CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice of Repeal and Replacement of National Instrument 52-108 *Auditor Oversight* AND Amendments to National Instrument 41-101 *General Prospectus Requirements*, National Instrument 51-102 *Continuous Disclosure Obligations* and National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*

July 17, 2014

Introduction

We, the Canadian Securities Administrators (CSA) are adopting National Instrument 52-108 *Auditor Oversight* (the Instrument), Companion Policy 52-108CP *Auditor Oversight* (the Policy), and making amendments to

- National Instrument 41-101 *General Prospectus Requirements* (NI 41-101),
- National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102),
- Companion Policy 51-102CP *Continuous Disclosure Obligations* (51-102CP),
- National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (NI 71-102), and
- Companion Policy 71-102CP *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (71-102CP)

(together, the Amendments).

These documents are in Annexes C through J of this Notice and we refer to them collectively as the Final Materials. The Final Materials have been adopted or are expected to be adopted by each member of the CSA. Provided all necessary ministerial approvals are obtained, the Final Materials come into force on September 30, 2014.

The CSA published proposed versions of the Instrument, the Policy and the Amendments for comment on October 17, 2013 (the Proposed Materials). The Instrument will replace National Instrument 52-108 *Auditor Oversight*, which is currently in effect (the Current Instrument).

Substance and purpose

The main purpose of the Instrument is to contribute to public confidence in the integrity of financial reporting of reporting issuers by promoting high quality, independent auditing. The Instrument requires a public accounting firm to deliver a notice to a regulator or audit committee when certain remedial actions have been imposed by the Canadian Public Accountability Board

(CPAB). The Instrument also requires a public accounting firm to deliver a notice to its reporting issuer clients if it is not in compliance with certain requirements in the Instrument.

The amendment to NI 41-101 provides for greater transparency by requiring additional disclosure in a prospectus when financial statements of the issuer included in the prospectus were audited by an auditor that, 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.

The amendments to NI 51-102 provide more timely information by reducing the filing period requirements for a change of auditor notice, and requiring a predecessor auditor or a successor auditor to notify the regulator if a reporting issuer does not file a change of auditor notice required by NI 51-102.

The amendments to NI 71-102 align a foreign issuer's obligations with their auditor's obligations relating to auditor oversight by requiring a foreign issuer to comply with the Instrument.

Background

The Current Instrument was developed in connection with the creation of CPAB, which began its operations in October 2003. It 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 deliver a notice to the securities regulator, and in some cases, the audit committee and board of directors of each reporting issuer client, of certain restrictions or sanctions imposed by CPAB.

The Instrument being published in connection with this Notice continues to require a reporting issuer to have the auditor's report signed by a public accounting firm that has entered into a participation agreement with CPAB. However, the notice requirements have been amended to focus on the types of remedial actions CPAB imposes, regardless of the labels CPAB attaches to them (e.g., "sanction" or "restriction"). We expect this will result in a greater number of notices than is currently the case.

We are not, at this time, making any substantive changes to the existing requirements for when a public accounting firm must deliver a notice to the audit committees of its reporting issuer clients about CPAB's inspections.

Subsequent to publishing the Proposed Materials, CPAB finalised a voluntary protocol that will allow audit firms participating in the protocol to communicate more information about CPAB inspection findings. The voluntary protocol came into effect on March 1, 2014. In the event that CPAB has inspected the audit file of a reporting issuer, an audit firm participating in the protocol will provide the audit committee of the reporting issuer with the following information:

(i) a description of the focus areas selected for inspection by CPAB.

(ii) an indication of whether or not there are any significant inspection findings.

(iii) any significant inspection findings as reported by CPAB per CPAB's Engagement Findings Report, including a description of actions taken by the firm in response to the findings and CPAB's disposition.

In light of the finalisation of CPAB's voluntary protocol, we will defer consideration of whether substantive changes are needed to the Instrument requirements for notice to audit committees until an assessment can be made on the costs and benefits associated with the protocol. We will periodically consult with CPAB on the implementation of the protocol, as well as gather feedback from various stakeholders, in order to assess whether there is a need for associated changes to the Instrument.

Summary of written comments received by the CSA

The CSA received submissions from nine commenters who submitted comment letters on the Proposed Materials. The names of the commenters are listed in Annex A. The summary of the comments on the Proposed Materials, together with our responses, are in Annex B. We thank everyone who provided comments.

Summary of changes to the Proposed Materials

After considering the comments received, we have made some revisions to the Instrument and Policy that were published for comment. Those revisions are reflected in the Instrument and Policy we are publishing concurrently with this notice. As these changes are not material, we are not republishing the Instrument and Policy for a further comment period. No revisions have been made to the Amendments that were published for comment.

The key changes from the Proposed Materials are as follows:

- The requirement for a notice of remedial action to describe how a participating audit firm has failed to comply with professional standards no longer refers to the description CPAB provided the participating audit firm. The Policy explains that the description in the notice to the regulator should be substantially similar to the description CPAB provided the participating audit firm, and that a participating audit firm may modify the wording of CPAB's description to remove reference to information protected by professional secrecy in Quebec.
- In connection with the amendment described above, the Instrument specifies that a notice must include the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm, as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards.

Local matters

Annex K is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any information that is relevant to that jurisdiction only.

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Questions

Please refer your questions to any of the following:

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Annex A

List of Commenters

Company	Name of commenter/commenters
Deloitte LLP	Frank Vettesse
Emerson Advisory	H. Garfield Emerson
Ernst & Young LLP	Tom Kornya, Eric Spiekman and Donald Hanna
Grant Thornton LLP and Raymond Chabot Grant Thornton LLP	Jeremy Jagt and Gilles Henley
KPMG LLP	John Gordon
Ordre des CPA du Quebec	Daniel McMahon
Osler, Hoskin & Harcourt LLP	Andrew MacDougall
PricewaterhouseCoopers LLP	Kerry Gerber and Stacy Hammett
N/A	Tom Smith

Annex B

Summary of comments and responses

Proposed Repeal and Replacement of
National Instrument 52-108 *Auditor Oversight*

AND

Proposed Amendments to
National Instrument 41-101 *General Prospectus Requirements,*
National Instrument 51-102 *Continuous Disclosure Obligations* and
National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*

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Comments Pertaining to NI 51-102 *Continuous Disclosure Obligations*

1. General comments

Comments Pertaining to NI 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*

1. General comments

Legend:

CPAB: Canadian Public Accountability Board
CPAB Act: Ontario CPAB Act, 2006
CSA: Canadian Securities Administrators
PCAOB: Public Company Accounting Oversight Board
Protocol: Protocol between CPAB and the audit firms it oversees for increasing the extent of information made available to audit committees
SEC: Securities and Exchange Commission

