

Appendix B

Summary of Comments and Responses

National Instrument 52-108 Auditor Oversight

	Theme	Comment	Response
General Comments			
1.	Support for the CPAB and Instrument	Eight commenters expressed general support for the creation of the Canadian Public Accountability Board (CPAB) or indicated that they believed that the requirements outlined in the Instrument would contribute to the integrity of financial reporting by promoting high quality, independent auditing. One commenter encouraged adoption of the Instrument as soon as possible.	We agree and acknowledge the support of the commenters.
2.	CPAB - Structure and Independence	One commenter expressed support for the creation of the CPAB and noted that it was established within the constraints of the current Canadian constitutional framework and in the best of good faith. The commenter expressed concerns, however, about its structure and questioned its independence from the accounting profession and regulators. The commenter noted in particular that the CPAB's Council of Governors is composed of representatives from provincial securities commissions, the Superintendent of Financial Institutions Canada and The Canadian Institute of Chartered Accountants (CICA). In addition, three members of the Board of Directors will be selected	Federal and provincial regulators and the CICA established the CPAB to be an independent public oversight body with respect to auditors of public companies. Having representatives from financial institutions and securities regulators play an active role in monitoring the activities of the board will ensure that the CPAB remains independent of the auditors that it oversees and acts in a manner consistent with the public interest. While representatives from the CICA participated in establishing the CPAB, and a representative of the CICA serves as a member of the Council of Governors (Council), the CPAB is and will remain dominated by members who are independent of the accounting profession. In this respect, we note that four out of the

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		from provincial institutes of chartered accountants.	five members of the Council, as well as seven out of eleven members of the Board of Directors, will be independent of the accounting profession.
3.	CPAB - Structure and Independence	One commenter noted that the approach taken by the U.S. Public Company Accounting Oversight Board (PCAOB) and the CPAB with respect to fees are different, in that the fees collected by the PCAOB will be drawn from accounting firms and market participants while the fees collected by the CPAB will come solely from accounting firms. The commenter noted that this may result in the CPAB appearing less independent from the firms which it is overseeing.	The CPAB does not have authority to require fees from reporting issuers. However, we do not believe the CPAB is any less independent than the PCAOB since participation in the CPAB Oversight Program, and hence payment of fees, will be mandatory as a result of the Instrument. Further, participating accounting firms will not have the power to influence the budget established by the Board of Directors to provide the resources required to discharge the CPAB's mandate.
4.	CPAB - Structure and Independence	Two commenters felt that the CPAB is a flawed model of public policy and that it unfairly excludes Certified General Accountants (CGAs) and Certified Management Accountants (CMAs), who, in many jurisdictions, have the same rights to audit reporting issuers as Chartered Accountants. One commenter added that the CPAB is not independent of the accounting profession and suggested that CGAs should either be given Industry Member status in the CPAB structure or should be asked to develop a similar regulatory model.	The national and provincial associations of CGAs and CMAs currently have no formal role within the CPAB structure. This reflects the fact that members of these associations audit fewer than 2% of all reporting issuers. The CPAB is aware of these commenters' views and is considering the best way to address their concerns. In any event, we believe the structure of the CPAB ensures its independence from the accounting profession (see response to comment no. 2). We also note that participation in the CPAB's program of inspection and oversight is open to all auditors of reporting issuers on the same terms and conditions, without regard to professional affiliation.
5.	CPAB - Oversight	One commenter asked whether the CSA should have the ability to set aside or reject proposed rules and regulations introduced by the CPAB, either generally or on appeal by participants that are directly affected.	We believe the CSA's representation on the Council will allow the CSA to remain informed on the CPAB's activities and monitor whether it acts in a manner consistent with the public interest. In addition, the rules and regulations introduced by the CPAB will be subject to

