

## Rule 204 – November 14, 2013 Compared to April 2011 Version

### 204 Independence

#### 204.1 Assurance and Specified Auditing Procedures Engagements

A member or firm who engages or participates in an engagement:

- (a) to issue a written communication under the terms of an assurance engagement; or
- (b) to issue a report on the results of applying specified auditing procedures;

shall be and remain independent such that the member, firm and members of the firm shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or a member of the firm.

#### **204.2 Compliance with Rule 204.1**

A member or firm who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, comply with the provisions of Rules 204.3 and 204.4.

#### **204.3~~2~~ Identification of Threats and Safeguards**

A member or firm who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to reduce the threats to an acceptable level. Where safeguards are not available to reduce the threat or threats to an acceptable level, the member or firm shall eliminate the activity, interest or relationship creating the threat or threats, or refuse to accept or continue the engagement.

#### **204.3 Documentation**

~~A member or firm who, in accordance with Rule 204.2, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue the particular engagement. The documentation shall include the following information:~~

- ~~(i) a description of the nature of the engagement;~~
- ~~(ii) the threat identified;~~
- ~~(iii) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and~~
- ~~(iv) an explanation of how, in the member's or firm's professional judgment, the safeguards eliminate the threat or reduce it to an acceptable level.~~

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**204.4 Specific Prohibitions, Assurance and Specified Auditing Procedures Engagements**

~~In addition to complying with Rules 204.1, 204.2, 204.3, 204.5 and 204.6 a member or firm shall comply with the following specific prohibitions:~~

~~Financial interests~~

(1) (a) A member or student shall not participate on the engagement team for an assurance client if the member or student, or ~~the~~ an immediate family member of the member or student, holds a direct financial interest or a material indirect financial interest in the client.

(b) A member or student shall not participate on the engagement team for an assurance client if the member or student, or ~~the~~ an immediate family member of the member or student, holds, as trustee, a direct financial interest or a material indirect financial interest in the client.

(1.1) Notwithstanding Rules 204.4(1)(a) and (b), if the assurance client is a co-operative, credit union or caisse populaire; a social club, such as a golf club or curling club; or a similar organization, the financial interest in the assurance client held, either personally or as a trustee, by a member or student or an immediate or close family member of the member or student shall not preclude the member or student from participating on the engagement team provided that:

(a) such a financial interest is restricted to the minimum amount that is a prerequisite of membership;

(b) the assets of the organization cannot by virtue of the organization's by-laws be distributed to the individual members of the organization other than as patronage dividends or in circumstances of forced liquidation or expropriation, unless there is a written undertaking with the organization to forfeit entitlement to such distributed assets; and

(c) the member, student or immediate or close family member:

(i) does not serve on the governing body or as an officer of the organization;

(ii) does not have the right or responsibility to exercise significant influence over the financial or accounting policies of the organization or any of its associates;

(iii) does not exercise any right derived from membership to vote at meetings of the organization; and

(iv) cannot dispose of the financial interest for gain.

(2) (a) A member or firm shall not perform an assurance engagement for an entity if the member or firm holds a direct financial interest or material indirect financial interest in the entity.

(b) A member or firm shall not perform an audit or review engagement for an entity if the member, firm or a network firm, has a direct financial interest or a material indirect financial interest in the entity.

(2.1) Notwithstanding Rules 204.4(2)(a) and (b), if an assurance client is a co-operative, credit union or caisse populaire; a social club, such as a golf club or curling club; or

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a similar organization, the financial interest in the entity held by a member or firm, or in the case of an audit or review engagement, a member, firm or a network firm, shall not preclude the member or firm from performing an assurance or audit or review engagement, as the case may be, for the entity, provided that:

(a) such a financial interest is restricted to the minimum amount that is a prerequisite of membership;

(b) the assets of the organization cannot by virtue of the organization's by-laws be distributed to the individual members of the organization other than as patronage dividends or in circumstances of forced liquidation or expropriation, unless there is a written undertaking with the organization to forfeit entitlement to such distributed assets; and

(c) the member, firm or network firm, as the case may be:

(i) does not serve on the governing body or as an officer of the organization;

(ii) does not have the right or responsibility to exercise significant influence over the financial or accounting policies of the organization or any of its associates;

(iii) does not exercise any right derived from membership to vote at meetings of the organization; and

(iv) cannot dispose of the financial interest for gain.

(3) A member or firm shall not perform an audit or review engagement for an entity if a pension or other retirement plan of the firm or network firm has a direct financial interest or a material indirect financial interest in the entity.

(4) A member who is a partner of a firm and who holds, or whose immediate family member holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not practice in the same office as the lead engagement partner for the client, unless, in the case of a financial interest held by an immediate family member, the financial interest is received as a result of employment and

(a) the immediate family member does not have the right to dispose of the financial interest or, in the case of a share option, the right to exercise the option; or

(b) where such rights are obtained, the financial interest is disposed of as soon as is practicable.

(5) (a) A member who is a partner or managerial employee of a firm and who holds, ~~or whose immediate family holds,~~ a direct financial interest or a material indirect financial interest in an audit or review client shall not provide a non-assurance service to the client, unless the non-assurance service is clearly insignificant.

(b) A member who is a partner or managerial employee of a firm whose immediate family member holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not provide a non-assurance service to the client, unless

(i) the non-assurance service is clearly insignificant; or

(ii) the financial interest is received as a result of employment and

(A) the immediate family member does not have the right to dispose of the

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financial interest or, in the case of a share option, the right to exercise the option; or

(B) where such rights are obtained, the financial interest is disposed of as soon as is practicable.

(6) (a) A member or firm shall not perform an audit or review engagement for an entity (the first entity) if the firm or a network firm has a financial interest in a second entity, and the member or firm knows that the first entity or a director, officer or controlling owner of the first entity also has a financial interest in the second entity, unless the respective financial interests of the firm or network firm and the first entity, the director, officer or controlling owner of the first entity are immaterial and the first entity cannot exercise significant influence over the second entity.

(b) A member or student shall not participate on ~~an~~the engagement team for an audit or review client if the member or student or an immediate family member of the member or student has a financial interest in an entity and the member or student knows that the client or a director, officer or controlling owner of the client also has a financial interest in the entity, unless the respective financial interests of the member or student, or immediate family member, and the client, the director, officer or controlling owner of the client are immaterial and the client cannot exercise significant influence over the entity.

