Singapore.

# 8

## Advisory committees associated with the activities of Corporate Finance

To help the AMF fulfill its mission efficiently and allow it to continue to be a local regulator close to its markets, Corporate Finance mandated three **advisory committees** to provide relevant insight into trends observed in various sectors and strengthen the AMF’s collaboration with stakeholders. These committees, whose members are selected by the AMF through a call for candidates, are composed of AMF representatives and outside members drawn from various fields and professions related to the sectors concerned.

CORPORATE FINANCE ADVISORY COMMITTEE	FINANCIAL ADVISORY COMMITTEE	MINING ADVISORY COMMITTEE
<p>The mandate of the CFAC is to examine and discuss statutory and regulatory proposals pertaining to the framework for corporate finance and mergers and acquisitions</p> <p><b>The subjects discussed include:</b></p> <ul style="list-style-type: none"> <li>● Potential options for reducing the regulatory burden of non-investment fund reporting issuers.</li> <li>● The securities resale regime.</li> <li>● The organization of the <i>25th Annual Seminar for Lawyers Specializing in Securities</i>, which was held from October 26 to 28, 2016.</li> </ul>	<p>The mandate of the FAC is to examine and discuss statutory and regulatory proposals pertaining to the framework for the financial information presented by companies and the accounting and certification standards applicable to companies and their auditors.</p> <p><b>The subjects discussed include:</b></p> <ul style="list-style-type: none"> <li>● Non-GAAP financial measures.</li> <li>● The changeover to IFRS.</li> <li>● Issues related to the oversight of auditors in foreign countries.</li> </ul>	<p>The mandate of the MAC is to discuss the concerns of mining sector stakeholders. Discussions focus, in particular, on issues related to financing and continuous disclosure as well as <b>Regulation 43-101</b>.</p> <p><b>The subjects discussed include:</b></p> <ul style="list-style-type: none"> <li>● <i>The Act respecting transparency measures in the mining, oil and gas industries.</i></li> <li>● The non-compliant presentation of mineral resources.</li> <li>● Requests to correct technical reports.</li> </ul>



**WOULD YOU LIKE TO SIT ON ANY OF THESE ADVISORY COMMITTEES?  
KEEP AN EYE OUT FOR CALLS FOR CANDIDATES!**

# INNOVATING

Read this section to learn about a recent innovative project that is currently under way: The regulatory sandbox for fintechs.

## 1

### AMF innovations

#### Fintechs now have their own regulatory sandbox!

In its 2017-2020 Strategic Plan, the AMF announced that it is implementing a monitoring approach through which it can, among other things, follow technological innovations in the financial sector. With this sector turning traditional business models upside-down and creating new financial products and services, the AMF must anticipate regulatory, market efficiency and investor protection issues.

In order to meet the oversight challenges inherent in the industry's digital shift, in 2016 the AMF established a Fintech Working Group, supported by an advisory committee composed of outside experts. For its part, in February 2017, the CSA launched a regulatory sandbox, presided over by the AMF, whose objective is to support fintechs that propose innovative applications, products and services.

The regulatory sandbox is one of the initiatives that will make the AMF a key player for industry stakeholders interested in technological innovations in the financial sector.

The initiative will allow regulators to apply a co-ordinated approach to applications by fintechs that seek to register as dealers or obtain an exemption from requirements under securities legislation in order to be authorized to test their business models throughout the Canadian market for a limited period of time.



In order to qualify, the business models must be truly innovative from the point of view of the Canadian market. The AMF will evaluate applications on a case by case basis, in particular in order to ensure investor protection.

AMF experts are available to help fintechs better understand the applicable regulatory environment. Although we are making every effort to process these files diligently, analysis delays are inherent with respect to these applications given that, in general, these files involve innovative proposals that require thoughtful consideration. We invite fintechs to promptly contact us in order to avoid waiting times that could delay the launch of their project.



REQUESTS MAY BE SENT BY E-MAIL TO [FINTECH@LAUTORITE.QC.CA](mailto:FINTECH@LAUTORITE.QC.CA).

