



June 23, 2017

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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal QC H4Z 1G3

Dear Sirs/Mesdames

We are writing to comment on CSA Consultation Paper 52-403 (the paper) and proposals to amend NI 52-108 outlined therein regarding auditor oversight in foreign jurisdictions. We provide comments to questions posed in the paper on the following pages.

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Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

Access to foreign work papers has been the topic of debate between the public accounting firms and CPAB since 2010 with the adoption of International Auditing Standards (ISAs) in Canada. In particular, CPAB has been critical of CAS 600, and the scope of component audit work papers that are required to be maintained by the Group auditor under the standard. We understand it is their view that they should have access to all work papers prepared by the component auditor and such working papers should be included in the Group auditor work papers, while the standard does not require this. We believe this is at the heart of CPAB's interest in pursuing a regulatory solution that goes beyond the Canadian profession's auditing standards. As an alternative to this regulatory proposal, CPAB could work with the Canadian Auditing and Assurance Standards Board (the AASB) to advocate for changes to the standards (ISA and Canadian Auditing Standards) that would enhance component auditor documentation that resides in the Group auditor work papers to a level that would be considered sufficient to address their concerns.

The paper does not describe the cooperative nature of the relationship that currently exists between the public accounting firms and CPAB to address the access issue. Over the past number of years, our firm and (we understand) other firms that are part of a global network, have arranged to provide access to foreign component workpapers when requested by CPAB during their inspection, where the component auditor is part of their group auditor's respective network. This access is generally provided, with the consent of the reporting issuer, even though there is no regulatory requirement to do so. Given that access is provided in many instances, unless there are legal impediments in the subject country, we would question the necessity of the proposed amendment to NI 52-108.

Given that CPAB is already gaining access to work papers in many cases where the reporting issuer is audited by a network firm, and given that network firms audit over 99% of the market capitalization of Canadian reporting issues, we believe that the potential scope of the proposal is quite narrow in terms of what is to be gained in terms of additional access. Information provided in the paper regarding the scope of the issue also leads one to question whether regulatory intervention is required.

Finally, the notion of 'registration' should be clarified. It is unclear in the paper whether registration would simply provide access to component audit working papers or whether the scope of the registration would be similar to that of a participating audit firm, which provides CPAB with the ability to inspect the firm, including its systems of internal control.



Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

The paper does provide commentary about challenges that may arise from the proposal, namely potential additional costs and the potential difficulty in finding a suitable component auditor. In our view, it is highly unlikely that individual foreign audit firms would register with CPAB if there are known domestic legal impediments that would not allow access to work papers. An agreement between a foreign firm and CPAB could not override domestic law. Consequently, we believe there would be continue to be access restrictions in these territories, notwithstanding the registration agreement. With respect to the remaining countries, as noted above, we believe access to work papers is already being provided by network firms.

Additionally, foreign audit firms may chose not to register with CPAB, due to additional costs. As the paper notes, this will cause disruption as Canadian firms will need to either engage another component auditor or elect to do the work itself, each of which has attendant costs, and in the latter case, may not be possible to due rules of practice in the foreign jurisdiction.

One observation with respect to this matter is the paper's failure to consider the audit regulatory regimes that exist in other countries. Rather than each domestic audit regulator requiring registration of foreign audit firms, our view is that that more should be done to encourage cooperation amongst independent domestic audit regulators. We recognize the role of the International Federation of Independent Audit Regulators (IFIAR), and support their efforts to move to a mutual reliance model. We believe this is a more cost effective way to address this issue, rather than through the proliferation of registrations with individual regulators. While not addressing the work paper access issue directly, we do believe that efforts to improve audit quality around the globe are relevant in terms of the potential risks of a component auditor not doing quality work.

Question 3: If NI 52-108 is amended to require Component Auditor registration:

(a) Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.

If the amendment were to proceed, we would not object to the use of thresholds similar to those used in the PCAOB definition of 'substantial role'. These definitions have been used in practice since the introduction of Sarbanes-Oxley, and practitioners with SEC registrants with foreign operations are familiar with the rule. Introducing a second set of definitions for use in Canada for foreign components does not appear to be necessary, and its application in Canada could be assessed if subsequent concerns arose.



(b) Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?

As revenue of an equity investment is not reported as revenue in the consolidated financial statements, it is difficult to apply that particular threshold, however, we think the size test for assets and the 'material services' test should apply to equity investments, should the proposed amendments be made.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

Additional transparency with respect to this issue is likely to be useful information for stakeholders. Current practice does not provide investors with any insight into whether CPAB is able to gain access to foreign workpapers. We think that disclosure of countries where CPAB has been unable to gain access would be useful to investors and a list of such countries could be provided by CPAB, similar to the manner in which this is done by the PCAOB.

We are not supportive of reporting issuer specific comments being made directly by CPAB, as this is not consistent with their role as audit regulator. We believe it would be unfair (and potentially misleading) to report about access to working papers for one reporting issuer, and not another, even though both reporting issuers may have similar circumstances with respect to the manner in which their respective group audits are conducted, since this would depend on which reporting issuer audit files CPAB chooses to inspect in any given year. See our response to Question 5 for further comments with respect to disclosure.

Question 5: If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.

We understand that investors have an interest in audit quality. Further, having a significant portion of the company's investments or operations in another country may impact that objective, and investors should be informed. As part of corporate governance, directors should be diligent in their oversight of the auditor and ensure that the auditor has proper arrangements in place within the standards to ensure that quality audit work is done in foreign jurisdictions. We would favour disclosure by the Audit Committee as to what diligence has been done in this regard, and the results of those efforts, so that investors have a means to assess how foreign



operations may be impacting audit quality. It is our view that the audit committee, rather than management or CPAB, is best positioned to provide this information.

We wish to thank the Canadian Securities Administrators for the opportunity to provide our views regarding the proposals outlined in the paper. We would be happy to discuss our comments at your convenience. Any questions can be directed to Paul Fitzsimon (paul.fitzsimon@pwc.com or 416-869-2322) or to Kerry Gerber (kerry.d.gerber@pwc.com or 416-365-8834).

Sincerely yours,

PricewaterhouseCoopers LLP

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