~~(7) Intentionally left blank.(a) A member or firm shall not perform an audit or review engagement for an entity if a partner or professional employee of the firm owns, or such person's immediate family owns, more than 0.1% of the securities of the entity or controls the entity.~~

~~—(b) A member who is a partner or professional employee of a firm shall not own more than 0.1% of the securities of, or control, an audit or review client of the firm.~~

~~(8) Intentionally left blank.A member or student shall not participate on the engagement team of an audit or review client if the member or student knows that his or her close family owns more than 0.1% of the securities of the client or controls the client.~~

~~(9) Intentionally left blank.~~

~~—A member or firm shall not perform an assurance engagement for an entity that is not an audit or review client if the member or firm holds:~~

~~(a) a direct financial interest or a material indirect financial interest in the entity; or~~

~~(b) a material financial interest in another entity that has a controlling interest in the first entity.~~

*Loans and guarantees*

(10)(a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by the client, except when the client is a bank or similar financial institution and the loan or guarantee is immaterial to the firm, the network firm, and the client, and the loan or guarantee is made under normal commercial terms and conditions and is in good standing.

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- (b) A member or firm shall not perform an assurance engagement for a client that is not a bank or similar financial institution if the firm, or a network firm in the case of an audit or review client, has a loan to the client.
  - (c) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, guarantees a loan of the client.
- (11)(a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by:
- (i) an officer or director of the assurance client; or
  - (ii) a shareholder of the assurance client who owns more than 10% of the equity securities of the client, unless the shareholder is a bank or similar financial institution and the loan or guarantee is made under normal commercial terms and conditions.
- (b) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan to or guarantees a loan of:
- (i) an officer or director of the assurance client; or
  - (ii) a shareholder of the assurance client who owns more than 10% of the equity securities of the client.
- (12)(a) A member or student shall not participate on the engagement team for an assurance client where ~~who~~ the member or student has a loan from or has a loan guaranteed by:
- (i) ~~an assurance such a~~ client, except a client that is a bank or similar financial institution where the loan or guarantee is made under normal commercial terms and conditions and the loan is in good standing;<sup>7</sup>
  - (ii) an officer or director of the client;<sup>7</sup> or
  - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client, unless the shareholder is a bank or similar financial institution and the loan or guarantee is made under normal commercial terms and conditions.  
~~shall not participate on the engagement team for the client.~~
- (b) A member or student shall not participate on the engagement team for an assurance client where ~~who~~ the member or student has a loan to or guarantees the borrowing of:
- (i) ~~an assurance such a~~ client that is not a bank or similar financial institution;
  - (ii) an officer or director of the client; or
  - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client.  
~~shall not participate on the engagement team for the client.~~

*Close business relationships*

- (13)(a) A member or firm shall not perform an audit or review engagement for an entity if the firm, or a network firm, has a close business relationship with the entity, a related entity or ~~its~~ the management of either, unless the close business relationship

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is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm or network firm and ~~the~~ either entity or its management, as the case may be.

- (b) A member or firm shall not perform an assurance engagement that is not an audit or review engagement if the firm has a close business relationship with the assurance client, a related entity or ~~its~~ the management of either unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and the client, the related entity or the ~~its~~ management of either, as the case may be.
- (c) A member or student who has, or whose immediate family member has, a close business relationship with an assurance client, a related entity or the ~~its~~ management of either shall not participate on the engagement team for the client unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the member, ~~or student or immediate family member~~ and the client, the related entity or ~~its~~ the management of either, as the case may be.

### *Family and personal relationships*

(14) A member or student shall not participate on the engagement team for an assurance client if the member's or student's immediate family member is an officer or director ~~or officer~~ of the client or a related entity or ~~is an employee of the client~~ in a position to exert ~~direct and~~ significant influence over the subject matter of the engagement, or was in such a position during ~~the any~~ period covered by the assurance report or the engagement period.

(15) A member or student shall not participate on the engagement team for an audit client that is a reporting issuer or listed entity if the member's or student's immediate or close family member has is in an accounting role or a financial reporting oversight role ~~at the client, or had was in~~ such a position during ~~the any~~ period covered by the financial statements subject to audit by the member or firm or the engagement period.

### *Employment or service with a reporting issuer or listed entity audit client*

(16) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if:

(a) a person who participated in an audit capacity in an audit of the financial statements of the entity performed by the member or firm ~~has accepted employment is an officer or director of the entity or is~~ in a financial reporting oversight role ~~with respect to the entity until unless~~ a period of one year has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange; or

(b) a person who was the firm's chief executive officer is an officer or director of the entity or is in a financial reporting oversight role, unless a period of one year has elapsed from the date that the individual was the chief executive officer of the firm.

### *Recent service with or for an assurance client*

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(17)(a) A member or student shall not participate on ~~an~~the engagement team for an assurance client if the member or student served as an officer or director of the client or a related entity or was ~~an employee thereof~~ in a position to exert ~~direct and~~ significant influence over the subject matter of the engagement during the period covered by the assurance report or the engagement period.

Temporary loan of staff to an audit or review client

(17)(b) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member or firm has loaned a member of the firm or a network firm to the entity or a related entity, unless:

- (i) the loan of any such person or persons is made for only a short period of time;
- (ii) the loan of any such person or persons is not made on a recurring basis;
- (iii) the loan of any such person or persons does not result in the person or persons making a management decision or performing a management function or providing any non-assurance services that would otherwise be prohibited by Rules 204.4(22) to (34); and
- (iv) management of the entity or related entity directs and supervises the work performed by the person or persons.

*Serving as an officer or director of an assurance client*

(18)(a) A member or firm shall not perform an assurance engagement for an entity if a member or an employee of the firm serves as an officer or director ~~of~~ for the entity or a related entity, except for serving as company secretary when the practice is specifically permitted under local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.

*Serving as an officer or director of an audit or review client*

(189)(~~b~~a) A member or firm shall not perform an audit or review engagement for an entity that is not a reporting issuer or listed entity if a member or an employee of the firm or of a network firm serves as an officer or ~~a~~ director of the entity or a related entity ~~other than, in the case of an entity that is not a reporting issuer, except for~~ serving as company secretary when ~~and~~ the practice is specifically permitted under local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.

Serving as an officer or director of a reporting issuer or listed entity audit client

(19~~b~~) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity, ~~or a related entity~~, if a member or an employee of the firm or of a network firm serves as an officer or a director of ~~a related entity of~~ the reporting issuer or listed entity or a related entity.

