

Montréal, March 24, 2022

Independent Review Committee on Standard Setting in Canada

Attention: Mr. Ed Waitzer

Email: ewaitzer@waitzerlaw.com

Subject: Review of standard setting in Canada

Dear Sir,

The Canadian Securities Administrators (the “CSA”) appreciates the opportunity to provide input on the Consultation Paper (the “Consultation Paper”) of the Independent Review Committee on Standard Setting in Canada (“IRCSS”). The CSA supports the effort to initiate this review and obtain stakeholder input on important issues such as the Canadian standard setting structure and the consideration of Canadian issues in relation to the IFRS Trustees’ proposal to establish an International Sustainability Standards Board.

General observations***The creation of a Canadian Sustainability Standards Board***

The CSA supports the creation of a Canadian Sustainability Standards Board (CSSB).

Sustainability-related issues have become an increasingly important area of focus for stakeholders in the Canadian capital market and this focus continues to accelerate in line with global attention on these matters. The CSA has recently closed the comment period on its recently published proposed rules (Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*) that would require mandatory climate-related disclosures designed to provide consistent, comparable, and decision-useful information to market participants. The CSA believes that a domestic CSSB could help advance Canadian sustainability reporting and should complement the international sustainability standard setting efforts as well as future securities requirements for sustainability reporting. We think that Canadian sustainability standards should be aligned with international sustainability reporting standards as issued by the International Sustainability Standards Board (ISSB) to the extent possible, however we acknowledge that it may be necessary to adapt the standards developed by the ISSB to the unique considerations of Canada. The work of a CSSB, as it relates to stakeholders in the capital markets, should aim to achieve alignment with Canadian securities rules to avoid competing requirements and expectations.

The CSA also believes that the composition of a CSSB must be broadly diverse, geographically balanced, and include technical expertise and skills not represented within the existing standard setting boards (SSBs) and oversight councils. In addition, we are of the view that the CSA should be represented on the oversight council that will oversee the work of the CSSB, consistent with the role of the CSA on oversight councils for accounting and assurance. This will also help to ensure the interoperability of CSSB standards with Canadian securities rules.

Independent standard setting

The CSA believes that best in class standard setting requires due process and oversight that is independent from the professional organizations whose members are involved in the delivery of work product that results from the application of such standards.

CPA Canada has a long-standing relationship with Canadian accounting and assurance standard setting and has evolved the Canadian standard setting ecosystem over time to enhance the objectives of independence in standard setting and oversight. We recommend additional enhancements to further strengthen the independence of Canadian standard setting, and we applaud the IRCSS for proposing possible changes to meet this objective. The CSA believes that such additional enhancements should include: 1) the utilization of staff and resources that are independent from CPA Canada, 2) the creation of a separate legal entity to house the operations of the SSBs and oversight functions, and 3) establishing sustainable funding through a multi-year unconditional funding commitment from CPA Canada to the standard setting activities.

Auditor independence and ethics standards

The CSA also strongly believes that auditor independence and ethics standards need greater attention and oversight.

Updating of Canadian independence standards has been sporadic, and we note that the Independence Standing Committee (ISC) of the CPA Canada's Public Trust Committee (PTC) has been assigned the responsibility of recommending enhancements to auditor independence rules as and when necessary. However, we are concerned that Canadian auditor independence standards have not kept pace with international developments in this area. We are also concerned that appropriate oversight of the ISC has not been consistent in recent years due to the low level of activity of the ISC. We strongly believe that Canadian independence and ethics standards need greater attention to ensure Canada maintains globally consistent high-quality standards. We note, with interest, the recent "restart" of effort by the ISC and we think there should be effective oversight of the ISC's work. We will be monitoring progress in this area.

Responses to questions

1. The Committee welcomes comments on this approach to its mandate.

The IRCSS has been assembled to conduct a review of the current governance and structure for establishing Canadian accounting and assurance standards and potentially, sustainability standards.

We agree that the overarching principle that underlies a sound approach to setting accounting, assurance, and sustainability standards is the public interest, and that understanding the public interest requires engagement with stakeholders. We also agree that, particularly for financial reporting, the focus should primarily be on the interests of users of the information prepared and audited in accordance with the standards, as those relate to standard-setting (e.g., composition of boards, consultation with stakeholders). As the Committee develops recommendations for the governance and structure of standard-setting in Canada, we

recommend articulating the issues of diversity, equity and inclusion, and Indigenous rights, as part of the broad issue of public interest.