#	*Theme*	*Comments*	*Responses*
	COMMENTS PERTAINING TO NI 52-108 *AUDITOR OVERSIGHT*		
	A. <u>General Comments</u>		
1.	General support for principles underlying the proposals for NI 52-108	Five commenters express their support for the principles in the proposed materials.	We thank the commenters for their support.
2.	Scope of Instrument	One commenter questions whether the Instrument, or another future National Instrument, should contain provisions that are more specific than the general terms of the CPAB Act regarding the supervision, oversight, accountability and transparency of the conduct of CPAB in fulfilling its important mandate and role as "Canada's audit regulator" which include responsibilities to regulate public accounting firms in the public interest.	This comment is beyond the scope of this project, but may be considered at a future date.
3.	Use of "remedial actions" as a trigger for when notice is provided	Two commenters express their support for the change to the triggers for notice in the proposed materials to specified remedial actions of CPAB, rather than categories of remedial actions. One commenter notes that the companion policy describes a remedial action as a recommendation, a requirement, a restriction or a sanction, or a different term. The commenter believes that the terms in the Instrument should be consistent with the language contained in Section 600 of the CPAB Rules regarding requirements, restrictions and sanctions.	We thank the commenters for their support. We have deliberately avoided using the terms "recommendation", "requirement", "restriction" and "sanction" in the Instrument since those terms are not defined and subject to change. The companion policy clarifies that CPAB may refer to a remedial action in subsection 5(1) of the Instrument as one of these terms or CPAB may use a different term.
4.	Additional situations that should trigger a notice	<u>Triggers for a notice to the regulator</u> Two commenters recommend that a notice to the regulator be triggered when CPAB issues an Engagement Finding Report Type 1 (EFR 1) to an audit firm, and that the audit firm's response to the EFR 1 should be disclosed to the regulator. An EFR 1 is described as an audit deficiency that is a file-specific significant GAAS or GAAP deficiency that requires the audit firm to respond in writing and which has the potential to result in a material misstatement in the financial statements.	We considered whether notice should be provided to the regulator when an EFR 1 is issued or CPAB imposes remedial actions other than those specified in the Instrument. Based on discussions with CPAB about their processes and basis for imposing certain remedial actions, we have determined that the triggers set out in Section 5 of the Instrument will provide

#	*Theme*	*Comments*	*Responses*
		One commenter recommends that notice should be triggered for all remedial actions relating either to failure to comply with professional standards or to a defect in quality control provisions that the CPAB imposes on an audit firm. One commenter recommends that notice should be triggered when an audit firm fails to comply with a remedial action within the time period specified by CPAB. <u>Triggers for a notice to the audit committee</u> One commenter recommends that the Instrument require an audit firm to disclose receipt of an EFR 1 to the audit committee.	us with the appropriate level of information. As noted in our October 2013 Notice, we are not, at this time, proposing any substantive changes to the existing requirements for when a public accounting firm must deliver a notice to the audit committees of its reporting issuer clients about remedial actions imposed by CPAB. We are deferring consideration of any changes to the notice to audit committee requirements until the costs and benefits associated with the Protocol have been assessed.
5.	Confidentiality considerations for notices delivered to the regulator	One commenter has concerns regarding privacy and the Freedom of Information (FOI) Acts, which are understood to be different across each province. The commenter believes the CSA should take steps to ensure that information that will be provided pursuant to NI 52-108 will be kept private. One commenter advises that it is desirable that the CSA ensure that no conflicts arise between current requirements of firms under CPAB participating agreements (e.g., with respect to confidentiality)	The FOI legislation in effect in most jurisdictions has not changed since the inception of the original Instrument. The CSA cannot ensure that information provided pursuant to the Instrument will be kept private, however if an FOI request were made then it would be considered based on its own individual merits. We have been in discussion with CPAB throughout the process of developing the Instrument, and are not aware of any conflicts between the requirements and the CPAB participation agreements.

#	*Theme*	*Comments*	*Responses*
6.	Consideration of Protocol	One commenter recommends that it is desirable that the CSA ensure that no conflicts are created relating to CPAB's Enhancing Audit Quality initiative, and in particular the proposed Protocol that is currently out for comment.	As noted in our October 2013 Notice, we are not, at this time, proposing any substantive changes to the existing requirements for when a public accounting firm must deliver a notice to the audit committees of its reporting issuer clients about remedial actions imposed by CPAB. We are deferring consideration of any changes to the notice to audit committee requirements until the costs and benefits associated with the Protocol have been assessed.
	B. <u>Section 1 Definitions</u>		
1.	Definition of participating audit firm	One commenter notes that the proposed companion policy states that the securities regulatory authorities consider any remedial action imposed by CPAB on an individual acting in a professional capacity with a participating audit firm to be a remedial action imposed on the firm. The commenter believes that this is a substantive provision and if the provisions are to be interpreted in this manner this provision should be included within the definitions of the proposed Instrument.	CPAB has the ability to impose a remedial action on a participating audit firm that specifically pertains to an individual acting in a professional capacity, but does not have the ability to impose a remedial action on the individual. The companion policy has been clarified to explain this point and notes that a remedial action on a participating audit firm pertaining to a specific individual would be included in the content of a notice to the regulator in accordance with paragraph 5(2)(c).
2.	Definition of remedial action	One commenter thinks it would be preferable to have a definition of remedial action in the Instrument rather than express a "view" in a policy.	The term "remedial action" is to be interpreted based on its plain English meaning, which is why a definition is not included. We disagree that the companion policy expresses a "view" on what a remedial action is. The discussion in the companion policy on this subject is included to clarify that a remedial action in subsection 5(1) is determined without regard to how CPAB refers to it.

#	*Theme*	*Comments*	*Responses*
3.	Definition of quality control systems	One commenter believes the Instrument would be improved if the term 'quality control system' is defined so that there is understanding by all parties as to the nature of the defects expected to be disclosed under Section 6(1).	To provide further clarity the Instrument has been amended to refer to the term "system of quality control" since this is the term used in the CPA Canada Handbook - Assurance. The term has not been defined. It is commonly understood that an audit firm must maintain a system of quality control that complies with the standards in the CPA Canada Handbook - Assurance.
	C. <u>Section 3 Notice to Reporting Issuer if Public Accounting Firm Not in Compliance</u>		
1.	Implementation of notification	One commenter questions whether the introduction of these notifications will have benefits in excess of the potential confusion in the marketplace. The commenter is concerned that, in the absence of education and clear communication with the marketplace as to what these remedial actions mean, the notices may bring about unintended outcomes. Prior to imposing notifications by audit firms to their reporting issuer clients, the commenter suggests that the regulator further communicate with the entire marketplace as to how these new "triggers" are meant to work and what implications it is intended to have on the marketplace. One commenter is concerned that the obligation to notify all reporting issuer clients if a public accounting firm is not in compliance with any remedial action under subsection 5(1) may be too broad. The CPAB remedial action may relate only to one reporting issuer or a particular category of reporting issuers, and disclosure of non-compliance to other reporting issuer clients may not provide meaningful information to such other reporting issuer clients in all circumstances, especially if the non-compliance is a technical or temporary matter.	This notice requirement has been introduced so that a reporting issuer is aware of any instance where their auditor would be unable to sign an auditor's report because it is not in compliance with the Instrument. Without this notice, a reporting issuer would not be aware that there could be issues with obtaining an auditor's report if needed. This notification will allow a reporting issuer to initiate a dialogue with their auditor in order to ensure that they will continue to meet their filing obligations in a timely manner. We think it is important that all reporting issuer clients be notified when their audit firm is not able to sign an audit report for their client because of the inability to comply with the Instrument. We further note that the remedial actions identified in the Instrument would frequently pertain to a systemic issue at a public accounting firm, and not necessarily relate to one reporting issuer.

