Annex H

Local matters – British Columbia

A. Amendments to the *Securities Rules, B.C. Reg. 194/97, as amended*:

1. Part 16.1 is amended by adding the following section:

Prescribed core documents
185.4. The following classes of documents are prescribed for the purpose of the definition of “core document” in section 140.1 of the Securities Act:

a) annual reports under National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers* where used in relation to a person referred to in paragraph (a) or (b) of the definition of “core document”;

b) interim reports under National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers* where used in relation to a person referred to in paragraph (a) or (b) of the definition of “core document”.

B. Cost-benefit analysis

Introduction
In 2011, the BC Securities Commission conducted a survey of venture issuers and investors that focused on the impact of eliminating first and third quarter financial reports, introducing an annual report requirement, and introducing new corporate governance and audit committee requirements. We received 108 responses to the venture issuer survey and 9 responses to the venture investor survey.

In 2012, we conducted an update of the venture issuer survey, which focused on the impact of replacing management’s discussion and analysis for interim periods with a quarterly highlights document. We received 81 responses.

These surveys formed the basis of our cost-benefit analysis. We caution that, given the sample sizes, some of the costs and benefits discussed in this analysis may not be representative of the costs and benefits that all venture issuers and investors may experience.

A. Elimination of first and third quarter financial reports
We found that a majority of venture issuers who responded to the survey considered eliminating first and third quarter financial reports a benefit to their organization. Our sample of venture issuer investors was small. However, a majority of the venture investors who responded to our survey indicated that a lack of first and third quarter financial reports would significantly change their decision to invest in a venture issuer or would change their assessment of that issuer.

Based in part on these results and on the comment letters received (see Annex A), the CSA has decided not to proceed with the elimination of first and third quarter financial reports.

B. Annual report requirement

The annual report requirement would have a greater impact on costs for venture issuers who do not currently file an annual information form (AIF) than those who currently file an AIF. About 40% of venture issuers who responded indicated they currently file an AIF. Of these, about 40% indicated that the new annual report requirement would initially increase compliance costs. On the other hand, about 60% of venture issuers who do not currently file an AIF indicated that the new annual report requirement would initially increase compliance costs.

On an ongoing basis, less than a quarter of venture issuers who currently file an AIF would expect their compliance costs to remain higher than current levels. On the other hand, nearly half of the venture issuers who responded that do not currently file an AIF expected the annual report to create an additional compliance burden over the long term.

The benefit of the annual report is that it would hold some venture issuers (in particular those who do not currently file an AIF, or that do not have the policies and procedures in place for preventing conflicts of interest and insider trading) to a higher disclosure and governance standard than the current regime. We expect that this will result in more consistent disclosure and governance practices across venture issuers. An additional benefit of the annual report is that investors will be able to find most of a venture issuer's annual disclosure (financial statements, MD&A and certification) in only one document.

C. Corporate governance requirements

Approximately 60% of venture issuer respondents found that the proposed changes to corporate governance requirements would not increase the amount of time and money that they spend on that disclosure (both on an initial and ongoing basis). We expect our proposed requirements relating to conflicts of interest, related party transactions and insider trading to lead to improved governance of venture issuers and improved perceptions of market quality.

D. Audit committee requirements

About 70% of the respondents to our survey indicated that, on an initial basis, the introduction of the proposed audit committee requirements would not result in more time and money costs. On an ongoing basis, 80% of respondents indicated that their time and money costs would decrease or remain at current levels. We expect that the impact of the proposed audit committee requirements will be greatest for venture issuers whose current audit committee composition does not meet the proposed requirements.

We expect that increased independence of the audit committee will likely reduce instances of internal control weaknesses and promote accounting best practices, resulting in an increase in investor confidence.

E. Replacement of interim MD&A with quarterly highlights document

A significant majority of venture issuers who responded to the survey indicated that, given the choice, they would provide the quarterly highlights document rather than completing a more traditional, comprehensive interim MD&A. Most of these venture issuers also indicated that the preparation of the quarterly highlights document would reduce their time and money spent on an ongoing basis. Further, comments received indicated that venture issuers felt that this disclosure would be more useful and more likely to be read by investors.

Conclusion

Our survey results indicated that the proposals would create both costs and benefits to venture issuers and their investors. Many of the costs of the proposals are at the initial transition stage. We think these costs will decrease on an ongoing basis.

Venture issuers will benefit from the replacement of traditional MD&A with quarterly highlights, which will reduce the cost of interim reporting for venture issuers. Additionally, venture issuers would be able to focus on disclosing information about their business operations that is most relevant to venture investors.

We expect the streamlined and tailored nature of the proposed disclosure will benefit investors by providing them with the information they need in a more concise and consolidated manner. Investors will also benefit from the strengthened corporate governance policies that will result from the proposals.

Overall, we anticipate that the costs of the proposals will not outweigh the benefits.