



March 28, 2003

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C.
20006-2803

Dear Sir,

Re: PCAOB Rulemaking Docket Matter No. 001

Thank you for the opportunity to respond to the proposed rules on the "Registration System for Public Accounting Firms".

Over the past year, Canada has initiated reforms to enhance the framework for corporate governance and financial reporting, all with the goal of fostering investor confidence. These reforms have been designed as an integrated solution that achieves the same objectives as the Sarbanes-Oxley Act and other related reforms in the United States. The reforms address the following key areas: auditor independence; corporate responsibility; enhanced financial disclosures; review of periodic disclosures by reporting issuers; real time issuer disclosures; oversight of accounting and auditing standards-setting; and corporate accountability. Further details on these initiatives are provided in a copy of a letter from David Brown, Chair of the Ontario Securities Commission, which is attached in Appendix 1.

Among these reforms, the creation of the Canadian Public Accountability Board ("CPAB") has been a critically important initiative. This initiative, announced on July 17, 2002, has involved the establishment of an independent, not-for-profit organization to oversee auditors of Canadian public companies. The mission of the CPAB is to contribute to public confidence in the integrity of financial reporting of Canadian public companies by promoting high quality, independent auditing.

The CPAB will establish a rigorous program of oversight for public company auditors in Canada. The CPAB will establish a practice inspection unit that will be led by a full-time CEO and will have its own dedicated staff. This unit will have sufficient resources to review major Canadian audit firms on an annual basis, and smaller audit firms at least once every three years. All audit firms subject to CPAB oversight will be required to adhere to rigorous auditing, quality control and independence standards, which will be broadly similar to those being developed in the United States. Canadian securities regulators are working to develop a rule that would require all Canadian public company auditors to register with the CPAB and be subject to its practice inspection program.

The CPAB will have the ability to impose sanctions on audit firms subject to its inspection and oversight process. In addition, the CPAB will be able to refer disciplinary matters to the provincial institutes of professional accountants, which are established by provincial statute and can impose additional penalties, including disbarment from the profession. The CPAB will report to the public on its inspection program. The inspection process is scheduled to begin later this year.

A majority of the directors on the board of the CPAB are from outside of the accounting profession, which ensures its independence from the profession. In addition, the CPAB is subject to oversight from a Council of Governors comprising the Chair of the Canadian Securities Administrators, the Chairs of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Superintendent of Financial Institutions and the President and CEO of the Canadian Institute of Chartered Accountants (CICA). The Council is responsible for appointing the Chair and other directors of the CPAB, and will periodically review the effectiveness of the CPAB and take any action as necessary to improve its effectiveness.

We believe that this new system of oversight for public company auditors, combined with the existing provincial systems of oversight of public accountants, complies with the recently released IOSCO *Principles for Auditor Oversight*. Further details on the proposed structure, activities, and responsibilities of the CPAB are outlined in Appendix 2. We note that the IOSCO principles encourage IOSCO members to explore approaches to enhance cooperation among jurisdictions.

In establishing the CPAB, Canadian regulators adopted a system that shares the same objectives as the PCAOB. Both institutions aim to impose high quality standards, a rigorous inspection process, and meaningful disciplinary measures for public company auditors. In light of these similarities we believe that the PCAOB should be able to exempt firms registered with the CPAB from its proposed oversight function. Consequently, we hope that a close and cooperative arrangement could be reached between the two institutions to minimize duplication and allow each institution to effectively use its resources. A number of practical and legal difficulties associated with the registration process are discussed in Appendix 3.

In closing, I want to thank you again for the opportunity to comment on the PCAOB's proposal and underscore that we look forward to continuing the constructive relationship between Canadian and US regulators on this very important issue

Yours truly,

Gordon Thiessen (signed)

Gordon Thiessen
Chair, Canadian Public Accountability Board

Encl: Appendix 1: Letter from OSC to Gordon Thiessen
Appendix 2: CPAB
Appendix 3: Responses to Specific Questions



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

P.O. Box 55, 19th Floor
20 Queen Street West
Toronto ON M5H 3S8

CP 55, 19^e étage
20, rue queen ouest
Toronto ON M5H 3S8

Office of the Chair
Bureau du président

Telephone No. (416) 593-8203
Facsimile No. (416) 593-8241
TDX 76
CDS-OSC
e-mail: dbrown@osc.gov.on.ca
web site: www.osc.gov.on.ca

