

**CSA Notice and Request for Comment****Proposed Replacement of  
*Regulation 52-108 respecting Auditor Oversight***

*Draft Regulation to amend Regulation 41-101 respecting General Prospectus Requirements,  
Draft Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations and  
Draft Regulation to amend Regulation 71-102 respecting Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*

**October 17, 2013.**

**Introduction**

We, the Canadian Securities Administrators (CSA) are publishing for a 90-day comment period the proposed materials:

- *Regulation 52-108 respecting Auditor Oversight* (Regulation 52-108),
- *Policy Statement to Regulation 52-108 respecting Auditor Oversight*,

(together, the Amended Auditor Oversight documents), and regulations to amend

- *Draft Regulation to amend Regulation 41-101 respecting General Prospectus Requirements*;
- *Draft Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations* (Regulation 51-102);
- *Draft Amendments to Policy Statement to Regulation 51-102 respecting Continuous Disclosure Obligations*;
- *Draft Regulation to amend Regulation 71-102 respecting Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (Regulation 71-102);
- *Draft Amendments to Policy Statement to Regulation 71-102 respecting Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*;

(together, the Proposed Amendments).

The Amended Auditor Oversight documents will replace current *Regulation 52-108 respecting Auditor Oversight* (the Current Auditor Oversight documents).

The text of the proposed materials published with this notice is also published on the websites of a number of the members of the CSA.

## **Substance and purpose**

Consistent with the Current Auditor Oversight documents, the main purpose of the Amended Auditor Oversight documents is to contribute to public confidence in the integrity of financial reporting of reporting issuers by promoting high quality, independent auditing. In the Amended Auditor Oversight documents, we are proposing to change the triggers in Regulation 52-108 for when a public accounting firm must deliver to the securities regulatory authority a notice relating to remedial actions imposed by the Canadian Public Accountability Board (CPAB). We expect this will result in a greater number of notices than is currently the case.

We are proposing amendments to Regulation 51-102 relating to information about changes in auditor to ensure that reporting issuers provide more timely and complete information. Furthermore, to improve transparency, we are proposing to add a requirement to disclose in a prospectus, if applicable, that an auditor is not subject to the oversight program of CPAB. Finally, we are adding a requirement to Regulation 71-102 to require foreign issuers to comply with Regulation 52-108; this will align a foreign issuer's obligations with their auditor's obligations relating to auditor oversight.

## **Background**

The Current Auditor Oversight documents was developed in connection with the creation of CPAB, which began its operations in October 2003.

The Current Auditor Oversight documents requires a reporting issuer to have the auditor's report signed by a public accounting firm that has entered into a participation agreement with CPAB and to be in compliance with any restrictions or sanctions imposed by CPAB. In addition, it requires a public accounting firm to provide notice to the securities regulator, and in some cases, the audit committees and board of directors of each reporting issuer client, of certain restrictions or sanctions imposed by CPAB.

## **Summary of the proposed materials**

We are proposing the following key changes in the proposed materials from existing requirements:

- require a public accounting firm to deliver a notice to the securities regulatory authority if CPAB imposes certain types of remedial actions regardless of the labels CPAB attaches to them (e.g., “sanction” or “restriction”);
- require a public accounting firm to notify its reporting issuer clients if it is not in compliance with certain requirements in the Instrument;
- require disclosure in a prospectus, if the financial statements of the issuer included in the prospectus were audited by an auditor that, as at the date of the most recent auditor's report on financial statements included in the prospectus, was not required to be subject to, and was not subject to the oversight program of CPAB;
- reduce the filing period from 30 days to 14 days for a change of auditor notice required by Regulation 51-102 following the termination, resignation or appointment of an auditor by a reporting issuer;

- require a predecessor auditor or a successor auditor to notify the regulator on a timely basis if a reporting issuer does not file a change of auditor notice required by Regulation 51-102; and
- add a condition to the current exemptions in Regulation 71-102 relating to audited financial statements of SEC foreign issuers and designated foreign issuers to require compliance with Regulation 52-108. This aligns the requirements for foreign issuers with the current requirement for an auditor of a foreign issuer to comply with Regulation 52-108.

We are not, at this time, proposing any substantive changes to the existing requirements for when a public accounting firm must provide notice to the audit committees of its reporting issuer clients about remedial actions imposed by CPAB. We propose to defer consideration of this issue until further developments are made on a recommendation by the Enhancing Audit Quality (EAQ) initiative that more information on CPAB inspection results be made available to audit committees.

The EAQ initiative was led by the Chartered Professional Accountants of Canada and CPAB. In its May 31, 2013 report, it was recommended that CPAB and the audit firms it oversees develop a protocol for increasing the extent of information made available to audit committees. As part of the protocol, the EAQ initiative recommended that, if CPAB has inspected the audit file of a particular company, its auditors would provide the audit committee, on a confidential basis, with a summary of any significant findings of the inspection and the firm's response to those findings.

We will request periodic updates on the development of a protocol and will provide input when appropriate. After further efforts to develop a protocol, the CSA will consider the need for potential changes to the requirements in Regulation 52-108 for notice to audit committees.

### **Anticipated costs and benefits**

We expect the proposed materials will improve the quality and extent of information that public accounting firms must deliver to the regulator relating to remedial actions imposed by CPAB which will assist the regulator in its oversight and review of the financial statement filings of reporting issuers. We also expect that reporting issuers and public accounting firms generally will not incur any significant incremental costs to implement the proposed materials.

### **Local matters**

An annex to this Notice outlines proposed amendments to local securities legislation. Each jurisdiction that is publishing local amendments will publish an annex outlining the proposed local amendments for that jurisdiction.

### **Request for comments**

We welcome your comments on the proposed materials. Please submit your comments in writing by January 15, 2014. If you are not sending your comments by email, please also send an electronic file containing the submissions (in Microsoft Word format).

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

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

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Fax: 514-864-6381  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
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Toronto, Ontario M5H 3S8  
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We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period.

It is proposed that the proposed amendments to *Policy Statement to Regulation 52-108 respecting Auditor Oversight* and to Regulations 41-101, 51-102 and 71-102 which are being published for comment will become effective to coincide with the implementation of amended and restated Regulation 52-108.

## Questions

Please refer your questions to any of the following:

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