

MEMBER REGULATION



INVESTMENT DEALERS
ASSOCIATION OF CANADA

notice



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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MR0371

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ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

- Corporate Finance
- Credit
- Institutional
- Internal Audit
- Legal & Compliance
- Operations
- Registration
- Regulatory Accounting
- Research
- Retail
- Senior Management
- Trading desk
- Training

New and Revised Assurance Standards

In June 2005 the Auditing and Assurance Standards Board (AASB) approved various new and revised assurance standards as communicated in the CICA Handbook – assurance highlight summary no.22.

These standards require external auditors to perform control related procedures under Canadian GAAS, as per revised Handbook Section 5141 – “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement”. The new requirements are all to be applied at the same time and are effective with respect to financial statements and financial reports for periods beginning on or after January 1, 2006. The rules are therefore applicable for the first time for December 31, 2006 year-ends.

Early Adoption of New and Revised Assurance Standards

As a result of changes in the audit environment over the past few years, some international audit firms have adopted policies to follow implementation dates set by International Audit Standards Board. International GAAS has similar requirements to the revised Canadian GAAS standards, however, International GAAS applies for years ended December 31, 2005.

We understand that all other audit firms will apply the new Canadian GAAS for years ending December 31, 2006.

Impact on some Introducing Brokers

The early adoption of these new audit and assurance standards by some of the international audit firms will have an immediate audit impact on some IDA members with fiscal year-ends between December 31, 2005 and November 30, 2006, most importantly for Introducing Brokers that contract books and records services from Carrying Brokers. For December 31, 2006 year-ends, all IDA members will be impacted.

Many of the critical business processes such as trades processing, clearing and settlement are performed by a Carrying Broker on behalf of the Introducing Broker. These new assurance standards require the auditor of the Introducing Broker to assess the design and implementation of controls over these critical business processes. This will require the auditor to document the controls over financial reporting that exist in the business processes and perform certain testing to ensure they have been placed into operation.

The new assurance standards will result in a need for the auditors of Introducing Brokers to satisfy themselves as to the design and implementation of controls at Carrying Brokers. This can be satisfied either through obtaining and reviewing a report issued by the service organization's auditors prepared in accordance with CICA Section 5900 or by having the Introducing Brokers' auditor request direct access to the Carrying Broker's premises to perform the additional testing as part of their assurance audit of the Introducing Broker.

In the event that the auditor of the introducing broker is unable to perform these procedures or obtain a CICA Section 5900 type report, then the auditor will be unable to render an opinion. **This scope limitation is unacceptable to the IDA.**

The following audit firms have clearly stated that they are mandated by their international practice to apply the new assurance standards for calendar years ending December 31, 2005. They include: Ernst & Young LLP, PriceWaterhouseCoopers LLP, Deloitte & Touche LLP, and KPMG LLP.

All Introducing Brokers are required to contact their external auditor to determine the timing and cost impact of these new assurance standards and liaise with their Carrying Broker as to how they plan to satisfy the early adoption of this new audit requirement.