#	*Theme*	*Comments*	*Responses*
2.	Requirement for audit firm to provide notice within 2 days	One commenter believes the reporting deadline of 2 days is too short to effectively allow audit firms to comply. The commenter recommends that the deadline be extended to 10 days, which is consistent with the timelines required in subsection 6(3) of the proposed Instrument and the timelines for material change reports. One commenter is concerned that a 2-day lag potentially could result in the delivery of a notice after the signing of the audit report by the public accounting firm and the filing of the financial statements on SEDAR	We think that non-compliance with the Instrument should be reported to reporting issuers in a timely manner. However, to provide further clarity subsections 3(1) and 5(3) of the Instrument have been amended to refer to "business days". We do not anticipate this will be an issue since the public accounting firm would not be in compliance with Section 2 of the Instrument in the situation described, and therefore should not sign the audit report.
3.	Requirement to notify reporting issuer if it fails to provide notice to the regulator	One commenter notes that if an audit firm were to fail to be in compliance with the notice to the regulator requirement in subsection 5(3) (e.g., the audit firm does not deliver a notice to the regulator within the 2 day timeline), then subsection 3(2) states that the audit firm would not be able to notify a reporting issuer that it is in compliance until it has been informed by CPAB that the circumstances that gave rise to the notice no longer apply. The commenter is of the view that CPAB would not be in a position to inform the audit firm that this violation to notify the regulators no longer applies since it is not a remedial action imposed by CPAB. The commenter believes that there is a step missing to address this scenario. One commenter sees little value in having a reporting issuer receive a notice that the public accounting firm is not in compliance with its obligation to notify securities regulators. The commenter recommends removing the reference to paragraph 2(c) in subsection 3(1) of the Instrument.	Paragraph 2(c) of the Instrument has been amended to only refer to the notice requirements in subsections 5(1) and 5(2), which results in a change to the requirements in subsections 3(1) and 3(2). As a result of this change, a notice will not be triggered if the only non-compliance is a failure to deliver a notice to the regulator within the time required or if a copy of the notice to the regulator was not delivered to CPAB on the same day it was delivered to the regulator. Despite the changes described above, a public accounting firm will not be in compliance with paragraph 2(c), or be able to notify a reporting issuer that it is in compliance (as contemplated in subsection 3(2)), until it has delivered a notice to the regulator in the form required. The notice requirements in section 3 are necessary to allow a reporting issuer to comply with the requirement in section 4.

#	*Theme*	*Comments*	*Responses*
4.	Other comments	One commenter recommended that CPAB report required information directly to the regulator at the same time it notifies a respective auditor to report, rather than having information reported by the audit firm in question. One commenter questions why the Instrument requires public accounting firms to deliver a copy of a notice of non-compliance to CPAB instead of leaving it up to CPAB to specify notice requirements pursuant to its rules.	The Instrument imposes requirements on public accounting firms and reporting issuers, not CPAB. As a result, consistent with the previous Instrument, public accounting firms are required to deliver the notice to the regulator. We require a copy of the notice to be delivered to CPAB to help ensure that the information we receive is consistent with CPAB's understanding.
	D. Section 5 Notice of Remedial Action to the Regulator or the Securities Regulatory Authority		
1.	Potential disclosure of confidential information to the regulator	One commenter is concerned that the proposed content of a notice could lead to a violation of section 9 of the *Quebec Charter of Human Rights and Freedoms* and of the obligation imposed on chartered professional accountants to protect their clients' confidential information and documents covered by professional secrecy. The commenter believes that in order to minimize and preferably avoid any violation of professional secrecy a notice must not contain any information or document covered by professional secrecy or with respect to which there is reasonable cause to believe that it is covered by professional secrecy. One commenter has concerns regarding privacy in light of the Protection of Privacy Acts, which are understood to be different across each province. The commenter notes that, as currently drafted, it is possible that information with respect to individuals could be captured under Section 5 of the Notice.	The notice content requirements in subsection 5(2) of the Instrument have been amended to permit a participating audit firm to describe how it failed to comply with professional standards. This will allow a participating audit firm to modify the description provided by CPAB to remove reference to information protected by professional secrecy in Quebec. Despite the change to subsection 5(2)(a), we expect the description in the notice to be substantially similar to the description CPAB has provided the participating audit firm. Additional discussion has been included in the companion policy for this content requirement. In connection with the amendment described above, we amended the Instrument to specify that that the notice to the regulator must include the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm, as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards.

#	*Theme*	*Comments*	*Responses*
		One commenter recommends that guidance be provided on how audit firms should address the obligation in subsection 5(2)(a), to submit an explanation of how they failed to comply with professional standards, without compromising their obligations of confidentiality with respect to the reporting issuer's confidential information or loss of any claims of privilege the reporting issuer may have over information in the audit firm's possession.	As noted above, we expect the description in the notice to be substantially similar to the description CPAB provided. There may be situations in which the description may need to be modified to remove reference to information protected by professional secrecy in Quebec.
		One commenter is of the view that the inspection report issued by CPAB to the audit firm is intended to be a private communication between CPAB and the firm. To address these concerns the commenter believes the CSA should work with CPAB to have CPAB modify its rules under the participation agreement to permit disclosure of portions of their report in the event that information would qualify for disclosure under the Notice.	We have been in discussion with CPAB throughout the process of developing the Instrument, and are not aware of any conflict in the CPAB participation agreements that prevent disclosure of portions of their report.
		One commenter notes that CPAB's Rules and certain legislation provide that CPAB may, in appropriate circumstances, communicate information arising from its inspection and investigation activity to CSA or the Superintendent of Financial Institutions Canada, but in doing so CPAB generally must exclude privileged information of a client of a participating audit firm, and specific information relating to the business, affairs or financial condition of a client of a participating audit firm (CPAB Rules 417, 516, CPAB Act (Ontario) s. 13). In order for subsection 5(2) to be consistent with these provisions, the commenter believes it should be modified so that a participating audit firm may in appropriate circumstances summarize written descriptions it receives from CPAB, in order to remove any such privileged or specific business information of an audit client	Subsection 5(2) is not intended to be consistent with the provisions in the CPAB Rules and CPAB Act. The CPAB Rules and CPAB Act govern the communication relationship between CPAB and a participating audit firm, not the communications in respect of a participating audit firm and a securities regulator. Further, there is nothing in the Instrument that requires the disclosure of solicitor client privileged information. However, as noted above, we expect the description in the notice to be substantially similar to the description provided by CPAB. We acknowledge that there may be situations in which the description may need to be modified to remove reference to information protected by professional secrecy in Quebec.
2.	Ability of CPAB to trigger notice to the regulator	One commenter questions why CPAB has the discretion under paragraph 5(1)(b) to determine when a remedial action that is not listed in paragraph 5(1)(a) should trigger notice. The commenter recommends that the Instrument include supervisory and governance principles setting out how CPAB should exercise its	The remedial actions included in paragraph 5(1)(a) were based on the types of actions available to CPAB listed in Section 601 of the CPAB Rules. The list in Section 601 is not all inclusive, and contemplates that CPAB