*Long association of senior personnel with a reporting issuer or listed entity audit client*

(20)(a) A member shall not continue as the lead engagement partner or the engagement quality control reviewer ~~on an~~ with respect to the audit ~~engagement of the financial~~

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statements of a reporting issuer or listed entity for more than seven years in total, and shall not thereafter ~~resume or assume either such role~~ participate in an audit of the financial statements of the reporting issuer or listed entity until a further five years have elapsed.

In the case of an audit engagement of a reporting issuer that is a mutual fund, the lead engagement partner and the engagement quality control reviewer shall not thereafter ~~resume or assume either such role with~~ participate in an audit of the financial statements of the reporting issuer or another reporting issuer mutual fund that is in the same mutual fund complex as the reporting issuer until a further five years have elapsed.

- (b) A member, who is ~~an~~ a key audit partner ~~on an~~ with respect to the audit engagement of the financial statements of a reporting issuer or listed entity, other than ~~an audit a lead engagement partner or engagement quality control reviewer, referred to in rule 204.4(20)(a), who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or the interim financial information of the reporting issuer or who is a subsidiary engagement partner with respect to the entity~~ shall not continue in such role ~~or roles~~ for more than seven years in total and shall not thereafter ~~perform the role of~~ participate in an audit partner of the financial statements of the reporting issuer or listed entity until a further two years have elapsed.

In the case of an audit engagement of a reporting issuer that is a mutual fund, ~~such an the~~ audit partner shall not thereafter ~~perform the role of~~ participate in an audit ~~partner of the financial statements~~ of the reporting issuer or another reporting issuer mutual fund that is in the same mutual fund complex as the reporting issuer until a further two years have elapsed.

- (c) Notwithstanding paragraph (b), when an audit client becomes a reporting issuer or listed entity, a key audit partner who has served in that capacity for five or more years at the time the client becomes a reporting issuer or listed entity may continue in that capacity for two more years before being replaced as a key audit partner.

*Audit committee approval of services to a reporting issuer or listed entity audit client*

- (21) A member or firm shall not provide a professional service to an audit client that is a reporting issuer or listed entity, or to a subsidiary thereof, without the prior approval of the reporting issuer's or listed entity's audit committee.

*Performance of management functions ~~for an assurance client~~*

- (22)(a) A member or firm shall not perform an assurance engagement for an entity if, during the period covered by the assurance report or the engagement period, a member of the firm makes a management decision or performs a management function for the entity or a related entity, including:
- (i) authorizing, approving, executing or consummating a transaction;
  - (ii) having or exercising authority on behalf of the entity;
  - (iii) determining which recommendation of the member or firm will be implemented;
- or



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- (iv) reporting in a management role to those charged with governance of the entity;  
unless the management decision or management function is not related to the subject matter of the assurance engagement that is performed by the member or firm.
- (b) A member or firm shall not perform an audit or review engagement for an entity, if a member of the firm or a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, makes a management decision or performs a management function for the entity or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv), whether or not the management decision or management function is related to the subject matter of the audit or review engagement that is performed by the member or firm.;
- ~~(c) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, makes a management decision or performs a management function for the entity, or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv).~~

*Preparation of journal entries and source documents*

- (23) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm:
- (a) prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or prepares or changes another accounting record, for the entity or a related entity, that affects the financial statements subject to audit or review by the member or firm, without obtaining the approval of management of the entity; or
- (b) prepares a source document or originating data, or makes a change to such a document or data underlying such financial statements.

*Preparation of accounting records and financial statements for a reporting issuer or listed entity audit client*

- (24) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, in other than emergency situations, during either the period covered by the financial statements subject to audit or the engagement period, the member, firm, a network firm or a member of the firm or a network firm provides accounting or bookkeeping services related to the accounting records or financial statements ~~to be audited~~ including:
- (a)(i) maintaining or preparing the entity's, or related entity's, accounting records;
- (b)(ii) preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or
- (c)(iii) preparing or originating source data underlying such financial statements;

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of such financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the

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results of the accounting or bookkeeping services will be subject to audit procedures.

In the event of an emergency situation, the member or firm may perform the audit and perform such an accounting or bookkeeping service provided:

- (i) those who provide the service are not members of the engagement team for the audit;
- (ii) the provision of the service in such circumstances is not expected to recur;
- (iii) the provision of the service would not lead to any members of the firm or a network firm making decisions or judgments which are properly the responsibility of management; and
- (iv) the provision of the service receives the prior approval of the audit committee of the reporting issuer or listed entity in accordance with the provisions of Rule 204.4(21).

*Provision of valuation services to ~~a reporting issuer~~ an audit or review client that is not a reporting issuer or listed entity*

- (25)(a) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides a valuation service to the entity or a related entity where the valuation involves a significant degree of subjectivity and relates to amounts that are material to the financial statements subject to audit or review by the member or firm, unless the valuation is performed for tax purposes only and relates to amounts that will affect such financial statements only through accounting entries related to taxation .

*Provision of valuation services to a reporting issuer or listed entity audit client*

- (25)(b) A member or firm shall not perform an audit engagement for a reporting issuer ~~or listed entity~~ if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides a valuation service to the client or ~~a the~~ related entity, unless:
- (i) the valuation is performed for tax purposes only and relates to amounts that will affect such financial statements only through accounting entries related to taxation, ~~or~~
  - (ii) it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the valuation service will be subject to audit procedures.

*Provision of actuarial services to a reporting issuer or listed entity audit client*

- (26) A member or firm shall not perform an audit engagement for a reporting issuer ~~or listed entity~~ if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an actuarial service to the client or a related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a

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conclusion is reasonable, there is a rebuttable presumption that the results of the actuarial service will be subject to audit procedures.

*Provision of internal audit services to an audit or review client*

(27)(a) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm or a network firm or a member of the firm or network firm provides an internal audit service to the entity or a related entity unless, with respect to the entity for which the internal audit service is provided:

- (i) the entity designates an appropriate and competent resource within senior management to be responsible for internal audit activities and to acknowledge responsibility for designing, implementing and maintaining internal controls;
- (ii) the entity or its audit committee reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (iii) the entity's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (iv) the entity's management evaluates and determines which recommendations resulting from the internal audit services to implement and manages the implementation process; and
- (v) the entity's management reports to the audit committee the significant findings and recommendations resulting from the internal audit services.

*Provision of internal audit services to a reporting issuer or listed entity audit client*

(27)(b) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an internal audit service to the client or a related entity, that relates to the client's, or the related entity's, internal accounting controls, financial systems or financial statements unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the internal audit service will be subject to audit procedures.