The Consultation Paper separates the broader public interest concept from the particular interests in respect of diversity, equity and inclusion, and Indigenous rights. As the Committee has noted in the Consultation Paper, independence of the standard-setting process from specific groups, political pressures and personal interests is widely recognized as essential for the development of standards that have integrity and are in the public interest. We believe that any future standard-setting and oversight structures should include mandates that respond to all relevant aspects of the public interest appropriately.

2. *Do you think the development of a common public interest framework would be helpful to Canada's standard-setting boards and oversight councils? Are there critical elements to such a framework?*

We think that a clearly articulated public interest framework is essential for standard-setting. A framework sets out how standards should be developed and the attributes of those standards, and therefore guides the work of the SSBs and oversight groups through the full cycle of standard-setting. We think that it may be feasible and preferable to have a common public interest framework for accounting standard-setting and assurance standard-setting and we recommend considering the approach taken in the framework published in 2020 by the Monitoring Group.

It is less clear if a public interest framework(s) used for accounting and assurance standard-setting would work for sustainability standard-setting. As the Consultation Paper notes, vis-à-vis sustainability reporting, “the issues that arise are more systemic and arguably address a broader and more qualitative range of subjects.” In particular, “sustainability standard setting raises other issues, such as: (a) proportionality of effect (i.e., ensuring the effective representation of those most affected or whose rights/entitlements are specifically protected); and (b) whether the objectives of the standards should relate not only to an organization’s reporting metrics (i.e., the usual focus of reporting standards) but also to the underlying sustainability-related actions and initiatives driving those metrics.”

Developing a common public interest framework for all three areas of standard-setting may be challenging. Utilizing broad sustainability standards concept of the public interest may be too broad for the public interest in respect of accounting and assurance standard-setting, while implementing the framework applicable to accounting and assurance standard-setting may be too narrow to guide the development of sustainability standards. We recommend further analysis of this issue.

We are unclear about the meaning of the statement in the Consultation Paper that “When it comes to financial reporting, there is a particular focus on the effective mobilization and allocation of capital”. Effective mobilization could have broad interpretation to include *directing* capital allocation, a concept we do not support.

3. Do you have comments on how best to ensure that standard-setting processes reflect and respond to Canada's diverse populations, including the unique rights of and responsibilities to Indigenous Peoples?

The CSA supports the Committee's goal to give voice to a range of views (institutional and non-institutional) and to engage key stakeholder groups (e.g., Indigenous communities) both in its own deliberations and, ultimately, in the consultative and governance processes that support effective standard setting. It is important for Canadian companies, investors, and stakeholders to benefit from having various stakeholder groups participate in the standard-setting process. Participation by a broad range of stakeholders will help standard-setters identify and understand diverse stakeholder perspectives and to promote understanding and acceptance of standards. Some ways to enhance broader participation, may include revising the matrix of skills and experience for boards and working groups, using new ways to identify candidates for boards and working groups, and creating ad-hoc advisory groups for specific standard setting projects with representatives from various stakeholder groups.

4. Do you agree that a Canadian sustainability standards board should be established? Are there any special factors, beyond those outlined above, that should be considered in addressing this threshold issue?

The CSA supports the establishment of a CSSB. Sustainability issues are global but also involve consideration of local and regional particularities. We think that Canadian sustainability standards should be aligned with international sustainability reporting standards to the extent possible. However, it may be necessary to adapt the standards developed by the ISSB to the economic, social, unique provincial considerations and demographic particularities of Canada to ensure that information on sustainability is useful, consistent, and comparable for users of this information. Canada's capital market includes a significant number of venture and junior issuers. Standards applicable to all issuers, and in particular, to them, should be fit for purpose and appropriate on a cost-benefit basis. The CSSB mandate and objectives should reflect these unique aspects of our capital markets.

The CSSB could also play an important role in fostering the coherence and integration of Canadian corporate reporting, including connectivity between financial and sustainability reporting.

We urge the IRCSS to be mindful of costs and burden associated with a new Canadian board and oversight council and to not assume duplication of the exact structure as currently used for the existing SSBs and oversight bodies. We strongly recommend exploring efficient ways to structure the CSSB and its oversight.

5. Are there any special matters the Committee should consider in developing recommendations with respect to the sustainability assurance standard-setting process and oversight thereof?