APPENDIX 1

March 27 2003

Mr. Gordon Thiessen
Chair
Canadian Public Accountability Board
C/o Office of the Chief Accountant
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario
M5H 3S8

Dear Gordon:

As you begin the work of leading the Canadian Public Accountability Board (CPAB), I thought it would be helpful to share with you a summary of some of the other key initiatives being undertaken to foster investor confidence in our Canadian capital markets. While I focus in this letter on the perspective of the OSC, it is important to emphasise that requirements imposed by the OSC apply to all companies listed on the Toronto Stock Exchange (TSX) and to a large percentage of the companies listed on the TSX Venture Exchange (TSX-V), including all of the largest of these companies.

Implementation by the CPAB of a rigorous system of public oversight of auditors of Canadian reporting issuers is critical to strengthening investor confidence in the quality of financial reporting. It is, however, only one element of the integrated approach to which we are committed in order to reassure investors as to the integrity of all elements of our Canadian capital markets. In this respect, we have carefully assessed our initiatives against the objectives sought by the United States Congress and the SEC in implementing the Sarbanes-Oxley Act. In every case, we have sought to achieve objectives consistent with those set out in the Sarbanes-Oxley Act. A key goal in implementing changes is to avoid subjecting Canadian companies to unnecessary or duplicative regulation, particularly where those companies raise capital in U.S. markets.

For the convenience of those who may be particularly familiar with the primary elements of the Sarbanes-Oxley Act, I have organized this summary of our initiatives by reference to some of the main headings in that Act.

Auditor Independence

The Canadian Institute of Chartered Accountants (CICA) is in the process of adopting new independence standards for auditors. The proposed new standards incorporate the rules on provision of certain non-audit services adopted by the SEC prior to the Sarbanes-Oxley Act within the principles-based framework for independence adopted by the International Federation of Accountants (IFAC). The CICA is currently considering public comments on its proposals and is also evaluating the specific provisions of the Sarbanes-Oxley Act as implemented in recently revised SEC rules on auditor independence. The CICA and the Ontario Securities Commission are committed to achieving independence standards in Canada that are appropriately aligned with requirements for auditors of SEC registrants. If necessary, the OSC will exercise its explicit rule-making authority in this area to supplement standards issued by the CICA. The new Canadian independence standards are expected to be issued in final form later this year, effective for audit engagements commencing after December 31, 2003.

Specific matters addressed within the new standards include:

- limitations on scope of services provided to audit clients;
- rotation of audit partners; and
- potential conflicts of interest arising from senior executives of a reporting issuer having been previously employed by the issuer's auditor.

Matters relating to audit committee pre-approval of provision of audit and non-audit services will be addressed in an OSC rule governing audit committees described below. Matters relating to auditor reports to audit committees are currently addressed in auditing standards that are required by securities legislation to be followed by auditors of reporting issuers.

Corporate responsibility

Audit Committees

Recent revisions to securities legislation passed by the Ontario government provide the OSC with power to make rules requiring the appointment of audit committees and prescribing requirements for such committees. The OSC is currently formulating a rule that will require listed companies to have an audit committee and will prescribe the composition and responsibilities of such a committee. In preparing the draft rule, OSC staff are carefully analyzing all relevant features of the Sarbanes-Oxley Act and requirements of the New York Stock Exchange and the NASDAQ, as well as existing Canadian requirements. We expect to publish for comment in June of this year a proposed rule based on the relevant U.S. requirements, including:

- responsibilities relating to oversight of a company's audit relationship;
- independence of the audit committee; and
- the funding and authority required for the audit committee to perform its functions.

I should note that certain non-substantive differences from the Sarbanes-Oxley Act will be required with respect to auditor appointment, compensation and oversight to ensure consistency with requirements of Canadian corporate law and federal financial institution statutes. The statutes generally provide for the shareholders to appoint the auditor and allow shareholders to fix the auditor's compensation and remove the auditor.

Independence of the Board of Directors

OSC staff are developing a Canadian approach to Board independence that will specify a definition of Director independence and Board composition requirements. We expect to implement this approach through either a Commission Policy or a direction to the Toronto Stock Exchange. Our goal is to achieve implementation by the end of September of this year.