*Provision of ~~I~~information technology systems services to an audit or review client*

(28)(a) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides a financial information systems design or implementation service to the entity or a related entity where the service involves the design or implementation of all or part of a financial information technology system that either generates information that is significant to the accounting records or financial statements subject to audit or review by the member or firm, or forms a significant part of either entity's internal controls that are relevant to the financial statements that are subject to audit or review by the member or firm, unless, with respect to the entity for which the information technology service is provided:

- (i) the entity acknowledges its responsibility for establishing and monitoring a

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system of internal controls:

- (ii) the entity assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (iii) the entity makes all management decisions with respect to the design and implementation process;
- (iv) the entity evaluates the adequacy and results of the design and implementation of the system; and
- (v) the entity is responsible for operating the hardware or software system and for the data it uses or generates.

Provision of information technology system services to a reporting issuer or listed entity audit client

(28)(b) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides financial information systems design or implementation services and the services involve:

- (i) directly or indirectly operating, or supervising the operation of, the entity's or a related entity's information system, or managing the entity's or a related entity's local area network; or
- (ii) designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the entity's or a related entity's financial statements or other financial information systems taken as a whole;

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the financial information systems design and implementation services will be subject to audit procedures.

Provision of litigation support services to an audit or review client

(29)(a) A member or firm shall not perform an audit or review engagement for a client if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides a litigation support service for the entity or a related entity, or for a legal representative thereof, for the purpose of advancing the entity's or related entity's, interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation with respect to an amount or amounts that are material to the financial statements subject to audit or review by the member or firm.

Provision of ~~litigation support~~ expert services to a reporting issuer or listed entity audit client

(29)(b) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of

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the firm or network firm, provides ~~a litigation support an expert opinion or other expert~~ service for the entity or a related entity, or for a legal representative thereof, for the purpose of ~~advocating advancing~~ the entity's or related entity's, interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation.

*Provision of legal services to an audit or review client*

(30)A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides a legal service to the entity or a related entity in the resolution of a dispute or litigation in circumstances where the matters in dispute or subject to litigation are material in relation to such financial statements.

*Provision of legal services to a reporting issuer or listed entity audit client*

(31)A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides a legal service to the entity or a related entity.

*Human resource services for a reporting issuer or listed entity audit client*

(32)A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides any of the following services to the entity or a related entity:

- (a) searching for or seeking out prospective candidates for management, executive or director positions;
- (b) engaging in psychological testing, or other formal testing or evaluation programs;
- (c) undertaking reference checks of prospective candidates for an executive or director position;
- (d) acting as a negotiator or mediator ~~on the entity's behalf~~ with respect to employees or future employees with respect to any condition of employment, including position, status or title, compensation or fringe benefits; or
- (e) recommending or advising with respect the entity or a related entity to hireing a specific candidate for a specific job.

*Provision of corporate finance and similar ~~services activities~~ to an assuranceaudit or review client*

~~(33)(a)~~ A member or firm shall not perform an assuranceaudit or review engagement for an entity if, during the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides any of the following services: ~~to the entity~~:

- (a) promoting, dealing in or underwriting the entity's or a related entity's securities;
- (b) advising the entity or a related entity on other corporate finance matters where:
  - (i) the effectiveness of the advice depends on a particular accounting treatment or

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presentation in the financial statements;

(ii) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

(iii) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework;

(c) making investment decisions on behalf of the entity or a related entity or otherwise having discretionary authority over the entity's or a related entity's investments;

(d) executing a transaction to buy or sell the entity's or a related entity's investments;  
or

(e) having custody of assets of the entity or a related entity, including taking temporary possession of securities purchased by the entity or a related entity.

~~(b) A firm shall not perform an audit or review engagement for an entity if a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, provides any of the services listed in paragraph 33(a)(i) to (iv) to the entity.~~

~~(c) A firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, provides any of the services listed in paragraph 33(a)(i) to (iv) to a related entity of the reporting issuer.~~

*Provision of tax planning or other tax advisory services to an audit or review client*

(34)(a) A member or firm shall not perform an audit or review engagement for a client if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides tax planning or other tax advice to the client or a related entity, where:

(i) the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements;

(ii) the outcome or consequences of the advice has or will have a material effect on the financial statements; and

(iii) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

*Provision of tax calculations for the purpose of preparing accounting entries for a reporting issuer or listed entity*

(34)(b) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity if, in other than emergency situations, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, prepares tax calculations of current and future tax liabilities or assets for the reporting issuer or listed entity or a related entity for the purpose of preparing accounting entries that are subject to audit by the member or firm.

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In the event of an emergency situation, the member or firm may perform the audit and perform such a tax service provided:

- (i) those who provide the service are not members of the audit engagement team;
- (ii) the provision of the service in such circumstances is not expected to recur;
- (iii) the provision of the service would not lead to any members of the firm or a network firm making decisions or judgments which are properly the responsibility of management; and
- (iv) the provision of the service receives the prior approval of the audit committee of the reporting issuer or listed entity in accordance with the provisions of Rule 204.4(21).

*Provision of non-assurance services prior to commencement of audit or review services*

(35)(a) Where a member, firm, a network firm or a member of the firm or a network firm has provided a non-assurance service referred to in Rules 204.4(22) to (34) to a client prior to the engagement of the member or firm to perform an audit or review engagement for the client but during or after the period covered by the financial statements subject to audit or review by the member or firm, the member or firm shall not perform the audit or review engagement unless the particular non-assurance service was provided before the engagement period and the member or firm:

- (i) discusses independence issues related to the provision of the non-assurance service with the audit committee;
  - (ii) requires the client to review and accept responsibility for the results of the non-assurance service; and
  - (iii) precludes personnel who provided the non-assurance service from participating in the audit or review engagement,
- such that any threat created by the provision of the non-assurance service is reduced to an acceptable level.

*Provision of previous non-assurance services to an entity that has become a reporting issuer or listed entity*

(35)(b) Where a member, firm, a network firm or a member of the firm or a network firm has performed a non-assurance service referred to in Rules 204.4 (22) to (34) for an audit or review client that has become a reporting issuer or listed entity and the provisions of Rules 204.4(22) to (34) would have precluded the member or firm from performing an audit engagement for a reporting issuer or listed entity, the member or firm shall not perform an audit engagement for the client unless the member or firm

- (i) discusses independence issues related to the provision of the non-assurance service with the audit committee;
- (ii) requires the client to review and accept responsibility for the results of the non-assurance service; and
- (iii) precludes personnel who provided the non-assurance service from participating in the audit engagement,

such that any threat to independence created by the provision of the non-assurance service is reduced to an acceptable level.

