

CSA Notice of Consultation
Draft Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations and Amendments to Certain Policy Statements
Related to the Business Acquisition Report Requirements

September 5, 2019

PART 1 – Introduction

The Canadian Securities Administrators (**CSA** or **we**) are publishing for a 90-day comment period, draft amendments to:

- *Regulation 51-102 respecting Continuous Disclosure Obligations* (**Regulation 51-102**);
- *Policy Statement to Regulation 51-102 respecting Continuous Disclosure Obligations* (**Policy Statement 51-102**);
- *Policy Statement to Regulation 41-101 respecting General Prospectus Requirements* (**Policy Statement 41-101**);
- *Policy Statement to Regulation 44-101 respecting Short Form Prospectus Distributions* (**Policy Statement 44-101**);

(the **Draft Amendments**).

We are issuing this Notice to solicit your comments on the Draft Amendments.

The public comment period expires on December 4, 2019.

The text of the Draft Amendments is published with this notice.

This Notice is also available, as applicable, on the following websites of CSA jurisdictions:

www.lautorite.qc.ca

www.bcsc.bc.ca

www.albertasecurities.com

www.osc.gov.on.ca

nssc.novascotia.ca

www.fcaa.gov.sk.ca

www.fcnb.ca

www.mbsecurities.ca

PART 2 – Substance and Purpose

A reporting issuer that is not an investment fund is required to file a business acquisition report (**BAR**) after completing a significant acquisition. Part 8 of Regulation 51-102 sets out three significance tests: the asset test, the investment test and the profit or loss test. An acquisition of a business or related businesses is a significant acquisition that requires the filing of a BAR under Part 8 of Regulation 51-102:

- for a reporting issuer that is not a venture issuer, if the result from any one of the three significance tests exceeds 20%;
- for a venture issuer, if the result of either the asset test or investment test exceeds 100% (collectively, the **BAR requirements**).

The BAR requirements were introduced in 2004¹ to provide investors with relatively timely access to historical financial information on a significant acquisition. They also require a reporting issuer that is not a venture issuer to prepare and file pro forma financial statements.

We have received feedback that in some cases the significance tests may produce anomalous results, that preparation of a BAR entails significant time and cost, and that the information necessary to comply with the BAR requirements may, in some instances, be difficult to obtain. In addition, some reporting issuers have applied for, and in appropriate circumstances were granted, exemptive relief from certain of the BAR requirements.

The Draft Amendments are aimed at reducing the regulatory burden imposed by the BAR requirements in certain instances, without compromising investor protection.

PART 3 – Background

The Draft Amendments are informed by comment letters and other stakeholder feedback received respecting the BAR requirements in response to CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*. The comment letters were summarized in CSA Staff Notice 51-353 *Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*.

Comments received reflected a wide range of suggestions, such as eliminating the BAR requirements entirely, reconsidering certain aspects of the significance tests (definitional and thresholds) and the relevance of pro forma financial statements. Many commenters supported increasing the significance test threshold for reporting issuers that are not venture issuers for reasons including that BAR disclosure is of limited value to investors particularly given its lack of timeliness, the cost of preparation and the fact that it can impede the completion of a transaction. Specific criticism was expressed relating to the profit or loss test for reasons including that the test often produces anomalous results when compared to the asset test or investment test.

¹ Certain aspects of these requirements were subsequently amended in 2015 as they apply to venture issuers.

Other commenters indicated that the BAR contains relevant information that may not be provided elsewhere. Commenters noted that not all historical financial information, pertaining to the acquired business that is provided in a BAR, is available in the issuer's other disclosure documents. In addition, the identifiable assets acquired and the liabilities assumed are initially recognized at their acquisition-date fair values in the reporting issuer's financial statements.

Based on the feedback noted above and the number of applications for exemptive relief from the BAR requirements considered by CSA staff, it appears that the current BAR requirements may in certain instances impose burden on reporting issuers without providing investors with the associated benefit of relevant information for their decision-making purposes. The Draft Amendments are also meant to address this issue.

PART 4 – Summary of the Draft Amendments

The Draft Amendments:

- alter the determination of significance for reporting issuers that are not venture issuers such that an acquisition of a business or related businesses is a significant acquisition only if at least two of the existing significance tests are triggered; and
- increase the significance test threshold for reporting issuers that are not venture issuers from 20 % to 30%.

