

February 1, 2016

Eric Turner, CPA, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington street West
Toronto ON M5V 3H2

Subject: Implementation Considerations for New Auditor Reporting Standards

Dear Auditing and Assurance Standards Board (AASB) Members,

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Alberta, British Columbia, Ontario and Quebec. We are submitting this letter to you in response to the Invitation to Comment on the *Implementation Considerations for New Auditor Reporting Standards*.

We appreciate the opportunity to comment and offer the following comments:

Use of the Term 'Listed Entity' to Trigger Auditor Reporting

The new auditor reporting standards (including ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*) issued by International Auditing and Assurance Standards Board (IAASB), as well as ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*, differentiate between requirements for an auditor's report on financial statements of a 'listed entity' and requirements in relation to unlisted entities. ISA 220 *Quality Control for an Audit of Financial Statements* defines 'listed entity' as:

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

We are very concerned about using the term 'listed entity' as the basis for triggering the application of certain auditor reporting requirements, such as key audit matters (KAM) disclosure. This term is not commonly used to differentiate public reporting requirements in the Canadian environment. Its use in Canadian auditor reporting standards to trigger certain auditor reporting requirements would result in inconsistent auditor reporting for entities that are subject to the same securities regulatory filing and disclosure requirements. We think this inconsistency would be confusing for users of auditor reports.

In Canada, securities legislation generally distinguishes between reporting issuers and non-reporting issuers for the purpose of requiring continuous disclosure. The term 'listed

entity' excludes a number of entities that are reporting issuers, and in particular investment funds subject to continuous disclosure requirements under securities legislation.

We recommend that the AASB make a Canadian amendment to replace all reference to 'listed entity' in the new auditor reporting standards and ISA 720 with the term 'reporting issuer', and that such term be based on the definition included in securities legislation. In addition, please refer to our comments below on staged implementation.

Effective Date for CAS 701

We support deferring adoption of ISA 701. We think that prior to setting an effective date and corresponding implementation plan, the AASB should consider revised amendments to the standards of the U.S. Public Company Accounting Oversight Board (PCAOB) that address auditor reporting, when those become available. Since the Canadian and U.S. capital markets are closely linked, any significant difference in the two auditor reporting regimes could be perceived negatively in Canada. As discussed in the Invitation to Comment, cross border issuers constitute a large proportion of the Canadian marketplace in terms of market value. If an auditor could no longer express compliance with both Canadian and U.S. standards in one report, we think this would result in further inconsistency in auditor reporting by Canadian reporting issuers.

If there are significant differences between ISA 701 and amendments to the PCAOB's standards on revised auditor reporting, then the AASB should consider whether additional Canadian amendments are needed prior to CAS 701 coming into effect.

Staged Implementation for KAM Reporting

We support staged implementation for KAM reporting. We agree with the AASB that determining a cutoff for staged implementation is somewhat arbitrary, however we note that securities legislation distinguishes some reporting issuer disclosure requirements based on whether a reporting issuer is a 'venture issuer' or a 'non-venture issuer'. As this approach is already applied in the Canadian environment, we recommend the AASB consider a KAM reporting cutoff in a similar manner, such that initially only non-venture issuers would be subject to KAM reporting.

We also recommend that the AASB delay a decision on whether venture issuers should be subject to KAM reporting until the AASB can further examine the costs and benefits of KAM reporting for this population of reporting issuers, which are primarily smaller entities. For example, the AASB could assess the costs and benefits of KAM reporting for smaller non-venture issuers in the first two to three years of implementation. As part of this assessment, the AASB could consider whether auditors are tailoring KAM reporting to the facts and circumstances relevant to each smaller non-venture issuer. Delaying the decision for venture issuers will also give the AASB an opportunity to consider research on the impact of KAM reporting, particularly research that may become available after KAM reporting is implemented in various countries within the next year.

We think that our recommendations (use the term "reporting issuer" rather than "listed entity", defer a decision to implement ISA 701 until after considering amendments to PCAOB standards on auditor reporting, and further defer implementation for venture

issuers) fall within the criteria the AASB has established for amending ISAs when adopting them as Canadian Auditing Standards. In particular, our recommendations are in line with criterion #3;

...a circumstance particular to the Canadian environment where such an amendment is required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.

If you have any questions about this letter, please do not hesitate to contact us.

Yours truly,

The CSA Chief Accountants Committee

Lara Gaede
Chief Accountant
Alberta Securities Commission
(403) 297-4223
lara.gaede@asc.ca

Carla-Marie Hait
Chief Accountant
British Columbia Securities Commission
(604) 899-6726
chait@bcsc.bc.ca

Cameron McInnis
Chief Accountant
Ontario Securities Commission
(416) 593-3675
cmcinnis@osc.gov.on.ca

Hélène Marcil
Chief Accountant
Autorité des marchés financiers
(514) 395-0337 ext. 4291
helene.marcil@lautorite.qc.ca