



Current Developments: Canadian Securities and Auditing Matters

December 2017

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Canadian Securities and Auditing Matters

This edition provides a summary of newly effective and forthcoming regulatory and auditing matters in Canada from October 1, 2017 to December 31, 2017.



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Canadian Securities: New guidance

Women on Boards and in Executive Officer Positions

In October 2017, the Canadian Securities Administrators (CSA) summarized in Staff Notice (SN) 58-309 *Staff Review of Women on Boards and in Executive Officer Positions – Compliance with NI 58-101 Disclosure of Corporate Governance Practices* the trends noted in their third annual review of disclosures of women on boards and in executive officer positions and compliance matters. Generally, the trends showed a modest improvement in women’s representation over prior years.

The SN highlighted the following disclosure requirements, where deficiencies were noted:

- disclosure of both the number and percentage of women on the issuer’s board and in executive officer positions each year;
- if the issuer discloses that it has adopted a written policy regarding representation of women on its board, a clear description of that policy and how the policy applies to the identification of women directors;
- if the issuer discloses that it has adopted targets regarding the representation of women on its board and its executive officer positions, annual and cumulative progress in achieving targets;
- if the issuer discloses the representation of women in the director identification and selection process and/or when making executive officer appointments, a description of how it does so; and

- if the issuer discloses that it has adopted term limits or other mechanisms, a description of those limits or other mechanisms and how they contribute to board renewal.

Cyber Security and Social Media

In October 2017, the CSA issued SN 33-321 *Cyber Security and Social Media* to summarize the results of a survey sent to registered investment fund managers, portfolio managers and exempt market dealers regarding trends in cyber security and social media practices. The survey was sent to 1,000 registered firms and 63% responded.

The SN summarizes survey results and provides guidance in the following areas:

Cyber Security	Policies and procedures Training Risk assessments Incident response plan Due diligence Data protection Insurance
Social Media	Policies and procedures Monitoring of social media activity, including supervision of employees’ use of social media for business and personal purposes



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Issuers with U.S. Marijuana Related Activities

In October 2017, the CSA issued SN 51-352 *Issuers with U.S. Marijuana Related Activities* to highlight certain staff expectations regarding disclosure of risks and uncertainties for issuers that have, or are in the process of developing marijuana-related activities in the U.S. states where such activity has been authorized within a state regulatory framework.

CSA staff expect all issuers with marijuana-related activities in the U.S. to disclose information about their compliance with state regulatory frameworks and discuss the risk of enforcement of U.S. federal laws relating to marijuana. Additional disclosure may be required based on the nature of an issuer's involvement in the U.S. marijuana industry. These disclosures should be included in an issuer's prospectus filings and continuous disclosure documents such as an issuer's annual information form (AIF) and Management's, Discussion & Analysis (MD&A). Issuers that enter Canada's capital markets through a reverse takeover or spinoff transaction are expected to include these disclosures in their listing statement or other documents, as applicable, which are filed on SEDAR.

Potential issuers were cautioned that each exchange has its own listing requirements and some exchanges may decide to list issuers with U.S. marijuana-related activities while other may decide to reject such listing applications.

Distributions Outside Canada

In December 2017, the Ontario Securities Commission (OSC) issued OSC Rule 72-503 *Distributions Outside Canada* and related companion policy. The Rule replaces Interpretation Note 1 *Distributions of Securities Outside of Ontario* and is intended to bring greater certainty to cross border activities in Ontario.

The rule provides explicit exemptions that preserve current cross-border practices, and responds to the challenges issuers and intermediaries face in determining whether a prospectus must be filed or an exemption from the prospectus requirement must be relied on in connection with a distribution of securities to an investor outside of Canada.

The rule comes into force on March 31, 2018 at which time Interpretation Note 1 will be withdrawn.



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Canadian Securities: Proposed guidance

Director and Audit Committee Member Independence

In October 2017, the CSA released Consultation Paper 52-404 *Approach to Director and Audit Committee Member Independence* to seek views on the appropriateness of the current approach to determining director and audit committee member independence.

The CSA indicated that some stakeholders have expressed concern about the appropriateness of the approach to determining independence of directors and audit committee members; as the approach may preclude individuals with the requisite expertise and judgement and has limited the pool of individuals who could be considered independent. Some stakeholders would prefer alternative models adopted in other jurisdictions such as the U.K., Australia and Sweden. Other stakeholders believe the market has adapted to the current approach and are concerned with potential costs of making transitions to the current approach or transitioning to a new approach.

The consultation paper examines the key historical developments relating to the current corporate governance regime, sets out the approach to determining director and audit committee member independence, provides a comparative overview to the approaches utilized in Canada, Australia, Sweden, the U.K. and the U.S. and discusses the benefits and limitations of the Canadian approach.

The CSA is seeking input regarding whether the current approach is appropriate for all issuers in the Canadian market, whether changes should be made to the current approach and what are the advantages and disadvantages of maintaining our approach versus replacing it with an alternative approach.

Comments are due by January 25, 2018.



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Auditing Matters

Auditor Reporting Model

More insight and transparency

The International Auditing and Assurance Standards Board (IAASB), has issued new requirements on auditor reporting.

Without changing the scope of an independent audit, these requirements open the door for the auditor to give users more insight into the audit and improve transparency.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs) effective for periods ending on or after December 15, 2018.

Highlights of the new auditors' report in Canada include:

- re-ordering the contents of the auditors' report (opinion first);
- expanded descriptions of responsibilities of management, those charged with governance and the auditors;
- disclosure of engagement partner's name (listed entities); and
- description of key audit matters (KAMs) (applicable only when required by law or regulation or when the auditor is engaged to do so).

U.S. developments

In June 2017, the Public Company Accounting Oversight Board (PCAOB) adopted their enhanced auditor reporting standards which includes, among other requirements, discussion of critical audit matters (CAMs) (similar to KAMs) and tenure of the auditor.

Highlights and effective dates of the new U.S. standards are:

- New auditors' report format, tenure and other information: audits for fiscal years ending on or after December 15, 2017;
- Communication of CAMs for audits of large accelerated filers: audits for fiscal years ending on or after June 30, 2019; and
- Communication of CAMs for audits of all other companies: audits for fiscal years ending on or after December 15, 2020.

Impact to Foreign Private Issuers in Canada

Auditors of foreign private issuers ("FPIs") will still be able to issue a "combined" report (which many FPIs in Canada issue today) that meets both the CAS and enhanced PCAOB standards for 2017 year-end engagements.

Discussions are still underway whether a "combined report" for 2018 year-end engagements will be allowable.

The way forward in Canada

The AASB, working alongside the regulatory bodies, continue to deliberate how the disclosure of KAMs will be required to listed entities in Canada given the recent developments in the U.S.



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Auditing Accounting Estimates and Related Disclosures

The IAASB has issued an exposure draft on ISA 540 (Revised). Significant changes in how auditors evaluate accounting estimates and related disclosures have been proposed.

This proposed standard:

- enhances requirements for risk assessment procedures to include specific factors related to accounting estimates, namely complexity, judgment, and estimation uncertainty;
- sets a more detailed expectation for the auditor's response to identified risks related to accounting estimates, including augmenting the auditors' application of professional skepticism; and
- is scalable regardless of the size or sector of the business or audit firm.

Numerous stakeholders have submitted comment letters in regards to the exposure draft to the IAASB expressing concerns over how to operationalize this new standard. The IAASB is in progress of addressing the concerns.



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.