

Independent Review Committee on Standard Setting in Canada

Final Report

March 1, 2023





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Message from the Chair

Accounting and assurance standards, and how they are established, are constantly evolving to respond to societal needs and expectations. The standards are important – they foster a common understanding of organizational performance and risks that ultimately impact the welfare of all Canadians.

Canada has benefitted from a strong culture and track record of high-calibre standard setting under the stewardship of CPA Canada, which, over many years, has ensured the integrity of the standard-setting processes and committed significant resources to thought leadership. CPA Canada’s commitment to ensure that standards are responsive to the needs and expectations of Canadians should be applauded.

We know that the history of major crises in financial markets is strongly correlated to management failures to adequately monitor and disclose known risks to investors. This has resulted in regulatory interventions to require additional reporting. As crises become more dynamic and systemic in nature, the need to develop standard-setting processes that are “fit for the future” has become a more pressing public policy concern.

The inadequacy of relying on GAAP – a partial, historical reflection of actual results and value – in today’s fast-changing economic and societal landscape has already led many reporting entities to use non-GAAP metrics to provide information beyond that reported in financial statements.

The challenge of setting standards in this environment comes into sharp focus with sustainability disclosures, which, while based on past performance, tend to focus on risks that are often prospective and will manifest in future results. The relevance of sustainability reporting is broader than financial reporting and coincides with a heightened societal focus on risk management at organizational and more systemic levels. It seeks to encapsulate the range of risks that all organizations should carefully balance, taking into account their specific circumstances, in trying to create long-term, sustainable value.

The audience for and materiality of sustainability reporting extends beyond investors to other stakeholders who are concerned about the impact of business on the environment and society. Considering the interests of these stakeholders should lead to better value creation over time.

These developments point to the urgency to revisit the foundational infrastructure of financial, sustainability and potentially other reporting and assurance standards and to better understand and define the relationship between them.

Independent Review Committee on Standard Setting in Canada

Our Committee focused on the challenge of how best to ensure the ongoing responsiveness of domestic standard-setting processes, which, in turn, should lead to the development of high-quality, relevant standards. Our starting point was ensuring the public interest remains the fundamental criterion for establishing the legitimacy of standards. This requires processes that are proactive, adaptive, participatory, responsive, and transparent.

We aimed to map out a structural trajectory for standard setting that can respond effectively to Canada's unique circumstances and creates incentives for better performance. Our recommendations focus on the "big picture" and are immediately actionable, leaving the structures we have proposed to work out the details.

We particularly appreciate the active support of CPA Canada, the existing standard-setting boards, oversight councils, regulators and everyone who commented on our [Consultation Paper](#) or otherwise engaged with us. The Committee's deliberations were robust and much enriched by their input.

Based on our engagement with all concerned, we are confident there is a mutual commitment to getting it right. We hope our work will help inform that effort.



Edward J. Waitzer, LL.B., LL.M

Chair, Independent Review Committee on Standard Setting in Canada



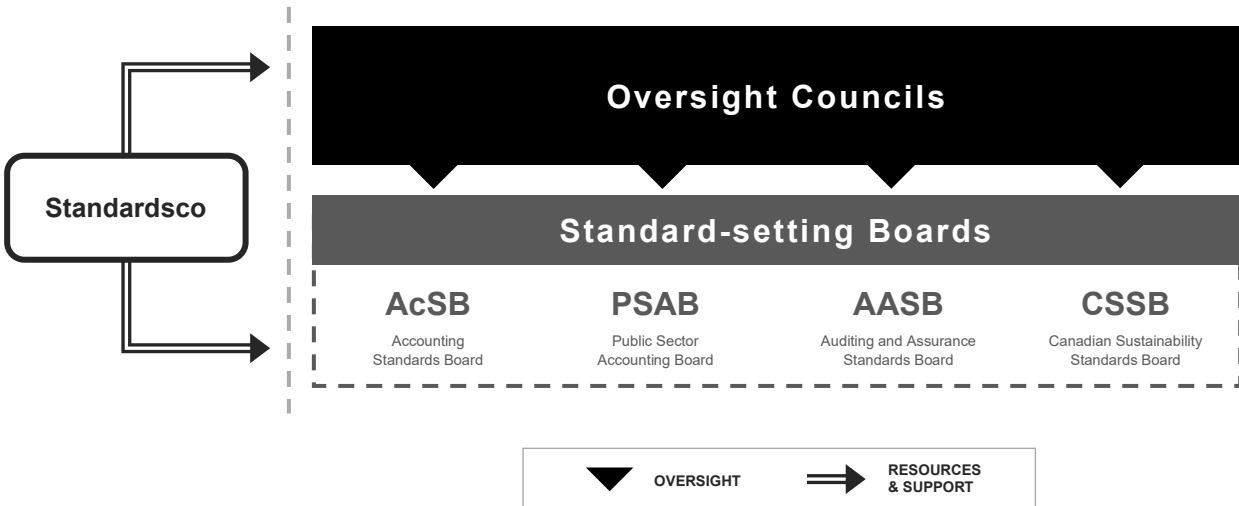
Executive Summary

The Independent Review Committee on Standard Setting in Canada (IRCSS) was established by the Accounting Standards Oversight Council (AcSOC) and the Auditing and Assurance Standards Oversight Council (AASOC) in May 2021, to conduct a review of the current structure for establishing Canadian accounting and assurance standards, as well as what might be needed for the future, including sustainability standards.

Since the last comprehensive review more than 20 years ago, the standard-setting environment has evolved dynamically and rapidly both in Canada and globally. The overall objective of the Committee was to consider the extent to which the Canadian standard-setting model can effectively respond to this environment, and what changes might be appropriate to ensure that it is “fit for the future” and continues to serve the public interest. A key focus for the Committee was the importance of independence, both real and perceived, in the establishment of standards given the role standards play and the fact that they are a public good.

A New Foundational Underpinning

Currently, CPA Canada is the legal entity under which the oversight councils and standard-setting boards operate and receive funding and staff resources. [Section 2](#) of this report sets out the IRCSS’s recommendations for a foundational infrastructure involving the creation of a new independent legal entity to house the Canadian standard-setting system. This new entity (referred to as Standardsco in this report) would be the legal entity under which the oversight councils and standard-setting boards operate, and would have contractual and funding responsibilities. Standardsco would support and enable the councils and boards to fulfill their mandates and roles and would be responsible for ensuring the ongoing integrity and effectiveness of the system as a whole.



While the role of the oversight councils and standard-setting boards would remain the same, the recommended model entails some changes for the relationship between Canada’s standard-setting bodies and CPA Canada. [Section 2.1](#) of this report includes recommendations for a contractual agreement between Standardsco and CPA Canada, and on important aspects of such an agreement, including arrangements for shared services, staff to support standard-setting activities, ownership of intellectual property and access to standards, as well as the preservation of CPA Canada’s ongoing stewardship responsibilities.

Meeting the Sustainability Reporting Needs of Canadians

The pace of international progress in sustainability disclosures continues to accelerate, meeting the demands of investors and other stakeholders for higher-quality information and insights on an organization’s performance, risks, opportunities, and long-term prospects, beyond that found in conventional financial statements. In November 2021, the IFRS® Foundation established the International Sustainability Standards Board (ISSB), which has an ambitious timeline to deliver a comprehensive global baseline of sustainability-related disclosure standards.

The IRCSS thinks a Canadian sustainability standards board is needed, to work in tandem with the ISSB to support the adoption of IFRS® Sustainability Disclosure Standards and ensure the Canadian voice is heard during international decision making. Given the urgency of this matter, the Committee recommended this in advance of issuing the complete set of recommendations

on Canadian standard setting in this final report. On June 15, 2022, the oversight councils announced their approval of the Canadian Sustainability Standards Board (CSSB). The process to establish the inaugural CSSB is well underway, with a view to the CSSB being operational by April 1, 2023, or shortly thereafter.

[Section 2.2](#) of this report expresses the view of the Committee that IFRS Sustainability Disclosure Standards are an appropriate starting point for the CSSB in developing Canadian sustainability standards, which should apply universally to public and private enterprises, not-for-profit organizations, pensions plans, and public sector entities.

Assurance services will play a key role in fostering stakeholder confidence in the integrity and reliability of sustainability information reported by various types of organizations. Providers of these services will extend beyond the traditional auditing profession and include both CPAs and non-CPAs. As sustainability reporting evolves, it will be important to be proactive and continuously assess the adequacy of existing assurance standards and the quality of assurance services, including the need for additional standards. The Committee notes the current efforts of the International Auditing and Assurance Standards Board (IAASB) in this regard (see [paragraph 108](#) of this report).

[Section 2.5](#) of this report recommends that the AASB assume responsibility for setting standards for sustainability assurance services in Canada after taking steps to enhance its expertise in this area. It further recommends that Standardsco should closely monitor and assess domestic and international developments in sustainability reporting and related assurance, to evaluate the possible need for a distinct Canadian board, separate from the AASB, to set sustainability assurance standards.

Effective Boards with Optimal Oversight

The composition of the standard-setting boards and oversight councils is a critical element in fostering independence and ensuring the development of high-quality standards. Member attributes and competencies play a significant role in achieving these objectives.

[Section 2.4](#) of this report recommends a renewed emphasis on diversity considerations in standard setting to reflect the diversity of Canada's population. It further recommends that volunteer-based membership continue to be the basic model going forward (but with allowance for paying stipends if considered necessary), and that board composition focus on the desired member attributes and competencies for each board.

Optimal board performance, as demonstrated by the development of standards that are fit for purpose and relevant and responsive to the public interest, is assisted by an effective oversight

function. The Committee is of the view that the current mandates and responsibilities of the oversight councils are appropriate and should continue as is, undiminished as a result of the creation of Standardsco. At the same time, the Committee recommends streamlining current oversight activities and processes. To that end, [Section 2.3](#) of this report recommends that AcSOC and AASOC conduct a joint effectiveness review, assisted by an independent third party. It also explains why the Committee thinks there is merit to eventually transitioning to a single oversight council for all the standard-setting boards.

Funding the New System

CPA Canada currently funds all the costs associated with standard-setting activities. [Section 3](#) of this report recommends a new funding model for Canadian standard setting that the Committee thinks better aligns with the proposed new system (including the new relationship with CPA Canada), reinforces the independence and integrity of standard-setting processes, and reflects the fact that standards are a public good. The proposed new funding model could also respond more effectively to the rapidly evolving standard-setting environment, including the use of standards by a broader range of sustainability reporting and assurance service providers. The new model would be implemented in stages and will evolve over time.

[Section 3](#) provides more details on the proposed model, including the funding sources recommended and the proposed allocation of costs to each.

A New Relationship with Indigenous Peoples

[Section 4](#) of this report describes aspects of the current standard-setting environment that point to the need for a new relationship between standard setters and Indigenous Peoples – one that achieves greater participation by Indigenous Peoples in standard-setting processes in a way that is effective, impactful, and mutually beneficial. Achieving such a relationship will take time and proactive effort. The Committee’s recommendations in this area are intended to get things started by building connections and capacity, seeking the involvement of Indigenous Peoples (including through representation on standard-setting bodies), and looking for ways that better enable Indigenous Peoples to share their views throughout standard-setting processes.

[Section 4](#) also includes a proposal, developed jointly by the IRCSS and the First Nations Financial Management Board (FMB), for the creation of dedicated infrastructure that builds capacity for Indigenous interests to be a critical and constructive part of not just standard setting, but other policy-making processes.



Being Responsive to the Public Interest

The Committee discussed its views on the public interest in its [Consultation Paper](#). Three key features of standard-setting processes that are responsive to the public interest are robust stakeholder engagement, timely production of standards, and transparency. Canadian standard setters make every attempt to succeed in all these areas, but face challenges nonetheless. As stakeholder expectations continue to evolve, especially in the sustainability reporting space and with respect to timeliness and identifying and connecting with the right stakeholders, meeting these challenges will require creativity and innovation.

[Section 5](#) of this report sets out the IRCSS's recommendations for enhancements in each of these areas, the development of which was greatly influenced by comments received from stakeholders during the Committee's consultation process. Of particular note are the recommendations for the formation within Standardsco of a dedicated stakeholder engagement team charged with managing proactive engagement processes, and for increased transparency around board and council member recruitment processes.

Ethics and Independence Standards for Assurance Services

Ethics and independence standards play a vital role in enhancing the quality and credibility of assurance services and fostering public trust and confidence in the work of assurance providers. Although the IRCSS's terms of reference did not extend to ethics and independence, the Committee thought it important to highlight some observations relating to the process for setting these standards. [Section 6](#) of this report does this, including identifying the need for possible future action on the part of AASOC and Standardsco, if necessary.