We acknowledge that as sustainability reporting evolves, there will likely be increasing demand for assurance services. As discussed in the paper, it will be important that the CSSB work with the AASB in order to meet those demands and that the standards are fit for purpose. Any future consideration by the CSA for assurance requirements of sustainability reporting would involve a careful cost-benefit analysis.

One area where we foresee demand for assurance is in reporting of climate-related risks, such as disclosure of greenhouse gas emissions (GHG). We anticipate growing investor interest in the accuracy and reliability of GHG emissions data included in regulatory filings. However, issuers will first need to establish expertise and processes for collecting data around sustainability metrics, which may be onerous. A phased and careful approach to assurance standard-setting would be advisable, enabling issuers to first establish robust reporting processes around new sustainability-related requirements.

As discussed in the paper (paragraph 63), we agree that all sustainability assurance providers must comply with requirements relating to quality control within firms, and ethics, including independence. Consequently, the process for developing sustainability assurance standards should include discussions with the CSA and other regulators to consider how to address compliance with such requirements for non-CPA assurance providers.

6. Do you have concerns about independence in the current standard-setting model that should be addressed and suggestions for how best to do so?

We support the view that standards should be set by standard setting organizations that are largely independent from professions that apply such standards. Therefore, we support efforts to reduce the involvement of CPA Canada in accounting and auditing standard setting and oversight functions. Enhanced independence could be achieved through greater separation of dedicated staff and resources employed directly by the SSBs and oversight bodies. This would result in far less reliance on CPA Canada involvement and would reduce the risk that stakeholders may perceive that the standard setting is being conducted by CPA Canada.

7. Would the creation of a separate legal entity outside the control of CPA Canada enhance the independence of the Canadian model? Please consider this in the context of independence in fact as well as in appearance and indicate any specific concerns the Committee should be mindful of.

In our view, the creation of a separate legal entity to house the operations of the standard setting boards, and perhaps the oversight councils, would contribute independence from the profession, both in fact and appearance. As is articulated in the Consultation Paper, many global standards setting organizations have created, or are in the process of creating, such legal structures to ensure appropriate legal separation.

8. *Should the present funding model for Canadian oversight and standard-setting activities be modified to enhance safeguards to independence, real or perceived? Please provide the rationale for your view. Do you have suggestions on how funding sources could be diversified? Do you have any specific suggestions regarding the funding model for an eventual Canadian sustainability standards board?*

We acknowledge that funding for Canadian standard setting is currently provided exclusively by CPA Canada, and we do not object to this aspect provided there are appropriate safeguards to ensure independent standard setting. CPA Canada funding costs are largely passed through to various corporate entities including those in the capital markets, and as such are indirectly passed on to users of the financial information that results from applying the standards. Although there may be other mechanisms to achieve appropriate contributions from capital market participants, we believe that utilizing the current funding approach for accounting and audit and assurance standard setting achieves an appropriate allocation of costs to the capital markets.

However, we believe that the funding mechanism needs to be sustainable and could be improved by way of a multi-year funding commitment from CPA Canada supported by a multi-year budgeting process for the accounting, auditing and assurance SSBs and oversight councils. Creation of an unconditional funding conduit from CPA Canada to an appropriate legal entity that would cover a multi-year period would be an improvement from the current annual process of the SSBs and oversight and would eliminate the SSBs from having to approach CPA Canada on an annual basis for funding.

In addition, we acknowledge that preparers and assurance providers of sustainability reporting will likely involve parties outside the CPA profession, and therefore we encourage consideration of other funding sources that would be appropriate for the standard setting and oversight of sustainability standards.

9. *With regard to the oversight councils and standard-setting boards, are you satisfied with the current structure and safeguards in place to ensure independence?*

The safeguards described in paragraph 84 of the Consultation Paper with respect to the oversight councils (AASOC and AcSOC) help balance the goal for independence from the accounting profession with the need for technical expertise. Those safeguards relate to Chair roles, representation from regulatory authorities, and limits on representation from practitioners. However, independence in fact and appearance could be further enhanced by having staff support to the oversight councils not be provided by CPA Canada employees, or otherwise provided by entities that are viewed primarily as comprised of practitioners. This is particularly important for the work of the nominating committees and the performance review committees of each of the oversight councils. Achieving this recommended change closely relates to the funding model issue addressed in question 8.