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*Pricing*

- (364) A member or firm shall not provide an assurance service for a fee that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate:
- (a) that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and
  - (b) that all applicable assurance standards, guidelines and quality control procedures have been followed.

*Relative size of fees of a reporting issuer or listed entity audit client*

(37)(a) A member or firm shall not perform an audit engagement for a reporting issuer or listed entity when the total revenue, calculated on an accrual basis, for any services provided to the client and its related entities for the two consecutive fiscal years of the firm most recently concluded prior to the date of the financial statements subject to audit by the member or firm, represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in each such fiscal year, unless:

- (i) the member or firm discloses to the audit committee the fact that the total of such revenue represents more than 15% of the total revenue of the firm, calculated on an accrual basis, in each of those fiscal years; and
- (ii) another professional accountant who is not a member of the firm performs a review, that is substantially equivalent to an engagement quality control review, of the audit engagement, either
  - (A) prior to the audit opinion in respect of the financial statements being issued, or
  - (B) subsequent to the audit opinion in respect of the financial statements being issued but prior to the audit opinion on the client's financial statements for the immediately following fiscal period being issued.

Thereafter, when the total revenue, calculated on an accrual basis, for any services provided to the client and its related entities continue to represent more than 15% of the total revenue of the firm, calculated on an accrual basis, in the firm's most recently concluded prior fiscal year, the member or firm shall not perform the audit unless the requirements of paragraphs (37)(a)(i) and (ii)(A) are met.

(37)(b) A member shall not perform the review required by Rule 204.4(37)(a)(ii) if the member or the member's firm would be prohibited, pursuant to any provision of Rule 204, from performing an audit of the financial statements referred to in Rule 204.4(37)(a).

*Evaluation or Compensation of audit partners of a reporting issuer audit client*

(385) A member who is or was a key audit partner shall not be evaluated or compensated based on the member's solicitation or sales of non-assurance services to the particular client or a related entity if such solicitation or sales occurred during the period during which the member is or was a key audit partner. or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, an audit partner who is on the engagement team for the reporting issuer or a related entity earns or receives compensation based on the audit partner procuring any engagement that is not an assurance engagement from the reporting



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~~issuer or a related entity, unless the member firm or the firm has fewer than five audit clients that are reporting issuers and fewer than ten partners.~~

### *Gifts and hospitality*

~~(396)~~A member or student who participates on an engagement team for an assurance client and the member's or student's firm shall not accept a gift or hospitality, including a product or service discount, from the client or a related entity, unless the gift or hospitality is clearly insignificant to the member, student or firm, as the case may be.

### Client mergers and acquisitions

~~(40)(a)A member or firm shall not perform or continue with an audit or review engagement for a entity where, as a result of a merger or acquisition, another entity merges with or becomes a related entity of the audit or review client, and the member or firm has a previous or current activity, interest or relationship with the other entity that would, after the merger or acquisition, be prohibited pursuant to any provision of Rule 204 in relation to the audit or review engagement, unless:~~

- ~~(i) the member or firm terminates, by the effective date of the merger or acquisition, any such activity, interest or relationship;~~
- ~~(ii) the member or firm terminates, as soon as reasonably possible and, in all cases, within six months following the effective date of the merger or acquisition, any such activity, interest or relationship and the requirements of Rule 204.4(40)(b) are met; or~~
- ~~(iii) the member or firm has completed a significant amount of work on the audit or review engagement and expects to be able to complete the engagement within a short period of time, the member or firm discontinues in the role of audit or review service provider on completion of the current engagement and the provisions of Rule 204.4(40)(b) are met.~~

~~(b) Notwithstanding the existence of the previous or current activity, interest or relationship described in Rule 204.4(40)(a), the provisions of Rule 204.4(40)(a)(ii) and (iii) permit the member or firm to perform or continue with the audit or review engagement provided that:~~

- ~~(i) the member or firm evaluates and discusses with the audit committee the significance of the threat created by any such activity, interest or relationship and the reasons why the activity, interest or relationship is not terminated or cannot reasonably be terminated by the effective date of the merger or acquisition, or within six months thereof, as the case may be;~~
- ~~(ii) the audit committee requests the member or firm to complete the audit or review engagement;~~
- ~~(iii) any person involved in any such activity or who has any such interest or relationship will not participate in the audit or review engagement or as an engagement quality control reviewer; and~~
- ~~(iv) the member or firm applies an appropriate measure or measures, as discussed with the audit committee, to address the threat created by any such activity, interest or relationship.~~

~~(c) Where the previous or current activity, interest or relationship described in Rule 204.4(40)(a) creates such a significant threat to independence that compliance with the requirements of paragraphs 204.4(40)(a) and (b) would still not reduce any such threat to an acceptable level, the member or firm shall not perform or continue with the audit or review engagement.~~

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**204.53 Documentation**

- (a) A member or firm who, in accordance with Rule 204.32, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue the particular engagement. The documentation shall include the following information:
- (i) a description of the nature of the engagement;
  - (ii) the threat identified;
  - (iii) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and
  - (iv) an explanation of how, in the member's or firm's professional judgment, the safeguards eliminate the threat or reduce it to an acceptable level.

(b) A member or firm who, in an emergency situation, provides an accounting or bookkeeping service to a reporting issuer or listed entity audit client in accordance with the requirements of Rule 204.4(24) shall document both the rationale supporting the determination that the situation constitutes an emergency and that the member or firm has complied with the provisions of subparagraphs (i) through (iv) of the Rule.

(c) A member or firm who, in an emergency situation, prepares tax calculations of current and future income tax liabilities or assets for a reporting issuer or listed entity audit client in accordance with the requirements of Rule 204.4(34)(b), for the purpose of preparing accounting entries that are subject to audit by the member or firm shall document both the rationale supporting the determination that the situation constitutes an emergency and that the member or firm has complied with the provisions of subparagraphs (i) through (iv) of the Rule.

(d) A member or firm who, in accordance with the requirements of Rule 204.4(35)(a), performs an audit or review engagement for a client where the member, firm, a network firm or a member of the firm or a network firm has provided a non-assurance service referred to in Rules 204.4(22) to (34) to the client prior to the engagement period but during or after the period covered by the financial statements subject to audit or review by the member or firm, shall document:

- (i) a description of the previously provided non-assurance service;
- (ii) the results of the discussion with the audit committee;
- (iii) any further measures applied to address the threat created by the provision of the previous non-assurance service; and
- (iv) the rationale to support the decision of the member or firm.