Section 1 – Introduction and Background

1.1 A rapidly evolving standard-setting environment

1. Accounting and assurance standards play a vital role in financial reporting. They provide common and essential measurements for Canadians to assess organizational performance, and build credibility and trust in financial reporting.
2. The standard-setting environment is evolving rapidly in Canada and globally. Stakeholder needs and expectations have changed over time and continue to do so at an increasing pace. The rise of digitization and the growing importance of alternative performance measures are among the developments creating greater demands for financial and other performance reporting, including sustainability reporting.
3. These macro trends are affecting accounting and assurance standard setting at the international level. For example, in July 2020, the Monitoring Group, a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit-related standard setting and audit quality, issued a [report](#) that is resulting in changes to international audit and ethics standard setting. In November 2021, IFRS Foundation established the International Sustainability Standards Board (ISSB) as a sister board to the International Accounting Standards Board (IASB). These events require consideration in terms of their importance to, and potential impact on, standard setting in Canada.

1.2 Ensuring the Canadian model is fit for the future

4. The institutional framework in place in Canada for developing standards and overseeing the standard-setting process has evolved over time. It currently consists of the Accounting Standards Oversight Council (AcSOC), the Accounting Standards Board (AcSB), the Public Sector Accounting Board (PSAB), the Auditing and Assurance Standards Oversight Council (AASOC) and the Auditing and Assurance Standards Board (AASB).

Independent Review Committee on Standard Setting in Canada

5. The last comprehensive review of standard setting in Canada took place between 1996 and 1998. The recommendations of the Task Force on Standard Setting focused on strengthening the independence of the standard-setting process and led to Canada's adoption of IFRS[®] Accounting Standards and international assurance standards.
6. Given the rapid evolution of the standard-setting environment, it is critical to ensure the Canadian model can effectively respond to stakeholders' needs and will continue to be independent, robust and world-class.
7. In spring 2021, the Independent Review Committee on Standard Setting in Canada (IRCSS or the Committee) was established to conduct a review of the current structure for establishing Canadian accounting and assurance standards, as well as what might be needed for the future – including sustainability standards. The review was initiated by AcSOC and AASOC and was supported by CPA Canada.
8. [Appendix A](#) lists the Committee's members and observers.

Role and mandate of the IRCSS

9. The Committee was asked to review and make recommendations related to the structure of the standard-setting activities currently supported by CPA Canada as well as possible future standard-setting activities, along with the options for funding such activities. While mindful of the growing relevance of alternative performance metrics, the mandate asked the Committee to focus specifically on the infrastructure and processes that would be required for sustainability reporting and assurance standards. The Committee was not asked to take a view on the substance or focus of existing or potential standards. Throughout its review, the Committee focused on providing reasoned, actionable recommendations for a standard-setting structure that will operate with integrity and deliver standards that are in the public interest and are relevant and responsive to stakeholders' needs.
10. The scope of the review did not include:
 - any reconsideration of accounting and assurance frameworks used in Canada (e.g., IFRS Accounting Standards);
 - relevant securities and prudential legislation, which is the purview of securities and prudential regulatory authorities;
 - ethics and independence standard setting, which is the purview of the provincial/territorial CPA bodies.

Nonetheless, the Committee considered the last of these topics because of the links between ethics and independence standards and the standards within the scope of its review, as well as some concerns it heard (see [Section 6](#) of this report, Ethics and Independence Standards for Assurance Services).

Independent Review Committee on Standard Setting in Canada

11. The Committee's review was centred on the integrity of the standard-setting system rather than on the merits of substantive reporting or assurance standards (or their absence). The Committee tried to be agnostic as to the substance or focus of standards.

Principles underlying the IRCSS review

12. Adherence to the following fundamental principles framed the Committee's approach to its mandate:
 - the public interest;
 - diversity, equity and inclusion (DE&I); and
 - Indigenous rights.
13. These concepts are related. Acting in the public interest requires engagement with the full range of Canada's diverse population.
14. When developing its recommendations, the Committee was guided by the principle that standards must be developed in the public interest and subject to effective public interest oversight.
15. While the public interest is a foundational issue, defining it with precision is difficult because it is a dynamic concept and highly contextual to particular circumstances. In some cases, the consideration of the public interest and how it might best be served is straightforward. In others, there are complexities and trade-offs, requiring a more thorough analysis and the use of judgment. Accordingly, the Committee makes no recommendation on how Canadian standard-setting bodies should define the term "public interest", or whether they should develop a common public interest framework. Rather, the Committee's recommendations reflect its underlying position that public interest is best served when:
 - standards are developed by independent and publicly accountable boards that operate transparently and are subject to oversight by independent oversight bodies; and
 - the standards-development process makes clear how the public interest has been taken into account.
16. The Committee thinks the quality of standard setting in Canada is enhanced when a wide range of experiences and perspectives fully reflecting Canada's diversity are embedded in standard setting and related oversight processes. This applies to membership and composition of standard-setting boards and oversight councils, as well as to garnering views from a broad range of stakeholders. A diverse mix of backgrounds and experiences ultimately leads to better deliberations, decisions, and outcomes.
17. Diversity has several aspects, among them geography, language, gender, experience, and expertise. More recently, the importance of addressing other aspects of diversity and inclusion have come into sharper focus, with calls for greater participation by

underrepresented communities. It is important to acknowledge the relevance of DE&I to address the challenges of creating long-term, sustainable value. There is general agreement that a lack of DE&I can pose organizational risks.

18. The rights of Indigenous Peoples are recognized in the Constitution. The governments of Canada and British Columbia are also taking measures to ensure their laws are consistent with the United Nations Declaration on the Rights of Indigenous Peoples ([UNDRIP](#)). Among other things, UNDRIP requires governments to consult and co-operate in good faith with Indigenous Peoples to ensure their effective participation in decision making regarding legislative or administrative measures that may affect their rights.

How the Committee conducted its review

19. The Committee initiated its work in the spring of 2021 by reviewing current developments and emerging issues at the international level and conducting an initial assessment of the Canadian standard-setting model. This assessment included benchmarking activities that compared the Canadian model with standard-setting structures and practices in various jurisdictions around the globe.
20. The Committee issued a [Consultation Paper](#) in December 2021. The Consultation Paper identified a number of specific issues for consideration. These included:
 - the need to address sustainability standards in Canada in light of the formation of the ISSB;
 - the importance of developing an overall standard-setting model that continues to be, and be perceived as, independent and adaptive to future needs; and
 - the need to ensure the long-term sustainability of standard setting through a funding model that is diverse and recognizes the importance of standards being developed in the public interest.
21. Stakeholder views were obtained through a variety of means, including written comments, open and targeted roundtables, webinars, one-on-one meetings and presentations at meetings and conferences of external groups.
22. The Committee received 55 written [responses to its Consultation Paper](#) and almost 1,200 individuals participated in various consultation activities. [Appendix C](#) to this report provides a list of respondents to the Consultation Paper as well as a list of participants in the IRCSS's other consultation activities.
23. The feedback obtained from stakeholders was vital to the development of the Committee's recommendations. For some topics, stakeholder comments were largely consistent, which facilitated the Committee's consideration of views expressed and the development of associated recommendations. For others, there was a divergence of views and the need



for the Committee to consider the context in which comments were made and apply its collective judgment to arrive at reasoned and actionable recommendations. The Committee's views were consensual and unanimous. [Appendix B](#) to this report provides a complete list of the Committee's recommendations.

1.3 What's next

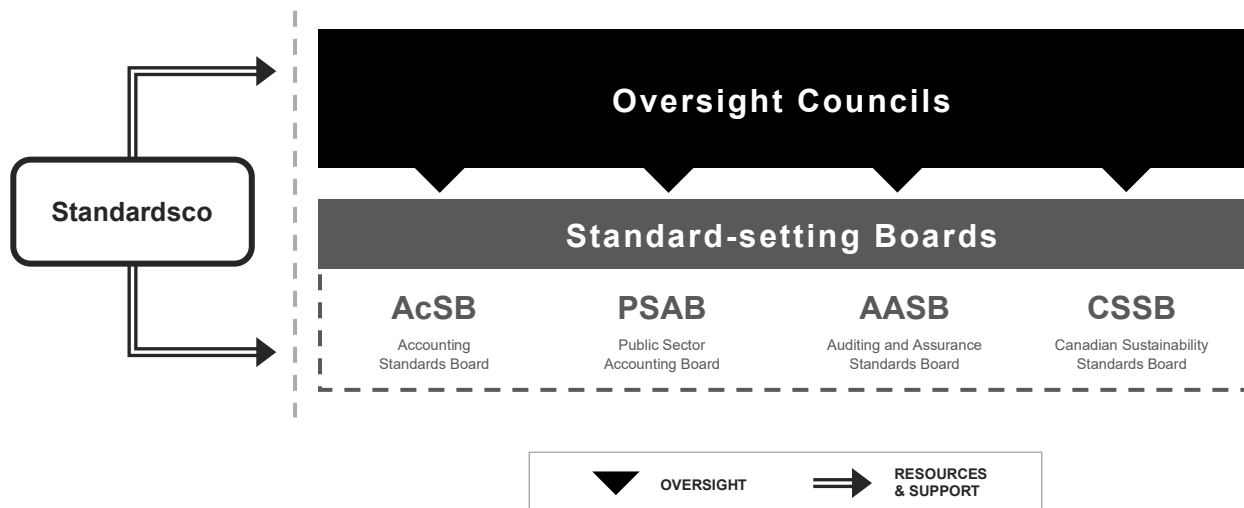
24. As outlined in the subsequent sections of this report, the Committee is recommending changes to the current structure and funding of the Canadian standard-setting model to foster increased independence, efficiency, and effectiveness in the entire system. This report also makes recommendations to better incorporate the unique rights and perspectives of Indigenous Peoples into Canadian standard setting. Last, the Committee makes recommendations on other aspects of the Canadian model that currently work well but could be enhanced.
25. This report has been presented to the oversight councils as well as to CPA Canada. It is now up to AcSOC and AASOC (working with CPA Canada) to evaluate the Committee's recommendations for implementation, and to determine the path forward. Given the scope and breadth of the recommendations, it will take time to address them. It will also be important to address them in a way that minimizes disruption to current standard-setting processes to ensure they continue to serve the public interest.

Section 2 – Structure and Oversight that Provide a Solid Foundation

26. The effectiveness of a standard-setting system is influenced to a large degree by its institutional structure and its processes.
27. The [Consultation Paper](#) provided a detailed description of the current structure of accounting and assurance standard setting in Canada. In short, it is a two-tiered model comprising standard-setting boards, which establish and maintain the standards, and oversight councils, which appoint board members and oversee and provide input into the boards' activities. From a legal perspective, the councils and boards are bodies operating under the aegis of CPA Canada, which provides the funding, staff and other resources to support their activities.
28. When considering how well the current structure serves the public interest and will continue to do so going forward, the Committee paid special attention to the importance of real and perceived independence in standard setting, the role standards play and the fact they are a public good.
29. The [Consultation Paper](#) asked respondents if they have concerns about independence in the current standard-setting model and whether the creation of a separate legal entity outside the control of CPA Canada would enhance independence. Responses were mixed, with some stakeholders expressing strong views favouring a separate legal entity to enhance the perception of independence and others less convinced independence is a major issue.
30. When assessing the overall structure of the system and determining a model that would best ensure standard setting is fit for the future and enhance Canada's credibility in standard setting, the Committee considered international norms, as well as other factors.
31. As a result, the Committee is recommending changes to the structure of the Canadian model to ensure it can respond effectively to the rapidly evolving standard-setting environment, described in [Section 1](#) of this report (Introduction and Background) while staying true to the three framing principles (i.e., the public interest, DE&I, and Indigenous rights).

32. These changes would result in the creation of a new independent legal entity (referred to as Standardsco in this report) to house and ensure the ongoing integrity and effectiveness of the entire standard-setting system. Figure 1 below illustrates the new structure recommended by the Committee.

Figure 1 – Proposed new Canadian standard-setting model



33. Sections 2.1 to 2.6 outline the details and rationale behind the Committee’s recommendations related to the changes in the overall structure.

2.1 A new independent legal entity to house Canadian standard-setting activities

34. As described in the [Consultation Paper](#) (Section 1: Introduction and Background), CPA Canada plays a significant role in supporting Canadian standard-setting activities. While CPA Canada does not participate in the boards’ and councils’ decision-making processes, some stakeholders raised concerns that current arrangements contribute to the perception of a lack of independence. These concerns could be heightened with the addition of sustainability standards, particularly given the wide range of preparers and users of sustainability reporting and assurance.
35. To enhance independence, a number of jurisdictions around the globe have created separate legal entities to house all or parts of standard-setting activities. For example, at the international level, the IASB and its oversight body, the IFRS Foundation, are separate entities. While the IAASB is currently part of the International Federation of

Accountants, steps are being finalized to establish a separate legal entity that will house both the IAASB and the International Ethics Standards Board for Accountants (IESBA). In the United States, the Financial Accounting Foundation is a separate entity that oversees the activities of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board, each of which are separate legal entities.