#	*Theme*	*Comments*	*Responses*
		discretion under paragraph 5(1)(b).	may impose other remedial actions that are not listed. In using their discretion we expect CPAB would trigger notice for a remedial action that is not listed in Section 601 of CPAB's Rules, but is considered to be of the same severity as those listed in paragraph 5(1)(a).
3.	Other comments	One commenter believes paragraph 5(1)(c) is unnecessary as it would require firms to disclose information to a regulator that is already public. One commenter is of the view that subsection 5(2)(a) implies that a remedial action in that section is related to failure to comply with "professional standards", which are defined in Section 300 of CPAB's Rules. "Professional standards" in CPAB's rules include auditing standards, ethical standards, auditor independence, and quality control standards and procedures. The commenter asks whether it is clear or intended that a remedial action in subsection 5(1) only refers to a failure to comply with professional standards. One commenter asks whether a "requirement", "condition", "request" or a "recommendation" that is put forward by the CPAB to an audit firm to deal with any of the "professional standards" referred to in Section 300 of the Rules is a "remedial action", including recommendations to upgrade supervision, training or education.	We disagree with the commenter. If a paragraph 5(1)(c) notice is triggered, then paragraph 5(2)(c) requires the notice to the regulator to include each remedial action that CPAB has imposed on the participating audit firm. This information required by paragraph 5(2)(c) may not be publicly available. If CPAB imposes a remedial action that requires notice in accordance with Section 5, then a participating audit firm will have failed to comply with one or more professional standards. We have deliberately avoided using terms such as "recommendation" or "requirement" in the Instrument since those terms are not defined and subject to change. The companion policy clarifies that CPAB may refer to a remedial action in subsection 5(1) of the Instrument as one of these terms or CPAB may use a different term.

#	*Theme*	*Comments*	*Responses*
	E. Section 6 Additional Notice Relating to Defects in Quality Control Systems		
1.	Reporting of a defect in quality control systems	One commenter questions why CPAB is not obligated to require the audit firm to notify the regulator (as well as the reporting issuer) at the time that the CPAB identifies a defect in the audit firm's "quality control systems", as referred to in s. 6(1), and imposes a "remedial action" on the audit firm to "address" the defect.	In response to defects in an audit firm's system of quality control, CPAB may impose one of the remedial actions specified in subsection 5(1), which would trigger a notice to the regulator under section 5. Section 6 is substantially similar to the requirement under the existing Instrument As noted in our October 2013 Notice, we are not, at this time, proposing any substantive changes to the existing requirements for when a public accounting firm must deliver a notice to the audit committees of its reporting issuer clients about CPAB's inspections. We are deferring consideration of any changes to the notice to audit committee requirements until we have had a chance to assess the application of the Protocol.
2.	Requirement to report any remedial action relating to a defect in quality control systems that is not addressed within the time period required by CPAB	Scope of trigger One commenter is concerned with the proposed requirement in subsection 6(1), to report any remedial action imposed by CPAB relating to a defect in the audit firm's quality control systems since there are no boundaries or definitions linked to "any remedial action" that trigger a notification under paragraph 6. The commenter suggests that: (i) specific definitions or guidelines to "any remedial action" be included to clarify what type of remedial actions trigger the need for any notification, or (ii) that language similar to paragraph 5(1)(b) be utilized, whereby only those remedial actions relating to a defect in the participating audit firm's quality control systems for which CPAB notifies the participating audit firm in writing that it must disclose to the regulator would be captured under paragraph 6(1). One commenter is concerned that the scope of reportable matters in subsection 6(1) may be broader than intended since, based on the commenter's	Subsection 6(1) has been amended to require that notice be triggered if CPAB required a participating audit firm to comply with any remedial action relating to a defect in its system of quality control, and CPAB notifies the participating audit firm in writing that it has failed to address the defect in its system of quality control to the satisfaction of CPAB within the time period required by CPAB. This amendment is consistent with the language in the Current Instrument and we are not aware of any scope problems under the Current Instrument.

#	*Theme*	*Comments*	*Responses*
		experience, certain of CPAB's repeat findings are often viewed by the regulator as a process of continuous improvement. <u>Meaning of "has not addressed"</u> One commenter requests clarification on what it means in subsection 6(1) when the audit firm "has not addressed" the defect in its quality control systems with the time period set by the CPAB. The commenter considers "addressing" to be ambiguous, and is of the view that a recommendation can be "addressed" even though the failure or defect in question is not cured for some period of time.	As noted above, the requirement has been amended to refer to a situation in which a participating audit firm "failed to address the defect…to the satisfaction of CPAB". We are of the view that this additional language provides sufficient clarity.
3.	Requirement to provide notice within 10 days	One commenter believes the reporting timelines under subsection 6(3) would be onerous for firms with hundreds of reporting issuer audit clients. The commenter recommends that relief to the 10 day timeframe should be made available or be extended to be 10 business days.	Subsection 6(3) of the Instrument has been amended to require notice to be delivered within 10 "business days".
4.	Other comments	One commenter recommends that that the words "in writing" be added to proposed subsection 6(1) to promote certainty and make the wording consistent with proposed paragraphs 5(1)(a) and (b). One commenter queries whether the types of matters intended to be reported under Section 6 are covered by the reportable matters in Section 5.	Subsection 6(1) of the Instrument has been amended to include the words "in writing". The matters to be reported in Section 6 could overlap with a remedial action covered in Section 5. If that circumstance were to arise, two notices to the regulator would be delivered; a notice that includes the content required in paragraphs 5(2) and a notice that includes the content required in paragraph 6(2).
	COMMENTS PERTAINING TO NATIONAL INSTRUMENT 41-101 *GENERAL PROSPECTUS REQUIREMENTS*		
1.	General comments	One commenter believes that if prospectus disclosure is required, it is then important for an investor to be informed of how the issuer proposes to address the requirement to retain a CPAB qualified auditor once the issuer becomes a reporting issuer. Specifically, the commenter believes that the prospectus should disclose whether the incumbent auditor is expected to become a	We do not believe that additional disclosure on how an issuer intends to comply with NI 52-108 upon becoming a reporting issuer is information that an investor needs in order to make an informed investment concerning an initial prospectus offering.

