Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

New CPAB Funding Model
March 2018

Why a new fee model?

CPAB derives our revenue from Canadian Reporting Issuers (RI). Since 2004, each year we invoice the Participating Audit Firm (PAF) which, in turn, bills their reporting issuer clients. The fee is designed to cover our annual operating costs and to provide a reasonable reserve for contingencies.

The current fee model generally determines the annual fee per reporting issuer as a percentage of the audit fee billed and retained by the PAF. This means that the base for determining CPAB's fees does not necessarily reflect the total cost of the audit. Experience shows that audit risks and inspection costs associated with operations in multiple foreign jurisdictions are often much greater than for domestically-based audits.

Access to the capital markets should come at the same cost for all. Many RIs have enjoyed reduced fees until now but that does not mean the existing model was better or fairer. Today's audits are much different, as are the risks to audit and to the capital markets. This is exacerbated as RIs have restructured and moved operations (sometimes even where the primary audit is conducted) outside of Canada.

In 2017 we reviewed the current fee model to ensure equity across all RIs, and to better align CPAB revenue with costs. As a result, and after consultation with key stakeholders, CPAB's board has approved a new fee model based on fairness, simplicity and transparency. This new model is effective in the fall 2018 and will be applied to CPAB revenues for the financial year ending December 31, 2019.

The new model is based on total audit fees billed to the RI which for most RIs will be publicly reported on SEDAR/EDGAR. This approach is more equitable because it is based on the cost of doing the audit, regardless of how the audit is conducted, where the auditor is located or how the lead auditor choses to exercise their mandate. Since the overall audit fee is a good proxy of the risk associated with the audit, it is the best base for CPAB to assess fees.

CPAB is committed to being a cost-effective regulator. The new model provides a cost-effective, secure basis to appropriately and sustainably fund our operations, fulfill our mandate and promote confidence in financial reporting in Canada.

What exactly has changed?

CPAB Rules[1] contemplate tying participation fees to the audit fees of RIs but are not specific. To now, CPAB has based its fees on the fees billed and retained by the firm. Since, for example, in component auditor

1 *Rule 803 a. states "Participating audit firms will pay …. annual participation fees that will be calculated by the Board to be in aggregate an amount that is at least sufficient to cover all costs related to …. ongoing operations …. and any accumulated deficit …. Such aggregate annual participation fees will be allocated by the Board among participating audit firms in proportion to such firms' total fees charged to their reporting issuer clients in respect of audit services as reported …."*

situations not all work is done by the PAF this has meant that CPAB fees have not been based on the true cost of the audit. Basing the fee solely on the work undertaken by the group auditor does not reflect the scope of the RI's operations, the risks to the capital markets or the inspection efforts necessary by CPAB.

Under the new fee model, CPAB's fees are based on *the total audit fees billed to the RI* instead of the current base of *audit fees retained by the PAF*. While the change in base is significant, it will not increase CPAB's total fees. Furthermore, it is fair (since it better reflects the nature and scope of the RI's operations and the true cost of its audit), simple and transparent (because fees disclosed on SEDAR/EDGAR are publicly available and are a required disclosure under securities legislation).

We have established a full rate and a reduced rate. We expect the full rate to be in the range of 1.2 to 1.3 per cent of the total audit fees billed to the RI. The final full rate will be set once we have completed our review of the 2017 FIRMS submission (used for CPAB revenues for the financial year ending December 31, 2018) and completed the steps in our implementation plan.

We will apply a reduced rate of 25 per cent of the full rate, subject to a maximum fee of $75,000. The reduced rate will only be applicable to audits performed by foreign PAFs that meet established criteria. Most RIs that qualify for the reduced rate are not listed on a Canadian exchange, which reduces the risk to the Canadian marketplace. All are foreign incorporated with the audit subject to oversight by another audit regulator.

RIs must meet each of the following criteria to qualify for a reduced rate:

1. The audit is performed by a foreign PAF registered with and subject to an auditor oversight system in their home jurisdiction of Australia, France, Germany, Switzerland, United Kingdom or the United States.
2. The audit is in the inspection scope of the foreign PAF's auditor oversight system.
3. The RI is not incorporated under the laws of Canada or a province/territory.
4. Outstanding voting securities of the RI carrying less than 50 per cent of the votes for the election of directors are owned, directly or indirectly, by residents of Canada.
5. The majority of the executive officers or directors of the RI are not residents of Canada.
6. Less than 50 per cent of the consolidated assets of the RI are located in Canada.
7. The business of the RI is administered principally outside of Canada.

What is the overall impact?

For some global organizations, the change will increase the base on which CPAB's fees are determined. We anticipate the fee rate percentage will be reduced from two per cent to somewhere in the range of 1.2 to 1.3 per cent. Put simply, RIs with primarily domestic operations will see their CPAB fees decrease, while those with a more international scope may see their fees increase.

There will be no change to the minimum fee.