36. The Committee believes the creation of a separate legal entity to house Canadian standard-setting activities would bring significant benefits by:
- enhancing the effectiveness, real and perceived, of the measures and processes currently in place to support the independence of the standard-setting system;
 - enabling the diversification of funding sources beyond just CPA Canada;
 - providing increased structural flexibility to respond to current and emerging developments in the standard-setting environment (e.g., with respect to sustainability reporting and assurance, and alternative performance measures);
 - facilitating the participation of a broader base of stakeholders in the standard-setting process; and
 - aligning the Canadian model with international trends and models and enhancing further the influence Canada can have in these standard-setting processes.

Legal form

37. While it should be up to those responsible for establishing Standardsco to decide its legal form, the following should be considered:
- The legal structure of the new entity will require a governance board that would play an enabling role – with responsibility for contractual relationships, funding, staffing, and ensuring the ongoing integrity and effectiveness of the overall structure. This board's role would be distinct from the oversight provided by the oversight councils, which should not be diminished.
 - The entity should be a not-for-profit organization.
 - The entity should facilitate the maintenance of standard-setting boards and oversight councils primarily composed of volunteers. These individuals should be able to participate in standard-setting activities with proper authority and without undue exposure to personal risk/liability.

Recommendation

R1. An independent legal entity (Standardsco) should be established to house Canadian standard-setting activities.

Role and mandate

38. The Committee thinks Standardsco should be responsible for supporting and enabling the overall activities of the Canadian standard-setting model, and ensuring the ongoing integrity and effectiveness of the entire system, including making sure that:
- all constituent bodies of the Canadian standard-setting system have appropriate resources to fulfill their mandates;
 - board and oversight council membership (and that of other constituent bodies within the Canadian standard-setting system) reflects the diversity of Canada's population;
 - standard-setting activities are conducted in an efficient and transparent manner;
 - robust consultations are held with domestic regulators to ensure alignment of objectives; and
 - standard setters in Canada continue to provide valuable and impactful input to international standard-setting processes, and Canada remains a credible and relevant player, well-respected around the globe.
39. The Committee thinks it would be beneficial to transfer the responsibility for nominating oversight council members from the councils, where it is currently held, to Standardsco (informed by the "eminent persons" group described in [paragraph 42](#)). Separating the responsibility for these appointments from the oversight processes would enhance independence and should help to alleviate the current workload of the oversight councils.
40. Finally, Standardsco should be responsible for the overall management of the proposed new funding model for Canadian standard-setting activities (see [Section 3](#) of this report, *Toward a Sustainable Funding Model*).

Recommendation

R2. Standardsco should have responsibility for:

- ensuring the oversight councils and standard-setting boards have appropriate resources to fulfill their mandates;
- supporting and enabling the overall activities of the Canadian standard-setting model and ensuring the ongoing integrity and effectiveness of the system as a whole (i.e., that it is working effectively and in the public interest, and that Canada continues to be a credible and relevant player in international standard-setting activities);
- entering into contractual relationships and overseeing effective operations within the structure; and
- the overall sustainability, integrity, and management of the proposed revised funding model for standard-setting activities.

Standardsco governance

41. Standardsco will conduct its affairs under the direction of its board. The composition of the board will be an important element in fostering independence and effectiveness in standard setting.
42. The Committee believes an “eminent persons” advisory group should be formed by the Chairs of AcSOC and AASOC to establish the initial Standardsco board. A representative of the Canadian Securities Administrators (CSA) should be included in the advisory group (but regulators, governments and CPA Canada should not have representation on the board itself – the role of regulators remains at the oversight council level). The advisory group should be composed of individuals who:
 - come from diverse sectors of the Canadian economy, each with a focus on public interest;
 - have deep experience in their respective sectors and have established themselves as highly respected and influential leaders;
 - understand the concept of standards as a public good and the role played by standard setters in strengthening public confidence in the integrity of reporting; and
 - are, together with their fellow advisory group members, well-equipped to identify and connect with suitable candidates for the inaugural Standardsco board.
43. This advisory group would have a continuing mandate, with new members to be selected by the group itself, with input from the Chairs of the oversight councils. The advisory group should be charged with developing a composition matrix identifying the key competencies, skills and other attributes required to ensure the strong governance of Standardsco’s affairs,

and achieve the DE&I and Indigenous representation objectives discussed in [Section 2.4](#) of this report (Oversight councils and standard-setting boards with the required representation and technical expertise), as well as ensuring a strong public interest perspective with respect to capital markets issues. Although the application of this composition matrix should help inform an appropriate board size, the Committee expects there could be between 9 and 11 members on the Standardsco board.

44. Going forward, the Standardsco board should be self-nominating – no organizations (including funding bodies or regulators) should have nomination rights. A nominating and governance committee should be established to assist in the selection and appointment of board members (assisted by the advisory group). Potential candidates should be identified through an open call-for-nomination process and assessed based on identified competencies, skills and diversity considerations. The nominating and governance committee should also appoint members of the oversight councils using a similar process.

Recommendation

- R3. The Chairs of the oversight councils should form an “eminent persons” advisory group to identify the initial members of the Standardsco board. Going forward, the Standardsco board would be self-nominating (with the advisory group assisting in recruiting/selecting candidates for the Standardsco board and the oversight councils).

Relationship with CPA Canada

45. The establishment of Standardsco will result in a significant change in CPA Canada’s role in standard setting. In the Committee’s view, Standardsco and CPA Canada should enter into a contractual agreement that preserves the benefits of the existing framework while achieving a higher level of independence.
46. The following aspects deserve particular attention and should form part of the agreement:
- the provision of shared services to Standardsco;
 - the provision of staff to Standardsco to support standard-setting activities;
 - the provision of long-term funding by CPA Canada; and
 - CPA Canada’s stewardship responsibilities, particularly with respect to intellectual property, access to standards and any proposed fundamental changes to the framework implemented in response to the Committee’s recommendations.

Arrangements for shared services

47. The new legal entity will require many services currently provided to the oversight councils and standard-setting boards (and advisory committees) within the existing model by centralized service groups in CPA Canada. These include activities relating to information technology, finance, translation and human resources. The Committee thinks there will be significant economies of scale in Standardsco accessing these services from CPA Canada through a shared-services agreement.

Recommendation

- R4. Standardsco and CPA Canada should enter into an agreement for the supply of services in areas such as information technology, finance, translation, and human resources-related processes.

Staff to support standard-setting activities

48. Standardsco will require a team of people to support standard-setting activities. The standard-setting group at CPA Canada that currently supports such activities includes approximately 50 people. Additional resources will be required to support the development of sustainability reporting standards.
49. The Committee initially considered recommending that standard-setting staff become employees of Standardsco. However, we recognized this option could have some unintended consequences such as negatively impacting the ability of Standardsco and CPA Canada, as smaller organizations, to attract people, and limiting career, learning and knowledge-sharing opportunities within the organizations. The Committee concluded that in the near term, standard-setting staff should remain employees of CPA Canada but be exclusively dedicated to Standardsco through a secondment approach. To ensure independence, the Committee believes it is essential that the employees who support standard-setting activities are accountable solely to Standardsco, and that commensurate safeguards be put in place regarding human-resources-related decisions affecting them in such areas as performance assessments, remuneration and career advancement. The Committee is confident that rigorous contractual protections can be constructed to preserve independence while achieving the same outcome as shifting employees to Standardsco. These arrangements should be reviewed by the Standardsco board on a regular basis to determine whether they remain effective and appropriate.

Recommendation

- R5. In the near term, CPA Canada staff supporting standard-setting activities should be seconded to Standardsco through contractual arrangements that provide rigorous safeguards to preserve their independence from CPA Canada. Such arrangements would specify accountability of these staff solely to Standardsco.

Long-term funding from CPA Canada

50. In [Section 3](#) of this report (Toward a Sustainable Funding Model), the Committee proposes a diversified funding model for Canadian standard-setting activities, with CPA Canada continuing as a significant funder.
51. The Committee thinks the independence (real and perceived) of the standard-setting process will be enhanced if this funding commitment from CPA Canada is secure and long-term. Responsibility for the oversight of Standardsco budgets should be with the Standardsco board. As noted in [Section 3](#), CPA Canada's standard-setting costs are currently funded primarily by membership dues. Discussions on funding commitments and mechanisms will necessarily need to consider risks related to fluctuations in revenues.

Recommendation

- R6. The agreement between Standardsco and CPA Canada should include provisions for secure and long-term funding for standard-setting activities.

Preserving CPA Canada's stewardship responsibilities

52. Historically, CPA Canada has exercised stewardship responsibilities with respect to the establishment of Canadian accounting and assurance standards in the public interest. This is embedded in federal, provincial, and territorial corporate and securities legislation, which refer to the CPA Canada Handbook as the authoritative source of generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS).
53. As part of the transfer of overall responsibility for the Canadian standard-setting system to an independent legal entity under the proposed model, the Committee believes it would be appropriate to provide CPA Canada with a mechanism to have a say in any proposed fundamental or substantive changes to the structure of standard setting, at least for the foreseeable future. The specific terms of such an arrangement should be determined following discussions between Standardsco and CPA Canada, and should form part of their

contractual agreement. The Committee recommends that the CSA have a similar mechanism with respect to any proposed fundamental changes to the structure of standard setting.

Recommendation

R7. The agreement between Standardsco and CPA Canada should have a “fundamental change” clause to preserve and reinforce CPA Canada’s stewardship responsibilities with respect to any proposed fundamental changes to the standard-setting structure. This would also be the case for the CSA.

Intellectual property and access to standards

54. As noted above, accounting and assurance standards approved by the Canadian standard-setting boards are issued in the CPA Canada Handbook. CPA Canada owns the intellectual property relating to these standards and controls their distribution. The Committee sees no need to change this under the proposed standard-setting model, subject to the explicit understanding that CPA Canada is exercising stewardship responsibility for such intellectual property as a public good.
55. Currently, standards can be accessed online by CPA Canada members free of charge. Non-members can access the standards only through a paid subscription to the Handbook. The Committee thinks this runs counter to the concept of standard setting being a public good. It also differs from the practice of some other global standard setters, including the IASB, IAASB, the International Public Sector Accounting Standards Board (IPSASB) and the FASB, which provide ready access to their standards free of charge to encourage their use and adoption. The Committee believes Canadian accounting, assurance and sustainability standards should be published in the CPA Canada Handbook (as it may be named or renamed in the future) and available free of charge. The timing of this change should be considered in the context of funding discussions.

Recommendation

R8. Intellectual property relating to standard setting should continue to be owned by CPA Canada, which would be impressed with stewardship responsibilities (i.e., holding/protecting standards as a public good). Access to standards should continue to be provided via the CPA Canada Handbook but at no charge to the public. The timing for removal of the existing standards “paywall” should be considered in the context of funding discussions.

Accountability

56. Given its public interest mandate, Standardsco should act as a role model for best practices in public accountability, including transparency of its structure, processes, activities and results. Standardsco will need to develop and implement a strong accountability framework that should include making public its governance practices, strategic plans, and annual financial and performance reports, and how they relate to those of the oversight councils and standard-setting boards.

Recommendation

- R9. The Standardsco board should develop and implement a strong accountability framework that demonstrates leading practices for public accountability, including transparency of its structure, processes, activities, and results, and how they relate to those of the oversight councils and standard-setting boards.

2.2 A new board to meet the sustainability reporting needs of Canadians

57. Investors and other stakeholders around the globe are demanding higher-quality information and insights. They want to know about an organization's performance, risks, opportunities, and long-term prospects, and are looking beyond what is available in conventional financial statements. This includes information about climate and other environmental, social and governance (ESG) matters.
58. A variety of sustainability reporting standards, metrics and frameworks exist, but have different requirements depending on jurisdiction, industry and issues covered. They are also being applied inconsistently. Stakeholders have increasingly expressed an urgent need for transparency, consistency, and comparability in sustainability reporting, and for a global framework.
59. In November 2021, the IFRS Foundation established the ISSB. Its primary objective is to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with the information they need to make informed decisions. The ISSB will operate alongside the IASB to ensure connectivity between the two boards' standards.
60. In March 2022, the ISSB released Exposure Drafts for its first two IFRS Sustainability Disclosure Standards. One sets out the general requirements for disclosing sustainability-related financial information, while the other establishes the requirements for identifying,

measuring, and disclosing climate-related risks and opportunities. The ISSB aims to finalize these standards by the first half of 2023.

61. The ISSB's ambitious schedule to finalize its initial set of standards demonstrates its commitment to producing standards in a timely manner, and the rapid progress we can continue to expect in terms of developing international sustainability standards.