#	*Theme*	*Comments*	*Responses*
		CPAB qualified auditor, or if a successor has been identified and if so, who that successor will be.	
	COMMENTS PERTAINING TO NI 51-102 *CONTINUOUS DISCLOSURE OBLIGATIONS*		
1.	General comments	One commenter believes the filing requirements under 4.11(5) present practical challenges for the predecessor auditor. For example, if an auditor resigns without a successor auditor being appointed, does the deadline for notification occur three days following the auditor's termination or three days following appointment of the new auditor? The predecessor auditor in this circumstance is relying on the issuer to notify them of the appointment, which seems contrary to the intention of this subsection. The commenter also believes the requirement for both a predecessor and successor to report non-compliance is duplicative and introduces a monitoring requirement for which the predecessor auditor may not have equal access to information. Additionally, the SEC places the onus only on the successor auditor and we believe that is where the reporting obligation should reside.	Paragraph 4.11(5) includes the reporting requirements when an auditor termination or resignation occurs. The timeline for these reporting requirements is not affected by whether a successor auditor is appointed. We do not agree that the predecessor faces a practical challenge relating to the successor auditor. We agree that the obligation to report non-compliance could be duplicative in some circumstances, however we think the obligation is needed to capture situations where a predecessor auditor resigns or is terminated without a successor auditor being appointed on the same day or shortly thereafter.

	COMMENTS PERTAINING TO NI 71-102 *CONTINUOUS DISCLOSURE AND OTHER EXEMPTIONS RELATING TO FOREIGN ISSUERS*		
1.	General comments	One commenter expresses their support for the amendment to require foreign issuers to comply with the Instrument.	We thank the commenter for its support.

Annex C

The Instrument

NATIONAL INSTRUMENT 52-108
AUDITOR OVERSIGHT

PART 1
DEFINITIONS AND APPLICATION

Definitions

1. In this Instrument

"CPAB" means the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes, incorporated as a corporation without share capital under the *Canada Corporations Act* by Letters Patent dated April 15, 2003;

“CPAB rules” means the rules and bylaws of CPAB, as amended from time to time;

"participating audit firm" means a public accounting firm that has entered into a participation agreement and that has not had its participant status terminated or, if its participant status was terminated, the status has been reinstated by CPAB;

"participation agreement" means a written agreement between CPAB and a public accounting firm in connection with CPAB's program of practice inspections and the establishment of practice requirements;

“professional standards” means the standards, as amended from time to time, listed in section 300 of CPAB rules that are applicable to participating audit firms;

"public accounting firm" means a person or company engaged in the business of providing the services of a public accountant.

PART 2
AUDITOR OVERSIGHT

Public Accounting Firms

2. A public accounting firm that prepares an auditor's report with respect to the financial statements of a reporting issuer must be, as of the date of the auditor's report

(a) a participating audit firm,

(b) in compliance with any remedial action referred to in subsection 5(1), and

(c) in compliance with the notice requirements of subsections 5(1) and (2).

Notice to Reporting Issuer if Public Accounting Firm Not in Compliance

3. (1) If a public accounting firm has been appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer and, at any time before signing the auditor's report, the public accounting firm is not in compliance with the requirements of paragraphs 2(a), (b) or (c), the public accounting firm must deliver to the reporting issuer a notice in writing that it is not in compliance within 2 business days of first becoming aware of its non-compliance.

(2) A public accounting firm that previously delivered a notice to a reporting issuer under subsection (1) must not notify the reporting issuer that it is in compliance with paragraph 2(a), (b) or (c) unless the public accounting firm has been informed in writing by CPAB that the circumstances that gave rise to the notice no longer apply.

(3) A public accounting firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the reporting issuer.

Reporting Issuers

4. A reporting issuer that files its financial statements accompanied by an auditor's report must have the auditor's report prepared by a public accounting firm that, as of the date of the auditor's report,

(a) is a participating audit firm, and

(b) has not delivered to the reporting issuer a notice under subsection 3(1) or, if it has delivered to the reporting issuer a notice under subsection 3(1), the public accounting firm has notified the reporting issuer that the circumstances that gave rise to the notice no longer apply.

PART 3
NOTICE

Notice of Remedial Action to the Regulator or the Securities Regulatory Authority

5. (1) A participating audit firm appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer must deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if any of the following occurs:

(a) CPAB notifies the participating audit firm in writing that it requires the participating audit firm to take one or more of the following remedial actions:

(i) terminate an audit engagement;

(ii) engage an independent monitor to observe and report to CPAB on the participating audit firm's compliance with professional standards;

(iii) engage an external reviewer or supervisor to oversee the work of the participating audit firm;

(iv) limit the type or number of new reporting issuer audit clients the participating audit firm may accept;

(b) CPAB notifies the participating audit firm in writing that it must disclose to the regulator or, in Quebec, the securities regulatory authority, any remedial action not referred to in paragraph (a);

(c) CPAB publicly discloses a remedial action with which the participating audit firm must comply.

(2) The notice required under subsection (1) must be in writing and must include all of the following:

(a) how the participating audit firm failed to comply with professional standards;

(b) the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards;

(c) each remedial action that CPAB imposed on the participating audit firm, as described by CPAB;

(d) the time period within which the participating audit firm must comply with each remedial action, as described by CPAB.

(3) A participating audit firm must deliver the notice required under subsection (2) to the regulator or, in Quebec, the securities regulatory authority, no later than 2 business days after the date that CPAB notifies the participating audit firm that it must comply with any remedial action under paragraph (1)(a), (b) or (c).

(4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Additional Notice Relating to Defects in the System of Quality Control

6. (1) If CPAB required a participating audit firm to comply with any remedial action relating to a defect in the participating audit firm's system of quality control, and CPAB notifies the participating audit firm in writing that it has failed to address the defect in its system of quality control to the satisfaction of CPAB within the time period required by CPAB, the participating audit firm must deliver a notice to all of the following:

(a) for each reporting issuer for which the participating audit firm is appointed to prepare an auditor's report,

(i) the audit committee, or

(ii) if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed;

(b) the regulator or, in Quebec, the securities regulatory authority.

(2) The notice required under subsection (1) must be in writing and must describe all of the following:

(a) the defect in the participating audit firm's system of quality control identified by CPAB;

(b) the remedial action imposed by CPAB, including the date the remedial action was imposed and the time period within which CPAB required the participating audit firm to address the defect in its system of quality control;

(c) why the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.

(3) A participating audit firm must deliver the notice required under subsection (1) no later than 10 business days after the participating audit firm received notice from CPAB in writing that the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.

(4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Notice Before New Appointment

7. (1) A participating audit firm that is seeking an appointment to prepare an auditor's report with respect to the financial statements for a financial year of a reporting issuer must deliver a notice to the reporting issuer's audit committee or, if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed, if

(a) the participating audit firm did not audit the financial statements of the reporting issuer for the immediately preceding financial year, and

(b) CPAB informed the participating audit firm within the preceding 12-month period that the participating audit firm failed to address a defect in its system of quality control to the satisfaction of CPAB.

(2) The notice required under subsection (1) must be in writing and include the information referred to in subsection 6(2).

PART 4
EXEMPTION

Exemption

8. (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions and restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of NI 14-101 opposite the name of the local jurisdiction.

