



Current Developments Canadian Securities and Auditing Matters

March 2019

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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 January 1, 2019 to March 31, 2019.



Canadian Securities: New guidance

Start-Up Crowdfunding Registration and Prospectus Exemptions

Canadian Securities: Proposed guidance

Proposed Designated Benchmarks and Benchmark Administrators

Proposals on Distribution of Syndicated Mortgages

Consultation on Proposed Crypto-Asset Trading Platforms

Consultation on Internalization within the Canadian Equity Market

Auditing Matters

Auditor Reporting

Quality Management for Firms

Identifying and Assessing the Risk of Material Misstatement

Group Audits



Print



Back



Home



Next

Canadian Securities: New guidance

Start-Up Crowdfunding Registration and Prospectus Exemptions

In February 2019, the Canadian Securities Administrators (CSA) published Staff Notice 45-324 *Update on the Start-Up Crowdfunding Registration and Prospectus Exemptions*.

Previously certain securities regulatory authorities (British Columbia, Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia, collectively the “participating jurisdictions”) had implemented start-up exemptions by way of local blanket orders. These were announced in Multilateral CSA Notices 45-317 and 45-319. These orders are set to expire on May 13, 2020.

The CSA is now working on developing a national instrument with the same key features as the start-up crowdfunding exemption orders, with targeted amendments to improve harmonization and the effectiveness of crowdfunding as a capital raising tool for start-ups and early stage businesses.

The anticipated proposed national instrument will not be implemented by May 13, 2020. Staff of the participating jurisdictions expect that the start-up crowdfunding exemption orders will be amended to remain available for issuers and funding portals until the proposed national instrument is adopted.



Print



Back



Home



Next

Canadian Securities: Proposed guidance

Proposed Designated Benchmarks and Benchmark Administrators

In March 2019, the CSA issued a request for comment regarding Proposed National Instrument 25-102 *Designated Benchmarks and Benchmark Administrators* (Proposed NI 25-102) and related companion policy. Additionally, the Ontario Securities Commission (OSC) published Proposed Ontario Securities Commission Rule 25-501 (*Commodity Futures Act*) *Designated Benchmarks and Benchmark Administrators* (Proposed OSC Rule 25-501) and related companion policy.

Proposed NI 25-102 and OSC Rule 25-501 are intended to implement a comprehensive regime for:

- The designation and regulation of benchmarks, including specific requirements (or exemptions from requirements) for designated critical benchmarks, designated interest rate benchmarks and designated regulated-data benchmarks;
- The designation and regulation of persons or companies that administer such benchmarks;
- The regulation of persons or companies, if any, that contribute certain data that will be used to determine such designated benchmarks; and
- The regulation of certain users of designated benchmarks, particularly users who are already regulated in some capacity under Canadian securities legislation.

In Canada, Refinitiv Benchmark Services (UK) Limited (RBSL) is currently the administrator of two domestically important benchmarks: the Canadian Dollar Offered Rate (CDOR) and the Canadian Overnight Repo Rate Average (CORRA).

The intention of the CSA and OSC is to designate RBSL as an administrator, CDOR as a critical benchmark and CORRA as an interest rate benchmark.

Proposed OSC Rule 25-501 is required in Ontario because Proposed NI 25-102 would not apply to Ontario commodity futures law.

Comments on both proposals are due by June 12, 2019.

Proposals on Distribution of Syndicated Mortgages

In March 2019, the CSA issued a second request for comment regarding Proposed Amendments to National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) related to syndicated mortgages.

Initially certain provinces were planning to remove the prospectus and registration exemptions under section 2.36 of NI 45-106 and 8.12 of NI 31-103 but now certain provinces are proposing a prospectus exemption for qualified syndicated mortgages similar to the exemptions already available in British Columbia Rule 45-501 *Mortgages*. In addition, Alberta is proposing a prospectus exemption for syndicated mortgages distributed to permitted clients similar to the prospectus exemption for distributions of syndicated mortgages to “institutional investors” under British Columbia Rule 45-501.



Print



Back



Home



Next

The initial proposal introduced additional requirements to the offering memorandum prospectus exemption under section 2.9 of NI 45-106 that would apply when the exemption is used to distribute syndicated mortgages. The date of the property appraisal must now be within 6 months rather than 12 months and additional guidance as to the identity of the issuer of the syndicated mortgage is required. A separate requirement for a mortgage broker certificate in their capacity as mortgage broker has been removed.

The proposed amendments will come into effect on December 31, 2019.

Comments are due by May 14, 2019.

Consultation on Proposed Crypto-Asset Trading Platforms

In March 2019, the CSA and the Investment Industry Regulatory Organization of Canada (IIROC) issued a joint Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms*.