Staying ahead in Canada

62. As the pace of international progress in sustainability disclosures continues to accelerate, it is important to ensure that Canadian standards are relevant, responsive, and fit for purpose domestically. To this end, it was part of the Committee's core mandate to consider whether a Canadian sustainability board similar to the ISSB should be created.
63. In May 2022, the Committee released an early recommendation to Canada's oversight councils calling for the establishment of a Canadian sustainability standards board. The Committee viewed the creation of this board as consistent with Canada's history of establishing national accounting and assurance standard-setting bodies. The Committee further recommended this new board play a similar role as the existing Canadian standard-setting boards in terms of supporting and influencing the development of high-quality international standards to ensure Canada's voice is heard. This is especially important in the case of sustainability standards, given the relevance of sustainability issues to Canada's economic and social fabric.
64. The Committee made this recommendation in advance of issuing a complete set of recommendations on Canadian standard setting as part of this final report.
65. On June 15, 2022, AcSOC and AASOC announced their approval of the Canadian Sustainability Standards Board (CSSB). The new board will work in tandem with the ISSB to develop and support the adoption of IFRS Sustainability Disclosure Standards, thus ensuring the perspectives of Canadian stakeholders are considered during international decision making.
66. An implementation committee was formed to assist in recruiting and preparing for the CSSB, including defining governance and processes. The process to establish the CSSB is well underway, with a view to the CSSB being operational by April 1, 2023, or shortly thereafter.
67. The Committee is pleased with the oversight councils' approval to establish a CSSB. Creating this new board was the clear preference expressed by stakeholders responding to the [Consultation Paper](#).



Scope of CSSB standards

68. Sustainability issues are relevant to a broad range of stakeholders and sectors. This fact should inform the CSSB and its thinking on matters ranging from the scope of its standards to the manner in which it conducts its work.
69. The ISSB is focused on metrics that are material to the decisions of investors and other participants in the world's capital markets. It is expected there will be a great deal of overlap between the information needs of investors and other stakeholder groups on sustainability matters. The ISSB plans to develop standards that provide a comprehensive global baseline of sustainability disclosures, and to develop the standards in such a way that they can be mandated and combined with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors.
70. While the Committee has deliberately remained agnostic as to the substance or focus of standards, it sees logic in the CSSB initially establishing Canadian sustainability reporting standards that are in step with the ISSB's emerging global framework. This will reduce compliance costs and potential investor confusion. To this end, the Committee considers the ISSB standards an appropriate starting point for the CSSB in developing Canadian sustainability standards. The majority of stakeholders who commented supported the formation of the CSSB to work closely with the ISSB in developing a common global baseline for sustainability standards.

Applicability of sustainability standards

71. The Committee believes sustainability standards should have universal application. The CSSB's mandate should include a determination of how best to ensure sustainability reporting by all the categories of Canadian reporting entities: public and private enterprises, not-for-profit organizations, pensions plans and public sector entities.
72. As it redeliberates the proposed requirements in its first two Exposure Drafts based on the feedback received, the ISSB is exploring possible amendments to the proposals to reduce the potential burden on certain smaller or more resource-constrained entities. The CSSB will also need to think about the scalability of its standards when determining how best to enable their application by Canadian private enterprises and not-for-profit organizations.
73. The IPSASB has undertaken a public consultation process to evaluate the demand from stakeholders for global public sector-specific sustainability reporting guidance. On December 8, 2022, the IPSASB confirmed its role in advancing public sector sustainability reporting. The IPSASB decided to commence the scoping of three potential public sector-specific sustainability reporting projects, pending securing the resources needed to begin guidance development. Given these developments, there is still some uncertainty about

when and how sustainability reporting standards will be made available for application in Canada's public sector. For example, assuming the IPSASB secures the necessary funding and tailors ISSB baseline standards for public sector application, a Canadian board could endorse or adapt the resulting standards for use in Canada.

74. At present, it is unclear which Canadian standard-setting board – the CSSB or PSAB – should be responsible for endorsing (and adapting as appropriate) IPSASB sustainability standards. If PSAB, this would require a fundamental reconsideration of that board's structure and approach given the subject matter of the standards. Regardless of which board assumes this responsibility, the Committee stresses the importance of a high degree of interconnectivity between the CSSB and PSAB going forward. These two boards should work together to monitor and participate in international activities relating to public sector sustainability standard setting, and consider forming a joint subcommittee to examine Canadian public sector sustainability reporting considerations. The Committee notes there should also be a high degree of interconnectivity between the CSSB, and the AcSB and AASB.

Other considerations

75. Other CSSB attributes and processes that apply more generally to all the Canadian standard-setting boards, such as oversight, member composition and responsiveness, are discussed elsewhere in this report (see [Sections 2.3, 2.4](#) and [5](#), respectively).

2.3 Effective oversight that ensures connectivity

76. Effective oversight is essential to foster the development of standards that are fit for purpose and are relevant and responsive to the public interest. Oversight is a key safeguard measure to ensure:
- due diligence is exercised by standard setters when making key decisions;
 - standard-setting activities and processes are efficient, are achieving their expected results and are fit for the future; and
 - public accountability and transparency.
77. Effective oversight requires the right balance between risk, control, efficiency, and cost to achieve desired outcomes without becoming involved in the day-to-day activities of the bodies being overseen.



Current Canadian oversight model

78. AcSOC and AASOC are not involved in technical standard setting. As set out in their terms of reference, their current responsibilities include:

- appointing board and council members through a public process;
- providing input to the boards on strategic direction and priority setting;
- overseeing the boards' activities, including ensuring a due process is in place and is being adhered to;
- monitoring and evaluating the boards' performance; and
- assessing the adequacy and use of volunteer and staff resources.

The Committee believes such responsibilities should continue with the exception that, as mentioned previously, it would be beneficial to transfer the responsibility for nominating oversight council members to Standardsco.

79. AcSOC is currently made up of 20 members and oversees the AcSB (12 members) and PSAB (14 members). AASOC currently comprises 17 members. AASOC oversees the AASB (14 members) and provides input on the development of auditor independence standards, including the activities of the Independence Standing Committee, a standing committee of CPA Canada's Public Trust Committee.

Need to streamline and harmonize current oversight activities and processes

80. Comments received from some stakeholders (and the oversight councils themselves) raised concerns about the size and approach of the oversight councils. In the Committee's view, the level of effort and resources devoted to the Canadian oversight function raises questions about the nature and scope of oversight activities being conducted. The Committee also noted differences between the operating procedures of the two councils that warrant examination.

81. Both oversight councils acknowledge the need to determine what is optimal in terms of oversight. They have indicated their intention to look at best practices in this area, canvas council members and Chairs of boards for their views and consider how the introduction of a new board (i.e., the CSSB) could provide an opportunity to implement a new model of oversight. The Committee highly supports these initiatives and believes it would be beneficial to the councils to retain the services of an independent third party to assist them in conducting a joint effectiveness review.

82. Standardsco should actively monitor the progress of this initiative and work with the Chairs of the oversight councils to assess the measures eventually proposed to optimize the activities of the oversight councils. Pending such a review and subject to the comments below, the Committee believes the existing structure for oversight should be maintained.
83. Once the CSSB is established, it will require oversight. Given the current workload of the two existing oversight councils, the Committee does not think it is reasonable for either one to take on this responsibility. Accordingly, the Committee believes the CSSB Implementation Committee (see [Section 2.2](#) of this report, A new board to meet the sustainability reporting needs of Canadians) should, as a transitional measure, oversee the CSSB until further decisions are made about the optimal, long-term oversight model for this board.

Need to assess whether oversight activities should be consolidated into a single council

84. The Committee believes that once the joint effectiveness review of current oversight processes has been undertaken, consolidating all oversight activities into a single oversight council should be considered. The Committee sees connectivity between the standard-setting boards as extremely important to prevent “silo effects” and assist in addressing general standard-setting issues and developments. This need for connectivity has been acknowledged at the international level as well. In our view, a single oversight council is likely the best way to ensure effective and holistic oversight.
85. Conducting the effectiveness review will allow Standardsco and the oversight councils to conclude on what a permanent oversight structure should be in the long term. Having 37 volunteers overseeing approximately the same number of standard-setting board members is relatively cumbersome. The approach described in the preceding paragraph should result in a more efficient and effective model to manage.
86. Standardsco would determine the role and mandate of this single oversight council based on input from the existing oversight councils and the findings of the joint effectiveness review. That said, the responsibility for oversight should remain with the oversight council(s), with Standardsco’s board focusing on the administration and the ongoing integrity and effectiveness of the overall standard-setting framework.

Recommendations

- R10. During the transition to a fully operational CSSB, the Implementation Committee should be the oversight body for that board.
- R11. AcSOC and AASOC should retain the services of an independent third party to assist them in conducting a joint effectiveness review of their oversight practices and activities, and in determining what would constitute optimal oversight in the future. Standardsco should monitor progress made in this regard and subsequently assess the potential merits of transitioning to a single oversight council for all the standard-setting boards within a reasonable period of time.

2.4 Oversight councils and standard-setting boards with the required representation and technical expertise

87. The [Consultation Paper](#) described the current Canadian standard-setting model, including the role, responsibilities, and composition (i.e., number of members and profile) of the standard-setting boards and oversight councils. It also outlined the DE&I considerations embedded in the current nomination process for the oversight councils and boards, and the importance of the standard-setting process reflecting and responding to the unique rights and perspectives of Indigenous Peoples. In addition, it referred to the challenges of balancing the potential threats to independence that might arise from practitioners and public accounting firms having a dominant role in the standard-setting process with ensuring the required technical expertise will be available when needed.
88. The comments the Committee received raised a number of concerns regarding council and board composition, DE&I, and Indigenous considerations. The main issues raised, as well as the Committee's recommendations, are outlined below.

Council and board composition

89. Council and board composition is a critical element in fostering independence and ensuring the development of high-quality standards. Member attributes and competencies play a significant role in achieving these objectives.
90. As noted, there are currently 37 members on the oversight councils and a total of 40 members on the AcSB, PSAB and AASB. While the Chairs of the standard-setting boards are compensated, all other members are volunteers.

Volunteer-based membership

91. Some stakeholders raised concerns about the effectiveness and long-term viability of a standard-setting process that relies on volunteer members. They noted that volunteer members may lack the time to address increasingly complex issues, and that such a model could impede the participation of historically underrepresented individuals or groups with time or resource constraints.
92. The Committee believes the oversight councils and standard-setting boards should continue to be largely volunteer-based (as should also be the case for the board of Standardsco). Volunteerism reinforces the public interest mandate and culture of standard setting in Canada. We have not seen any evidence from other jurisdictions that compensating standard-setting board and oversight body members has made a significant impact on the ability to recruit competent members or on standards' quality, responsiveness, and time to market.
93. The Committee considered the merits of providing some level of stipend to encourage the participation of historically underrepresented groups who could bring valuable knowledge and lived experiences to the table. We believe participation should not be restricted to only those with the time and resources to assist in the standard-setting process. This area may come into play during the recruitment of CSSB members but should also be considered for the other standard-setting boards as well, in the context of implementing broader diversity criteria.

Recommendation

R12. The oversight councils and standard-setting boards should continue to be largely volunteer-based. Stipends should be considered in circumstances where the participation of a desirable candidate might not otherwise be feasible. Chairs of the standard-setting boards should continue to be remunerated.

Participation of CPA practitioners

94. Comments reflected conflicting views regarding the participation of CPA practitioners on the standard-setting boards.¹ Some stakeholders saw this participation as positive, often favouring a predominance of practitioners, citing their technical knowledge to develop accounting and assurance standards and understanding of how existing standards are (or new standards could be) applied in practice. Others thought that having the same people who apply the standards in their day-to-day work responsible for developing them was problematic. They argued a high-level of such practitioner representation on the standard-

¹ A practitioner is defined as a member or employee of a public accounting practice or an individual who has been a member or employee of a public accounting practice within the past three years.

setting boards could hinder or be perceived as hindering independence. Some noted that in addition to fostering independence, reducing the number of practitioners on boards would provide more opportunities for increased representation from diverse communities or from stakeholder groups not typically included on particular boards (e.g., preparers, in the case of the AASB). Finally, it was observed that technical expertise can be brought to bear at the staff or advisory-committee level.

95. Stakeholders commenting specifically on the composition and membership of the CSSB emphasized the fact that sustainability reporting will involve more and different stakeholders than those interested in traditional financial reporting. They noted sustainability standard setting will require additional skill sets and technical expertise to those currently found on the accounting and assurance standards boards. In their view, it will be important to ensure various disciplines beyond the accounting profession are represented on the CSSB. They pointed to the recently created ISSB as a reference when determining the appropriate skill sets for CSSB membership.
96. The Committee does not believe there should be imposed limits on the number of practitioners on the boards. On balance, the Committee thinks focusing on the desired attributes and competencies for each board should result in the optimal membership, including the appropriate number of practitioners. The Committee anticipates the oversight councils and Standardsco board would be composed largely of non-CPA members.