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			a 60-day public comment period. As part of the public comment process, the CSA may monitor rules and regulations proposed by the CPAB and, where appropriate, may offer comments.
6.	CPAB - Rules and Regulations	<p>Two commenters suggested that rules and regulations proposed by the CPAB, as well as the proposed participation agreement, should be published for public comment prior to being enacted.</p> <p>One commenter noted that the conditions for acceptance of a firm's application to participate in the CPAB Oversight Program are not set out in the Instrument or the CPAB by-laws and no terms and conditions or requirements of the participation agreement have been published. The commenter suggested that a standardized form of agreement should be published for comment, and that further details of the application process and participation agreement should be disclosed so that interested parties can review them and provide substantive comments.</p>	<p>CPAB's By-law No.1 (By-law) requires the board of the CPAB to provide public notice of any proposed rules and regulations, including proposed amendments to an existing rule or regulation, for at least 60 days before they can be prescribed in final form.</p> <p>Details of the CPAB's proposed registration system, including a proposed participation agreement, were published for comment on September 11, 2003. The 60-day comment period ended November 10, 2003. As a result of comments from interested parties, changes are being made to the proposed registration system and participation agreement. The final form of the participation agreement will be available on the CPAB website.</p> <p>The CPAB also published certain rules for public comment on December 24, 2003. These proposed rules are available on its website at www.cpab-ccrc.ca. The proposed rules will not be prescribed in final form until after the comment period has expired on February 23, 2004.</p>
7.	CPAB - By-Law No. 1	One commenter noted that the first duty listed in the By-Law is to promote the importance of high quality external audits of public companies and expressed disappointment that the need to protect investors was not specifically included in the wording of the By-Law.	The mandate to protect investors in our capital markets rests primarily with the Canadian securities regulatory authorities. While not explicitly stated in the By-Law as part of its duties, the CPAB will contribute to the protection of investors by strengthening the integrity and reliability of financial statements through its efforts to

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			promote high quality, independent auditing. The CPAB will carry out its mission by, among other things, designing and implementing a program for the inspection of auditors of reporting issuers, imposing sanctions on participating audit firms and referring matters to professional organizations that have a statutory responsibility to regulate their members.
8.	CPAB - By-Law No. 1	<p>Given the public interest mandate of the CPAB, one commenter questioned whether s. 3.22 of the By-law (respecting confidentiality of information acquired by directors of the CPAB) is appropriate.</p> <p>In addition, the commenter questioned whether Governors and Industry Members should also benefit from Article 5 of the By-law (respecting limitation of liability of directors and officers of the CPAB).</p>	<p>Section 3.22 of the By-Law reflects the fiduciary obligations of directors at common law and is intended to buttress the confidentiality provisions contained in the participation agreement to be published by the CPAB.</p> <p>The provisions contained in Article 5 are standard provisions found in the by-laws of most corporations governed by the <i>Canada Business Corporations Act</i>. The Directors and Officers supervise or manage the operations and affairs of the corporation on a day-to-day basis and, consequently, have the greatest exposure to potential liability and the most need for protection and indemnification. Whether additional liability protection is required will be evaluated by the affected parties.</p>
9.	CPAB - By-Law No. 1	A commenter asked whether we intended to limit the requirement to become a direct participant in the CPAB Oversight Program only to firms (including sole practitioners) or whether we also intended to capture individuals.	Only public accounting firms, including sole practitioners, will have to register with the CPAB and agree to participate in the CPAB Oversight Program. Individual accountants at these firms will not be required to register.
10.	CPAB - By-Law No.1	One commenter suggested that the CPAB should commit to provide disclosure in its annual report and MD&A to reflect allocation of costs and the CPAB's expenditures, as well as a comparison of actual expenditures of the CPAB to previously disclosed forecasts.	In keeping with its public mandate, the CPAB will ensure there is appropriate transparency in the conduct of its activities, and will report publicly on the means taken to oversee the audit of public companies and the results achieved.

