CPAB
CCRC

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

150 York Street, Suite 200, Box 90, Toronto, Ontario M5H 3S5
Tel 416.913.8260 Fax 416.850.9235 www.cpab–ccrc.ca

May 31, 2011

British Columbia Securities Commission
12th Floor, Pacific Centre, P.O. Box 10142
701 West Georgia Street
Vancouver, BC V7Y 1L2

Attn: Doug MacKay

Dear Sirs/Mesdames:

Re: Application for Recognition of the Canadian Public Accountability Board ("CPAB")

Introduction
This letter sets out the application of CPAB to the British Columbia Securities Commission (Commission) under section 24 of the *Securities Act* (RSBC) 1996, c. 418 for an order from the Commission recognizing CPAB as a self regulatory body.

A draft Recognition Order is attached as Appendix A.

Background
CPAB oversees the auditors of Canadian reporting issuers. Under National Instrument 52-108 Auditor Oversight, accounting firms that audit reporting issuers must be participants in CPAB's oversight program and comply with any disciplinary action(s) imposed by CPAB. The goal of the CSA's oversight of CPAB is to ensure that CPAB fulfills its public interest mandate.

CPAB's Objectives
CPAB was incorporated in 2003 as a non-share capital, not-for-profit corporation ('Corporation') under Part II of the *Canada Corporations Act*. The Letters Patent of CPAB specify that its objects are:

1. To contribute to public confidence in the integrity of financial reporting of public companies by promoting high quality, independent auditing including, without limitation, by overseeing the implementation and ongoing effectiveness of a system of practice inspection, and establishing and maintaining the membership requirements, for firms that audit public companies in Canada;
2. To contribute to ongoing discussions among regulators, the industry, the public and other interested parties about, among other things, industry best practice approaches relating to various aspects of auditing public companies;

3. To develop and implement awareness campaigns to educate the general public about the mandate and activities of the Corporation;
4. To coordinate with similar audit oversight entities in other countries, or with a transnational oversight entity, the oversight of Canadian auditing firms that audit public companies operating outside Canada or which are affiliated with auditing firms located outside of Canada; and
5. To do all things in furtherance of the above objects, and as incidental and ancillary thereto, to exercise any of the powers as prescribed by the *Canada Corporations Act* or any other statutes or laws from time to time applicable.

N.B. For purposes of this application the terms "public companies" and "reporting issuers" may be used interchangeably.

Corporate Governance
Following approval by its Board of Directors, Industry Members and Council of Governors, amendments to CPAB's corporate governance structure were approved by the Minister of Industry Canada effective April 22, 2009. The new structure enhances CPAB's accountability, effectiveness and collaboration with provincial regulators of public accounting, and received support from various segments of the accounting profession.

CPAB's Amended and Restated By-law ("CPAB's By-law") provides for two types of members: the Council of Governors and Provincial Audit Regulator Members. Provincial Audit Regulator Members are the provincial bodies that oversee accounting firms and/or individual auditors in their jurisdictions.

The approval of the Provincial Audit Regulator Members, the Council of Governors and CPAB's Board of Directors is required for any amendments of CPAB's By-law.

CPAB's Council of Governors
CPAB's Council of Governors ('Council') consists of six governors who are:

(a) the Superintendent of Financial Institutions of Canada;
(b) the Chair of the Ontario Securities Commission;
(c) the Chair of the Autorité des marchés financiers;
(d) the Chair of the Canadian Securities Administrators (if this individual is also the Chair of the Ontario Securities Commission or Chair of the Autorité des marchés financiers, the CSA selects a fourth Governor);
(e) a fifth Governor selected by the CSA; and
(f) another person selected by the other five Governors who is a 'Professional Accountant' and has "audit oversight regulatory experience", (the 'Accountant Council of Governors Member'). The Council invites suggestions from the Provincial Audit Regulator Members regarding the selection of the Accountant Council of Governors Member.

CPAB
CCRC

The term for a Governor is three years, renewable once at the sole discretion of the other 5 Governors. The Council, in accordance with the By-law, appoints the Board of Directors ('Board').

