

# Independence Standards – Harmonized Rule of Professional Conduct 204

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*April 2011*

## **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 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:

- (a) a description of the nature of the engagement;
- (b) the threat identified;
- (c) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and
- (d) 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.

### **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 immediate family 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 immediate family of the member or student, holds, as trustee, a direct financial interest or a material indirect

financial interest in the client.

- (2) 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.
- (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 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.
- (5) 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.
- (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 engagement team for an audit or review client if 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 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)
  - (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) 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) 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:
  - (i) a direct financial interest or a material indirect financial interest in the entity; or

- (ii) 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.
  - (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.
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- (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.
  - (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.
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- (12)(a) A member or student who has a loan from or has a loan guaranteed by:
    - (i) an assurance 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,
    - (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.
  - (b) A member or student who has a loan to or guarantees the borrowing of
    - (i) an assurance client that is not 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 or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm or network firm and the 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 or its management 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 or its management, as the case may be.
- (c) A member or student who has a close business relationship with an assurance client or its management 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 and the client or its management, 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 is a director or officer of the client or 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 any period covered by the engagement.

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

*Employment with a reporting issuer audit client*

(16) A member or firm shall not perform an audit engagement for a reporting issuer if 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 in a financial reporting oversight role with respect to the entity until a period of one year has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange.

*Recent service with an assurance client*

(17) A member or student shall not participate on an engagement team for an assurance client if the member or student served as an officer or director of the client 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.

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

- (18) member or firm shall not perform an assurance engagement for an entity if a member of the firm serves as an officer or director for the entity.

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

- (19)(a) A member or firm shall not perform an audit or review engagement for an entity if a member of a network firm serves as an officer or a director of the entity other than, in the case of an entity that is not a reporting issuer, serving as company secretary 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.
- (b) A member or firm shall not perform an audit engagement for a reporting issuer, or a related entity, if a member of the firm or a network firm serves as an officer or a director of a related entity of the reporting issuer.

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

- (20)(a) A member shall not continue as the lead engagement partner or the engagement quality control reviewer on an audit engagement of a reporting issuer for more than five years in total, and shall not thereafter resume or assume either such role 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 the reporting issuer or another 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 audit partner on an audit engagement of a reporting issuer, other than an audit partner 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 audit partner of the reporting issuer until a further two years have elapsed.

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

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

- (21) A member or firm shall not provide a professional service to an audit client that is a reporting issuer, or to a subsidiary thereof, without the prior approval of the reporting issuer'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 engagement period, a member of the firm makes a management decision or performs a management function for the 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
  - (iv) reporting in a management role to those charged with governance of the entity.
- (b) A member or firm shall not perform an audit or review engagement for an entity, if a member of 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 including any of the services listed in paragraph 22(a)(i) to (iv);
- (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:
- (i) 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 without obtaining the approval of management of the entity; or
  - (ii) prepares a source document or originating data, or makes a change to such a document or data.

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

- (24) 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 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:
- (i) maintaining or preparing the entity's, or related entity's, accounting records;
  - (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
  - (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 results of the accounting or bookkeeping services will be subject to audit procedures.

*Provision of valuation services to a reporting issuer audit client*

(25) 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 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 the 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 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 audit client*

(26) 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 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 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 a reporting issuer audit client*

(27) 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 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 IT system services to a reporting issuer audit client*

(28) 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 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 expert services to a reporting issuer audit client*

(29) 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 the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides 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 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 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 audit client*

(31) 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 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 audit client*

(32) 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 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:

- (i) searching for or seeking out prospective candidates for management, executive or director positions;
- (ii) engaging in psychological testing, or other formal testing or evaluation programs;
- (iii) undertaking reference checks of prospective candidates for an executive or director position;
- (iv) 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
- (v) recommending or advising the entity or a related entity to hire a specific candidate for a specific job.

*Provision of corporate finance and similar activities to an assurance client*

(33)(a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, the firm, or a member of the firm, provides any of

the following services to the entity:

- (i) promoting, dealing in or underwriting the entity's securities;
  - (ii) making investment decisions on behalf of the entity or otherwise having discretionary authority over the entity's investments;
  - (iii) executing a transaction to buy or sell the entity's investments; or
  - (iv) having custody of assets of the entity, including taking temporary possession of securities purchased by the 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.

#### *Pricing*

- (34) 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:
- (i) that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and
  - (ii) that all applicable assurance standards, guidelines and quality control procedures have been followed.

#### *Compensation of audit partners of a reporting issuer audit client*

- (35) 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 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 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*

- (36) 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.

### **204.5 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.

#### **204.6 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, 204.2, 204.4 or 204.7.

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

#### **204.6 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, 204.2, 204.4 and 204.7 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, 204.2, 204.4 or 204.7.

#### **204.7 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 impair the professional judgment or objectivity of the member, firm or member of the firm.

#### **204.8 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 204.7, 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 204.8 and the related Council Interpretations:

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

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

**“assurance client”** means an entity in respect of which a member or firm has been engaged to perform an assurance engagement.

**“assurance engagement”** means an assurance engagement as contemplated in 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.

**“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, 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 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
- (d) a subsidiary entity engagement partner.

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

**“close family”** means a parent, non-dependent child or sibling.

**“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;
- (c) owned through an investment club or by a private mutual fund in which the individual participates in the investment decisions.

**“engagement quality control reviewer”**, often referred to as reviewing, concurring or second partner, means the audit partner who, prior to issuance of the audit report, evaluates the

significant judgments made by the lead engagement partner and other persons on an engagement team, the conclusions reached in formulating the audit report and other significant matters that have come to the partner's attention.

**"engagement team"** means:

- (a) each member of the firm 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;
    - (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 position in which a person may or does exercise influence over:

- (a) the contents of the financial statements; 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.

**"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"** 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.

**"lead engagement partner"** means the audit partner having primary responsibility for an audit or review engagement.

**"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;
- (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; and
- (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 a reasonable observer who has knowledge of the facts would conclude to be part of a firm nationally or internationally. 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”** includes:

- (a) in the case of a client that is a reporting issuer, 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;
- (b) in the case of a client that is not a reporting issuer:
  - (i) an entity over which the client has control;
  - (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;
- (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 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.

“**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 contemplated in the *CICA Handbook - Assurance*.

“**specified auditing procedures engagement**” means an engagement 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.