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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

Re CSA Consultation Paper 52-403

Thank you for the opportunity to provide our views on proposed changes to NI 52-108. This letter is submitted on behalf of Ernst & Young LLP in Canada. This letter should not be interpreted as representing the views of any other member of the EY global network of firms.

Before responding to the specific questions posed in the Consultation Paper, we would like to make general comments that will inform our specific responses. We will use the same defined terms as used in the Consultation Paper.

Status quo - We can provide only anecdotal comment as to the extent or severity of the issue of access to foreign Component Auditor working papers.

Our Firm is inspected annually by CPAB. In instances where CPAB has requested access to Component Auditor working papers, we communicate the request to the Component Auditor, and facilitate communications between CPAB and the Component Auditor. In most instances, the Component Auditor has agreed to provide access on a voluntary basis. We are aware of one instance where access was denied, on the basis of local legal restrictions.

International cooperation - Our view is that robust public company audit oversight at a national level, with international cooperation among national audit oversight authorities on questions such as access to firms' working papers within their respective jurisdictions, is the optimal solution. This promotes efficient use of audit oversight authority resources, and avoids inefficient or duplicative regulatory burden on audit firms. CPAB has taken a leading role by actively promoting international cooperation and coordination, through its participation in IFIAR (International Forum of Independent Audit Regulators), and negotiation of Memoranda of Understanding with audit oversight authorities in multiple jurisdictions.

Our firm, in addition to being a PAF with CPAB and a foreign public accounting firm registered with PCAOB, performs Component Auditor services for audits of issuers in multiple jurisdictions. The model proposed in the Consultation Paper -- if adopted internationally -- would require firms such as ours to register in multiple jurisdictions, with attendant regulatory burden and overlap. Accordingly, it is our view that a model of Component Auditor registration is not a desirable international model. If adopted in Canada, the model should be deployed no more widely than necessary to fill gaps left by the current state of international cooperation at the audit oversight authority level.

In keeping with this view, we believe that any changes to NI 52-108 should be no more extensive than necessary to achieve the desired objective.

- Consideration should be given as to whether it is necessary for Component Auditors in jurisdictions where CPAB has entered an MoU with the relevant audit oversight authority to be subject to a new requirement to enter a Participation Agreement with CPAB.
- For Component Auditors in non-MoU jurisdictions, consideration should be given to whether it is necessary for Component Auditors to enter a Participation Agreement, as opposed to a more limited form of agreement. (From a practical standpoint, a Component Auditor may be more likely to agree to enter an agreement if it is tailored to the objective of working paper access.)

The US Model - The Consultation Paper notes that the US is the only jurisdiction that presently requires certain Component Auditors to register with its audit oversight regulator (the PCAOB). We would caution against making an assumption that US experience is transferrable to Canada, given the relative size of the US and Canadian capital markets. A Component Auditor is more likely to already be registered with PCAOB (as the principal auditor for other clients that issue securities in the US) than with CPAB. A foreign audit firm is more likely to act as Component Auditor for multiple US issuers than Canadian issuers. The incremental regulatory burden may be higher under a Canadian requirement, while the benefit of registering in Canada may be perceived as lower.

CAS 600 - As noted in the Consultation Paper, use of the work of a Component Auditor is governed by CAS 600. In our view, the core concern addressed by the Consultation Paper is access to sufficient information to enable appropriate inspection of a PAF's compliance with CAS 600.

Again, we would emphasize the importance of coordinated international effort as an optimal solution. CASs align with the International Standards of Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB). IAASB has embarked on a *Group Audits - Revision of ISA 600* project, which it has designated as one of its four priority standard setting projects.¹ Inspection reports from audit oversight authorities are an important input in that standard setting process. To the extent that concerns of audit oversight authorities over use of Component Firms in group audits can be addressed through appropriate revision of CAS 600/ISA 600 itself, this is in our view a more efficient and preferable model.

Conflicting Laws - As noted in the Consultation Paper, Component Auditors may be bound by local laws that prohibit providing access to a foreign authority. Any new requirements for Component Auditors should take this into account, for example by incorporating CPAB's Rule 105, which provides that a PAF may decline to comply with a CPAB requirement if compliance would create a conflict with a law to which the firm is subject.

¹ IAASB – Workplan for 2017-2018: Enhancing Audit Quality, February 2017

We also note that current and proposed provincial laws (e.g. Ontario's *Canada Public Accountability Board Act, 2006*, provincial/territorial *Capital Markets Act* consultation draft) contain provisions that can compel inspected PAFs to provide access to documents in their possession over which the issuer/client asserts legal privilege, coupled with express non-waiver provisions. Issuers may have a valid concern whether provincial non-waiver provisions are legally effective to preserve privilege in the Component Auditor's home jurisdiction. Consideration should be given to whether new requirements for Component Auditors should carve out access to documents over which the issuer/client asserts legal privilege.

Disclosure - As noted in the Consultation Paper, CPAB presently publishes information concerning jurisdictions where it has been denied access to Component Auditor working papers, and issuers are required to provide information in continuous disclosure documents as to the extent of their foreign operations and associated risks. We question whether additional disclosure requirements would be of added value to stakeholders.

In our view, inspection-specific disclosure relating to CPAB's ability or inability to access Component Auditor working papers would not be helpful to stakeholders, and would be potentially misleading. CPAB inspects only a sample of issuer audit files. Disclosure that CPAB was denied access in a particular inspection could lead a stakeholder to wrongly differentiate the inspected issuer from similarly situated issuers, simply because one issuer's audit was in the inspected sample and others were not.

To the extent that additional disclosure requirements are considered, disclosure of jurisdiction-specific information (e.g., that CPAB has been denied access in a particular jurisdiction) should be provided by CPAB. Issuer-specific information (e.g., the extent of the issuer's operations in a foreign jurisdiction) should be provided by the issuer.

In response to the specific questions set out in the Consultation Paper:

Question 1: See above. In our view, robust public company audit oversight at a national level, with international cooperation among national audit oversight authorities on questions such as document access, is the optimal solution. If a Component Auditor registration requirement is adopted, the requirement should be no more extensive than necessary to achieve the stated objective.

Question 2: The Consultation Paper (page 3) observes that if a Component Auditor was unwilling to continue providing services if it must be subject to inspection by CPAB, one option would be for the PAF to travel to the foreign jurisdiction to perform the work itself. It should be noted that this option may not be feasible, depending on local licensing requirements, or may even be illegal. A PAF performing the work itself may also run counter to CPAB's objectives to improve audit quality, to the extent that a Component Auditor may be better positioned to audit local operations because of its knowledge of, for example, local business conditions and tax laws.

Question 3(a) - An asset/revenue definition equivalent to the US "substantial role" would provide a workable threshold. However, please note our concerns, above, on the applicability of the US experience to Canada.

Question 3(b) - We agree that exemption should be considered for investments accounted for using the equity method. An investor with significant influence only may not be in a position to compel or influence an investee to engage a CPAB registered auditor.

Questions 4 and 5 - See above.

We appreciate the opportunity to comment on the issues raised in the Consultation Paper. Please contact Massimo Marinelli (Managing Partner - Assurance) or Eric Spiekman (Professional Practice Director) if you wish to discuss these or any other matters.

Ernst & Young LLP