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11.	CPAB - By-Law No. 1	One commenter stated that, if the CPAB is going to provide comments and recommendations on accounting and assurance standards and governance practices, its mandate should state that it will publish such comments.	While not specifically set out in its mandate, the CPAB has indicated that it intends to describe its involvement with, and recommendations to, accounting and assurance standards-setting bodies in its annual report on the results of its activities.
12.	CPAB - By-Law No. 1	One commenter noted that it was unclear whether the CPAB will be working with provincial accounting organizations to inspect accounting firms and asked whether the CPAB will seek any special status for disclosure of, and/or intervening in, the disciplinary processes of provincial accounting organizations.	The CPAB has indicated that it intends to work with provincial accounting organizations with respect to inspections and disciplinary matters relating to participating audit firms. Whether the CPAB will seek special status for disclosure of, and/or intervening in, the disciplinary processes of provincial accounting organizations is a matter to be determined by the Board of Directors.
13.	CPAB - Reviews	One commenter asked whether the CPAB would keep the names of a public accounting firm's audit clients confidential when it inspects the firm.	The CPAB will not publicly disclose which audit client files it reviews when it inspects a participating audit firm. However, the CPAB will request information respecting the names of an audit firm's clients and this information will be made public at the time a participating audit firm files an initial registration form with the CPAB. We also note that the identity of a reporting issuer's auditor is publicly available on SEDAR.
14.	CPAB - Restrictions and sanctions	One commenter asked whether restrictions and sanctions imposed by the CPAB would be enforceable and whether the CSA should adopt a statutory model.	The CSA believe the participation agreement between the CPAB and auditors of reporting issuers will permit enforcement of restrictions and sanctions even without the benefit of a statutory model. The constraints imposed by the constitutional division of powers between the provincial and federal governments would present a significant challenge to establishing the CPAB in a timely manner. The participation agreement will contain a clause stating that the participating audit firm agrees to comply

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			<p>with any requirement, restriction or sanction that may be imposed by the CPAB in accordance with prescribed rules. Any failure to comply with requirements, restrictions or sanctions will result in a breach of the participation agreement. Apart from any contractual rights of action, the CPAB will have other remedies available to it, including terminating the participating audit firm's participant status under the By-law.</p> <p>In addition, the Instrument specifically contemplates that a participating audit firm must, as of the date of its auditor's report, be in compliance with any restrictions or sanctions imposed by the CPAB. Any non-compliance at that point in time will mean that a participating audit firm will be in breach of securities law and (other than in British Columbia, Alberta and Manitoba) one or more securities regulatory authorities could take enforcement action directly against the participating audit firm.</p>
15.	CPAB - Restrictions and sanctions	One commenter supported the need for the CPAB to impose restrictions and sanctions on wrongdoers, as well as the concept of having various levels of restrictions and sanctions depending on the severity of any wrongdoing.	We agree that it is appropriate for the CPAB to impose restrictions and sanctions and to have the flexibility to impose them in a manner that reflects the severity of any wrongdoing.
16.	CPAB - Restrictions and sanctions	One commenter suggested the CPAB disclose the due process measures it will adopt with respect to imposing sanctions.	The CPAB published for comment on December 24, 2003 proposals in connection with the process it intends to follow for imposing requirements, restrictions and sanctions. These proposals are available on its website at www.cpab-ccrc.ca . The 60-day comment period ends on February 23, 2004.
17.	CPAB - Restrictions and sanctions	One commenter noted that a reporting issuer may not know that its auditor failed to comply with any CPAB-imposed restrictions or sanctions, or that its	We expect that a public accounting firm's participation in the CPAB Oversight Program will not be suspended or terminated without advance warning. The CPAB's