The safeguards described in paragraph 86 of the Consultation Paper with respect to the boards (AcSB, AASB, PSAB) help balance the goal for independence from the accounting profession with the need for technical expertise. Those safeguards are the oversight councils, codes of conduct and conflict of interest policies, and not having reserved membership allocation for specific groups. As discussed in paragraph 87, the criteria for composition of the US FASB and the IAASB, as well as recommendations from the Monitoring Group further limit participation by practitioners with current connections to firms/institutions. It may be challenging to implement all of those criteria and recommendations in Canada. However, we recommend that the oversight councils explore ways to adjust their criteria for board candidates and recruiting methods to achieve greater representation on the boards by financial statement users and audit committee members.

10. Do you have comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

Please refer to our response to question 3.

11. With regard to a Canadian sustainability standard setting board, do you have any views on the structure, composition and specific competencies needed? Please include any comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

The composition of a possible CSSB will have to be broadly diverse, and geographically balanced. These standard setting activities will require technical expertise and skills not represented within the existing SSBs and oversight councils.

One observation is that it will be a challenge to strategically define the competencies and specific expertise essential for a CSSB and oversight council to address future sustainability topics in addition to climate change. The Board will need to be sufficiently agile to incorporate the many aspects of sustainability topics and to adapt to evolving trends. One way to achieve this challenge would be to establish a rigorous competencies renewal process to proactively identify the set of skills required in a timely manner. Moreover, sustainability audit practitioners, both from accountancy and non-accountancy firms, should also be represented on the Board.

12. Do you have suggestions on how to improve the timeliness and responsiveness of Canadian standard setting?

We suggest AASB (rather than CPA Canada) provide timely guidance on emerging issues that “front-runs” IAASB standard-setting, in light of the length of time for IAASB standard-setting. This will help address, on a timely basis, challenges faced by auditors. We note that the IFRS Discussion Group provides guidance on accounting issues and timely responses to challenges raised by Canadian stakeholders.

13. Do you have suggestions on how the Canadian standard-setting boards could further influence the relevance and timeliness of international standards adopted for use in Canada?

We encourage the AASB and the AcSB to provide national standard-setters in other jurisdictions and the international boards with timely input on emerging issues in Canada and the SSBs actions to address those issues in Canada, as discussed in our response to question 12. Such communication may influence the agendas and resource-allocation decisions of the international boards.

14. Do you have any suggestions to improve stakeholder engagement (users in particular) in the development and ongoing monitoring of the effectiveness of standards? Should different considerations apply with respect to sustainability standards?

We strongly support all the methods discussed in paragraph 110 for fostering stakeholder involvement. Our observation is that it is challenging to attract users to participate in roundtables sponsored by the boards, perhaps due to the time commitments. We encourage the boards to engage with industry groups or other forums and request opportunities to provide brief presentations on standards projects followed by targeted requests for input.

CSA agrees that technology should be used to enhance and drive communications with stakeholders. Webinars, public forums, and virtual roundtables should provide opportunities for stakeholders, including smaller groups, CFOs, and preparers of financial statements, to efficiently provide input throughout the standard development process. Historically, it may have been difficult to connect with individuals or smaller groups to garner their views during the standards development stage through formal consultations. Going forward, technology should be leveraged to drive accessibility and engagement. The use of technology can also assist in seamlessly gathering data, analyzing the insights of stakeholders, and accessing technical information and guidance. Because of the ease of virtual communication, outreach can be broadened by tapping into existing industry and advisory groups (separate from AcSB, AASB, and CPA Canada) to seek feedback on the development and ongoing effectiveness of standards.

CSA supports the Committee's plan to develop project-specific communications plans for key stages of a project. We consider that transparent communication outlining milestones is important in driving a project's trajectory and management. However, we recommend that these plans include connecting with the broader community and not only with those who have expressed interest in the topic. There may be stakeholders who have not explicitly expressed interest but who will be directly impacted by the standards, and who have critical perspectives to share. The standard-setting boards should endeavor to proactively identify and reach out to the most affected stakeholders in order to achieve a balance of views in the consultation process. When seeking input from stakeholders, it is very important that questions are posed in a neutral manner and are not leading questions that may illicit a certain response.

