

# Independent Review Committee on Standard Setting in Canada

## Summary Feedback Statement

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May 9, 2023

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## Introduction

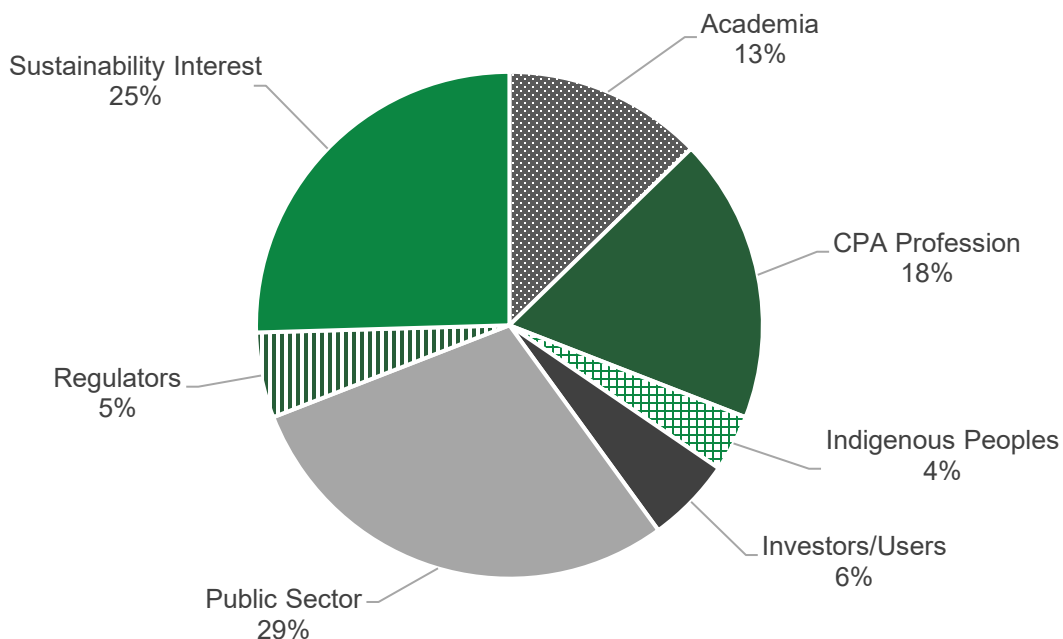
This document accompanies the final report of the Independent Review Committee on Standard Setting in Canada (IRCSS), issued on March 1, 2023, and summarizes feedback the IRCSS received in response to its consultation process on standard setting in Canada. The Committee was established to conduct a review of the current structure for establishing Canadian accounting and assurance standards as well as what might be needed for the future, including sustainability standards.

## Comments Received from Stakeholders

### IRCSS Consultation Paper

The IRCSS issued its [Consultation Paper](#) in December 2021, which identified several specific issues for consideration.

By the end of the comment period on March 31, 2022, the IRCSS received 55 response letters. Appendix C to the [Final Report](#) lists the respondents. The letters themselves are available on the IRCSS's [website](#). The following chart shows the respondents to the [Consultation Paper](#) by main stakeholder group.



In addition to inviting written responses to its [Consultation Paper](#), the IRCSS proactively obtained stakeholders' views through other means, including open and targeted roundtables, webinars, one-on-one meetings and presentations to external groups. Sixty-one such information and consultation sessions were held, attended by almost 1,200 participants representing a broad range of stakeholders. Appendix C to the [Final Report](#) lists the participants in these consultation activities.

This document summarizes the key messages received from respondents to the [Consultation Paper](#) and participants in the consultation sessions (henceforth collectively referred to as “respondents”).

## Setting the Context for the Committee’s Review

### The public interest

Respondents supported the development of a common public interest framework for use by the standard-setting boards and oversight councils. Some favoured the public interest framework outlined in the July 2020 Monitoring Group’s report [Strengthening the International Audit and Ethics Standard-setting System](#), as a starting point for developing a Canadian framework.

Specific suggestions on the critical elements of a public interest framework included:

- accountability to stakeholders for delivering responsive and timely standards;
- consideration of costs, benefits, and proportionality of impact; and
- recognition of the rights of Indigenous Peoples.

Respondents suggested that a definition of the “public interest” should consider more than capital market interests, including the specific needs of the public sector.

### Diversity, equity, and inclusion (DE&I)

Respondents viewed DE&I as an appropriate framing concept for the IRCSS’s review. They noted that participation by a broad range of stakeholders would enhance the standard-setting process by:

- ensuring appropriate representation of diverse stakeholder needs;
- enabling more fulsome discussions of implementation/application matters; and
- promoting the understanding and acceptance of standards.

DE&I was seen as especially important for sustainability standard setting given the broad scope of sustainability issues and their (often) disproportionate impact on historically underrepresented groups.

Respondents described features of a standard-setting process that they think are necessary to successfully reflect Canada's diverse population, and how they could be achieved in the Canadian standard-setting model. They suggested that DE&I should be reflected in a few ways, including:

- in the membership composition of the standard-setting boards and oversight councils by revising the composition matrices included in calls for nominations;
- in the views obtained through the stakeholder consultation process by amending existing outreach processes to solicit input from members of diverse populations and creating ad hoc advisory groups comprising diverse stakeholders; and
- in the standard-setting framework by amending it to include a mechanism by which each proposed change to a standard is assessed for possible impacts on diverse populations, including Indigenous Peoples.