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		participation in the CPAB Oversight Program had been suspended or terminated. The commenter also raised concerns that a reporting issuer may be indirectly penalized if, for example, its audit firm or audit partner is suspended or terminated from the CPAB Oversight Program just prior to it issuing an auditor's report with respect to financial statements that are due to be filed in a few days.	compliance and enforcement system is designed to consist of a series of graduated measures that will focus on correcting deficiencies and raising the quality of compliance with auditing standards. Suspension or termination will occur only after the CPAB has exhausted other measures, such as imposing restrictions or other sanctions on a participating audit firm in accordance with its rules. We also note that Part 3 of the Instrument requires (other than in Alberta, British Columbia and Manitoba) a participating audit firm to give a reporting issuer notice of any sanctions, and, in certain cases, of any restrictions imposed on it. In such circumstances, the reporting issuer will be able to determine in advance whether it should engage another auditor to ensure it meets filing deadlines under securities law.
18.	CPAB - Costs	Two commenters expressed concern that the CPAB Oversight Program be managed in a cost effective manner in order to minimize additional costs that may be passed on to reporting issuers.	The CSA agree and expect that the Board of Directors of the CPAB will ensure that the Oversight Program is managed in a cost effective manner consistent with fulfilling its mandate.
19.	CPAB - Costs	One commenter noted that discussions between the CPAB and the PCAOB may result in the PCAOB relying on the CPAB to perform oversight of auditors of Canadian-based SEC issuers. If this occurs, the commenter believes Canadian-based SEC issuers should receive some relief from the fees they would otherwise be required to pay to the PCAOB.	Representatives from the CPAB and PCAOB have met to discuss the possibility of developing cooperative arrangements with respect to the oversight of Canadian public accounting firms that audit SEC registrants and U.S. public accounting firms that audit Canadian reporting issuers. While we expect the CPAB to continue its discussions with the PCAOB on these issues, any alleviation of the amount of fees to be paid to the PCAOB by Canadian-based SEC registrants is a matter to be determined by the PCAOB and is not within the control of either the CSA or the CPAB.
20.	Definition – “In good	A commenter questioned the amount of time that a	The version of the Instrument published on June 27, 2003

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	standing”	<p>failure to comply with restrictions or sanctions would impact on an auditor’s ability to audit a reporting issuer’s financial statements. The commenter also suggested that only suspension or termination from the CPAB Oversight Program (and not non-compliance with restrictions or sanctions) should impair a public accounting firm’s ability to conduct audits of reporting issuers. Finally, the commenter suggested that if a reporting issuer does not have knowledge that its auditor had been suspended by the CPAB or had its participant status terminated, then it should be exempt from the requirement in subsection 2.3(1) [now section 2.2] to have a participating audit firm in good standing. The commenter added, however, that even where a reporting issuer knows about the suspension or termination, it should have 12 months to find another auditor.</p>	<p>contained a definition of “participant in good standing” such that, if a participating audit firm failed to comply with a restriction or sanction, it would be permanently prevented from auditing the financial statements of a reporting issuer. While we fully expect a participating audit firm to comply with all restrictions or sanctions imposed on it by the CPAB, we recognize that the effect of the definition was too far-reaching. For this and other reasons explained in the notice, we have deleted the definition of “in good standing” and amended the Instrument so that a participating audit firm must be in compliance with any restrictions or sanctions as of the date of the auditor’s report.</p> <p>With respect to the commenter’s second point, we believe that a failure to comply with restrictions or sanctions imposed by the CPAB, and not just suspension or termination, is a serious default that should impair the ability of a public accounting firm to issue an auditor’s report in respect of the financial statements of a reporting issuer.</p> <p>Finally, we expect reporting issuers and their audit committees to be proactive and informed about their auditors’ ability to conduct audits. In the jurisdictions where the notice provisions regarding restrictions and sanctions apply, the notices will provide clear signals to reporting issuers of any potential problems with their auditors. As a result, a reporting issuer should be able to remain informed about whether its auditor has been suspended or terminated by the CPAB. Therefore, we do not think it is necessary to provide reporting issuers with a</p>