Compensation and Nominating Committees

OSC staff are developing proposals that regulate the requirement for a Compensation Committee and a Nominating Committee and will establish requirements relating to their composition and responsibilities. We expect to implement such proposals through either a Commission Policy or a direction to the TSX. Again, our goal is to complete this work by the end of September of this year.

Certification of financial reports

Revisions to securities legislation passed recently by the Ontario government provide the OSC with the power to make rules requiring reporting issuers to maintain systems of internal and disclosure controls and procedures, and requiring Chief Executive Officers and Chief Financial Officers to provide certifications relating to those controls, as well as defining auditing standards for reporting on management's assertions. Previously existing rule-making authority provided the OSC with the power to require certification of financial reports. OSC staff are currently developing a proposed rule that will require CEO/CFO certification of both financial reports and internal controls in a manner consistent with the provisions of the Sarbanes-Oxley Act and the subsequent SEC rules. We are also working with the Canadian Assurance Standards Board to develop appropriate standards for auditor reporting on the design and effectiveness of internal and disclosure controls. We expect to publish a draft rule for public comment in June of 2003.

Standards of professional conduct for lawyers

Standards of professional conduct similar to the "up-the-ladder" reporting obligations under the Sarbanes-Oxley Act and proposed SEC Rule 205 exist currently under the Law Society of Upper Canada's Rules of Professional Conduct. In addition, however, we are working with the Law Society to explore ways of clarifying standards of professional conduct by lawyers representing public companies.

Enhanced financial disclosures

Canada's accounting standards-setter, the Accounting Standards Board (AcSB), with input from its public oversight body, the Accounting Standards Oversight Council, has reviewed existing accounting standards addressing matters such as off-balance sheet transactions and arrangements, including guarantees, and identified certain areas in which further guidance is required. In December 2002, the AcSB approved new guidelines requiring entities to disclose key information about guarantees that require payment contingent on future events. These guidelines are consistent with standards developed by the U.S. Financial Accounting Standards Board (FASB). The AcSB also continues to work on new standards governing the circumstances in which special purpose entities would be consolidated. The AcSB has been closely coordinating its work with that of the FASB and expects to finalize at its April meeting, new standards that will be substantially consistent with those issued recently by the FASB.

In December of 2002, the AcSB issued for public comment, proposed standards dealing with stock-based compensation that will require recognition of an expense in determining net income when a company issues stock options to its employees. After considering public comments, the AcSB expects to implement these new standards later this year, ideally in parallel with similar changes proposed by the International Accounting Standards Board.

With respect to presentation of proforma or "non-GAAP" earnings information, OSC staff issued in early 2002, guidance designed to ensure that presentation of such non-GAAP information is not misleading to the investing public. Our assessment of practices by reporting issuers in the period since this guidance was issued, suggests a marked improvement. Nevertheless, OSC staff are currently evaluating recently issued SEC rules governing presentation of non-GAAP earnings measures and considering the need for similar rules in Canada. Our assessment of these issues will be completed later this year.

Review of periodic disclosures by reporting issuers

The OSC and other Canadian securities regulators have, for some time, been developing and enhancing their systems for review of continuous disclosure filings by reporting issuers. The OSC's goal is to review issuers based in Ontario once every four years on average. To date, this goal has been met or exceeded. A significant element of this system has been to refine the risk-based criteria used to identify those companies that should be the focus of comprehensive and in-depth reviews with the result that they are subject to more frequent review. Indeed, some issuers are currently subject to ongoing monitoring of their disclosures at the time they are filed. We have also completed recently continuous disclosure reviews of the TSX 100 companies. These companies include the vast majority of Canadian companies that are listed on the New York Stock Exchange. For the future, OSC staff will be considering how we might cooperate with SEC staff to integrate our reviews of interlisted companies and avoid unnecessarily duplicative and burdensome demands on those companies.

Real time issuer disclosures

When a reporting issuer in Canada experiences a material change in its affairs, securities legislation has, for some years, required immediate issuance of a press release followed within ten days by filing of a report with securities regulatory authorities. We believe this goes beyond current U.S. requirements that are limited by reference to a list of specified events.