Financial statement preparers may be reluctant to be candid about their views because they are concerned about possible criticism. To encourage input from preparers, the standard setters should structure opportunities for input in a way that ensures responses are recorded anonymously, without attribution to a named person or company. Where possible, responses should be aggregated to preserve anonymity. For example, preparers may be more willing to participate in a candid round-table discussion if the organizer explains in advance that documentation of key messages from input shared will be developed live at the meeting, without attribution to named individuals or companies, and participants can review the documentation at the end of the meeting (or by follow up email) to raise any concerns about anonymity.

15. *Given the special considerations relating to sustainability reporting standards, do you have any suggestions on how best to foster (and balance) timeliness with robust stakeholder involvement in sustainability standard setting?*

CSA is aware of the increasing issuer and investor confusion regarding the “alphabet soup” of standards and frameworks. At the same time, with heightened demand for disclosure of sustainability information, the ISSB and the CSSB will be under growing pressure to issue standards as quickly as possible. The CSSB should be nimble and align its work with the ISSB and securities regulators in Canada as much as possible. The CSSB should coordinate its work with the ISSB to avoid overlapping consultations for stakeholders to consider. The CSSB must ensure that Canadian standards are appropriate for the Canadian context. In seeking comments from stakeholders, questions should be streamlined to ensure that there is no duplication of work or effort.

16. *Do you have any concerns related to the transparency and accountability frameworks that currently apply with respect to the oversight and standard-setting process? Are there additional considerations that should apply with respect to sustainability standard setting?*

Public confidence in the integrity of standard-setting requires a process to ensure adequate accountability. Transparency and independence are critical to serving that goal. We believe the current mechanisms applied by the Canadian oversight councils and SSBs effectively achieve accountability. However, it is also essential that independence be in fact and appearance. We believe critical elements to independence include the composition of the SSBs, the sources of sustainable funding, and balanced geographic representation.

We believe that the CSA should have a representative on the oversight council of the new CSSB, similar to the existing arrangement of CSA representation on AASOC and AcSOC.

17. The Committee welcomes views on whether consolidation of boards and/or councils is an option that should be considered. If so, please explain why and how.

Given the significantly different and diverse subject matter of the current standard setting areas, we do not think that it would be appropriate to combine the accounting and audit boards and oversight councils. We understand this was considered in recent years, and we do not think it would be useful to explore this issue further. Accounting standards have applicability to a broader stakeholder base and are utilized by all aspects of corporate Canada, as opposed to auditing and assurance standards that are used by a subset of users, service providers and other stakeholders. In addition, the specialized areas of accounting and assurance, although interconnected, are different and require different skillsets, education, and experience. Combining both areas may result in a reduction of the candidate pool for board members as a result of the need for expertise in both areas. It may also be difficult to find individuals who would be interested in volunteering their time to participate on a combined board, due to the increased time commitment needed to address both areas of standard setting.

Similarly, the subject matter of sustainability is significantly different than accounting and audit and assurance, and for similar reasons to those stated above, we believe that standard setting and oversight should be conducted by individuals who have exposure to the appropriate subject matter.

18. What are your views on how best to assess effectiveness of standard setting, including the desirability of periodic reviews by independent parties external to the standard-setting system?

The current mandates of AASOC and AcSOC appropriately address evaluation of the effectiveness of standard setting. Periodically, coordination between the two oversight boards in their evaluation work may help focus attention on overriding issues relating to financial reporting. Oversight of the new CSSB should include parallel arrangements.

19. Are there matters related to ethics and independence standards that you would like to highlight for the Committee's consideration?

As discussed in section 5.3 of the paper, AASOC has a limited public interest oversight role with respect to ethics and independence standards and the work of the Public Trust Committee (PTC) and its Independence Standards Committee (ISC). We are concerned that AASOC has not fulfilled this role for a few years due to little work done by the PTC and ITC with respect to independence standards. We note with interest the recent "restart" of effort by the ITC and urge AASOC to provide effective oversight to the ITC's work. We will be monitoring progress in this area.

20. Are there any other matters the Committee should consider as part of its review?

We have no additional comments to provide.

If you have any questions about this letter, please do not hesitate to contact us.

Yours very truly,

(s) Louis Morisset

Louis Morisset
Chair, Canadian Securities Administrators
President and Chief Executive Officer, Autorité des marchés
financiers

Cc.: CSA Chairs, including Grant Vingoe as CSA representative on AcSOC
Carla-Marie Hait, CSA representative on AASOC