PART 5
REPEAL AND EFFECTIVE DATE

Repeal

9. National Instrument 52-108 *Auditor Oversight* is repealed.

Effective Date

10. This Instrument comes into force on September 30, 2014.

Annex D

The Policy

COMPANION POLICY 52-108CP
AUDITOR OVERSIGHT

Introduction

CPAB is an independent oversight body for public accounting firms that audit financial statements of reporting issuers. The purpose of CPAB is to promote high quality external audits of reporting issuers. It is responsible for developing and implementing an oversight program that includes regular inspections of participating audit firms. CPAB's primary means of assessing the quality of audits is through the inspection of selected high-risk sections of audit files and elements of a participating audit firm's system of quality control.

The purpose of National Instrument 52-108 is to contribute to public confidence in the integrity of financial reporting by reporting issuers by requiring:

- a reporting issuer to engage an auditor that has entered into a participation agreement with CPAB in connection with CPAB's program of practice inspections and the establishment of practice requirements,

- a participating audit firm to be in compliance with specified remedial actions imposed by CPAB,

- a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB imposes specified remedial actions, including the termination of an audit engagement or the engagement of an independent monitor to observe and report on compliance with professional standards, and

- a participating audit firm to deliver a notice to the reporting issuer's audit committee or the person or company responsible for reviewing and approving financial statements, of its reporting issuer clients if the firm failed to address a defect in the firm's system of quality control that was previously identified by CPAB.

The purpose of this Companion Policy is to state the view of the securities regulatory authorities on various matters related to the Instrument.

Section 1 - Definition of Participating Audit Firm

Many of the requirements in the Instrument are linked to the definition of participating audit firm in section 1. For example, section 5 of the Instrument imposes a notice requirement on a participating audit firm in a number of circumstances, including where CPAB requires the firm to terminate an audit engagement. CPAB may impose a remedial action on a participating audit

firm that specifically pertains to one or more individuals involved in a professional capacity with the participating audit firm. If a remedial action imposed by CPAB on a participating audit firm specifically pertains to an individual acting in a professional capacity with the participating audit firm, this remedial action would be included in the content of a notice to the regulator or, in Quebec, the securities regulatory authority in accordance with paragraph 5(2)(c).

Section 1 - Definition of Professional Standards

The definition of professional standards refers to the standards listed in section 300 of CPAB rules, which are standards relating to auditing, ethics, independence and quality control.

Subsection 5(1) and Paragraph 6(1)(b) – Notice to the Regulator or the Securities Regulatory Authority

Both subsection 5(1) and paragraph 6(1)(b) of the Instrument require a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority. "Regulator" and "securities regulatory authority" are defined in NI 14-101 – *Definitions*. Each participating audit firm that is subject to either of these provisions must deliver the notice to the regulator or, in Quebec, the securities regulatory authority, in each jurisdiction in which the firm is appointed by one or more reporting issuers to prepare an auditor's report with respect to their financial statements. The securities regulatory authorities will consider the notice requirement in each of these provisions of the Instrument to have been satisfied if the notice is sent to auditor.notice@acvm-csa.ca and identifies each jurisdiction that is to receive notice.

Subsection 5(1) – Remedial Action Imposed by CPAB

Subsection 5(1) of the Instrument requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, of certain remedial actions imposed by CPAB. CPAB may refer to an item in subsection 5(1) of the Instrument as a recommendation, a requirement, a restriction or a sanction, or CPAB may use a different term. A participating audit firm must deliver the notice under section 5 of the Instrument if the remedial action is described in that section, without regard to how CPAB refers to it. For example, a notice is required by subparagraph 5(1)(a)(i) of the Instrument if CPAB requires a participating audit firm to terminate an audit engagement regardless of whether CPAB refers to it as a recommendation, requirement, restriction, sanction or uses a different term.

Subparagraph 5(1)(a)(iii) – Engagement of an External Reviewer or Supervisor

Subparagraph 5(1)(a)(iii) of the Instrument requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB requires a participating audit firm to engage an external reviewer or supervisor to oversee its work. One example of when a participating audit firm would notify the regulator is when CPAB requires the firm to engage an external engagement quality control reviewer to perform a technical review of one or more audits performed by the firm.

Subparagraph 5(1)(a)(iv) – Limitation on a Participating Audit Firm from Accepting New Reporting Issuer Audit Clients

Subparagraph 5(1)(a)(iv) of the Instrument requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB limits the type or number of new reporting issuer audit clients the firm accepts. The securities regulatory authorities consider this type of limitation to include restrictions on accepting audit engagements of reporting issuers in a particular industry. For example, a participating firm that is limited for any period of time from auditing the financial statements of mining companies is subject to subparagraph 5(1)(a)(iv) in the Instrument even if the firm may continue to audit reporting issuers in other industries.

The securities regulatory authorities also consider the term "new reporting issuer audit client" to refer to any reporting issuer the financial statements of which were not audited by the participating audit firm for the reporting issuer's most recently completed financial year. For example, if a participating firm was asked to audit the financial statements of a reporting issuer for the first time in respect of its 2013 fiscal year, that issuer would be a new reporting issuer audit client of the firm. Similarly, if a participating audit firm had audited the reporting issuer's 2011 financial statements but did not audit the 2012 financial statements, the securities regulatory authorities would also consider the issuer to be a new reporting issuer audit client of the firm in respect of the 2013 financial statement audit.

Paragraph 5(1)(b) – Notice Required at Discretion of CPAB

Paragraph 5(1)(b) of the Instrument requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, at the discretion of CPAB. One example of when CPAB may require a participating audit firm to notify the regulator is when the firm failed to comply with a remedial action within the period CPAB required.

Subsection 5(2) – Contents of Notice

Subsection 5(2) of the Instrument sets out the content requirements for a notice delivered to the regulator or, in Quebec, the securities regulatory authority, by a participating audit firm.

Paragraph 5(2)(a) requires a participating audit firm to include a description of how the participating audit firm failed to comply with professional standards. The description included in the notice should be substantially similar to the description CPAB has provided the participating audit firm. There may be situations in which the description may need to be modified to remove reference to information protected by professional secrecy in Quebec.

Paragraph 5(2)(c) requires a participating audit firm to include a description of each remedial action that CPAB imposed on the firm, as described by CPAB. This includes, but is not limited to, remedial actions referred to in subsection 5(1). For example, if CPAB requires a participating audit firm to engage an independent monitor under subparagraph 5(1)(a)(ii) of the Instrument and also imposes additional remedial actions on the firm other than those referred to in subsection 5(1), the notice must include a complete description of such other remedial actions.