More broadly, the Canadian Securities Administrators have released for public comment revised draft rules on continuous disclosure by reporting issuers. These rules enhance existing disclosure requirements in a variety of respects, including incorporating specific provisions on MD&A that are similar to recently introduced SEC requirements. Final continuous disclosure rules are expected by the end of 2003.

Oversight of accounting and auditing standards-setting

The Accounting Standards Oversight Council, which provides independent public oversight of the Canadian Accounting Standards Board (AcSB), has worked with the AcSB in carrying out a review of its structure, role and relationships with The Canadian Institute of Chartered Accountants. These matters were discussed at public meetings of the oversight council held in September of 2002 and January of 2003. The Council, which comprises 21 prominent business and government leaders, has concluded that the AcSB is responding appropriately to the implications of recent U.S. failures in relation to accounting standards. In addition, the Council has completed an evaluation of the overall operations of the AcSB.

With respect to oversight of auditing and assurance standards-setting, a separate oversight council was recently created with a mandate to provide input, strategic direction and the perspective of users of audit services into the setting of auditing and assurance standards in Canada. The Council comprises a majority of members from outside the accounting profession and is chaired by James Baillie, a former Chairman of the Ontario Securities Commission. I am a member of the Council, representing the CSA. In common with the Accounting Standards Oversight Council, the Auditing & Assurance Standards Oversight Council will report publicly on its activities and its assessment of the performance of the Assurance Standards Board.

Corporate accountability

Regulators and governments across Canada are considering whether enhanced enforcement powers are required. In Ontario, legislation has been amended recently to provide the OSC with the power to order fines and to order disgorgement of profits illegally obtained and to increase the maximum fine and jail term that a court can impose for securities violations. In addition, we expect the Ontario legislature to enact legislative changes to provide investors with broader rights to sue if issuers make misleading or untrue statements or fail to give full and timely information.

The role of the CPAB in enhancing public confidence in the performance of auditors and the integrity of financial reporting is crucial to maintaining the integrity of Canada's capital markets. If you and your Board need any further information about the broader package of reforms that we are pursuing, my staff and I will be happy to provide it. I can assure you that the Board will have my full support in implementing a rigorous and effective program of inspection of public accounting firms that audit entities raising capital in our markets.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'DAB', followed by a horizontal flourish line that ends in a vertical line on the right side.

David A. Brown

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APPENDIX 2

CANADIAN PUBLIC ACCOUNTABILITY BOARD

Summary

The independent system of oversight of public accounting firms that audit public companies is administered and enforced by the Canadian Public Accountability Board (“CPAB”). The CPAB was established and directors are appointed by a Council of Governors who will periodically review the effectiveness of the system.

The CPAB carries out its mission by:

- establishing appropriate criteria for membership;
- designing and implementing a rigorous program for the inspection of public company auditors;
- imposing sanctions and referring matters to the appropriate regulator; and
- recommending modifications to professional standards as appropriate.

All Canadian public accounting firms that audit public companies will be required to register with the CPAB.

Establishment of the Board

The CPAB is an independent not-for-profit corporation established to contribute to public confidence in the integrity of financial reporting of Canadian public companies by promoting high quality, independent auditing.

Duties

The CPAB has the following responsibilities:

- Register public accounting firms that audit public companies;
- Promote, publicly and proactively, high quality external audits of public companies;
- Establish and maintain the membership requirements of public accounting firms that audit public companies;
- Conduct inspections of public accounting firms that audit public companies to ensure compliance with professional standards and membership requirements;
- Receive and evaluate reports and recommendations of the inspection process and of provincial accounting institutes on inspection results of public accounting firms that audit public companies;
- Impose sanctions on and require remedial action by public accounting firms that audit public companies;
- Refer matters to provincial accounting institutes for discipline purposes;
- Refer matters, as appropriate, to regulators;

- Provide comments and recommendations on accounting standards, assurance standards and governance practices to relevant standards-setting and oversight bodies;
- Provide recommendations to regulators; and
- Establish the budget and manage the operations of the CPAB and its staff.

Membership

The CPAB has 11 voting directors. Seven directors - including the Chair - are from outside the accounting profession. Of the remaining four from the accounting profession, three are the CEOs of the provincial accounting institutes in the three provinces with the largest number of public company audits.