Recommendation

R13. The composition of the standard-setting boards should be focused on the desired attributes and competencies for each board (including the diversity objectives outlined in this report), rather than having imposed limits on the number of CPA practitioners.

DE&I and Indigenous representation

97. Comments supported the views stated in the [Consultation Paper](#) regarding DE&I and Indigenous rights as framing principles. There was general agreement that increased representation from Canada's diverse populations should best equip Canadian standard-setting bodies to serve the public interest. DE&I and Indigenous representation were seen as especially important for sustainability standard setting given the broad scope of sustainability issues and their (often) disproportionate impacts on historically underrepresented groups, including Indigenous Peoples.
98. While stakeholders recognized that diversity considerations such as geographic location, language and gender are already taken into account in the member-selection process, they

thought additional differentiating attributes such as race, ethnicity, socio-economic status and intergenerational considerations should be added to promote equity and inclusivity.

99. The composition matrices currently used to fill board and council vacancies reflect a desire to be fair and inclusive. The Committee encourages revisiting these matrices from time to time to ensure they remain effective in assisting to meet this objective.
100. [Section 4](#) of this report (Fostering a Mutually Beneficial Relationship with Indigenous Peoples) provides additional perspectives and the Committee's views on the importance and means of reflecting and responding to the unique rights of Indigenous Peoples. It also includes a specific recommendation on the participation of Indigenous Peoples (see [R20](#)).

Recommendation

R14. Memberships of all Canadian standard-setting bodies, including the boards and councils, should reflect the diversity of Canada's population and specific interest/expertise in the relevant standards processes.

2.5 Assurance standards well-suited for sustainability reporting

101. Assurance services will play a key role in fostering stakeholder confidence in the integrity and reliability of sustainability information reported by various types of organizations.
102. Although there are currently no regulatory requirements in Canada for assurance on sustainability information, some organizations are voluntarily reporting on sustainability and engaging assurance providers to attest to this information. It should be noted that a large percentage of these assurance reports cover only a small portion of the information being reported and provide a limited level of assurance.
103. In the field of sustainability reporting, assurance service providers extend beyond the traditional financial auditing profession and include both CPAs and non-CPAs. Future regulatory requirements and market expectations about how and where sustainability information should be reported will likely affect who provides sustainability assurance services.
104. The Committee expects reporting on sustainability information will increase dramatically, and anticipates the demand for assurance on such information will increase commensurately as reporting standards are implemented. Markets will demand assurance

over certain sustainability information, and it will likely become mandatory in some jurisdictions and for certain types of organizations and information.

105. As sustainability reporting evolves, it will be important to be proactive and continuously assess the adequacy of existing assurance standards (including the need for additional standards) and the quality of assurance services. Assurance on sustainability-related disclosures should be as robust as assurance on financial reporting.

Need for assurance standards specifically tailored to sustainability reporting

106. In Canada, the AASB already has a suite of internationally based assurance standards and guidance that can be applied to sustainability and other non-financial information, including the Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This overarching standard essentially outlines fundamental principles that apply when conducting these engagements and the standard is already used by CPAs and non-CPAs. It is adapted from International Standard on Assurance Engagements 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. An assurance provider must adapt and tailor the application of this standard to the specific circumstances of the subject matter at hand (e.g., sustainability reporting).
107. There is general agreement among standard setters and assurance providers that the existing standards will need to be enhanced and augmented by standards tailored specifically for sustainability reporting engagements to ensure audit quality and consistency in practice. The Committee concurs.
108. In March 2022, the IAASB launched an initiative to develop an international assurance framework for sustainability reporting. It plans to develop the associated standards in a phased approach, focusing initially on a new overarching standard (using existing standards as a starting point) that will address all areas of the engagement in principle, with specifics in selected areas. Additional standards and guidance will be developed over time in response to stakeholders' needs and the evolution of sustainability reporting. In September 2022, the IAASB approved a project proposal to develop the International Standard on Sustainability Assurance (ISSA) 5000, which is intended for use by professional accountants in public practice as well as other assurance service providers. It plans to make this proposed overarching standard available for public comment during the second half of 2023.



An expanded role for the AASB

109. Canadian standard-setting boards are working to harmonize Canadian standards with international standards, at least as they pertain to capital markets. The Committee believes this strategy should be extended to sustainability assurance standards.
110. The Committee considered whether a distinct Canadian standard-setting board should be established to set assurance standards for sustainability reporting engagements. Given the current links between Canadian and international assurance standards and the direction and timing of the IAASB's work, the Committee concluded the current AASB is in the best position to participate in the IAASB project mentioned in [paragraph 108](#), and ensure the views and perspectives of Canadian stakeholders will be taken into account. The AASB has developed a strong relationship with the IAASB and is well recognized as an important player on the world standard-setting stage.
111. As outlined below, this new role would require the AASB to examine and enhance its approach and practices to effectively address the particular circumstances of sustainability reporting. Among other things, it will be important to engage with and consider the perspectives of non-CPA assurance service providers to ensure the integrity of the standard-setting process and the appropriateness of the standards.

Expertise and resources of the AASB

112. Given the nature of sustainability reporting, which includes considering environmental, social and economic issues that inform a long-term and more systemic outlook, providing assurance on sustainability information could pose particular challenges for assurance providers. For example:
 - Many sustainability-related disclosures will likely be forward-looking instead of historical.
 - Some sustainability reporting will be based on assumptions that could be subject to high levels of uncertainty and volatility.
 - In the early stages of sustainability reporting, many organizations might not have rigorous systems, processes, and internal controls in place to accurately collect and report the required information.
 - Fundamental assurance concepts, such as risk assessment, materiality, and the sufficiency and appropriateness of assurance evidence, will require reassessment.
113. Addressing these challenges will require an innovative approach to standard setting and interdisciplinary collaboration between various professional organizations. To secure its credibility in the sustainability space, it will be important for the AASB to engage with and

leverage the experience and expertise of organizations that currently offer various types of services related to sustainability information.

114. Enhancing its sustainability-related expertise will also help the AASB influence IAASB initiatives. This could be accomplished through, for example, changes to its membership and the establishment of an expert committee on sustainability. It will be important to ensure AASB staff and volunteers have the necessary expertise and skills to conduct sound analysis and provide effective advice to the AASB. This will almost certainly require hiring additional staff and drawing on the knowledge of professionals other than CPAs to develop standards.

Links with the CSSB

115. It will be important for the AASB and the CSSB to work together to ensure reporting under Canadian sustainability disclosure standards can be subjected to third party assurance engagements. To this end, it will be necessary to determine how the AASB and the CSSB will work together, including the due process mechanisms for areas where the two boards need to collaborate.

The assurance standard-setting model for sustainability reporting might need to be revisited

116. As sustainability reporting and assurance evolve and mature, establishing a distinct Canadian board to set assurance standards for sustainability reporting engagements could be an effective way to better address sustainability assurance in the future. For example, a sustainability assurance standards board could help engage a broader range of stakeholders in the standard-setting process, secure the required mix of expertise (including assurance and sustainability expertise) and foster innovative approaches to setting sustainability assurance standards.

Recommendations

- R15. The AASB should assume responsibility for setting standards for sustainability assurance services in Canada. To this end, it should enhance its expertise in this area through, for example, changes to its membership and the establishment of an expert committee on sustainability matters.
- R16. The Standardsco board should closely monitor and assess developments in sustainability reporting and related assurance, both in Canada and internationally, including evaluating and deciding whether a distinct Canadian board is needed in the future to set sustainability assurance standards.

Performance of assurance engagements by non-CPAs

117. Quality management and compliance with ethical principles and independence requirements are widely recognized as being an integral part of high-quality assurance services.
118. Laws and regulations governing the practice of public accounting in Canada generally restrict the performance of assurance engagements related to financial statements and other historical financial information to CPAs who are licensed in public accounting. This is not the case for assurance engagements on non-financial information, such as sustainability reporting. Consequently, providers of these services extend beyond the traditional financial auditing profession and include CPAs and non-CPAs.
119. CSAE 3000 was written based on a range of measures aimed at ensuring the quality of assurance engagements undertaken by all assurance practitioners. These measures include:
- a system of quality management implemented across the public accounting firm – Canadian Standards on Quality Management (CSQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and CSQM 2, *Engagement Quality Reviews*, apply to all public accounting firms performing assurance engagements; and
 - comprehensive rules of professional conduct/code of ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
120. The use of CSAE 3000 is not limited to CPAs. Other professionals might choose to conduct an assurance engagement on sustainability information in accordance with this standard.

CSAE 3000 requires that a non-CPA practitioner wishing to conduct an engagement in accordance with this standard:

- comply with ethical and independence requirements that are at least as demanding as those applicable to CPAs;
- be a member of a firm that applies quality management requirements that are at least as demanding as CSQM 1 and CSQM 2;² and
- identify in their assurance report the ethical and quality management requirements applied.

121. CPAs' or CPA firms' compliance with quality management and ethical requirements, including independence, is assessed as part of periodic practice inspections conducted by provincial/territorial CPA bodies and/or the Canadian Public Accountability Board (CPAB), in the case of public accounting firms that audit Canadian reporting issuers. This is not the case for non-CPA practitioners, who are outside the jurisdiction of these bodies. This results in a compliance gap that constrains the ability to monitor how engagements are performed and ensure robust quality management and ethical requirements are applied in all assurance engagements on sustainability information.
122. In addition, as outlined in [Section 6](#) of this report (Ethics and Independence Standards for Assurance Services), some stakeholders believe there are outstanding issues relating to Canadian ethics and independence standards. These could be complicated by the involvement of service providers from other professions not subject to the ethical and independence requirements applicable to CPAs. Stakeholders highlighted the need for a robust ethics and independence framework to govern the conduct of all professionals (CPAs and non-CPAs alike) involved in sustainability reporting and related assurance services.
123. To address this general concern, the International Ethics Standards Board for Accountants (IESBA) is currently seeking stakeholder input to explore if and how the scope of the fundamental ethics principles and other specific provisions in the IESBA Code could be expanded to non-CPAs involved in sustainability reporting.
124. As part of its broader oversight responsibilities, Standardsco should play a role in ensuring assurance engagements on sustainability information conducted by non-CPAs will be in accordance with robust quality management and ethics standards, and independence requirements.

² The term "firm" is not limited to partnerships. The definition includes a sole practitioner, partnership, corporation or other entity of individual practitioners, and their public sector equivalents.

Recommendation

R17. The Standardsco board should monitor future developments regarding the performance of assurance engagements on sustainability information by non-CPAs. Its objective should be to ensure these engagements are conducted in accordance with robust quality management, and ethics and independence, standards that are substantially equivalent to those adhered to by CPA practitioners.

2.6 Monitoring effectiveness

125. Standard setters should monitor the effectiveness of their activities on an ongoing basis with a view to continuous improvement, and to ensure they are responsive and best serve the public interest.
126. The [Consultation Paper](#) outlined current mechanisms used by the oversight councils and the standard-setting boards to assess their performance. Every year, the councils measure board performance against annual and strategic plans. The boards provide updates on their activities at each oversight council meeting so that concerns can be addressed on a timely basis. The councils also undertake a joint review of their own operations and effectiveness at least once every three years.
127. Standard setters around the globe perform regular effectiveness assessments similar in nature and frequency to those described in the preceding paragraph. Some also undertake comprehensive reviews of the overall standard-setting system on a periodic basis. The Committee notes that similar overall reviews in Canada have been few and far between.³
128. Comments received by the Committee supported the continuation of the mechanisms already used by the oversight councils and boards to regularly monitor their effectiveness. They also encouraged more frequent comprehensive reviews performed by external, independent parties.
129. As noted in [Section 2.1](#) of this report (A new independent legal entity to house Canadian standard-setting activities), the Committee is recommending the establishment of Standardsco to support and enable the activities of the Canadian standard-setting system as a whole, and to monitor its integrity and effectiveness on an ongoing basis. As part of this monitoring, Standardsco will be mandated to review the regular assessments already performed at the council and board levels, supplementing them and taking a broader

³ The last such comprehensive review of standard setting in Canada took place between 1996 and 1998.



perspective. The Committee also sees benefit in periodic reviews of the overall Canadian standard-setting system conducted by a party independent of Standardsco, the oversight councils and the standard-setting boards. These reviews should be sufficiently frequent to reflect and respond to the accelerating pace of change in the standard-setting environment.

Recommendation

R18. Independent effectiveness reviews of the overall Canadian standard-setting system should be performed every 5-10 years and criteria established to trigger an earlier review if needed. The criteria and how they are considered on an annual basis, as well as the initiation and results of these reviews, should be communicated publicly.