The Council considers all relevant factors in appointing Directors to ensure the composition of the Board: (a) complies with the requirements of CPAB's By-law, (b) reflects the regional and other diversity of CPAB's stakeholders, (c) otherwise reflects, in the judgement of the Council, the appropriate balance of interests and perspectives of CPAB Members and stakeholders, and (d) addresses, in the judgement of the Council, potential conflicts of interest arising from any relationship between a CPAB Provincial Audit Regulator Member and the CPAB Directors. Without limiting the generality of the foregoing, the Council considers, for each potential Director:

- the business interests of entities with which the individual is associated;
- whether the individual has any ownership interests in any participating audit firm ("PAF") as this is prohibited under CPAB's Code of Ethics for CPAB's Board of Directors;
- whether the individual has any contractual relationships with any PAF, as this is prohibited under CPAB's Code of Ethics for CPAB's Board of Directors;
- whether the individual has been convicted of a violation of securities legislation;
- whether the individual is bankrupt under the *Bankruptcy and Insolvency Act (Canada);*
- whether the individual has been declared a mentally incompetent person or incapable of managing their affairs pursuant to an order of a provincial court of competent jurisdiction, or is less than 18 years of age;
- whether the individual has been found guilty of violating the rules of professional conduct of the profession (if any) of which such individual was or is a member.

The Council also reviews the efficacy of CPAB's governance practices on an annual basis and receives CPAB's annual financial statements and auditor's report.

Provincial Audit Regulator Members

CPAB's By-law clarifies the criteria for membership as a Provincial Audit Regulator Member.

To become a Provincial Audit Regulator Member, a provincial body with responsibility for licensing accountants/auditors must oversee firms and individuals whose aggregate Canadian fee revenue derived from the auditing of reporting issuers in its province of jurisdiction is at least $7 million. The test is calculated annually and audit revenue is allocated to the province where the firm's lead engagement partner is located.

CPAB
CCRC

The Provincial Audit Regulator Members receive CPAB's annual financial statements and auditor's report, appoint CPAB's auditor for the following year and fix the remuneration of the auditor or authorize the Board of Directors to fix the auditor's remuneration.

Board of Directors

CPAB's Board is appointed by the Council and consists of eleven directors. As provided in CPAB's By-law, the Council ensures, through its nomination and appointment process, that the Board includes at all times:

(i) At least four, but no more than five, Directors who are Professional Accountants ('Accountant Directors') in order to ensure the Board has Directors with accounting expertise.
(ii) At least six Directors who are Non-Accountant Directors (an individual who does not hold a professional accounting designation, is not a sole proprietor, partner, member, director, officer or employee of any PAF, and in the one year prior to appointment as a Non-Accountant Director, was not a sole proprietor, partner, member, director, officer or employee of any PAF.
(iii) At least two Directors who have non-audit regulatory experience or audit oversight regulatory experience. At least one of these directors must also be a Professional Accountant, and at least one of these two individuals must have audit oversight regulatory experience.

Directors are appointed by the Council of Governors at each annual meeting of the Council of Governors. Directors retire at the time of each annual meeting, and if qualified, are eligible for reappointment. It is the Council's practice that Directors do not serve for more than six consecutive years.

The Board manages or supervises the management of the property, activities and affairs of CPAB in all things including:

(a) promoting, publicly and proactively, the importance of high quality external audits of Reporting Issuers;
(b) overseeing the design and implementation of a rigorous program of inspection of 'PAFs';
(c) establishing the terms of reference of the Board;
(d) approving the business plan and budget for the activities of the Corporation, supervising the activities of the Corporation and evaluating the effectiveness of the Corporation in carrying out its purpose;
(e) hiring the Chief Executive Officer;
(f) obtaining independent technical advice when needed and appropriate;
(g) establishing and maintaining the participation requirements for PAFs;
(h) establishing and maintaining a register of Public Accounting Firms that have been accepted as PAFs;