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			period of time to find another auditor. In the event a reporting issuer believes it would suffer undue hardship as a result of a failure of its auditor, the reporting issuer could always apply for an exemption from the requirements of the Instrument. Applications will be considered on a case by case basis.
21.	Part 2 - Date an auditor's report is issued	Part 2 of the Instrument makes several references to circumstances that should exist when an auditor's report is "issued". One commenter recommended changing such references to "the date of the auditor's report" since different views might exist as to when an auditor's report is issued.	We agree and have amended the Instrument to clarify that a participating audit firm must be a participating audit firm and in compliance with any CPAB restrictions or sanctions as of the date of the auditor's report.
22.	Part 4 - Exemption	One commenter suggested that issuers of exchangeable securities and guaranteed securities should be exempt from the Instrument.	We note that Part 2 only applies where a participating audit firm prepares an auditor's report with respect to the reporting issuer's financial statements. Therefore, to the extent these types of issuers are exempt from having to file their own financial statements, the Instrument would not apply.
23.	Part 4 - Exemption	One commenter stated that the core principles of financial reporting, auditing and governance should apply universally to all Canadian public companies, irrespective of size or exchange listing. Flexibility should be permitted, however, in how these principles are applied to mitigate the relative cost burden on smaller companies.	We agree. It is a fundamental requirement of securities laws that all reporting issuers file financial statements prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards. In carrying out its oversight and inspection responsibilities, the CPAB will be assessing compliance with these established principles and standards as well as any rules and regulations established by the CPAB to govern behaviour of participating firms. While the CSA is sensitive to the relative cost burden of requirements imposed on smaller companies in our capital markets, we agree that smaller companies should not be held to a different standard of financial reporting. We believe all reporting issuers

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			should provide financial statements that have been audited by an audit firm that participates in the CPAB Oversight Program and complies with CPAB restrictions and sanctions. We also expect that any costs that arise from CPAB oversight will be determined and allocated fairly and will be proportionate to the revenues earned by a public accounting firm in connection with reporting issuer audits.
24.	Part 4 - Exemption	One commenter raised concerns about the impact on small reporting issuers. The commenter noted that smaller accounting firms with few public issuer clients may choose not to enter into a participation agreement with the CPAB given that it would not add value to the majority of their private issuer clients. As a result, smaller public issuers may have to retain new accounting firms at potentially higher costs. The commenter suggested that all TSX Venture Exchange issuers be exempted from the requirement to retain a participating audit firm in good standing with the CPAB. In addition, the commenter suggested that venture issuers be required to disclose whether or not their financial statements have been prepared and/or audited by a CPAB registered accounting firm and, if not, to explain why.	We believe all reporting issuers should provide financial statements that have been audited by a firm that participates in the CPAB Oversight Program and complies with CPAB restrictions and sanctions. We recognize that some smaller public accounting firms may chose to cease to audit reporting issuers and that there may be some incremental increases in auditing costs for reporting issuers. Nevertheless, we believe the benefits of a consistently high standard of auditing for financial statements filed by reporting issuers will outweigh the costs.
25.	Part 4 - Exemption	In addition to supporting the exemption of TSX Venture Exchange issuers from certain requirements of the Instrument, one commenter suggested that smaller, non-Venture Exchange issuers also be exempt from some requirements. The commenter suggested that the CSA monitor the effect of the Instrument on such issuers on a	As indicated above, we believe all reporting issuers should be bound by the Instrument. Once the Instrument is implemented, the CSA will monitor its impact.