Section 3 – Toward a Sustainable Funding Model

130. Standard setters generally view a secure and sustainable funding mechanism as a key element of an independent standard-setting process that fosters the development of high-quality standards serving the public interest.
131. The [Consultation Paper](#) described the current Canadian funding model, whereby CPA Canada funds all the costs associated with standard-setting activities primarily through membership dues. It also provided information on models in place in other jurisdictions that include sources of funding in addition to professional accounting bodies, such as governments, users, and voluntary contributions.
132. The Committee views high-quality standards as a public good, and considers the overall costs for standard setting as low relative to its critical role in the Canadian reporting ecosystem. For 2022, the cost of accounting and assurance standard setting was in the order of \$13 million. Preliminary estimates indicate that the implementation of the IRCSS's recommendations will increase annual costs by approximately \$10 million, for an approximate total of up to \$23 million. These costs largely reflect staffing expenses for the new CSSB, additional staff for the existing boards to ensure connectivity, and incremental costs associated with establishing a stakeholder engagement team and the operation of Standardsco.
133. While the current model provides stable funding and ensures the oversight councils and standard-setting boards have sufficient resources to carry out their mandates, concerns were raised that this model:
- may result in real or perceived threats to independence; and
 - should evolve to reflect the use of standards by non-CPA service providers.
134. Comments regarding funding were varied. On the one hand, some stakeholders did not object to CPA Canada providing all or a significant proportion of funding for Canadian standard-setting activities, so long as there are appropriate safeguards to ensure independence. Others pointed out that preparers and assurance providers of sustainability information will likely include various parties outside the CPA profession, who should bear a proportion of the costs associated with sustainability standard setting.
135. The Committee focused on identifying a potential funding model that can respond effectively to the rapidly evolving standard-setting environment. It recognizes the additional financial burden to CPA Canada were it to continue as the sole funder of a standard-setting system

that will change as a result of the implementation of the Committee's recommendations. While CPA Canada has indicated its willingness to continue its financial support of the entire standard-setting process (including adding the CSSB) in the short run (i.e., a two-year time frame), it is essential to ensure that any funding model is fair, secure and sustainable over the long term.

136. The Committee concluded that the sources for the Canadian funding model should be diversified, and that the new funding model should apply to the entire standard-setting system and reflect the broader range of sustainability reporting and assurance service providers. In terms of broad principles, the new model should be secure and national in scope. Most importantly, it should be simple to apply and adaptable. The funding model should reinforce the independence and integrity of standard-setting processes and reflect the fact that standards are a public good.
137. The Committee sees a new model being implemented in stages and evolving over time. As noted in [paragraph 135](#), CPA Canada has agreed to continue as the sole source of funding for another two years (i.e., Stage 1). Thereafter, the Committee sees CPA Canada continuing as a major funder but with additional funding by the federal government (through a committed indexed statutory appropriation). Standardsco will want to consider other funding sources/mechanisms in recognition of the fact that others also benefit from reporting and assurance standards as a public good (e.g., assurance providers that use sustainability assurance standards and who are not members of CPA Canada). The Committee suggests that a reasonable initial allocation of the \$23 million in total projected standard-setting costs (see [paragraph 132](#)) among the Stage 2 funders might be in the range of \$13 million for CPA Canada and \$10 million for the federal government. These allocations should evolve over time while continuing to adhere to the principles outlined above. We expect that commitments from new funders would be contingent on the continuation of funding by CPA Canada.⁴
138. As stated in [Section 2.1](#) of this report (A new independent legal entity to house Canadian standard-setting activities), the Committee believes the creation of Standardsco provides an opportunity to put additional safeguards in place to foster the independence of the standard-setting process. For example, funding from various sources should flow directly into this new entity, which would be responsible for managing the new funding model and allocating resources to specific components of the standard-setting process. Standardsco should facilitate a diversified funding model and it is anticipated that having a separate legal entity will make it easier to attract a broader range of funders. We think the independence of the standard-setting process will be further enhanced if the funding commitment from CPA

⁴ We also acknowledge that any commitment from CPA Canada is subject to the contingencies inherent in its funding model.



Canada becomes secure and long-term (as is proposed for the commitment from the federal government and other funders). Funding commitments should not be contingent on rights to representation on the Standardsco board or any of its constituent decision-making bodies.

Recommendation

R19. A new funding model should be put in place for Canadian standard-setting activities. This model should apply to the standard-setting system in its entirety and should be user-agnostic, diversified, secure, national in scope, simple to apply and reflect the fact that standards are a public good.

Section 4 – Fostering a Mutually Beneficial Relationship with Indigenous Peoples

139. As noted in [Section 1](#) of this report (Introduction and Background), respecting Indigenous rights, a commitment to DE&I, and a singular focus on the public interest were fundamental principles framing the Committee’s approach to its mandate.
140. The [Consultation Paper](#) (Section 1.2: Setting the context for the Committee’s review) outlined ways in which the rights of Indigenous Peoples have been recognized in Canada in the Constitution and in federal and provincial legislation. For example, the governments of Canada and British Columbia are taking measures to ensure their laws are consistent with UNDRIP, which requires consultation and cooperation with Indigenous Peoples on legislation that affects them.
141. Indigenous Peoples and their governments, businesses and not-for-profit organizations are affected by and rely on Canadian financial reporting and related assurance when making investment and business decisions or reporting on their own performance. The same will be true for sustainability reporting and assurance. As Indigenous organizations continue to evolve, there will be increased reliance on the standards that underpin this reporting.
142. Respondents to the [Consultation Paper](#) supported the overall goal of increasing Indigenous Peoples’ participation in standard-setting processes and ensuring these processes are effective and impactful. Many noted this is a challenge in other jurisdictions as well, and one that Canada can and should play a leadership role in addressing.⁵
143. Comments that resonated with the Committee spoke to the ways in which active Indigenous involvement in the standard-setting system would enrich the processes and improve the quality of output. The importance of the natural environment and intergenerational connectedness to Indigenous Peoples and their cultures, coupled with their experiential knowledge, should bring important perspectives to sustainability reporting standard setting.

⁵ On December 14, 2022, the [ISSB announced the appointment of IRCSS member Geordie Hungerford, CEO of the First Nations Financial Management Board \(FNB\), as a Special Advisor to the ISSB Chair](#) to provide strategic counsel on issues relating to natural ecosystems and just transition.

144. The Committee acknowledges that achieving mutually beneficial relationships between Indigenous Peoples and standard setters will take time and proactive effort. As a start, standard setters should explore how to effectively consider Indigenous perspectives. This includes building connections, seeking out capable and committed individuals to play a role in their processes (including as members of standard-setting bodies) and looking for ways that make it easier for Indigenous Peoples to share their views throughout standard-setting processes. [Section 5.1](#) of this report (Finding new ways to connect with stakeholders) notes suggestions from stakeholders on how to connect with individuals and groups that have not previously participated in these processes. The boards and oversight councils together with Standardsco’s proposed dedicated stakeholder engagement team (and any other Standardsco advisory committee with particular experience or perspectives in this area) should consider the relevance of these suggestions in the context of Indigenous Peoples.

Recommendation

R20. Each constituent body within the Canadian standard-setting system should:

- be required to explore processes and mechanisms to effectively consider Indigenous perspectives and, where matters affect Indigenous Peoples, to create effective processes for Indigenous Peoples to participate as partners; and
- strive for Indigenous representation. To the extent this objective is not fully achievable in the short term, it should be introduced on a “comply or explain” basis.

Indigenous Council on Financial Reporting and Standards Setting

145. Recognizing that the challenges of securing effective participation by Indigenous Peoples within Canadian policy-making processes is a systemic issue, the Committee worked with the FMB to develop a proposal for the creation of an Indigenous Council on Financial Reporting and Standards Setting (ICFRSS – a provisional name).⁶ The ICFRSS would (on behalf of and with Indigenous Peoples and their governments) act nationally as a representative for engagement with relevant standard-setting and financial regulatory bodies in discussions on proposed new or amended standards and regulation.

⁶ The FMB is an independent not-for-profit organization established under the First Nations Fiscal Management Act. The FMB’s purpose is to support First Nations to develop and implement good governance and finance practices.

146. The proposal contemplates that:
- the forum for discussion created by the ICFRSS would extend to economic/financial standard-setting and other regulatory and policy-making bodies to ensure integration and collaboration; and
 - the ICFRSS would facilitate the development of expert feedback and the co-ordination of engagement/consultations with representative Indigenous bodies.
147. In addition to developing “bench strength” to provide meaningful input at the national level, the ICFRSS would also serve as a Canadian Indigenous voice on the international standard-setting stage and would co-operate with international Indigenous financial representative bodies.
148. The Committee believes there are significant benefits to be derived from a dedicated infrastructure that better enables Indigenous interests to be a critical and constructive part of all types of economic processes, including standard setting. Accordingly, it encourages Standardsco and governmental funding bodies to work with the FMB to implement the ICFRSS proposal, and to be an active sponsor and participant in the resulting discussion forum.

Recommendation

- R21. The IRCSS supports the creation of an Indigenous Council on Financial Reporting and Standards Setting (ICFRSS – a provisional name) that would act nationally as an Indigenous representative intermediary and facilitate effective representation and input to standard-setting and other regulatory and policy-making bodies. The IRCSS recommends the support and participation of Standardsco in the ICFRSS.

Section 5 – Processes that Are Responsive to the Public Interest

149. A standard-setting process that is responsive to the public interest:
- engages with stakeholders and considers their input and perspectives during the standards-development process and on an ongoing basis;
 - ensures the timely production of high-quality standards to meet stakeholder needs; and
 - is transparent, so that stakeholders understand the decisions taken by standard setters, and their rationale.

5.1 Finding new ways to connect with stakeholders

150. Robust stakeholder engagement is key to the development of responsive and high-quality standards. Engaging with those affected by standards and obtaining their input and perspectives is necessary not only as part of a project to develop a new or amended standard, but on an ongoing basis. This ensures the needs of stakeholders continue to be met, and that standards remain relevant and are perceived as such.
151. A fundamental requirement across projects and processes is to identify key stakeholders and successfully connect with them to encourage their participation. This is more easily said than done.
152. Stakeholders and their views change over time both with respect to the relevance of existing reporting and assurance standards and the need for new ones, as evidenced by the increasing use of alternative performance measures. Sustainability reporting provides another clear example of how expectations can evolve, often rapidly. The wide range of issues falling within the rubric of sustainability engages a broader and more diverse range of stakeholders compared with those who have historically taken an active interest in accounting and assurance standards. Given the increasingly dynamic scope and pace of standard setting, standard setters must be more proactive in identifying stakeholders and encouraging their meaningful involvement in their processes. Of particular note is the need to deepen engagement with users.
153. The [Consultation Paper](#) (Section 4: Responsiveness of standards) provided a high-level description of current efforts to foster stakeholder involvement. These include the establishment of advisory committees composed of stakeholders with relevant professional backgrounds to address specific topics, ongoing engagement with key stakeholder groups

to keep abreast of emerging issues, holding extensive stakeholder consultations on documents for comment (including roundtable sessions, interviews with specific stakeholders and field testing) and leveraging technology (e.g., social media, online platforms, webinars and virtual roundtables) to enhance communications with stakeholders.

154. Comments received by the Committee offered suggestions for improvement, many of which have already been undertaken by Canada’s accounting and assurance standards boards to some degree. Other suggestions included:

- providing consultation participants short, plain-language documents that explain the issues in an understandable manner and pose clear questions;
- addressing “consultation fatigue” by co-ordinating stakeholder consultations between boards to avoid multiple consultations with the same stakeholder groups, and by publishing a consolidated work plan of documents for comment with expected release dates and comment deadlines to allow stakeholders to better plan their participation;
- better leveraging technology to facilitate the process of obtaining stakeholder input (e.g., publishing documents for comment in an interactive manner that allows stakeholders to “vote” on proposals);
- holding more informal and targeted sessions to educate and obtain feedback from stakeholders on a proactive and ongoing basis; and
- enhancing broader stakeholder awareness of the standard-setting process, including the opportunities to get involved at various stages.

155. In terms of how best to foster robust stakeholder involvement in sustainability standard setting, suggestions received related mainly to finding new ways to connect with a more diverse stakeholder population. This population includes individuals and groups that have not previously participated in standard-setting processes (e.g., professionals with technical expertise on environmental matters, and users and preparers of sustainability information). In addition to the plain language comment noted in the preceding paragraph, suggestions included:

- examining possible barriers to participation (such as resource constraints, travel distance and time commitment) and working to resolve or alleviate them;
- being proactive in identifying relevant organizations and requesting their assistance in disseminating information to a larger audience;
- making greater use of media content and interactivity (e.g., YouTube videos and podcasts) to attract a new and wider group of stakeholders; and
- leveraging the stakeholder engagement practices of other organizations that also seek input on sustainability-related matters.