(i) receiving and evaluating the reports and recommendations of the results of the inspection of PAFs;
(j) when appropriate, referring matters relating to PAFs to the Relevant Provincial Regulatory Authorities[1] for discipline purposes;
(k) overseeing a system for the imposition of requirements, restrictions and sanctions directly on PAFs;
(l) reporting publicly on the means taken to oversee the audit of reporting issuers and the results achieved;
(m) managing or supervising all other matters which are the proper subject matter of the management of the business and affairs of the Corporation;
(n) ensuring appropriate transparency in the conduct of the Corporation's activities;
(o) when appropriate, providing comments and recommendations on accounting standards, assurance standards, rules of professional conduct, and governance practices to Relevant Provincial Regulatory Authorities and any other relevant bodies;
(p) making recommendations to the Relevant Provincial Regulatory Authorities, other applicable regulatory authorities and other supervisory bodies (including, without limitation, securities regulatory authorities and OSFI) with a view to harmonizing and strengthening the inspection and discipline processes applicable to PAFs; and
(q) when appropriate, notifying the Relevant Provincial Regulatory Authorities, other applicable regulatory authorities and other supervisory bodies (including, without limitation, securities regulatory authorities and OSFI) whenever the Corporation has imposed requirements, restrictions or sanctions on any PAF.

Consultative Committees

To foster cooperation and collaboration with other professional accounting designations, CPAB has created a Consultative Committees, in accordance with CPAB's By-law, of each professional group of provincial audit regulators. Each Committee consists of one or more representatives designated by each relevant Provincial Regulatory Authority, and one or more representatives designated by CPAB.

The Committees are chaired by the Chair of CPAB, and meet at least twice annually to discuss matters of common interest such as:

- overall results of and issues arising from inspections conducted by CPAB and the Relevant Provincial Regulatory Authorities,
- feedback on operations or inspection methodologies,
- regulatory responses to issues that may affect the auditing and/or accounting professions
- changes in rules or policies of the Relevant Provincial Regulatory Authorities.

[1] A Provincial Regulatory Authority is an entity recognized under the relevant legislation in a province or territory with authority to oversee accounting firms or Professional Accountants that audit reporting issuers.

Professional Accountant

A 'Professional Accountant' is an individual holding a professional accounting designation who is qualified to be a Director and who,

(a) is not a sole proprietor, nor a partner, member, director, officer or employee of a PAF;
(b) in the one year prior to appointment as an Accountant Director was not a sole proprietor, partner, member, director, officer or employee of a PAF; and
(c) has experience, as determined by the Council of Governors in (i) the preparation of complex financial statements by reporting issuers (ii) the auditing of complex financial statements of reporting issuers or (iii) the oversight of PAFs that audit reporting issuers at a relevant Provincial Regulatory Authority.

Audit Oversight Regulatory Experience

For purposes of the appointment to the Council of Governors and the composition of the Board, a person with 'audit oversight regulatory experience' is a person who has experience in the oversight of public accounting firms that audit reporting issuers at a Relevant Provincial Regulatory Authority, either as a member of management or the board of such an entity (but he or she does not need to be currently serving).

For purposes of the composition requirement of the Board, a person with 'regulatory experience' is a person with experience as a securities regulator or regulator of financial institutions (but he or she does not need to be currently serving).

Board Committees

CPAB's Board has appointed from its members two standing committees, in accordance with its By-law: the Human Resources and Governance Committee (the "HRGC") and the Audit Committee.

The HRGC consists of three or more Directors appointed by the Board. The Committee meets during the year at such times as it deems necessary.

The HRGC reviews, reports and makes recommendations to the Board on matters of corporate governance policies and practice including:

- the composition of the Board,
- the effectiveness of the Board,
- the formation and membership of committees,
- the objectives, performance and compensation of the Chief Executive Officer and other officers, and

- the content and application of CPAB's Codes of Ethics for the Board and staff/consultants.

The Audit Committee consists of at least four Directors appointed by the Board. Members of the Audit Committee are required to have a degree of financial literacy considered appropriate by the Board. The Committee meets twice a year or more frequently if necessary.

The Audit Committee oversees CPAB's financial reporting to the public, internal controls, risk management systems, the external audit of the financial statements, and the external auditor.

Ethical Considerations and Conflicts of Interest

CPAB's governance structure and its comprehensive structures and processes that address a wide variety of areas[2], reflect CPAB's efforts to meet its public interest mandate, while taking appropriate account of the views of those that are subject to its jurisdiction, as well as the views of other interested parties.

CPAB has developed Codes of Ethics for Directors and for staff/consultants (the **"Codes"**) to manage potential ethical issues and conflicts of interest involving its Directors, officers, staff and consultants. The HRGC is required to review the Codes on an annual basis to ensure the Codes continue to meet their objectives appropriately and to make any recommendations to the Board for changes the HRGC decides are advisable. The Board reviews the work of the Committee to ensure it carries out this responsibility. Copies of these Codes are attached to this Application.