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		cost/benefit basis.	
26.	Part 5 - Effective date	One commenter noted that the rule should not take effect until all public accounting firms are deemed eligible to participate in the CPAB Oversight Program.	<p>According to the CPAB registration process announced in September 2003, all public accounting firms are immediately eligible to participate in the CPAB Oversight Program. A public accounting firm wishing to participate was required to submit by December 31, 2003, an intent to participate form and a quality control report. Public accounting firms that have filed the required documents will be invited to submit a registration form and signed participation agreement by February 29, 2004. Once the documents and the required fee are received by the CPAB, a public accounting firm will automatically be considered to be a participating audit firm.</p> <p>Details of the CPAB's registration process are available on CPAB's website at www.cpab-ccrc.ca.</p>

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<p>Do you agree that public accounting firms in foreign jurisdictions should be required to participate in the CPAB Oversight Program? If not, what other alternatives should be considered? For example, should a public accounting firm based outside Canada that is subject to oversight by a comparable body in a foreign jurisdiction, such as the PCAOB, be treated differently?</p>			
27.	CPAB Oversight of foreign auditors	<p>Four commenters stated that public accounting firms in foreign jurisdictions should be required to participate in the CPAB Oversight Program. The commenters also suggested that if foreign auditors were subject to review by a comparable body in their home jurisdiction, e.g., the PCAOB in the U.S., then it would be preferable to have the CPAB enter into a reciprocal agreement with that oversight body. It was further suggested that any agreement should be structured to allow the CPAB to review and accept the results of the foreign oversight body rather than require public accounting firms to undergo reviews by two separate oversight bodies. Conversely, the commenter suggested that the foreign oversight body should accept the results of the quality assurance reviews performed by the CPAB.</p>	<p>We agree that foreign auditors should be subject to CPAB oversight and, in the jurisdictions that have rule-making authority to impose requirements directly on auditors, the effect of section 2.1 will be that foreign audit firms will be required to participate in the CPAB Oversight Program (subject to any distinct registration deadlines established by the CPAB).</p> <p>We also acknowledge that the functions of similar auditor oversight organizations, such as the CPAB and the PCAOB should be coordinated and harmonized to the extent possible to prevent duplicative regulation. In this regard, we note that the CPAB has held discussions with the PCAOB and the PCAOB has stated that it intends to develop an efficient and effective cooperative arrangement where reliance may be placed on the home country system to the maximum extent possible (see PCAOB release number 2003-020 dated October 28, 2003 available on the PCAOB website at www.pcaobus.org)</p>
28.	CPAB Oversight of foreign auditors	<p>One commenter suggested that, in those situations where registration in the auditor's home jurisdiction is not sufficient, registration deadlines and other requirements should be aligned to the extent possible between countries requiring the auditor to register. This is especially relevant in relation to registration with the PCAOB due to the large number of Canadian public companies that are also public companies in the United States.</p>	<p>We agree that registration deadlines and other requirements should be aligned to the extent possible. We note that many of the requirements introduced by the CPAB are similar to those enacted in the United States. In addition, the CPAB has extended the registration deadline for foreign auditors in Canada until July 19, 2004 in order to align the registration deadline for foreign auditors with that in the U.S.</p>

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29.	CPAB Oversight of foreign auditors	One commenter supported the principle that the CPAB be given flexibility on how it oversees foreign auditors and stressed the need for establishing a “mutual reliance” system with the PCAOB in the U.S. to ensure we do not end up with a duplication of effort and costs.	We agree that the CPAB should be given sufficient flexibility to avoid unnecessary duplication of work carried out by its counterparts in foreign jurisdictions. As noted in our response to comment number 27, we understand that the CPAB and PCAOB are working together to develop a system of mutual recognition.
30.	CPAB Oversight of foreign auditors	Two commenters stated that it was not appropriate to require foreign accounting firms auditing reporting issuers to enter into participation agreements with the CPAB. One commenter noted it may discourage foreign companies from becoming reporting issuers in Canada. The other commenter thought requiring a foreign auditor with similar oversight rules to register with the CPAB was duplicative, and that such auditors should not be subject to oversight in Canada.	See responses to comments number 27, 28 and 29.
<p>Do you think that five business days is an appropriate length of time for a public accounting firm to provide notice to its audit clients? Do you agree that an audit firm should only be required to provide notice to its audit clients when it fails to address defects within the time period prescribed by the CPAB? Are there other more effective means of having information about restrictions or sanctions communicated? For example, should the CPAB disclose to the public on a timely basis any restrictions or sanctions it imposes on a public accounting firm?</p>			
31.	Notice	Two commenters stated that it would be easier to respond to the specific request for comment on the notice provisions if it had a fuller understanding of the process the CPAB intends to follow with respect to imposing restrictions and sanctions. The commenter asked, for example, whether a firm would be given the chance to rectify deficiencies.	The CPAB has begun publishing for public comment proposed rules respecting practice inspections and compliance requirements. These rules explain the process the CPAB intends to follow in imposing requirements, restrictions and sanctions. A firm will generally be given a reasonable opportunity to rectify any deficiencies in its practices and procedures before any restrictions or sanctions are imposed by the CPAB.