156. Given the importance of effective stakeholder engagement to the standard-setting process, the Committee recommends the creation of a dedicated stakeholder engagement team charged with managing proactive engagement processes. This team should reside within Standardsco (but co-ordinate with and take advantage of similar capacity within CPA Canada) and operate in a manner that ensures maximum connectivity with those responsible for carrying out stakeholder engagement activities.
157. This team would work with the standard-setting boards to consider whether the stakeholder engagement suggestions listed above, and others, are worth pursuing and would assist in the co-ordination and implementation of resulting efforts on an ongoing basis.

Recommendation

R22. A dedicated stakeholder engagement team charged with managing proactive engagement processes should be formed at the Standardsco level to assist in identifying and implementing enhancements to existing practices, including initiatives to facilitate and encourage broad stakeholder awareness of and participation in the standard-setting process.

5.2 High-quality standards that are available when needed

158. Canadian standards setters are acutely aware of stakeholder expectations around the timely production of standards, and work to meet them while also ensuring they identify and obtain input from key stakeholders.
159. Stakeholders' and policy makers'/regulators' urgent demand for standards that promote consistent, comparable sustainability reporting means timeliness will become especially critical for sustainability standard setting. The rapid evolution of reporting expectations will drive the need for continuous review of existing standards to ensure they remain relevant and responsive to stakeholder expectations.
160. As explained in the [Consultation Paper](#) (Section 4: Responsiveness of Standards), the ability of the boards to meet the requirements for timeliness, and how they do so, varies between domestic (i.e., Canadian-made) standards and international standards issued by an international board and being adopted/adapted for use in Canada. The development of the latter is primarily driven by the timelines of the international standard-setting bodies.
161. The Committee applauds the ongoing efforts of the existing boards to improve the efficiency with which they produce standards.

162. The Committee thinks the objective when developing standards should be to consider, identify, and follow the timeline appropriate for each project – faster is not necessarily always better. Stakeholders commenting on this aspect of standard setting agreed, stressing the importance of not overemphasizing timeliness to the detriment of due process and effectiveness. At the same time, some had suggestions on how to improve the timeliness of domestic standard setting in Canada, including:
- increasing the use of innovative (e.g., phased or non-linear) approaches to standard setting that address the most pressing issues first and remaining issues afterwards;
 - ensuring the standard-setting process is sufficiently flexible to accommodate differences between standards in terms of the level of due process followed during their development (e.g., some standards would follow a board’s usual full, rigorous development process while others intended to satisfy an urgent and narrow need might be “fast tracked” under the oversight of a steering committee of experts); and
 - exploring more innovative ways to obtain stakeholder input than the current lengthy comment periods for exposure documents.
163. The Committee identified additional initiatives undertaken by some standard setters in other jurisdictions to improve the timeliness of their standards that merit consideration. These include:
- issuing interim or temporary guidance to meet immediate user needs until a more comprehensive project can be undertaken;
 - leveraging standards set by other standard setters or working with them to develop corresponding standards when jurisdictional circumstances are sufficiently similar to justify doing so; and
 - examining the scalability of standards to better meet the different reporting needs of stakeholders.⁷
164. The Committee notes future ISSB and CSSB initiatives to meet heightened stakeholder demands for timely sustainability reporting could provide additional ideas for consideration by the Canadian accounting and assurance standards boards when looking for ways to improve their time to market.
165. The Committee thinks the standard-setting boards are best positioned to explore possible enhancements to the timeliness of their standards, including the suggestions described above. The Committee also believes this should be an ongoing activity, and that the boards should be transparent about alternatives considered and their rationale for implementing some and modifying or rejecting others.

⁷ The Committee notes the planned initiatives of the AcSB and the AASB to examine and address issues around scalability. Further details are provided in the [AcSB's 2022-2027 Strategic Plan](#) and the [AASB's 2022-2025 Strategic Plan](#).

Recommendation

R23. The standard-setting boards should actively and on an ongoing basis explore opportunities to enhance the timeliness of their standards. This includes considering the stakeholder suggestions and initiatives of other global standard setters described in this report and implementing them to the extent they are deemed relevant and appropriate. When reporting to stakeholders, the boards should make clear the enhancement options considered and their rationale for implementing some, and modifying or rejecting others.

5.3 Transparency of decisions and processes

166. Transparency is a key principle underlying the due process of standard setters globally. Conducting standard-setting processes with transparency serves the public interest by demonstrating how the perspectives of stakeholders are considered in various aspects of standard setting, from agenda setting through to decision making on new or amended standards and follow-up activities after they have been issued.
167. The [Consultation Paper](#) (Section 5.1: Transparency and accountability) outlined the various elements of the structure and processes of the oversight councils and standard-setting boards intended to foster transparency. The oversight councils meet in public, providing stakeholders the ability to hear directly about a board's activities through its reports to the relevant council, thus enhancing the transparency of the system as a whole. Other transparency mechanisms include making materials (e.g., meeting agendas and summaries, responses received on consultation documents, terms of reference, operating procedures, due process manuals, etc.) available on their websites. An important element of transparency is the publication of a basis-for-conclusions document when the final standard is issued. This document describes the significant issues stakeholders raised on proposals, the alternatives considered, and the rationale behind the board's decisions.
168. A number of stakeholders shared the view that there is room to improve transparency in Canadian standard setting. The concern expressed most often, primarily related to PSAB, was that while oversight council meetings are open to the public, the meetings of the standard-setting boards are not, and supporting agenda papers are not publicly available.
169. The Committee acknowledges the practices of the Canadian boards in this area differ from those of some of their global counterparts, who hold public meetings and share the information (e.g., agenda papers) provided to board members to support the meeting agendas, as well as more detailed meeting minutes summarizing the key discussion points, online.

170. The Committee is of the view that, all things considered, the benefits to the Canadian standard-setting system of enhanced transparency from meetings held in public and full access to meeting materials must be balanced with the need for open, frank discussions among board members, who (unlike council members) are responsible for technical standard setting. The Committee believes that open board meetings could hamper effective decision making, as members (all of whom except the Chair are volunteers) might, for example, not express views that differ from those of their employers, or that contradict views previously expressed.
171. Instead, the Committee thinks the boards should augment their communications to stakeholders of the key factors considered in their decision making starting with agenda setting through to the adoption of standards. The Committee thinks these factors can and should be made clear in materials already publicly available, including meeting agendas and summaries, and the basis-for-conclusions documents mentioned in [paragraph 167](#).
172. A number of stakeholders also commented on what they saw as a lack of transparency around council and board member selection and appointment processes. Some suggested that information pertinent to the selection process, including the composition matrices used for nomination and appointment of members, should be made public to enhance transparency and support DE&I.
173. The Committee agrees that all levels of the Canadian standard-setting system should strive for greater transparency in this area to foster stakeholder confidence that their views and expectations around membership composition are understood and considered. This improvement would be in accordance with best practices in governance disclosure.

Recommendations

- R24. The standard-setting boards should consider how materials shared publicly could be better used to augment transparency in terms of communicating to stakeholders the key factors considered in their decision making.
- R25. Standardsco, the oversight councils and the standard-setting boards should take the necessary steps to enhance the transparency of their member-recruitment processes, including but not limited to making the composition matrices used for nomination and appointment of members publicly available and engaging in more diverse and proactive outreach to solicit potential members.

Section 6 – Ethics and Independence Standards for Assurance Services

174. Ethics and independence standards play a vital role in enhancing the quality and credibility of assurance services and fostering public trust and confidence in the work of assurance providers. Users of assurance reports expect assurance providers to adhere to fundamental principles regarding professional behaviour, integrity and due care, objectivity, technical competence and confidentiality.
175. The concepts of objectivity and independence are closely linked. Stakeholder confidence that sound professional judgment has been exercised in the conduct of an assurance engagement depends on the objective and unbiased state of mind of the assurance provider, both in fact and appearance.
176. As mentioned in [Section 1](#) of this report (Introduction and Background), the Committee's terms of reference did not extend to ethics and independence standards. However, given comments it received in response to the Committee's questions in the [Consultation Paper](#) and the links between assurance standards and ethics and independence standards, as well as the Committee's recommended structure for the Canadian standard-setting model as a whole, the Committee considered it important to highlight some observations relating to the current process for setting ethics and independence standards.

6.1 Current model for setting ethics and independence standards

177. At the international level, ethics and independence standards are set by an independent standard-setting board – the IESBA – and made public in the *International Code of Ethics for Professional Accountants* (the IESBA Code). The IESBA is overseen by the Public Interest Oversight Board.
178. In Canada, the setting of ethics and independence standards for professional accountants falls under the jurisdiction of the various provincial/territorial CPA bodies. Accordingly, CPAs are not required to comply with the IESBA Code when performing an audit in accordance with Canadian GAAS but, rather, must meet ethical and independence requirements outlined in the rules of professional conduct and codes of ethics of their provincial/territorial

CPA bodies. Some CPA bodies might also have to obtain approval by their members, governments and other bodies before enacting changes to ethics and independence standards.

179. At the national level, a Public Trust Committee (PTC), among other things, oversees and promotes the harmonization of the ethics and independence standards of the CPA profession as a whole. AASOC provides input to the development of independence standards and related activities.
180. The PTC is mandated to propose harmonized independence standards for CPAs for adoption by the provincial/territorial CPA bodies in their own codes of professional conducts, and to ensure these standards are kept up to date. To that end, the PTC has developed the *CPA professional conduct: Auditor independence – Harmonized Rule of Professional Conduct (Rule 204)*, which sets out the independence requirements CPAs must adhere to during engagements they undertake. Rule 204 standards are intended to be aligned with the IESBA Code.
181. With the support of its Independence Standing Committee, the PTC:
 - monitors international developments in independence standards, and reviews and provides comments on the IESBA's proposed changes to these standards;⁸ and
 - shares and invites comments in Canada on proposed changes to the independence requirements of the IESBA Code. The comments are focused on the technical content of proposed changes and whether there may be Canadian-specific circumstances (such as legal or regulatory requirements, or public interest considerations) that would require a change to the IESBA Code proposals to maintain and renew Rule 204.
182. The individual provincial/territorial CPA bodies determine the extent to which they adopt Rule 204. The principles of Rule 204 have generally been adopted across Canada. Though there are differences in some jurisdictions, this has not resulted in any major issues.

6.2 Concerns raised by stakeholders regarding the current model

183. During the Committee's consultations, some stakeholders raised concerns about the current structure and processes in place for setting Canadian ethics and independence standards. They feel the present model is out of step with international peers and that this has resulted

⁸ The PTC has delegated these responsibilities to the Unified Rules Standing Committee.

in unnecessary delays in updating Canadian standards to reflect changes made to the IESBA standards. We note that this is primarily an issue for listed entities.

184. One commenter questioned why the principles of independence, responsiveness, transparency, and accountability applicable to the Canadian standard-setting system as a whole should not be equally applicable to ethics and independence standards. Another was of the view that the oversight of the PTC's activities and results could be enhanced. The involvement of service providers from other professions that are not subject to the ethical and independence requirements applicable to CPAs will impose further stress on the current system.
185. In the Committee's view, the existing Canadian model for setting ethics and independence standards is not optimal. The Committee understands the PTC is well aware of these challenges and has put in place two task forces to conduct further analysis and develop actionable recommendations to try to address these issues. The Committee supports these PTC initiatives. We recommend that AASOC and Standardsco monitor progress in this area to ensure the formulation and implementation of actions that are responsive to the concerns that have been raised.

Recommendation

R26. AASOC and Standardsco should actively monitor the recommendations of the profession's Public Trust Committee once they are released to ensure they are fit for purpose, and should be prepared to take further action if necessary.



Appendix A: Members of the Independent Review Committee on Standard Setting in Canada

Members

Edward J. Waitzer, LL.B., LL.M., (Chair)

Sonia A. Baxendale, HBA, ICD.D

John A. Gordon, FCPA, FCA, CFA, ICD.D

Geordie Hungerford, CFA, CAIA, MBA, LL.B.

Michael Jantzi, MA

Stéphanie Lachance, LL.B., ICD.D

Paul Rochon, BA (history), MA (economics)

Marie-Soleil Tremblay, FCPA, PhD

Observers

Renée Chen, CPA, CA, CFA (on behalf of the OSFI)

Stephenie Fox, FCPA, FCA (Senior Vice-President, Financial Reporting & Assurance Standards Canada)

Cameron McInnis, FCPA, FCA, CPA (Illinois) (on behalf of the CSA)

Carol A. Paradine, FCPA, FCA (on behalf of the CPAB)



Appendix B: List of IRCSS Recommendations

As outlined in [Section 2.2](#) of this report (A new board to meet the sustainability reporting needs of Canadians), in addition to the recommendations outlined below, the Committee released an early recommendation to Canada's oversight councils in May 2022, calling for the establishment of a Canadian sustainability standards board. The Committee further recommended this new board adopt the same international focus as the existing Canadian standard-setting boards, and play a similar role in terms of supporting and influencing the development of high-quality international standards to ensure Canada's voice is heard.