Directors, staff and consultants are all required to sign a confirmation of compliance with their respective Code upon joining CPAB, and on an annual basis thereafter. Directors, staff and consultants are required under their respective Codes to report any potential conflicts of interests or other ethical issues at the time of their initial confirmation or any that arise subsequent to the filing of their initial or annual confirmation to the Ethics Officer. The Ethics Officer determines whether a matter disclosed constitutes a violation of the Code and, if so, the appropriate course of action to be taken to deal with the matter. The Codes prohibit, among other things:

- certain specified financial and employment interests
- certain specified investments
- unauthorized outside activities
- inappropriate gifts, reimbursements, honoraria and other items of value
- unauthorized use of CPAB assets

[2] The processes covered include rule-making and policy development, risk assessment, technical financial statement review, inspection methodology (reviewed and updated on a regular basis), GAAP and GAAS Panels, internal quality monitoring and review proceedings.

- inappropriate dissemination of CPAB information to the public
- unauthorized speaking on behalf of CPAB
- certain specified post-employment activities.

In addition, the Codes set out general ethical principles to be applied in the event a situation is not specifically addressed in the Code.

Fees and Financial Viability

On an annual basis, the Board sets and approves the fees to be paid by CPAB's PAFs. CPAB has developed a fair and transparent process for establishing an appropriate fee model applying the following principles:

- fees are established by the Board to recover the costs incurred in connection with CPAB's oversight activities
- fees are based on the total fees charged by the PAFs to their reporting issuer audit clients
- the fee structure is included in CPAB's Rules that are published on CPAB's website and are accessible to all PAFs, interested parties and the public.

Recognition Order

Upon recognition, the relevant securities regulators' oversight will enable the securities regulators to ensure that CPAB carries out its mandate in a manner consistent with the public interest.

Purpose of Rules

CPAB has public interest rules (the "Rules") governing its activities and will continue to maintain or establish rules or policies to:

(i) set requirements for the participation of public accounting firms that audit reporting issuers in the Board's oversight program;
(ii) publish on its website a register of public accounting firms that are PAFs;
(iii) conduct inspections of PAFs directly or through or in cooperation with professional regulatory authorities, in order to assess the compliance of each firm with the Rules, professional standards and the firm's own quality control policies in connection with the issuance of audit reports on the financial statements of reporting issuers;
(iv) receive and evaluate reports and recommendations resulting from inspections of PAFs by professional regulatory authorities;
(v) require remedial action by PAFs when necessary or appropriate;
(vi) impose disciplinary measures on PAFs, conduct investigations and review proceedings where appropriate;
(vii) work in conjunction with professional regulatory authorities;
(viii) refer matters as appropriate to securities regulators;

(ix) provide comments on accounting and assurance standards to relevant standard-setting and oversight bodies; and
(x) report to the public at least annually on the results of its activities.

CPAB's Rules do not unfairly discriminate among the PAFs subject to its oversight. All proposals for amendment to CPAB's Rules are exposed for public comment and approved by the Board in accordance with the Rules.

Discipline Process
CPAB's has Rules that specify the discipline of PAFs subject to its regulation by the Board. The disciplinary process is fair and provides for due process. The PAF is responsible for ensuring any of its designated professionals named in a disciplinary measure imposed by the Board comply with the measure. CPAB's Rules allow a PAF (or an individual identified in a disciplinary action) that petitions for a review proceeding following the imposition of a disciplinary penalty, the opportunity to object to the choice of any review proceeding panel hearing officer. The Chair of the Roster of Hearing Officers is required to remove any individual from a proposed panel whose presence would raise a reasonable apprehension of bias. In addition, a petitioning party may be represented by counsel and is provided full and fair disclosure of all relevant matters. Legislation such as Ontario's *Statutory Powers Procedure Act,* and similar legislation in other jurisdictions, also ensures that a hearing will be conducted according to principles of fairness and natural justice. Principles of administrative law will apply to any real or perceived conflicts of interest or ethical considerations.

Sincerely,

Brian A. Hunt
Chief Executive Officer

Attachments:
Appendix A – Draft Recognition Order

Appendix B – Codes of Ethics

CPAB
CCRC