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32.	Notice	<p>Nine commenters commented specifically on the time periods for giving notice.</p> <p>One commenter concurred with the notice proposals as drafted in the Instrument published on June 27, 2003.</p> <p>Another commenter stated that a public accounting firm should be required to provide notice immediately when the CPAB imposes sanctions on it.</p> <p>Seven commenters suggested that five business days would not be an adequate amount of time to provide notice. Some commenters suggested that the notice periods under section 3.1 [now section 3.3] and/or section 3.4 [now section 3.2] should be extended to 10 or 30 business days.</p>	<p>We believe it would not be feasible to impose an immediate notice requirement on auditing firms that have a large number of reporting issuer clients, as firms will need time to identify their clients and organize delivery of the notice. On the other hand, we do not believe that this process will take more than a few days.</p> <p>In light of the fact that the majority of commenters on this issue recommended a 10 day notice requirement, we have amended the Instrument to require that notices under subsections 3.1(3) [now subsection 3.3(3)] and 3.4(3) [now subsection 3.2(3)] be provided within 10 business days. We believe this strikes an appropriate balance between the public interest in ensuring reporting issuers receive timely notice and the practicalities of disseminating information quickly.</p>
33.	Notice	<p>One commenter noted that the current inspection process used by provincial institutes of chartered accountants has due process safeguards and disciplinary notices are only published at the conclusion of this due process. The commenter added that, if information regarding restrictions and sanctions is not properly communicated to the public, it could result in potentially unwarranted fear in the investment community. The commenter concluded that any information regarding restrictions and sanctions should be communicated by the audit firm to its clients only, since the public could misunderstand publication of this information by the CPAB.</p>	<p>The Instrument requires a public accounting firm to provide notice of restrictions (in certain situations) and notice of sanctions to its clients only, not to the public generally. Any determination to require further transparency will be a matter to be considered by the CPAB.</p>

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34.	Notice	Four commenters agreed that an audit firm should be required to provide notice to its audit clients when it fails to address defects in its quality control systems within the time period prescribed by the CPAB.	We agree and acknowledge the support of the commenters.
35.	Notice	One commenter asked how much time an accounting firm will be given to address deficiencies in its quality control systems. For example will it match the 12 month time period under paragraph 104(g)(2) of the <i>Sarbanes Oxley Act of 2002</i> .	The CPAB has proposed that firms be given 180 days in which to address any deficiencies in their quality control systems, and that this information will be clearly communicated to the participating audit firm.
36.	Notice	<p>Three commenters suggested that information about participating audit firms should be a matter of public record.</p> <p>One commenter added that the CPAB should promptly disclose the details of restrictions or sanctions to the public. Another commenter suggested that the CPAB could either have securities regulators make the information public or it could publicize the information itself.</p>	<p>Information about a participating firm submitted with the initial registration form, other than information respecting fees earned by the public accounting firm from specific clients, will be made public.</p> <p>With respect to disclosing restrictions and sanctions, the CPAB will determine whether it will disclose publicly on a timely basis any restrictions or sanctions it imposes on a public accounting firm.</p>