On June 15, 2022, AcSOC and AASOC announced their approval of the CSSB. The new board will work in tandem with the ISSB to develop and support the adoption of IFRS Sustainability Disclosure Standards, thus ensuring the perspectives of Canadian stakeholders are considered during international decision making.

Structure and oversight that provide a solid foundation

- R1. An independent legal entity (Standardsco) should be established to house Canadian standard-setting activities.
- R2. Standardsco should have responsibility for:
- ensuring the oversight councils and standard-setting boards have appropriate resources to fulfill their mandates;
 - supporting and enabling the overall activities of the Canadian standard-setting model and ensuring the ongoing integrity and effectiveness of the system as a whole (i.e., that it is working effectively and in the public interest, and that Canada continues to be a credible and relevant player in international standard-setting activities);
 - entering into contractual relationships and overseeing effective operations within the structure; and
 - the overall sustainability, integrity, and management of the proposed revised funding model for standard-setting activities.

Independent Review Committee on Standard Setting in Canada

- R3. The Chairs of the oversight councils should form an “eminent persons” advisory group to identify the initial members of the Standardsco board. Going forward, the Standardsco board would be self-nominating (with the advisory group assisting in recruiting/selecting candidates for the Standardsco board and the oversight councils).
- R4. Standardsco and CPA Canada should enter into an agreement for the supply of services in areas such as information technology, finance, translation, and human resources-related processes.
- R5. In the near term, CPA Canada staff supporting standard-setting activities should be seconded to Standardsco through contractual arrangements that provide rigorous safeguards to preserve their independence from CPA Canada. Such arrangements would specify accountability of these staff solely to Standardsco.
- R6. The agreement between Standardsco and CPA Canada should include provisions for secure and long-term funding for standard-setting activities.
- R7. The agreement between Standardsco and CPA Canada should have a “fundamental change” clause to preserve and reinforce CPA Canada’s stewardship responsibilities with respect to any proposed fundamental changes to the standard-setting structure. This would also be the case for the CSA.
- R8. Intellectual property relating to standard setting should continue to be owned by CPA Canada, which would be impressed with stewardship responsibilities (i.e., holding/protecting standards as a public good). Access to standards should continue to be provided via the CPA Canada Handbook but at no charge to the public. The timing for removal of the existing standards “paywall” should be considered in the context of funding discussions.
- R9. The Standardsco board should develop and implement a strong accountability framework that demonstrates leading practices for public accountability, including transparency of its structure, processes, activities, and results, and how they relate to those of the oversight councils and standard-setting boards.
- R10. During the transition to a fully operational CSSB, the Implementation Committee should be the oversight body for that board.
- R11. AcSOC and AASOC should retain the services of an independent third party to assist them in conducting a joint effectiveness review of their oversight practices and activities, and in determining what would constitute optimal oversight in the future. Standardsco should monitor progress made in this regard and subsequently assess the potential merits of transitioning to a single oversight council for all the standard-setting boards within a reasonable period of time.

- R12. The oversight councils and standard-setting boards should continue to be largely volunteer-based. Stipends should be considered in circumstances where the participation of a desirable candidate might not otherwise be feasible. Chairs of the standard-setting boards should continue to be remunerated.
- R13. The composition of the standard-setting boards should be focused on the desired attributes and competencies for each board (including the diversity objectives outlined in this report), rather than having imposed limits on the number of CPA practitioners.
- R14. Memberships of all Canadian standard-setting bodies, including the boards and councils, should reflect the diversity of Canada's population and specific interest/expertise in the relevant standards processes.
- R15. The AASB should assume responsibility for setting standards for sustainability assurance services in Canada. To this end, it should enhance its expertise in this area through, for example, changes to its membership and the establishment of an expert committee on sustainability matters.
- R16. The Standardsco board should closely monitor and assess developments in sustainability reporting and related assurance, both in Canada and internationally, including evaluating and deciding whether a distinct Canadian board is needed in the future to set sustainability assurance standards.
- R17. The Standardsco board should monitor future developments regarding the performance of assurance engagements on sustainability information by non-CPAs. Its objective should be to ensure these engagements are conducted in accordance with robust quality management, and ethics and independence, standards that are substantially equivalent to those adhered to by CPA practitioners.
- R18. Independent effectiveness reviews of the overall Canadian standard-setting system should be performed every 5-10 years and criteria established to trigger an earlier review if needed. The criteria and how they are considered on an annual basis, as well as the initiation and results of these reviews, should be communicated publicly.

Toward a sustainable funding model

- R19. A new funding model should be put in place for Canadian standard-setting activities. This model should apply to the standard-setting system in its entirety and should be user-agnostic, diversified, secure, national in scope, simple to apply and reflect the fact that standards are a public good.



Fostering a mutually beneficial relationship with Indigenous Peoples

- R20. Each constituent body within the Canadian standard-setting system should:
- be required to explore processes and mechanisms to effectively consider Indigenous perspectives and, where matters affect Indigenous Peoples, to create effective processes for Indigenous Peoples to participate as partners; and
 - strive for Indigenous representation. To the extent this objective is not fully achievable in the short term, it should be introduced on a “comply or explain” basis.
- R21. The IRCSS supports the creation of an Indigenous Council on Financial Reporting and Standards Setting (ICFRSS – a provisional name) that would act nationally as an Indigenous representative intermediary and facilitate effective representation and input to standard-setting and other regulatory and policy-making bodies. The IRCSS recommends the support and participation of Standardsco in the ICFRSS.

Processes that are responsive to the public interest

- R22. A dedicated stakeholder engagement team charged with managing proactive engagement processes should be formed at the Standardsco level to assist in identifying and implementing enhancements to existing practices, including initiatives to facilitate and encourage broad stakeholder awareness of and participation in the standard-setting process.
- R23. The standard-setting boards should actively and on an ongoing basis explore opportunities to enhance the timeliness of their standards. This includes considering the stakeholder suggestions and initiatives of other global standard setters described in this report and implementing them to the extent they are deemed relevant and appropriate. When reporting to stakeholders, the boards should make clear the enhancement options considered and their rationale for implementing some, and modifying or rejecting others.
- R24. The standard-setting boards should consider how materials shared publicly could be better used to augment transparency in terms of communicating to stakeholders the key factors considered in their decision making.



- R25. Standardsco, the oversight councils and the standard-setting boards should take the necessary steps to enhance the transparency of their member-recruitment processes, including but not limited to making the composition matrices used for nomination and appointment of members publicly available and engaging in more diverse and proactive outreach to solicit potential members.

Ethics and independence standards for assurance services

- R26. AASOC and Standardsco should actively monitor the recommendations of the profession's Public Trust Committee once they are released to ensure they are fit for purpose, and should be prepared to take further action if necessary.

Appendix C: IRCSS consultation participants

The IRCSS obtained stakeholder views on its December 2021 [Consultation Paper](#) through a variety of means, including written comments, open and targeted roundtables, webinars, one-on-one meetings and presentations at meetings and conferences of external groups. Below are lists of respondents to the Consultation Paper (List 1) and participants in other of the Committee's consultation activities (List 2).

List 1: Respondents to Consultation Paper ⁹

1. Alan D. Willis, FCPA, FCA
2. Art Korpach, FCPA, FCA
3. Association des vérificateurs généraux municipaux du Québec (AVGMQ)
4. Barbara Stymiest, CM, FCPA, FCA and Patricia Meredith, FCPA, FCA, PhD (joint response)
5. Canadian Association of Government Finance Officers (CAGFO)
6. Canadian Audit & Accountability Foundation
7. Canadian Bankers Association
8. Canadian Life and Health Insurance Association (CLHIA)
9. Canadian Public Accountability Board (CPAB)
10. Canadian Securities Administrators (CSA)
11. CBV Institute
12. Charles H. Cho, PhD, CPA
13. Conseil Patronal de l'Environnement du Québec (CPEQ)
14. Contrôleur des finances du Québec

⁹ The respondent comment letters are available on [the IRCSS's website](#).

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15. Corporate Reporting Users' Forum (CRUF)
16. CPA Canada Board of Directors
17. CPA Ontario and CPA Quebec (joint response)
18. David J. Cooper, PhD, on behalf of 35 academics across Canada
19. Deloitte LLP
20. Ellen Quigley, PhD
21. Ernst & Young LLP
22. FAIR Canada
23. First Nations Financial Management Board (FMB)
24. François Brouard, DBA, FCPA, FCA
25. Katherine Ruff, PhD
26. KPMG LLP
27. Leanne Keddie, MBA, CPA, CMA, ICD.D
28. Margaret McKenzie, CPA, CA, ICD.D
29. McMaster University
30. Millani Inc.
31. MNP LLP
32. Nicole Martin Consulting
33. Nova Scotia Department of Finance and Treasury Board
34. Office of the Auditor General of Alberta
35. Office of the Auditor General of Canada
36. Office of the Auditor General of New Brunswick
37. Office of the Auditor General of Newfoundland and Labrador
38. Office of the Auditor General of Nova Scotia
39. Office of the Auditor General of Ontario
40. Office of the Auditor General of Saskatchewan

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41. Office of the Comptroller General of British Columbia
42. Office of the Superintendent of Financial Institutions Canada (OSFI)
43. OMERS
44. Paul G. Cherry, OC, FCPA, FCA
45. Principles for Responsible Investment (PRI)
46. Social Value Canada
47. Standards Council of Canada (SCC)
48. Stephen Clarke, FCPA, FCA
49. Susan Chapman
50. The Institute of Internal Auditors (IIA) Canada
51. Treasury Board of Canada Secretariat – Office of the Comptroller General
52. Treasury Board of Ontario Secretariat – Office of the Provincial Controller Division
53. United Way British Columbia
54. Vérificateur général du Québec
55. Walter Ross, FCPA



List 2: Participants in other consultation activities

1. A4S CFO network
2. AASB Steering Committee
3. Aboriginal Finance Officers Association (AFOA)
4. Academic Advisory Committee of the AcSB
5. Accounting Standards Board (AcSB)
6. Accounting Standards Oversight Council (AcSOC)
7. Aequo
8. Assembly of First Nations (AFN)
9. Association des vérificateurs généraux municipaux du Québec (AVGMQ)
10. Auditing and Assurance Standards Board (AASB)
11. Auditing and Assurance Standards Oversight Council (AASOC)
12. BDO Canada LLP
13. C.D. Howe Institute
14. Canadian Academic Accounting Association (CAAA)
15. Canadian Business for Social Responsibility (CBSR)
16. Canadian Council of Comptrollers (CCC)
17. Canadian Council of Legislative Auditors (CCOLA)
18. CBV Institute
19. CFA Societies Canada
20. CFOs of large Canadian municipalities
21. CIBC Capital Markets
22. Close Group Consulting
23. Competent Boards
24. Corporate Knights

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25. Corporate Oversight and Governance Board (CPA Canada committee)
26. CPA Canada Board of Directors
27. Corporate Reporting Users' Forum (CRUF) Canada
28. Data Governance Committee (CPA Canada committee)
29. Department of Finance – Canada
30. Environment Funders Canada
31. FAIR Canada
32. Global Risk Institute (GRI)
33. GRI-Ivey Foundation Collaboration Group
34. Healthcare of Ontario Pension Plan (HOOPP)
35. Informal forum of preparers of sustainability information
36. Institute of Corporate Directors (ICD)
37. International Corporate Governance Network (ICGN)
38. KPA Advisory Services
39. KPMG LLP
40. “Maple 8” pension plan investment managers
41. Morningstar
42. MSCI
43. Nicole Martin Consulting
44. Profession Working Group
45. Public Sector Accounting Standards Board (PSAB)
46. Responsible Investment Association (RIA)
47. Société de crédit commercial autochtone (SOCCA)
48. Standards Council of Canada (SCC)
49. Strandberg Consulting
50. Sustainability Advisory Committee (CPA Canada committee)

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51. Sustainable Finance Action Council - Disclosure Technical Expert Group
52. The Sustainability Advantage
53. TMX
54. University Pension Plan (UPP)
55. Value Reporting Foundation
56. Veritas Investment Research Corporation

In addition to the consultations listed above, stakeholders also participated in a number of general roundtables and webinars hosted by the IRCSS.

Note: Due to the volume of these consultations and their nature (i.e., involving groups, sometimes with overlap), some participants may have inadvertently been omitted from this list.