

**CSA Notice and Request for Comment
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***

October 17, 2013

Introduction

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

- National Instrument 52-108 *Auditor Oversight* (NI 52-108),
- Companion Policy 52-108CP *Auditor Oversight*,

(together, the Amended Auditor Oversight Rule), and proposed amendments to

- National Instrument 41-101 *General Prospectus Requirements*,
- National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102),
- Companion Policy 51-102CP *Continuous Disclosure Obligations*,
- 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*

(together, the Proposed Amendments).

The Amended Auditor Oversight Rule will replace current National Instrument 52-108 *Auditor Oversight* (the Current Auditor Oversight Rule).

The text of the proposed materials contained in Annexes A through D of this notice is also published on the websites of a number of the members of the CSA.

Substance and purpose

Consistent with the Current Auditor Oversight Rule, the main purpose of the Amended Auditor Oversight Rule is to contribute to public confidence in the integrity of financial reporting of reporting issuers by promoting high quality, independent auditing. In the Amended Auditor Oversight Rule, we are proposing to change the triggers in NI 52-108 for when a public accounting firm must deliver to the regulator a notice relating to remedial actions imposed by the

Canadian Public Accountability Board (CPAB). We expect this will result in a greater number of notices than is currently the case.

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

Background

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

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

Summary of the proposed materials

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

- require a public accounting firm to deliver a notice to the regulator if CPAB imposes certain types of remedial actions regardless of the labels CPAB attaches to them (e.g., “sanction” or “restriction”),
- require a public accounting firm to notify its reporting issuer clients if it is not in compliance with certain requirements in the Instrument,
- require disclosure in a prospectus, if the financial statements of the issuer included in the prospectus were audited by an auditor that, as at the date of the most recent auditor's report on financial statements included in the prospectus, was not required to be subject to, and was not subject to the oversight program of CPAB,
- reduce the filing period from 30 days to 14 days for a change of auditor notice required by NI 51-102 following the termination, resignation or appointment of an auditor by a reporting issuer,
- require a predecessor auditor or a successor auditor to notify the regulator on a timely basis if a reporting issuer does not file a change of auditor notice required by NI 51-102, and
- add a condition to the current exemptions in NI 71-102 relating to audited financial statements of SEC foreign issuers and designated foreign issuers to require compliance with NI 52-108. This aligns the requirements for foreign issuers with the current requirement for an auditor of a foreign issuer to comply with NI 52-108.

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

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

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

Anticipated costs and benefits

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

Local matters

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

Request for comments

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

Address your submission to all of the CSA as follows:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission

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

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

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

Contents of Annexes

Annex A:	Proposed National Instrument 52-108 <i>Auditor Oversight</i>
Annex B:	Proposed Companion Policy 52-108CP <i>Auditor Oversight</i>
Annex C:	Proposed amendments to National Instrument 41-101 <i>General Prospectus Requirements</i>
Annex D:	Proposed amendments to National Instrument 51-102 <i>Continuous Disclosure Obligations</i>
Annex E:	Proposed changes to Companion Policy 51-102CP <i>Continuous Disclosure Obligations</i>
Annex F:	Proposed amendments to National Instrument 71-102 <i>Continuous Disclosure and Other Exemptions Relating to Foreign Issuers</i>
Annex G:	Proposed changes to Companion Policy 71-102CP <i>Continuous Disclosure and Other Exemptions Relating to Foreign Issuers</i>
Annex H:	Local matters

It is proposed that Companion Policy 52-108 *Auditor Oversight* and the amendments to the Instruments referred to in Annexes C, D, and F, all of which are being published for comment

will become effective to coincide with the implementation of the amended and restated National Instrument 52-108 *Auditor Oversight*.

Questions

Please refer your questions to any of the following:

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