

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

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Re: CSA Consultation Paper 52-403 Auditor Oversight- Issues in Foreign Jurisdictions

Dear Sirs,

We are pleased to provide our comments on the above consultation paper.

Overall, our firm supports CPAB obtaining access to foreign files that they seek as part of their inspection process. We agree with the effort to enhance public confidence in the integrity of financial reporting.

Our comments follow the order of the questions posed in the CSA Consultation Paper for ease of reference.

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.

We are generally supportive of CPAB obtaining access to inspect work performed by foreign audit firms. We understand that there are several circumstances in which CPAB is unable to obtain access or experiences difficulty in obtaining the access it seeks. They must be individually considered.

First, there may be domestic laws, regulations, or professional standards in the country of the component auditor that strictly preclude the provision of the access that CPAB seeks. We do not expect that the measures proposed in the CSA Consultation Paper will address these circumstances. These circumstances will require other solutions, including agreements between audit regulators or coordination of review efforts between regulatory counterparts in different jurisdictions (i.e. IFIAR jurisdictions).

Second, while not containing a complete prohibition, domestic laws or regulations in the country of the component auditor may be used to deflect requests for access. Third, component auditors in foreign countries may simply be refusing access, based on their preference. We believe that in both of these cases, establishing practical mechanisms (such as the one we outline in our response to Question 2) to facilitate the sought-after access can be beneficial.

While we believe that requiring an agreement between CPAB and a component auditor could be an effective way to do so, as noted in our response to Question 2 below, we do not believe that replicating the existing CPAB Participation Agreement would be a practical approach. We believe that any agreement with a component auditor should reflect the differentiation between circumstances of inspection of a component auditor's working papers in support of a Canadian issuer audit from the inspection of a participating audit firm ("PAF"), which is the domain of the standard CPAB Participation Agreement ("PA") for auditors providing opinions on Canadian issuer financial statements.

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?

We agree with the two challenges in the discussion paper which are identified as i) Challenges in finding Component Auditors to perform the work, and ii) Potential for higher audit fees charged to reporting issuers, and believe there are likely some additional implications under both of those general headings that should be further explored.

For example, in respect to the challenge in finding a component auditor, there may be auditor licensing laws that would prohibit the PAF from doing the work themselves in a certain foreign jurisdiction. In the event that no component auditors in that jurisdiction want to register (due to the reasons identified in the paper), this could cause a company to be effectively not auditable, due to the fact there is nobody willing or able to do the work on the component.

If the decision is ultimately taken to require a component auditor to sign a PA, we believe consideration should be given to designing a new PA specifically for a component auditor as opposed to utilizing the existing PA. We are concerned with using the existing PA for a component auditor because, it would provide CPAB not only access to the component auditor's working papers in connection with the group audit, it would also provide CPAB with the right to inspect the component auditor's firm, including its system of quality control. It would also impose other requirements and conditions on the component auditor, that we believe go beyond what should be required of a component auditor.

A specifically designed Component Auditor Participation Agreement (CAPA) could be put in place that provides CPAB with desired access to a component auditor's working paper files. A CAPA would define CPAB's inspection domain as the component audit working papers supporting a group auditor's opinion on the home country issuer. Further, the CAPA would need to consider and potentially provide relief from the obligation to permit CPAB access if it becomes apparent that either the domestic laws or the audit regulatory regime of the component auditor's home country do not permit the group auditor to provide access.

For the suggested CAPA, we would foresee at least the following differences from the standard PA:

	Existing Participation Agreement	Suggested CAPA
Scope of agreement	Firm System of Quality Control and all Issuer audits	Audit files on component supporting group audit opinion
Signoff of each individual partner required?	Yes	No; consent could be required only from those signing off component auditor reporting to the group auditor
Firm subject to CPAB restrictions or requirements	Yes	To be determined; if 'yes', we would expect CPAB's jurisdiction to extend no further than the component auditor's work on that component
CPAB fees applicable to firm	Yes	No fees to be levied against the component auditor
Provision that CPAB will notify home regulator of component file inspection and/or results	N/A	Yes

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.**

We believe the requirement should be based on a simple and easily determined financial statement threshold (e.g., revenue or total assets).

- 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?**

Yes, we agree that it would be appropriate to consider exempting nonconsolidated entities due to the nature of control exhibited by the Reporting Issuer. In these entities, the Reporting Issuer does not have control and thus no ability to exert power over the entity to direct relevant activities. It would impose undue hardship on the Reporting Issuer to ensure that their equity method investee engage an auditor that is appropriately registered with CPAB.

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.

Where the access that CPAB seeks is not provided by the component auditor because doing so would violate laws or regulations in the component auditor's home country, we do not believe additional transparency is required. Today, CPAB, can publicly communicate in its own reporting those jurisdictions where access to component working papers is restricted.

In situations where CPAB's requested access is restricted because of an apparent lack of cooperation on the part of (i) the component auditor or (ii) the component/issuer, itself, we believe additional transparency to the issuer is desirable (as further described below in our continuing response to Question 4), while additional transparency to the public is not needed (as set out in our response to Question 5).

Where lack of cooperation on the part of the component auditor, the component or the issuer is the cause of the restrictions to CPAB's access, we believe that additional disclosure to the issuer's audit committee may be useful. In our view, such lack of cooperation reflects poorly on a group auditor, a component auditor, an issuer and/or its component and reflects an underlying lack of commitment to audit quality and acting in the public interest. In this case, we believe that the primary mechanism to address the challenge to audit quality already lies within the means already available to CPAB.

We believe that CPAB's communication protocol should be updated to expressly state that where CPAB has concerns that its inability to access component work papers reflects a lack of commitment to the public interest and audit quality, it will express these concerns and details of the situation to the issuer's group auditor. This would, in effect, be a commentary on the scope of the inspection. It should not be an inspection finding. The group auditor would then, in turn, be required to direct this commentary to the issuer's audit committee.

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.

Where lack of cooperation is the cause of the restriction to CPAB's access, we do not believe that broad, public disclosure of the issuer, the group auditor or the component auditor serves the public interest.

If the CSA holds the view that such facts must be publicly disclosed, we believe that CPAB should be providing such disclosure since the reporting issuers are required to select a PAF who are CPAB registered as part of the NI 52-108 requirements but do not select component auditors. As such, CPAB's access restriction information disclosure for the component auditors should not be mandated for reporting issuers.

We will be pleased to discuss any of our comments further if required. Any questions can be directed to Richard Olfert (rolfert@deloitte.ca) or Andrew Macartney (amacartney@delotte.ca).

Yours truly,

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive font followed by "LLP" in a bold, sans-serif font.

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