

Sent by email

August 25, 2015

Independence Task Force
Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto M5V 3H2
Canada
Email: communications@cpacanada.ca

Subject: Framework for the Canadian Independence Standards

Dear ITF 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 from the Public Trust Committee – Independence Task Force (ITF) to comment on the consultation paper on *A Framework for the Canadian Independence Standards*.

We support the ITF proposals to:

- base future changes to Canadian independence standards on changes to the Code of Ethics for Professional Accountants (the Code) issued by the International Ethics Standards Board for Accountants (IESBA), amended as necessary to address Canadian-specific circumstances, if any, and reworded only to conform to the drafting conventions of the Canadian rules,
- maintain existing Canadian requirements that are more stringent than the Code,
- maintain the size threshold where the more restrictive independence requirements apply only to audits of reporting issuers with either market capitalization or total assets in excess of \$10 million, and
- develop a process to take a broader approach to make Canadian constituents aware of the IESBA proposals and solicit comment thereon, including whether there may be Canadian specific circumstances that would require a change to the IESBA proposal.

However, we think the framework for developing changes to Canadian independence standards should also require the ITF to consider significant differences between U.S. independence standards and current or proposed Canadian standards, and when appropriate, solicit comments from Canadian constituents on whether to amend Canadian standards to reflect more stringent requirements in U.S. standards. We think this additional feature for the framework is appropriate for several reasons, many of which are noted in the consultation paper:

- the Canadian economy is closely linked to the U.S. economy, and thus circumstances that threaten independence in the U.S. are likely mirrored in Canada,
- existing Canadian standards predominantly reflect U.S. standards for public companies, and
- consistency may enhance confidence in Canadian capital markets.

We also recommend that the ITF maintain a publicly available list of any significant differences between the Canadian and U.S. independence standards, including any features of the U.S. standards that the ITF concluded it was not appropriate to adopt in Canada. The list would help stakeholders, and in particular practitioners, understand how the independence obligations may differ.

We also recommend that when the ITF make Canadian constituents aware of IESBA proposals and solicit comment thereon, the ITF should proactively suggest possible changes to such proposals in response to Canadian specific circumstances.

In concluding that Canada’s framework should include an explicit requirement to consider U.S. standards, we assessed the various arguments against this approach set out in the consultation paper. Those arguments (in italics) and our responses are as follows:

- *“IESBA considers changes to independence standards worldwide, including those from the U.S.”*
While the IESBA may consider U.S. rules, it also considers input from many other jurisdictions. Canada has many more ties to the U.S. market than other markets that the IESBA considers. U.S. rules may be significantly less important to the IESBA than they are to Canadian stakeholders.
- *“Using the Code as the framework for Canadian independence standards and also considering U.S. standards would lead to an inconsistent and possibly contradictory approach.”*
If Canada adopts a more stringent U.S. requirement for a particular auditor independence issue, we do not think this type of inconsistency between Canadian standards and the Code create a problem for stakeholders of Canada’s capital markets.
- *“U.S. standards may be influenced by specific regulatory, political, inspection and other factors that are not relevant in Canada.”*
We have proposed that the framework include a requirement for the ITF to consider significant differences between amendments to U.S. independence standards and current or proposed Canadian standards, and when appropriate, change Canadian standards to reflect more stringent requirements in U.S. standards. As part of its considerations, the ITF would assess whether regulatory, political, inspection or other factors that influenced U.S. standard setters are relevant to Canada.
- *“An explicit decision has been made to conform Canadian accounting and auditing standards with International standards, without a separate lens on U.S. standards other than cast by the International standard setters.”*

It is our understanding that Canadian accounting and auditing standard setters do actively monitor differences between Canadian and U.S. standards given the ties Canada has with the U.S. market and the importance to Canadian stakeholders. The AASB's criteria for adopting ISAs as CASs refer to circumstances particular to the Canadian environment and the Canadian public interest; we think the ties between Canada's capital markets and U.S. markets is a key issue in assessing such circumstances and interests.

- *“A piece-meal approach to addressing specific U.S. standards has both conceptual and practical challenges.” “The Task Force believes that it would be difficult to address specific items contained in the U.S. rules and adopt specific restrictions without adopting all of the U.S. standards”.*

The concept paper does not provide, and we are not aware of, examples of how assessing a specific feature of U.S. auditor independence rules, compared to current or proposed Canadian standard, presents conceptual and practical challenges.

- *“The Task Force believes that if not being “less stringent” is to be a criteria, it would be necessary to consider other jurisdictions, including the standards required by the European Union.”*

The integration of Canada's capital markets with the U.S. markets is the rationale for our proposal that the ITF consider significant differences between U.S. and Canadian standards; other markets are much less relevant to Canada's capital markets and therefore it would not be necessary to consider other jurisdictions' requirements in a similar manner.

In summary, in regards to considering U.S. independence standards, consistent with our comments in 2010 and 2013, we think that the framework for amending Canadian auditor independence standards should include a requirement to consider U.S. standards.

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