The Prospectus

What it is and Why You Should Read it

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One of the best ways to protect investors is to ensure that they have access to accurate and up-to-date information about any company or mutual fund in which they might choose to invest. That is one of the underlying principles of Canadian securities law and the reason that securities **issuers** – like corporations and mutual funds – are required to prepare **prospectuses**, financial statements and other public disclosure materials.

A prospectus is an invaluable source of information. Its purpose is to give investors and their financial advisers information about a company or mutual fund, including information on products, management, financial and strategic planning, and risk in order to assist them in making sound investment decisions. A prospectus is of little value, however, if it is not read.

What is a Prospectus?

A prospectus is a detailed disclosure document that normally must be prepared whenever a company or mutual fund plans to issue securities to the public. It must, by law, provide **full, true** and **plain** disclosure of all material facts relating to the securities being issued. It must also be accepted for filing by the securities regulators and delivered to every person who buys the securities. Some jurisdictions allow a summary prospectus, which is an abbreviated version. This is supplied to investors, although the detailed prospectus is available on request.

A typical prospectus includes, among other things:

- the history of the issuer and a description of its operations;
- audited financial statements for the previous three years;
- a description of the issuer's business and investment plans;
- a description of the intended use of proceeds from the securities offering;
- a summary of the major risk factors affecting the issuer;
- information about the issuer's management and its principal shareholders (those who own more than 10%);
- a description of the legal rights of investors to withdraw from a purchase, or to sue for rescission (the return of their investment) or damages if the prospectus contains a misrepresentation.

Why Should I Read the Prospectus?

Some people seem to think that prospectuses are prepared for regulators rather than investors. That is simply not the case. While they are not exciting leisure time reading for many people, the whole purpose of the prospectus is to inform and to protect investors. Prospectuses are required by law to contain the facts. It is the **facts**, not promotional hype or a sales pitch, that should be the basis for investment decisions.

A prospectus allows investors to **protect themselves** by giving them detailed information about the issuer and about the securities being sold. In the prospectus, investors can find answers to many of the questions they would naturally ask before making an investment. Some questions might include:

- Is the issuer well established or is it a new venture with little or no history?
- What business is it in? Who are its competitors?
- What are the issuer's business plans and how does it intend to spend the proceeds of this offering?
- Has the issuer been profitable in the past? Has its financial performance been improving or declining in recent years?
- What assets does it hold?
- Does it have substantial debt?
- What other securities have already been issued?
- Who are the directors and officers? Do they have established track records of success? Do they have qualifications relevant to the issuer's business? How will they be compensated? Have they had any regulatory problems in the past?
- What are the major risk factors that could affect the issuer's performance in the future?
- Is there a market for the issuer's securities?

By reviewing the prospectus, investors will be better able to determine whether the investment has merit and whether the levels of risk and potential return fit their particular investment needs and objectives.

Issuers generally take great care to ensure the statements made in their prospectuses are accurate, as it is illegal to file a false or misleading prospectus. If material misrepresentations are found in a prospectus, each person who bought securities under the prospectus has the right to sue for rescission or damages.

The law also protects investors by giving them the right to withdraw from any purchase under a prospectus for two days after they receive the prospectus.

Remember – the fact that a prospectus has been filed and receipted is **not** a regulatory 'seal of approval' and not an assurance that the securities are a worthy investment. In fact, the front page of every prospectus must state that: "No securities commission or similar authority in Canada has passed on the merits of these securities..."

Where Can I get a Copy of the Prospectus?

If you invest in securities being sold under a prospectus, the issuer, its agent or its underwriter will send a copy of the prospectus to you. Copies can also be obtained by calling the issuer or the dealers who are acting as the issuer's agents in the offering. The prospectus will also be available for viewing at any stock exchange on which the securities are listed and at the offices of the provincial and territorial securities regulators who issued receipts for the prospectus. Most prospectuses filed in Canada since mid-1997 are also available through the Internet at **www.sedar.com**. They may also be available on the issuer's Internet site.

How Does the Prospectus Process Work?

When an issuer decides to offer securities to the public, it first prepares a **preliminary prospectus** and files that document with the securities regulators for review. Once the preliminary prospectus has been properly filed, the issuer can begin to solicit expressions of interest from potential investors, provided that it gives each potential investor a copy of the preliminary prospectus and complies with other legal requirements. When regulatory review of the document is complete and any comments have been addressed, the issuer prepares and files a final version of the prospectus and the regulators issue a receipt for it. Once the prospectus receipt has been issued, the issuer can begin to distribute the securities. A copy of the **final prospectus** must be sent to every purchaser.

Securities distributed under a prospectus can be freely traded among investors, typically through a stock exchange or another secondary market. Securities that are issued without a prospectus (under certain statutory exemptions from the prospectus requirement) can not generally be sold to the public and in most cases are subject to resale restrictions.

After the Prospectus – the Responsibilities of Reporting Issuers

An issuer that has obtained a receipt for a prospectus becomes a **reporting issuer** in that jurisdiction. This requires it to publish periodic financial statements and give prompt notice to the public of any material changes in its affairs. These financial statements and material change reports are available to the public at most of the securities regulators, at any stock exchanges on which the securities are listed, and on the Internet at **www.sedar.com**. Insiders of reporting issuers must also file regular reports disclosing their trading activity in the issuer's securities. Insider reports are available for public viewing at the offices of the securities regulators.

Remember

The purpose of a prospectus is to protect you, the investor, and to give you the information you need to make sound investment decisions.

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Canadian Securities Administrators

Alberta Securities Commission

British Columbia Securities Commission

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