(e) A member or firm who, in accordance with the requirements of Rules 204.4(35)(b), performs an audit engagement for a client that has become a reporting issuer or listed entity where the member, the firm, a network firm or a member of the firm or a network firm provided a non-assurance service to the client prior to it having become a reporting issuer or listed entity and the provisions of Rules 204.4(22) to (34) would have precluded the member or firm from performing an audit engagement for a reporting issuer or listed entity, shall document:

- (i) a description of the non-assurance service;
- (ii) the results of the discussion with the audit committee;
- (iii) any further measures applied to address the threat created by the provision of the non-assurance service; and

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(iv) the rationale to support the decision of the member or firm.

(f) A member or firm who, in accordance with the requirements of Rules 204.4(40)(a) and (b), performs or continues with an audit or review engagement where, as a result of a merger or acquisition, another entity merges with or becomes a related entity of the audit or review client, and the member or firm has a previous or current activity, interest or relationship with the other entity that would, after the merger or acquisition, be prohibited pursuant to any provision of Rule 204 in relation to the audit or review engagement, shall document:

(i) a description of the activity, interest or relationship that will not be terminated by the effective date of the merger or acquisition and the reasons why it will not be terminated;

(ii) the results of the discussion with the audit committee and measures applied to address the threat created by any such activity, interest or relationship; and

(iii) the rationale to support the decision of the member or firm.

### **204.65 Members Must Disclose Prohibited Interests and Relationships**

A member or student who has a relationship or interest, or who has provided a professional service, that is precluded by this Rule shall advise in writing a designated partner of the firm of the interest, relationship or service.

A member or student who has been assigned to an engagement team for an assurance client shall advise, in writing, a designated partner of the firm of any interest, relationship or activity that would preclude the person from being on the engagement team.

### **204.76 Firms To Ensure Compliance ~~by Partners and Professional Employees~~**

A firm that performs an assurance engagement shall ensure that members of the firm do not have a relationship or interest, do not perform a service and remain free of any influence that would preclude the firm from performing the engagement pursuant to Rules 204.1, 204.32, 204.4 or 204.87.

*(Note this rule assumes discipline of firms – the alternate rule applying to members is below)*

### **204.76 Firms To Ensure Compliance ~~by Partners and Professional Employees~~**

A member who is a partner or proprietor of a firm, or a member whose professional corporation is a partner or proprietor of a firm, shall ensure that the firm complies with Rules 204.1, 204.32, 204.4 and 204.87 and that members of the firm do not have a relationship or interest, do not perform a service and remain free of any influence that would preclude the firm from performing the engagement pursuant to Rules 204.1, 204.32, 204.4 or 204.87.

### **204.87 Independence: Insolvency Engagements**

A member or firm who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain independent such that the member, firm and members of the firm shall be and shall remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgment or objectivity of the member, firm or member of the firm or which, in the view of a reasonable observer, would

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impair the professional judgment or objectivity of the member, firm or member of the firm.

### 204.98 Disclosure of Impaired Independence

A member or firm engaged in the practice of public accounting or any related business or practice, who provides a service not subject to the requirements of Rules 204.1 to 204.87, shall disclose any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's or firm's independence such that the professional judgment or objectivity of the member, firm or member of the firm would appear to be impaired, and such disclosure shall be made in the member's or firm's written report or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the activity or relationship and the nature and extent of the interest.

### Definitions

For the purposes of Rules 204.1 to 204.98 and the related Council Interpretations:

“**accounting role**” means a ~~role position~~ in which a person is in a position to ~~may~~ or does exercise more than minimal influence over:

- (a) the contents of the client's accounting records related to the financial statements subject to audit or review by the member or firm; or
- (b) anyone who prepares ~~such the~~ financial statements.

“**assurance client**” means an entity in respect of which a member or firm has been engaged to perform an assurance engagement. In the application of Rule 204.4(1) to (12) “assurance client” includes its related entities, and the reference to an assurance client, a client or an entity that is an assurance client shall be read as including all related entities of the assurance client, client or entity as the case may be.

“**assurance engagement**” means an assurance engagement as contemplated in the *CICA Handbook – Assurance*. For the purpose of Rule 204.4, “assurance engagement” also includes a specified auditing procedures engagement as contemplated by the *CICA Handbook – Assurance*.

“**audit client**” means an entity in respect of which a member or firm has been engaged to perform an audit of the financial statements. In the application of Rule 204.4(1) to (12) “audit client” includes its related entities, and the reference to an assurance client, a client or an entity that is an audit client shall be read as including all related entities of the assurance client, client or entity as the case may be.

“**audit committee**” means the audit committee of the entity, or if there is no audit committee, another governance body which has the duties and responsibilities normally granted to an audit committee, or those charged with governance of the entity.

“**audit engagement**” means an engagement to audit financial statements as contemplated in the *CICA Handbook – Assurance*.

“**audit partner**” means a person who is a partner in a firm or a person who has equivalent responsibility, who is a member of the engagement team, other than a specialist or technical partner or equivalent who consults with others on the engagement team regarding technical or industry-specific issues, transactions or events, ~~who is a member of the audit engagement team having responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements, or who maintains regular contact with management and the~~

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~~audit committee, and includes the following:~~

- ~~(a) the lead engagement partner;~~
- ~~(b) the engagement quality control reviewer;~~
- ~~(c) another partner who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or interim financial information of the client; and~~

~~a subsidiary entity engagement partner.~~

**“clearly insignificant”** means trivial and inconsequential.

**“close family member”** means a parent, ~~non-dependent~~ child or sibling who is not an immediate family member.

**“direct financial interest”** means a financial interest:

- (a) owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others);
- (b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control or ability to influence investment decisions; or
- (c) owned through an investment club or by a private mutual fund in which the individual participates in the investment decisions.

**“engagement period”** means the period that starts at the earlier of the date when the member or firm signs the engagement letter or commences procedures in respect of the engagement and ends when the assurance report is issued, except when the engagement is of a recurring nature, in which case the engagement period ends with:

- (a) notification by either the client or the firm that the professional relationship has terminated or the issuance of the final assurance report, whichever is later; or
- (b) in the case of an audit engagement for a reporting issuer or listed entity, notification by either the client or the firm to the relevant Securities Commission that the audit client is no longer an audit client of the firm.

