

**PROPOSED AMENDMENTS TO PROPOSED
REGULATION 52-110 RESPECTING AUDIT COMMITTEES**

PART 1 AMENDMENTS

1.1 Meaning of Control

Subsection 1.3(4) of *Regulation 52-110 respecting Audit Committees* (the "Regulation") is amended by deleting the words "be an affiliated entity of" and substituting the word "control".

1.2 Meaning of Independence

(1) Section 1.4 of the Regulation is deleted and replaced by the following:

"1.4 Meaning of Independence --

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a "material relationship" is a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
 - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
 - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
 - (c) an individual who:
 - (i) is a partner of a firm that is the issuer's internal or external auditor,
 - (ii) is an employee of that firm, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;
 - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
 - (i) is a partner of a firm that is the issuer's internal or external auditor,
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

- (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;
 - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at that same time on the entity's compensation committee; and
 - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include:
- (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member
- (a) has previously acted as an interim chief executive officer of the issuer, or
 - (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

1.5 Additional Independence Requirements –

- (1) Despite any determination made under section 1.4, an individual who
 - (a) has a relationship with the issuer pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
 - (b) is an affiliated entity of the issuer or any of its subsidiary entities,is considered to have a material relationship with the issuer.
- (2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
 - (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
 - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
- (3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service."

- (2) Section 1.5 of the Regulation is re-numbered section 1.6

1.3 Controlled Companies

Paragraph (a) of subsection 3.3(2) is amended by deleting the words "paragraph 1.4(3)(g)" and substituting the words "paragraph 1.5(1)(b)".

1.4 Temporary Exemption for Limited and Exceptional Circumstances

Paragraph (a) of section 3.6 is amended by deleting the words "paragraph 1.4(3)(f)(i) or 1.4(3)(g)" and substituting the words "subsection 1.5(1)"

1.5 U.S. Listed Issuers

Section 7.1 of the Regulation is amended by

- (i) deleting the word “a” as it appears before the words “issuers, other than foreign private issuers,” and
- (ii) deleting the words “paragraph 5 of Form 52-110F1” and substituting the words “paragraph 7 of Form 52-110F1”.

1.6. Replacement of "person" with "individual"

- (1) Paragraph 1.3(1)(b) is amended by deleting the words "or company" and substituting the words "is an individual who".
- (2) Subsection 1.3(4) is amended by deleting the words "a person" and substituting the words "an individual" and by deleting the words “the person” and substituting the words “the individual”.

1.7 Form 52-110F1, *Audit Committee Information Required in an AIF*

Paragraph (c) of Item 3 of Form 52-110F1 is amended by deleting the word "persons" and substituting the word "individuals".

1.8 Form 52-110F2, *Disclosure by Venture Issuers*

- (1) Form 52-110F2 is amended by re-numbering Items 3 through 7 as Items 4 through 8, respectively, and adding the following as a new Item 3:

“3. Relevant Education and Experience

Describe the education and experience of each audit committee member that is relevant to the performance of his or her responsibilities as an audit committee member and, in particular, disclose any education or experience that would provide the member with:

- (a) an understanding of the accounting principles used by the issuer to prepare its financial statements;
- (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
- (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the issuer's financial statements, or experience actively supervising one or more individuals engaged in such activities; and
- (d) an understanding of internal controls and procedures for financial reporting.”

- (2) Form 52-110F2 is amended by deleting the words “this paragraph 5” in the instruction to Item 7 and substituting the words “this paragraph 7”.