The proposed two-trigger test aligns with the consultation feedback to modify the criteria to file a BAR. Our proposal to move towards a two-trigger test was informed by considering the feedback from the consultation and by considering data (including analyzing in each jurisdiction the BARs filed and the BAR relief granted over an approximate three-year period) to assess the impact of this change on a look back basis. Many commenters supported removing the profit or loss test for reasons including that the test often produces anomalous results when compared to the asset test or the investment test. Our analysis of the data indicates that the two-trigger test is more effective in dealing with the anomalous results than most of the other suggestions, such as removing the profit or loss test, introducing a revenue test etc., and captures significant acquisitions.

Additionally, the Draft Amendments increase the significance test threshold that applies to a reporting issuer that is not a venture issuer. The increase in the significance test threshold from 20% to 30% is consistent with the feedback we received in the consultation to increase the significance thresholds as a way to reduce regulatory burden.

In addition to the Draft Amendments, we considered other options to alter the BAR requirements, but determined that they either did not align with our policy objectives or that the reduction in burden did not justify a potential significant loss of information to investors.

We are not, at this time, proposing any further changes to the BAR requirements as they relate to venture issuers. The CSA already reduced regulatory burden for venture issuers in 2015 by increasing the significance test threshold from 40% to 100% and by removing the requirement that BARs filed by venture issuers contain pro forma financial statements.

We will continue to monitor international developments, including the recent proposal by the U.S. Securities and Exchange Commission,² to further inform our approach to reducing regulatory burden for reporting issuers that are not venture issuers without compromising investor protection.

PART 5 – Request for Comments

We welcome comments on the Draft Amendments.

Please submit your comments in writing on or before December 4, 2019.

Address your submission to all of the CSA as follows:

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
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Deliver your comments only to the addresses listed below. Your comments will be distributed to the other participating CSA jurisdictions.

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax : 514 864-8381
consultation-en-cours@lautorite.qc.ca

² Amendments to Financial Disclosures about Acquired and Disposed Businesses, Release No. 33-10635; 34-85765; IC-33465; File No. S7-05-19.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416 593-2318
comment@osc.gov.on.ca

Comments Received will be Publicly Available

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of the written comments received during the comment period. All comments received will be posted on the websites of each of the Alberta Securities Commission at www.albertasecurities.com, the Autorité des marchés financiers at www.lautorite.qc.ca and the Ontario Securities Commission at www.osc.gov.on.ca. Therefore, you should not include personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission.

PART 6 – Questions

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

Diana D’Amata

Senior Regulatory Advisor,
Direction de l’information continue
Autorité des marchés financiers
514 395-0337, ext. 4386
diana.damata@lautorite.qc.ca

Nadine Gamelin

Senior Analyst,
Direction de l’information financière
Autorité des marchés financiers
514 395-0337, ext. 4417
nadine.gamelin@lautorite.qc.ca

Mike Moretto

Chief of Corporate Disclosure
British Columbia Securities Commission
604 899-6767
mmoretto@bcsc.bc.ca

Elliott Mak

Senior Legal Counsel, Corporate Finance
British Columbia Securities Commission
604 899-6501
emak@bcsc.bc.ca

Maggie Zhang

Senior Securities Analyst, Corporate Finance
British Columbia Securities Commission
604 899-6823
mzhang@bcsc.bc.ca

Christine Krikorian

Senior Accountant, Corporate Finance
Ontario Securities Commission
416 593-2313
ckrikorian@osc.gov.on.ca

Stephanie Tjon

Senior Legal Counsel, Corporate Finance
Ontario Securities Commission
416 593-3655
stjon@osc.gov.on.ca

Julius Jn-Baptiste

Legal Counsel, Corporate Finance
Ontario Securities Commission
416 595-8939
jjnbaptiste@osc.gov.on.ca

Roger Persaud

Senior Securities Analyst, Corporate Finance
Alberta Securities Commission
403 297-4324
roger.persaud@asc.ca

Gillian Findlay

Senior Legal Counsel, Corporate Finance
Alberta Securities Commission
403 279-3302
gillian.findlay@asc.ca

Heather Kuchuran

Acting Deputy Director, Corporate Finance
Financial and Consumer Affairs Authority of
Saskatchewan
306 787-1009
heather.kuchuran@gov.sk.ca

Patrick Weeks

Corporate Finance Analyst
Manitoba Securities Commission
204 945-3326
patrick.weeks@gov.mb.ca

Jack Jiang

Securities Analyst, Corporate Finance

Nova Scotia Securities Commission

902 424-7059

jack.jiang@novascotia.ca