

September 30, 2021

VIA EMAIL

Canadian Public Accountability Board
150 York Street, Suite 900
Toronto, ON M5H 3S5
Email: consultation@cpab-ccrc.ca

Re: Consultation – Regulatory Disclosures (the “Consultation”)

The Canadian Advocacy Council of CFA Societies Canada¹ (the “CAC”) appreciates the opportunity to provide the following general comments on the Consultation. We are supportive of CPAB’s consultation, and agree that there are investor protection and capital markets integrity benefits that could be achieved through consideration of changes to the information that CPAB discloses about the results of its regulatory assessments, including both inspection findings and enforcement actions.

With respect to the stated disclosure principles, the principle of public accountability particularly resonates with our group. We believe that regulatory transparency is paramount to capital markets integrity and systemic trust, and to the extent that CPAB’s assessment of a participating audit firm or an enforcement finding relates to a systemic issue or a matter of clear public interest, instances of disclosure should increase.

We understand that the 2014 Protocols permit audit firms to share the results of individual file inspections with the audit committee of a reporting issuer on a voluntary basis. We would support rule changes to require disclosure of such results in all cases with the issuer’s audit committee (or similar governing body). Absent compelling policy reasons, we do not believe there is a reason to differentiate between venture and non-venture reporting issuers in this regard. We agree that such a change would potentially enhance investor protection (and also capital markets integrity) by providing more

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 19,000 Canadian CFA Charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors’ interests come first, markets function at their best, and economies grow. There are more than 178,000 CFA Charterholders worldwide in over 160 markets. CFA Institute has nine offices worldwide and there are 160 local member societies. For more information, visit www.cfainstitute.org.

information to the audit committee to help with its oversight functions, and improve systemic governance of reporting issuers in the process.

With respect to the type of information that could be disclosed to the public in future for individual audit firm reviews, we are of the view that information that would be most useful to external stakeholders (such as analysts and other end users of financial statements) includes anything that identifies material and systemic audit issues, including relating to conflicts of interest such as those arising from consultancy mandates with the reporting issuer. Not every deficiency will rise to the level of requiring public disclosure, or it will risk masking the issues that could erode public trust in audit and reporting issuer governance/capital markets integrity more broadly. Nor do we believe that issues that may be outside an auditor's control need always be disclosed – as an example, auditors that rely on the scope of correspondent or subsidiary audits performed in certain foreign jurisdictions may be required to accept the findings of such audits because they are acceptable in the local jurisdiction, even if they may not meet all Canadian standards for transparency or disclosure. In essence, any issue that would cause an objective end user to question the integrity, independence, or validity of the audit results that are within the audit firm's control should be strongly considered for public disclosure.

We think these disclosures should be provided for all inspections of audit firms, even though we understand there is a risk of misinterpretation based on the risk-based method currently used to select files for inspection.

CPAB notes in the Consultation that to date, it has not publicly disclosed any enforcement action. We think this is an area that should be subject to additional consultation with additional background information to better judge the potential scope and applicability to capital markets integrity and the public interest, but in general are supportive of additional transparency with respect to serious enforcement issues. Several regulators in the wider capital markets/securities ecosystem and in foreign jurisdictions have proposed and/or adopted various enforcement mechanisms (including early settlement offers) based on the severity and impact to the public of the issues raised, and the public disclosure of such enforcement actions correspondingly vary. Comparisons may be made to the circumstances in which securities regulators and self-regulatory organizations disclose enforcement actions, as many of the same investor protection and capital markets integrity issues may be raised by significant breaches of professional audit standards. At the very least, such disclosure could (and should) impact the choice of auditor by reporting issuers, and may subject the same to additional scrutiny by investors in exercising their voting rights. As CPAB moves up the enforcement spectrum toward sanctions such as termination of audit engagements, it is difficult to argue against public disclosure of sanctions of such nature.

Concluding Remarks

We support efforts to increase regulatory transparency with respect to systemic issues found in CPAB's review of audit work of participating audit firms. The audit of reporting issuer financial statements contributes in an important fashion to the integrity of and confidence in our Canadian capital markets, and is a matter of interest to the governance bodies of reporting issuers and more widely to all stakeholders in Canadian capital markets.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council of
CFA Societies Canada*

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