Annex E

Blackline of the Instrument against the proposed instrument published for comment

NATIONAL INSTRUMENT 52-108
AUDITOR OVERSIGHT

PART 1
DEFINITIONS AND APPLICATION

Definitions

1. In this Instrument

"CPAB" means the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes, incorporated as a corporation without share capital under the *Canada Corporations Act* by Letters Patent dated April 15, 2003;

"CPAB rules" means the rules and bylaws of CPAB, as amended from time to time;

"participating audit firm" means a public accounting firm that has entered into a participation agreement and that has not had its participant status terminated or, if its participant status was terminated, the status has been reinstated by CPAB;

"participation agreement" means a written agreement between CPAB and a public accounting firm in connection with CPAB's program of practice inspections and the establishment of practice requirements;

~~"participating audit firm" means a public accounting firm that has entered into a participation agreement and that has not had its participant status terminated or, if its participant status was terminated, the status has been reinstated by CPAB;~~

"professional standards" means the standards, as amended from time to time, listed in section 300 of CPAB rules that are applicable to participating audit firms;

"public accounting firm" means a person or company engaged in the business of providing the services of a ~~as~~ public accountant~~s~~.

PART 2
AUDITOR OVERSIGHT

Public Accounting Firms

2. A public accounting firm that prepares an auditor's report with respect to the financial

statements of a reporting issuer must be, as of the date of ~~its~~ the auditor's report~~,~~

(a) a participating audit firm,

(b) in compliance with any remedial action referred to under subsection 5(1), and

(c) in compliance with the notice requirements ~~in~~ of subsections 5(1) and (2).

Notice to Reporting Issuer if Public Accounting Firm Not in Compliance

3. (1) If a public accounting firm has been appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer and, at any time before signing the ~~audit~~ auditor's report, the public accounting firm is not in compliance with the requirements of paragraphs 2(a), (b) or (c), the public accounting firm must ~~provide~~ deliver to the reporting issuer ~~with~~ a notice in writing that it is not in compliance within 2 business days of first becoming aware of its non-compliance.

(2) A public accounting firm that ~~has~~ previously ~~provided~~ delivered a notice to a reporting issuer under subsection (1) must not notify ~~a~~ the reporting issuer that it ~~complies~~ is in compliance with paragraph~~s~~ 2(a), (b) or (c) unless ~~it~~ the public accounting firm has been informed in writing by CPAB that the circumstances that gave rise to the notice no longer apply.

(3) A public accounting firm must deliver a copy of a notice required under this section to CPAB on the same day that ~~it~~ the notice is delivered to the reporting issuer.

Reporting Issuers

4. A reporting issuer that files its financial statements accompanied by an auditor's report ~~of a public accounting firm~~ must have the auditor's report prepared by a public accounting firm that, as of the date of the auditor's report,

(a) is a participating audit firm, and

(b) has not ~~given~~ delivered to the reporting issuer a notice under subsection 3(1) or, if it has ~~given~~ delivered to the reporting issuer a notice under subsection 3(1), the public accounting firm has notified the reporting issuer that the circumstances that gave rise to the notice no longer apply.

PART 3
NOTICE

Notice of Remedial Action to the Regulator or the Securities Regulatory Authority

5. (1) A participating audit firm appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer must deliver a notice to the regulator or, in

Quebec, the securities regulatory authority, if any of the following occurs:

(a) CPAB notifies the participating audit firm in writing that it requires the participating audit firm to take one or more of the following remedial actions:

(i) terminate an audit engagement;
(ii) engage an independent monitor to observe and report to CPAB on the participating audit firm's compliance with professional standards;

(iii) engage an external reviewer or supervisor to oversee the work of the participating audit firm;

(iv) limit the type or number of new reporting issuer audit clients the participating audit firm may accept;

(b) CPAB notifies the participating audit firm in writing that it must disclose to the regulator or, in Quebec, the securities regulatory authority, any remedial action not referred to in paragraph (a);

(c) CPAB publicly discloses a remedial action with which the participating audit firm must comply.

(2) The notice required under subsection (1) must be in writing and must include ~~the descriptions CPAB provided the participating audit firm~~ all of the following:

(a) how the participating audit firm failed to comply with professional standards;

(b) the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards;

(c) each remedial action that CPAB imposed on the participating audit firm, as described by CPAB;

(d) ~~for greater certainty,~~ the time ~~frame~~ period within which the participating audit firm must comply with each remedial action, as described by CPAB.

(3) A participating audit firm must deliver the ~~The~~ notice ~~described in~~ required under subsection (2) ~~must be delivered~~ to the regulator or, in Quebec, the securities regulatory authority, no later than 2 business days after the date that CPAB notifies the participating audit firm that it must comply with any remedial action under paragraph (1)(a), (b)~~,~~ or (c).

(4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day that ~~it~~ the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Additional Notice Relating to Defects in the System of Quality Control ~~Systems~~

6. (1) If CPAB required a participating audit firm to comply with any remedial action relating to a defect in the participating audit firm's system of quality control ~~systems~~, and CPAB notifies the participating audit firm in writing that it has failed to address the defect in its system of quality control ~~systems~~ to the satisfaction of CPAB within the time period required by CPAB, the participating audit firm must deliver a notice to all of the following:

(a) for each reporting issuer for which the participating audit firm is appointed to prepare an auditor's report,

(i) the audit committee, or

(ii) if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed;

(b) the regulator or, in Quebec, the securities regulatory authority.

(2) The notice required under subsection (1) must be in writing and must describe all of the following:

(a) the defect in the participating audit firm's system of quality control ~~systems~~ identified by CPAB;

(b) the remedial action imposed by CPAB, including the date the remedial action was imposed and the time period within which CPAB required the participating audit firm to address the defect in its system of quality control ~~systems~~;

(c) why the participating audit firm ~~did not~~ failed to address the defect in its system of quality control ~~systems~~ within the time period required by CPAB.

(3) A participating audit firm must deliver the notice required under subsection (1) no later than 10 business days after the participating audit firm received notice from CPAB in writing that the participating audit firm failed to address the defect in its system of quality control ~~systems~~ within the time period required by CPAB.

(4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day ~~it~~ the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Notice Before New Appointment

7. (1) A participating audit firm that is seeking an appointment to prepare an auditor's report with respect to the financial statements for a financial year of a reporting ~~issuer for a financial year~~ must ~~provide~~ deliver a notice to the reporting issuer's audit committee or, if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed, if

(a) the participating audit firm did not audit the financial statements of the reporting issuer for the immediately preceding financial year, and

(b) CPAB informed the participating audit firm within the preceding 12-month period that the participating audit firm failed to address a defect~~s~~ in its system of quality control ~~systems~~ to the satisfaction of CPAB.

(2) The notice required under subsection (1) must be in writing and include the information referred to in subsection 6(2).

PART 4
EXEMPTION

Exemption

8. (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions and restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of NI 14-101 opposite the name of the local jurisdiction.

PART 5
REPEAL AND EFFECTIVE DATE

Repeal

9. National Instrument 52-108 *Auditor Oversight* is repealed.

Effective Date

10. This Instrument comes into force on September 30, 2014.

Annex F

Amendments To NI 41-101

1. National Instrument 41-101 General Prospectus Requirements is amended.

2. Form 41-101F1 is amended by adding the following after item 26.1:

Auditor that was not a participating audit firm

26.1.1 (1) If the auditor referred to in section 26.1 was not a participating audit firm, as defined in NI 52-108, as at the date of the most recent auditor's report on financial statements included in the prospectus, include a statement in substantially the following form:

"[*Audit Firm A*] audited the financial statements of [*Entity B*] for the year ended [*state the period of the most recent financial statements included in the prospectus*] and issued an auditor's report dated [*state the date of the auditor's report for the relevant financial statements*]. As at [*state the date of the auditor's report for the relevant financial statements*], [*Audit Firm A*] was not required by securities legislation to enter, and had not entered, into a participation agreement with the Canadian Public Accountability Board. An audit firm that enters into a participation agreement is subject to the oversight program of the Canadian Public Accountability Board."