Members of the Board of Directors of the CPAB are to:

- possess several years of experience as a director of a public company, a public-sector organization or a not-for-profit organization or charity, including, preferably, service as a member of the audit committee;
- be well-informed about corporate governance and business issues;
- be credible trustees of and advocates for the public; and
- have a breadth and diversity of business experience, insight and judgment

Current directors of the CPAB are:

- Gordon Thiessen, Chair, former Governor of the Bank of Canada
- Raymond Bachand, managing partner and CEO of SECOR
- Bob Bertram, Executive Vice President, Investments, Ontario Teachers Pension Plan Board
- Brian Canfield, Chairman, TELUS
- Wendy Dobson, Director, The Institute for International Business, University of Toronto's Joseph L. Rotman School of Management
- Ron Gage, Former Chairman and CEO, Ernst & Young
- Jacques Menard, Chairman of BMO Nesbitt Burns and President of BMO Financial Group
- Ted Newall, O.C., Chairman of the Board, Nova Chemicals Ltd.
- Gérard Caron, President, CEO and Secretary General of the Ordre des comptables agréés du Québec
- Steve Glover, Executive Director, The Institute of Chartered Accountants of Alberta
- Brian Hunt, President and CEO, The Institute of Chartered Accountants of Ontario

Reporting

The CPAB issues regular reports to the public on the means taken to oversee the auditors of public companies and the results achieved.

Registration with the CPAB

The CPAB requirements will apply to all public accounting firms that audit public companies. All such firms will be required to register with the CPAB. Initially the focus will be on the major public accounting firms that audit approximately 85% of Canadian public companies.

Auditing, Quality Control and Independence Standards

The CPAB assesses compliance with:

- auditing and quality control standards established by the Assurance Standards Board; and
- independence standards.

The independent Auditing and Assurance Standards Oversight Council oversees and provides strategic direction and the perspective of users of audit services to the Assurance Standards Board.

The CPAB recommends improvements to auditing, quality control and independence standards to the independent Auditing and Assurance Standards Oversight Council.

Inspection of Public Accounting Firms

The CPAB conducts a continuing program of practice inspection of public accounting firms that audit public companies, to assess compliance with professional standards and membership requirements.

Major public accounting firms that audit public companies are subject to annual inspection.

Investigations and Disciplinary Proceedings

The CPAB has the authority to impose sanctions on participating firms and to require remedial action. Sanctions could include, for example, limiting the ability of the public accounting firm, or an individual within the firm, to audit public companies. Any such actions will also be reported to regulatory bodies for appropriate follow-up. The CPAB will also, as appropriate, refer matters to provincial accounting bodies for discipline purposes.

Oversight of the CPAB

The CPAB is overseen and the directors are appointed by a five-member Council of Governors comprised of:

- Chair of the Canadian Securities Administrators (who is currently the Chair of the British Columbia Securities Commission)
- Chairs of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec
- Superintendent of Financial Institutions Canada
- President and CEO of The Canadian Institute of Chartered Accountants (CICA)

The Council selects its own Chair from among the four non-CICA Governors. The current Chair is Ontario Securities Commission Chair, David Brown. Each Governor is entitled to one vote and decisions are by majority vote.

The Council appoints the Chair and directors of the CPAB and has the power to remove a director. The Council will also periodically review the effectiveness of the system and can take appropriate action, as necessary, to improve its effectiveness.

Funding

The CPAB has the authority and responsibility for establishing a budget for its operations and setting fees. It is expected that the cost of operating the CPAB will be double what is currently spent on practice inspection in Canada.

APPENDIX 3

RESPONSES TO SPECIFIC QUESTIONS IN THE RELEASE

Questions relating to the registration process

Is it feasible for foreign public accounting firms to register within 180 days of the date of the Commission's determination that the Board is capable of operating? Should foreign public accounting firms be afforded some longer period (e.g., an additional 90 days) within which to register?

As noted in the body of our letter, we believe the PCAOB should be able to exempt public accounting firms registered with the CPAB from the PCAOB's oversight function. However, if Canadian public accounting firms were required to assemble all the information required by Form 1 in order to register with the PCAOB, we understand that it would require considerable effort and time since most of the information is not currently readily available and systems to maintain it are not in place. In addition, some of the information will require detailed research by individuals knowledgeable about complex issues, for example, details of litigation. Consequently, if the CPAB were to require Canadian public accounting firms to provide for Canadian registration purposes all of the information currently proposed by the PCAOB, we believe it would be necessary to allow more than 180 days to ensure the reliability of the information.