**“engagement quality control reviewer”**, often referred to as reviewing, concurring or second partner, means the audit partner or other person in the firm who, prior to issuance of the audit report, provides an objective evaluation of ~~evaluates~~ the significant judgments made and conclusions reached by the ~~lead engagement partner and other persons on~~ members of the engagement team, ~~the conclusions reached in formulating the audit report on the engagement and other significant matters that have come to the partner’s attention.~~

**“engagement team”** means:

- (a) each member of the firm ~~performing participating in~~ the assurance engagement;
- (b) all other members of the firm who can directly influence the outcome of the assurance engagement, including:
  - (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of, the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through to the firm’s chief executive officer;

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- (ii) those who provide consultation regarding technical or industry-specific issues, transactions or events for the assurance engagement; and
- (iii) those who provide quality control for the assurance engagement; and
- (c) in the case of an audit client, all persons in a network firm who can directly influence the outcome of the audit engagement.

“**financial interest**” includes a direct or indirect ownership interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

“**financial reporting oversight role**” means a ~~role position~~ in which a person is in a position to ~~may~~ or does exercise influence over:

- (a) the contents of the financial statements subject to audit or review by the member or firm; or
- (b) anyone who prepares the financial statements.

“**firm**” means a sole practitioner, partnership, [provinces add professional corporation where appropriate] or association of members who carries or carry on the practice of public accounting, or carries or carry on related activities as defined by the Council. A related business or practice, as defined by [insert appropriate bylaw reference], is considered to be part of the firm.

“**fund manager**” means, with respect to a mutual fund, an entity that is responsible for investing the mutual fund’s assets, managing its portfolio trading and providing it with administrative and other services, pursuant to a management contract.

“**immediate family member**” means a spouse (or equivalent) or dependant.

“**indirect financial interest**” means a financial interest beneficially owned through a collective investment vehicle such as a mutual fund, estate, trust or other intermediary over which the beneficial owner has no control or ability to influence investment decisions.

“**key audit partner**” means:

- (a) an audit partner who is the lead engagement partner;
- (b) the engagement quality control reviewer; or
- (c) any other audit partner on the engagement team who makes important decisions or judgments on significant matters with respect to the audit or review engagement.

“**lead engagement partner**” means the ~~audit partner~~ or other person who is ~~having primary responsibility for an audit or review engagement~~ responsible for the engagement and its performance, for the report that is issued on behalf of the firm and who, where required, has the appropriate authority from a professional, legal or regulatory body.

“**legal service**” means any service that may only be provided by a person licensed, admitted, or otherwise qualified to practice law in the jurisdiction in which the service is provided. If a jurisdiction outside of Canada requires a service to be provided by a person licensed, admitted, or otherwise qualified to practice law in that jurisdiction and the same service could be provided in the relevant jurisdiction in Canada by a person not licensed, admitted, or otherwise qualified to practice law, the provision of the service in the jurisdiction outside Canada shall not be considered a legal service.

“**listed entity**” means an entity whose shares, debt or other securities are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether within or outside of Canada, other than an entity that has, in respect of a particular fiscal year, market capitalization

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and total assets that are each less than \$10,000,000. An entity that becomes a listed entity by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a listed entity thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

- (a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and
- (b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

“**market capitalization**” in respect of a particular fiscal year means the average market price of all outstanding listed securities and publicly traded debt of the entity measured at the end of each of the first, second and third quarters of the prior fiscal year and the year-end of the second prior fiscal year.

“**member of a firm**” or “**member of the firm**”, as the case may be, means a person, whether or not a member of a provincial Institute or Ordre, who is:

- (a) a sole practitioner;
- (b) a partner, professional employee or student of the firm;
- (c) an individual engaged under contract by the firm to provide services that might otherwise be provided by a partner or professional employee of the firm, but does not include an external expert possessing skills, knowledge and experience in a field other than accounting or auditing whose work in that field is used to assist the member or firm in obtaining sufficient appropriate evidence;
- (d) an individual who provides to the firm services which are referred to in Rule 204.1 and includes any corporate or other entity through which the individual contracts to provide such services; or
- (e) a retired partner of the firm who retains a close association with the firm.

“**mutual fund**” means a mutual fund that is a reporting issuer under the applicable Canadian provincial or territorial securities legislation.

“**mutual fund complex**” means:

- (a) a mutual fund that has the same fund manager as a client;
- (b) a mutual fund that has a fund manager that is controlled by the fund manager of a client; or
- (c) a mutual fund that has a fund manager that is under common control with the fund manager of a client.

“**network firm**” means an entity ~~under common control, ownership or management with a firm, or any entity that is, or~~ that a reasonable observer ~~who has knowledge of the facts~~ would conclude to be, part of a firm nationally or internationally larger structure of co-operating entities that shares:

- (a) common quality control policies and procedures that are designed, implemented and

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- monitored across the larger structure;
- (b) common business strategy that involves agreement to achieve common strategic objectives;
  - (c) the use of a common brand name, including the use of common initials and the use of the common brand name as part of, or along with, a firm name when a partner of the firm signs an audit or review engagement report; or
  - (d) professional resources, such as:
    - (i) common systems that enable the exchange of information such as client data, billing or time records;
    - (ii) partners and staff;
    - (iii) technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
    - (iv) audit methodology or audit manuals; or
    - (v) training courses and facilities,where such professional resources are significant.

~~A network firm does not include an entity that constitutes a related business or practice, as defined, in Canada.~~

**“office”** means a distinct sub-group of a firm, whether organized on geographical or practice lines.

**“related entity”** means any one of the following: ~~includes:~~

- (a) in the case of an engagement to audit the financial statements of a client that is a reporting issuer or listed entity; ~~an entity that has control over the client, or over which the client has control, or that is under common control with the client, including the client’s parent company and any subsidiaries;~~
  - (i) an entity over which the client has control;
  - (ii) an entity that has control over the client, provided that the client is material to such entity;
  - (iii) an entity that has significant influence over the client, provided that the client is material to such entity;
  - (iv) an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity; or
  - (v) an entity over which a client has significant influence, provided that the entity is material to the client;
  
- (b) in the case of an engagement to audit or review the financial statements of a client that is not a reporting issuer or listed entity:
  - (i) an entity over which the client has control; or
  - ~~(ii) an entity that has control over the client provided the client is material to such entity; and~~
  - ~~(iii) an entity that is under common control with the client provided that such entity and the client are both material to the controlling entity;~~
  - (ii) any of the following entities where the engagement team knows or has reason to believe that the existence of an activity, interest or relationship involving the member or firm and that other entity is relevant to the evaluation of the independence of the member or firm with respect to the audit or review of the financial statements of the client:
    - (A) an entity that has control over the client, provided that the client is material to such entity;



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- (B) an entity that has significant influence over the client, provided that the client is material to such entity;
- (C) an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity; or
- (D) an entity over which a client has significant influence, provided that the entity is material to the client; and

(c) in the case of an assurance engagement that is not an engagement to audit or review the financial statements of a client, any of the following entities where the engagement team knows or has reason to believe that the existence of an activity, interest or relationship involving the member or firm and that other entity is relevant to the evaluation of the independence of the member or firm with respect to the assurance engagement:

- (i) an entity over which the client has control;
- (ii) an entity that has control over the client, provided that the client is material to such entity;
- (iii) an entity that has significant influence over the client, provided that the client is material to such entity;
- (iv) an entity which is under common control with the client, provided that such entity and the client are both material to the controlling entity; or
- (v) an entity over which a client has significant influence, provided that the entity is material to the client.