(2) If an auditor of the financial statements required by Item 32 was not a participating audit firm, as defined in NI 52-108, as at the date of the most recent auditor's report issued by that auditor on financial statements included in the prospectus, include a statement in substantially the following form:

"[*Audit Firm C*] audited the financial statements of [*Entity D*] for the year ended [*state the period of the most recent financial statements, if any, included in the prospectus under Item 32*] and issued an auditor's report dated [*state the date of the auditor's report for the relevant financial statements*]. As at [*state the date of the auditor's report for the relevant financial statements*], [*Audit Firm C*] was not required by securities legislation to enter, and had not entered, into a participation agreement with the Canadian Public Accountability Board. An audit firm that enters into a participation agreement is subject to the oversight program of the Canadian Public Accountability Board.

3. This Instrument comes into force on September 30, 2014.

Annex G

Amendments To NI 51-102

1. National Instrument 51-102 Continuous Disclosure Obligations is amended.

2. Subsection 4.11(5) is amended

(a) in paragraph (a) by replacing "10 days***" with "***3 days***",***

(b) in clause (a)(ii)(C)by replacing "20 days***" with "***7 days***", and***

(c) in paragraph (b) by replacing "30 days***" with "***14 days***".***

3. Subsection 4.11(6) is amended

(a) in paragraph (a) by replacing "10 days***" with "***3 days***",***

(b) in clause (a)(ii)(C) by replacing "20 days***" with "***7 days***",***

(c) in subparagraph (a)(iii) by replacing "20 days***" with "***7 days***",***

(d) in paragraph (b) by replacing "30 days***" with "***14 days***", and***

(e) by deleting "either***" in subparagraph (b)(iv).***

4. Subsection 4.11(8) is replaced with the following:

(8) **Predecessor Auditor's Obligations to Report Non-Compliance** – If a reporting issuer does not file the reporting package required to be filed under subparagraph (5)(b)(ii) or the news release required to be filed under subparagraph (5)(b)(iv), the predecessor auditor must, within 3 days of the required filing date, advise the reporting issuer in writing of the failure and deliver a copy of the letter to the regulator or, in Quebec, the securities regulatory authority**..**

5. Section 4.11 is amended by adding the following after subsection (8):

(9) **Successor Auditor's Obligations to Report Non-Compliance** – If a reporting issuer does not file the reporting package required to be filed under subparagraph (6)(b)(ii) or the news release required to be filed under subparagraph (6)(b)(iv), the successor auditor must, within 3 days of the required filing date, advise the reporting issuer in writing of the failure and deliver a copy of the letter to the regulator or, in Quebec, the securities regulatory authority.

6. This Instrument comes into force on September 30, 2014.

Annex H

Changes To 51-102CP

1. The changes proposed to Companion Policy 51-102CP of National Instrument 51-102 Continuous Disclosure Obligations are set out in this schedule.

2. Part 4 is changed by adding the following after section 4.3:

> 4.4 Predecessor and successor auditor reporting of non-compliance with change of auditor requirements – Subsections 4.11(8) and 4.11(9) of the Instrument require a predecessor and successor auditor to deliver to the regulator or, in Quebec, the securities regulatory authority, a copy of a letter sent to a reporting issuer advising a reporting issuer of its failure to comply with the change of auditor reporting requirements. "Regulator" and "securities regulatory authority" are defined in NI 14-101 – *Definitions*. The securities regulatory authorities will consider the notice requirement in each of these provisions of the Instrument to have been satisfied if the notice is sent to auditor.notice@acvm-csa.ca.

3. These changes become effective on September 30, 2014.

Annex I

Amendments To NI 71-102

1. National Instrument 71-102 Continuous Disclosure Obligations and Other Exemptions Relating to Foreign Issuers is amended.

2. Section 4.3 is amended by

(a) adding "required to be***" after "***annual financial statements***" in paragraph (c),***

(b) deleting "and***" in paragraph (d),***

(c) adding "and***" to the end of paragraph (e), and***

(d) adding the following after paragraph (e):

(f) complies with NI 52-108 *Auditor Oversight*.

3. Section 5.4 is amended by

(a) deleting "and***" in paragraph (c),***

(b) adding "and***" to the end of paragraph (d), and***

(c) adding the following after paragraph (d):

(e) complies with NI 52-108 *Auditor Oversight*.

4. This Instrument comes into force on September 30, 2014.

Annex J

Changes To 71-102CP

1. The changes proposed to Companion Policy 71-102CP of National Instrument 71-102 Continuous Disclosure Obligations and other Exemptions Relating to Foreign Issuers are set out in this schedule.

2. Section 6.4 is replaced by the following:

> 6.4 Financial statements and auditor's report relief – Section 4.3 of the Instrument provides certain relief for an SEC foreign issuer relating to financial statements and auditors' reports on annual financial statements. Section 5.4 provides similar relief for a designated foreign issuer. The relief is available only if the particular foreign issuer meets all of the conditions listed in sections 4.3 and 5.4, respectively, including the requirement to comply with NI 52-107 and NI 52-108 *Auditor Oversight*. Sections 4.3 and 5.4 do not provide relief from
>
> (a) the certification requirements in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual or Interim Filings*, or
>
> (b) the audit committee requirements in National Instrument 52-110 *Audit Committees*.
>
> SEC foreign issuers and designated foreign issuers must look to those instruments for any exemptions that may be available to them.

3. These changes become effective on September 30, 2014.

Annex K

Local Matters

[*To be published in Ontario:*
In Ontario, the Instrument and amendments to NI 41-101, NI 51-102 and NI 71-102 were delivered to the Minister of Finance on July 17, 2014. The Minister may approve or reject the Instrument or amendments or return them for further consideration. If the Minister approves the Insturment and amendments, or does not take any further action by September 30, 2014, the Instrument will come into force on September 30, 2014.]

[*To be published in Quebec:*
In Quebec, the Regulation 52-108 *Auditor Oversight* will be delivered to the Minister of Finance for approval. The Regulation 52-108 *Auditor Oversight* will come into force on the date of publication in the *Gazette officielle due Quebec* or on any later date specified in the Regulation 52-108 *Auditor Oversight*.]

[*To be published in BC:*
The British Columbia Securities Commission (BCSC) adopted NI 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* as a blanket exemption order when it was first adopted in March 2004 and has amended that initial blanket order to reflect changes made to NI 71-102 since that time.

Once the amendments to NI 71-102 set out in Annex H proceed and are adopted by other jurisdictions, the BCSC will make the same amendments to its blanket order.]