Currently, there are no platforms recognized as an exchange or otherwise authorized to operate as a marketplace or dealer in Canada. Platforms facilitate the buying and selling of crypto assets and perform functions similar to one or more of exchanges, alternative trading systems, clearing agencies, custodians and dealers.

The consultation paper seeks feedback that the CSA and IIROC intend to use to establish a framework that provides clarity to platforms, addresses risks to investors and creates greater market integrity.

Comments are due by May 15, 2019.

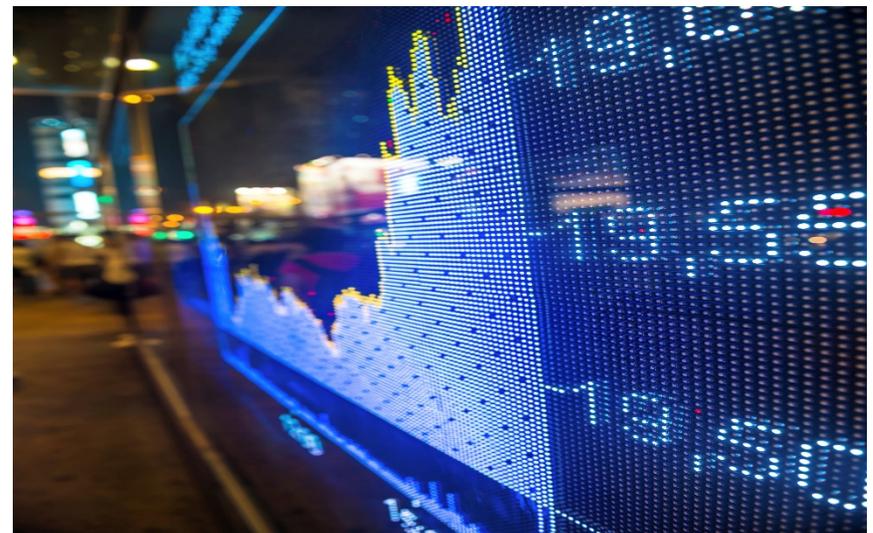
Consultation on Internalization within the Canadian Equity Market

In March 2019, the CSA and IIROC issued a joint Consultation Paper 23-406 *Internalization within the Canadian Equity Market*.

Internalization is generally considered to be a trade that is executed with the same dealer as both the buyer and seller.

The consultation paper seeks feedback in response to concerns regarding the internalization of retail/small orders within the Canadian equity market.

Comments are due by May 13, 2019.



Print



Back



Home



Next

Auditing Matters

Auditor Reporting

The Auditing and Assurance Standards Board (AASB or Board) in Canada unanimously approved amendments to the effective date of paragraph 46 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*. Paragraph 46 requires disclosure of the engagement partner name in the auditor's report on financial statements of listed entities. In light of further information obtained since the December conference call, the Board decided that the amendments to the effective date of paragraph 46 will apply for one year. Therefore, paragraph 46 will not apply to audits of financial statements for periods ending before December 15, 2019, of entities whose engagement partner name appears on Form AP, *Auditor Reporting of Certain Audit Participants*, to be filed with the U.S. Public Company Accounting Oversight Board for that engagement.

This amendment will allow time for stakeholders to evaluate issues relating to Canadian Generally Accepted Auditing Standards auditor's reports that are required to be filed with the U.S. Securities and Exchange Commission.

The amendments have been included in the March 2019 Handbook update.

Quality Management for Firms

The AASB issued the exposure draft *Quality Management at the Firm and Engagement Level Including Engagement Quality Reviews* on April 5, 2019. Stakeholders are invited to comment until June 7, 2019.

The exposure draft is based on the International Auditing and Assurance Standards Board (IAASB) exposure draft of proposed International Standard on Quality Management (ISQM) 1, ISQM 2, and International Standard on Auditing (ISA) 220. The proposed standard requires firms to apply a risk-based approach in the design, implementation and operation of the system of quality management to support the consistent performance of quality engagements.



Print



Back



Home



Next

Identifying and Assessing the Risk of Material Misstatement

The AASB provided input to the IAASB members from Canada on issues related to the responses received on the Exposure Draft of proposed ISA 315 (Revised), *Identifying and Assessing the Risk of Material Misstatement*. The Board discussed the IAASB's proposed changes to:

- understanding of the entity's system of internal control;
- individual components of internal control;
- separate assessment of inherent and control risk; and
- concepts of relevant assertions and significant classes of transactions, account balances and disclosures.

The Board will continue to discuss this project at future meetings.

Group Audits

The AASB provided input to the IAASB members from Canada on the IAASB's project to revise ISA 600, *Special Considerations – Audits of Group Financial Statements*. The Board discussed:

- the use of a top-down, risk-based approach to scoping group audits;
- definitions of component, significant component and group engagement team; and
- the need for further clarification of component materiality considerations.

The Board will continue to discuss this project at future meetings.

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.



Print



Back



Home