~~(c) in any case an entity over which a client has significant influence, unless the entity is not material to the client; and~~

~~(d) in any case an entity that has significant influence over a client, unless the client is not material to the entity.~~

**“reporting issuer”** means an entity that is ~~defined as deemed to be~~ a reporting issuer under the applicable Canadian provincial or territorial securities legislation, ~~whose shares, debt or other securities are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange, or other equivalent body,~~ other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

(a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and

(b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization.

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“**review client**” means an entity in respect of which a member or firm conducts a review engagement. In the application of Rule 204.4(1) to (12) “review client” includes its related entities, and the reference to an assurance client, a client or an entity that is a review client shall be read as including all related entities of the assurance client, client or entity, as the case may be.

“**review engagement**” means an engagement to review financial statements as contemplated in the *CICA Handbook – Assurance*.

“**specified auditing procedures engagement**” means an engagement to perform specified auditing procedures as contemplated in the *CICA Handbook – Assurance*.

~~“**subsidiary entity engagement partner**” means the lead engagement partner for an audit engagement related to the annual financial statements or interim financial information of an entity that is a subsidiary or joint venture of an audit client and whose assets or revenues constitute 20% or more of the assets or revenues of the audit client’s respective consolidated assets or revenues.~~

“**total assets**” in respect of a particular fiscal year means the amount of total assets presented on the third quarter of the prior fiscal year’s financial statements prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange. In the case of an entity that is not required to file quarterly financial statements, total assets in respect of a particular fiscal year means the amount of total assets presented on the annual financial statements of the second previous fiscal year prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange.

### Effective date and transitional provisions

#### A. Effective date

Rules 204.1 to 204.98 shall take effect, ~~no later than:~~

- (a) for an assurance engagement in respect of a particular reporting period of a client, for the first reporting period commencing after December ~~1531~~, 200314; and
- (b) for any other assurance engagement and an engagement to issue a report of the results of applying specified auditing procedures where the engagement is commenced after December ~~1531~~, 200314,

subject to the following transitional provisions, as may be applicable.

#### B. Provision of litigation support services

~~The litigation services referred to in 204.4(29)(a) do not include a service that has not been completed before July 1, 2014 where:~~

- ~~(a) there exists on June 30, 2014 a binding contract for the member or firm to provide the service; and~~
- ~~(b) the provision of the service by the member or firm would not have contravened the provisions of Rule 204.1 as it read prior to July 1, 2014.~~

#### C. Key audit partner rotation

~~Notwithstanding the requirements of 204.4(20), where the application of the definition of “key audit partner” which takes effect pursuant to the effective date established by A. above has the effect of~~

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requiring the rotation of a person who would not have been subject to rotation based on the definition of “audit partner” in effect immediately prior to that effective date, that person may continue to participate in the audit of the financial statements of the particular client up to and including the audit engagement for the second fiscal year of the client commencing after December 15, 2014.

### *1. Provision of non-assurance services*

The non-assurance services referred to in 204.4(22) to (33) do not include a service that has not been completed before January 1, 2004 where:

- ~~(a) There exists on December 31, 2003 a binding contract for the member or firm to provide the service;~~
- ~~(b) The provision of the service is completed before January 1, 2005; and~~
- ~~(c) The provision of the service by the member or firm would not have contravened the provisions of Rule 204.1 as it read prior to January 1, 2004.~~

### *2. Prior approval of audit and non-audit services*

Rule 204.4 (21) shall not apply to a professional service that has not been completed before January 1, 2004 where:

- ~~(i) There exists on December 31, 2003 a binding contract for the member or firm to provide such service; and~~
- ~~(ii) The provision of the service is completed before December 31, 2005.~~

### *3. Employment relationships*

The reference to employment in Rule 204.4(16) shall not apply to an employment relationship entered into by a person before January 1, 2004.

### *4. Compensation of audit partners*

Rule 204.4(35) shall not apply to the compensation of an audit partner in respect of the fiscal period of the audit partner's firm that includes December 31, 2003.

### *5. Audit partner rotation*

Notwithstanding the requirements of 204.4(20):

- ~~(i) A lead engagement partner may continue in that role for a particular client up to and including the second fiscal year of the client commencing after December 31, 2003, notwithstanding that such partner has completed five or more years in that role, or in the role of engagement quality control reviewer, before that second fiscal year;~~
- ~~(ii) An engagement quality control reviewer may continue in that role for a particular client up to and including the third fiscal year of the client commencing after December 31, 2003, notwithstanding that such partner has completed five or more years in that role, or in the role of lead engagement partner, before that third fiscal year;~~
- ~~(iii) A partner referred to in Rule 204.4(20)(b) may continue in the particular role for up to seven years after December 31, 2003 notwithstanding that such partner has completed seven or more years in that role before the fiscal year of the particular client commencing after~~

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~~December 31, 2003;~~

~~(iv) A member may commence the role of lead engagement partner for a particular client prior to the end of the client's second fiscal year commencing after December 31, 2003, and may continue in that role for five years, notwithstanding the number of years, if any, that the member was previously the engagement quality control reviewer for the particular client.~~

### ~~6. Auditors of mutual funds and other non-listed reporting issuers~~

~~The provisions of these rules as they relate to auditors of mutual funds and other non-listed reporting entities shall take effect no later than the first reporting period commencing after December 31, 2005, subject to the transitional provisions applicable to Rules 204.1 to 204.8 for the changes that took effect for the first reporting period commencing after December 31, 2003, except that, in the application to a reporting issuer that would not have been a listed entity if the definition of listed entity as it read on January 1, 2004 were to apply, the references in these transitional provisions to 2003, 2004 and 2005, as they apply to the rules affecting the reporting issuer, shall be read as 2005, 2006 and 2007 respectively.~~