Are there any portions of Form 1 that are inapplicable, or that should be modified, in the case of non-U.S. applicants?

In discharging its mandate, the CPAB will implement a system for identification of Canadian listed companies and registration of public accounting firms that audit such entities to ensure that appropriate information is captured for identification, tracking and monitoring. In considering the type of information that should be captured for effective operation of the CPAB oversight process, we will carefully weigh the benefits of collecting such information against the costs associated with capturing, cataloguing and maintaining the information.

We likely would not request all of the information contained in Form 1 related to accountants associated with the applicant. For example, because of the privacy issues associated with the information, we would not request the social security number of all accountants associated with the applicant who participate in or contribute to the preparation of audit reports.

In addition, in determining what information should be captured for effective operation of the CPAB oversight process, we will consider carefully the costs and benefits of requiring collection of information on a retroactive basis. Some of the information the PCAOB proposes to require would not need to have been captured by Canadian public

accounting firms in order to comply with existing Canadian disclosure requirements. Accordingly, we will consider requiring certain information on a prospective basis only.

Do any of the Board's registration requirements conflict with the law of any jurisdiction in which foreign public accounting firms that will be required to register are located?

The proposed PCAOB registration requirements raise some issues that would need to be resolved should Canadian public accounting firms be required to register with the PCAOB and submit the information contained in Form 1. For example, to date, we have identified the following issues:

- Item 8.1 states “[name of applicant] agrees to secure and enforce similar consents from each of its associated persons as a condition of the continued employment by or association with the firm.” For existing employees this would necessitate a revision of terms of employment. Consideration would need to be given to whether such a change in an employment contract would be legal even if “reasonable” prior notice is given to the employee. In addition, consideration needs to be given to whether such a change would be legally enforceable given that PCAOB requirements are not Canadian law.
- Item 8.1 includes consents from any independent contractor that, in conjunction with the preparation or issuance of any audit report, participates as agent or otherwise on behalf of such accounting firm “in any activity of that firm”. It would appear that, because the disclosure is not limited to only accounting or other professional services, it would require consents from independent contractors that provide ancillary services such as courier or photocopying services.
- Item 8.1 requires consent to comply with “any request for testimony or the production of documents made by the PCAOB in furtherance of its authority and responsibilities under the Sarbanes-Oxley Act of 2002”. Under Canadian law a Canadian auditor cannot disclose protected information (other than information about the SEC-registered issuer or the public accounting firm itself) to a non-governmental agency. An example of protected information would include information that an accountant learned in his or her capacity as an inspector under a provincial practice inspection scheme, which by statute (in most provinces) must be kept confidential. Consideration could be given to restricting the scope to information concerning the registered public accounting firm, any registered issuer and such information as may be disclosed under applicable laws in Canada.
- Item 5 requires disclosures with respect to persons no longer associated with the applicant. As a practical matter it might not be possible to obtain consent from these individuals. In addition, disclosures with respect to non SEC registrants might be contrary to confidentiality requirements in the provincial Rules of Professional conduct.

Questions related to oversight of foreign registered public accounting firms

Should registered foreign public accounting firms be subject to Board inspection? Could the Board, in some cases, rely on home-country regulation in lieu of inspection of foreign public accounting firms? If so, under what circumstances could this occur?

The need for international cooperation to ensure effective and efficient regulation of domestic markets becomes more critical as domestic securities markets are increasingly integrated into a global market. Given that the CPAB is an integral part of a set of initiatives designed to achieve the same overall objectives as the Sarbanes-Oxley Act, the oversight by the CPAB of Canadian public accounting firms that audit public companies will be comparable to the oversight that PCAOB will exercise over U.S. public accounting firms that audit public companies. We believe that you will be able to rely on the oversight of Canadian public accounting firms that will be provided by the CPAB. Consequently, we would request that PCAOB exempt from its oversight processes firms that are registered with the CPAB.

Summary

We trust that a close and cooperative arrangement can be reached between the two organizations to minimize duplication and allow each organization to maximize effective use of its resources.