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37.	Notice	<p>One commenter noted that it is not clear from section 3.2 [now paragraph (a) of subsection 3.4(1)] when the 12-month period for reporting sanctions to a potential audit client would end. The commenter suggested that the requirement should be to include notification of any sanction in any proposal presented to a reporting issuer within 12 months of the date the sanction was imposed.</p>	<p>We agree and have amended the Instrument to clarify that, prior to accepting an appointment by a new audit client, a participating audit firm must provide notice of any sanctions imposed within the 12 months immediately preceding the expected date of appointment. We have also added a requirement that a participating audit firm provide notice of any failures to address defects in its quality control systems if it was notified of any such failure by the CPAB within the 12 months immediately preceding the expected date of appointment.</p>
38.	Notice	<p>One commenter stated that the proposal in section 3.1 [now section 3.3] should be reconsidered since it is impossible to assess the reaction of a firm's clients to such a communication and, as a result, the impact of the sanction may be much more severe than intended by the CPAB. The commenter stated that for a system of restrictions or sanctions to be equitable, the affected firm should be able to reasonably assess the outcome or cost of the restriction or sanction.</p> <p>The commenter noted that a firm should be required to communicate a sanction directly to its issuer audit clients only when the sanction imposed by the CPAB results in a firm being ineligible to issue future audit reports to reporting issuers.</p> <p>Also, assuming that sanctions may be imposed on individual members of a firm rather than the firm in its entirety, any required notices should depend on the scope of the sanctions imposed. For</p>	<p>We disagree and believe the notice requirements respecting sanctions strike the appropriate balance between the interests of a participating audit firm and its reporting issuer audit clients. Furthermore, we believe participating audit firms will be able to manage the relationship with clients and it is reasonable to expect them to be able to assess clients' reactions to the imposition of sanctions on an audit firm.</p> <p>We disagree that the notice requirement should not apply unless the sanction imposed by the CPAB results in a firm being ineligible to issue future audit reports to reporting issuers. In our view, it is important that a participating audit firm's reporting issuer clients be made aware of CPAB-imposed sanctions to assess whether they need to take specific action regarding their auditor or their financial statements.</p> <p>While we considered requiring the notice of sanctions to be provided to those clients that were directly impacted only, we concluded it would be too complex to try to define which clients of a participating audit firm would be</p>

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		example, a sanction prohibiting a member of the firm from participating in the audit of an issuer should only be required to be communicated to those clients the member has been involved in auditing, rather than all issuer audit clients of the firm.	affected by sanctions in different circumstances. Therefore, we have left it up to the accounting firm to explain the scope of the sanctions imposed on it within the notice it provides to all of its audit clients.
39.	Notice	One commenter noted that not all reporting issuers have audit committees and questioned to whom the notice should be delivered.	We agree and have amended the Instrument to clarify that, when a reporting issuer does not have an audit committee, the notice should be provided to the person or persons responsible for reviewing and approving the financial statements before they are filed.
40.	Notice	One commenter noted that the terms "sanctions", "restrictions" and the failure "to address, to the satisfaction of the CPAB, the defects in its quality control systems" are not defined or commonly understood. The commenter observed that notification of such issues to audit clients, prospective clients and regulators are serious matters and it would need a better understanding of the relationship between the CPAB and participating audit firms, as well as the means the CPAB will use to classify inspection findings, specify remedial actions and otherwise take action against auditors with which the CPAB has quality concerns. The commenter recommended that the CSA and the CPAB consult with audit firms that are expected to become participating firms on these matters before this Instrument is finalized.	We agree that these are matters that warrant consultation and public feedback. Details of the CPAB's compliance and enforcement system are set out in rules that the CPAB began publishing on its website (www.cpab-ccrc.ca) on December 24, 2003. The published rules, among other things, outline membership requirements, the investigation process and the types of requirements, restrictions and sanctions the CPAB may impose. Participating audit firms and the public have the opportunity to provide comments on these rules. In addition, we expect the CPAB will keep securities regulators and audit firms informed about the development of its compliance and enforcement system.