# APPENDIX A

## LIST OF CERTAIN REGULATIONS, POLICIES AND NOTICES PRESCRIBED FOR COMPANIES

This appendix contains the name of the regulations, policies and notices mentioned in this Summary. It also contains hyperlinks to access them.

All these regulations and other texts are published under the heading Securities and Derivatives – **Laws and Regulations** on the website of the AMF.

REGULATION, POLICY STATEMENT OR NOTICE NUMBER	REGULATION NAME
<a href="#">Regulation 25-101</a>	respecting Designated Rating Organizations
<a href="#">Regulation 41-101</a>	respecting General Prospectus Requirements
<a href="#">Policy Statement 41-101</a>	respecting General Prospectus Requirements
<a href="#">CSA Staff Notice 41-307</a>	Corporate finance prospectus guidance – Concerns regarding an issuer’s financial condition and the sufficiency of proceeds from a prospectus offering
<a href="#">Regulation 44-101</a>	respecting Short Form Prospectus Distributions
<a href="#">Regulation 44-102</a>	respecting Shelf Distributions
<a href="#">Regulation 44-103</a>	respecting Post-Receipt Pricing
<a href="#">Regulation 43-101</a>	respecting Standards of Disclosure for Mineral Projects
<a href="#">Regulation 45-102</a>	respecting Resale of Securities
<a href="#">Regulation 45-106</a>	respecting Prospectus Exemptions
<a href="#">Form 45-106F1</a>	Report of exempt distribution
<a href="#">Regulation 45-108</a>	respecting Crowdfunding
<a href="#">Regulation 51-102</a>	respecting Continuous Disclosure Obligations
<a href="#">Form 51-102F1</a>	Management’s Discussion and Analysis
<a href="#">Form 51-102F6V</a>	Statement of Executive Compensation – Venture Issuers
<a href="#">Policy Statement 51-201</a>	Disclosure Standards
<a href="#">Regulation 52-108</a>	respecting Auditor Oversight
<a href="#">Regulation 52-109</a>	respecting Certification of Disclosure in Issuers’ Annual and Interim Filings
<a href="#">CSA Staff Notice 52-306 (revised)</a>	Non-GAAP Financial Measures
<a href="#">Regulation 58-101</a>	respecting Disclosure of Corporate Governance Practices
<a href="#">Regulation 61-101</a>	respecting Protection of Minority Security Holders in Special Transactions



## Contact persons

We welcome comments and suggestions on how to improve this *Summary of Oversight and Regulatory Activities*. For more information or to provide us with your comments, please contact any of the following persons:

### Lucie J. Roy

Senior Director, Corporate Finance  
Telephone: 514-395-0337, ext. 4361  
Toll-free: 1-877-525-0337, ext. 4361  
E-mail: [lucie.roy@lautorite.qc.ca](mailto:lucie.roy@lautorite.qc.ca)

### Hélène Marcil

Director, Financial Information and Chief Accountant  
Telephone: 514-395-0337, ext. 4291  
Toll-free: 1-877-525-0337, ext. 4291  
E-mail: [helene.marcil@lautorite.qc.ca](mailto:helene.marcil@lautorite.qc.ca)

### Josée Deslauriers

Director, Compliance – Issuers and Insiders  
Telephone: 514-395-0337, ext. 4371  
Toll-free: 1-877-525-0337, ext. 4371  
E-mail: [josee.deslauriers@lautorite.qc.ca](mailto:josee.deslauriers@lautorite.qc.ca)

### Patrick Théorêt

Director, Corporate Finance  
Telephone: 514-395-0337, ext. 4381  
Toll-free: 1-877-525-0337, ext. 4381  
E-mail: [patrick.theoret@lautorite.qc.ca](mailto:patrick.theoret@lautorite.qc.ca)

### Martin Latulippe

Director, Continuous Disclosure  
Telephone: 514-395-0337, ext. 4331  
Toll-free: 1-877-525-0337, ext. 4331  
E-mail: [martin.latulippe@lautorite.qc.ca](mailto:martin.latulippe@lautorite.qc.ca)