## Indigenous rights

Respondents expressed universal support for involving Indigenous Peoples in standard setting. They believe the experiential-based and firsthand knowledge of Indigenous Peoples and governments would bring new and vital information to the standard-setting process. This is particularly the case for sustainability reporting standard setting, given the importance of the natural environment and intergenerational connectedness to Indigenous Peoples and their cultures.

Respondents noted that the appropriate inclusion of Indigenous Peoples in standard setting will take time and will require respectful relationship and trust building. To this end, some recommended new or modified standard-setting features or processes including:

- establishing an independent Indigenous advisory committee consisting of Indigenous professionals;
- creating a national secretariat or standing committee on Indigenous rights in auditing, accounting, and sustainability that would act as the intermediary between Indigenous Peoples and their governments, and standard-setting bodies; and
- working with Indigenous leaders and other relevant groups.

Suggestions related to modifying existing processes and features included:

- having Indigenous Peoples on oversight councils, standard-setting boards, and expert working groups;
- incorporating the [United Nations Declaration on the Rights of Indigenous Peoples](#) and the Truth and Reconciliation Commission of Canada's [calls to action](#) into terms of reference and mandates; and
- amending standard-setting processes to make it easier for Indigenous Peoples to share their views.

# Sustainability Reporting Standards in Canada – Charting a Path Forward

## Need for a Canadian sustainability standards board

Establishing a Canadian sustainability standards board was the clear preference of most respondents. They envisage such a board working closely with the International Sustainability Standards Board (ISSB) in developing a common global baseline for sustainability standards, and ensuring the Canadian voice is heard, as well as developing domestic standards to address Canadian-specific needs.

The [Consultation Paper](#) noted that the ISSB will focus on information that is material to the decisions of investors and other participants in the world's capital markets. Some respondents commented that a Canadian board should address broader stakeholder interests. Others said that a Canadian sustainability standards board should closely align its activities with the ISSB's.

## Assurance on sustainability information

Respondents expressed general support for the trend toward increasing demand for assurance services on sustainability information. However, a number of respondents expressed concerns about mandating assurance on sustainability information given the inherent difficulties in auditing such information, since it tends to be more subjective and future-oriented than historical financial information. They also noted the potential significant increase in the cost of audits, and the risk that assurance requirements could delay the release of sustainability information. They thought that any proposal for mandatory assurance on sustainability information should be introduced using a phased approach.

Most respondents preferred having the Auditing and Assurance Standards Board (AASB) develop standards for assurance on sustainability information. They noted that the current strategy of the Canadian standard-setting boards to align Canadian standards with international standards is particularly relevant for sustainability assurance standards.

Respondents also stressed the importance of involving stakeholders beyond those involved in accounting and assurance standard setting in the sustainability assurance standard-setting process. They noted that the technical expertise necessary for setting assurance standards for sustainability information might go beyond that of financial statement auditors.

Respondents emphasized the importance of:

- the AASB and a Canadian sustainability standards board working closely together to ensure that, among other things, sustainability reporting standards will require the disclosure of information that can be attested to;



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- clarifying the role of a Canadian sustainability standards board in facilitating the development of assurance standards and determining how connectivity between these two boards would be achieved in practice;
- conducting more extensive consultations with a broader range of stakeholders;
- reconsidering the AASB's composition to involve professionals with relevant expertise in the sustainability field (e.g., engineers, environmental and climate-change experts, and valuation specialists); and
- ensuring that permanent staff and volunteers have the necessary expertise and skills to conduct sound analysis and provide effective advice to the AASB on sustainability matters.

Other respondents asked whether the AASB is the right board to set assurance standards for sustainability information and suggested that a new board could be established to assume such responsibility. These respondents pointed out that:

- the AASB might not have access to sufficient expertise and resources (including capacity and time) to devote the necessary attention to setting specific assurance standards on sustainability information;
- other entities might be better positioned to set sustainability assurance standards since they have significant practical experience in that field; and
- it is more likely that the standards would be seen as appropriate and, therefore, accepted by all assurance services providers if they were developed by a separate board.

## Safeguarding the Independence of the Canadian Standard-setting Model

### Independence

Respondents had mixed views about the independence of the current Canadian standard-setting model.

On the one hand, respondents were quite positive about the current model, despite pointing out opportunities for improvement. They said that the existing processes are robust and incorporate effective oversight and safeguards, resulting in high-quality standards that serve the public interest. Respondents noted that there might be a perceived lack of independence arising from a limited understanding and awareness of the standard-setting model. They thought this issue could be addressed by a strong information campaign to bring greater transparency to how the current model is set up and operates. They suggested increasing stakeholder awareness of the safeguards currently in place, including:

- the role of the oversight councils;

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- the procedures for selecting and appointing board and oversight council members, as well as observers; and
- the required due process for standard-setting activities.

On the other hand, some concerns were raised about independence, primarily the perception thereof, particularly regarding the role and influence of Chartered Professional Accountants of Canada (CPA Canada) in the current model. They said that standards should be established by standard-setting organizations that are independent from the profession(s) applying them. They supported efforts to ensure that the Canadian standard-setting model is independent of the accounting profession and outside CPA Canada's direct influence.

## Legal structure

Respondents' views on the legal structure of the Canadian standard-setting model aligned with their views on independence in general. Respondents not raising independence issues considered it unnecessary to create a separate legal entity to house Canadian standard-setting activities. Those expressing concerns called for the establishment of a new legal entity outside CPA Canada to enhance independence in standard setting.

Respondents opposed to a new separate legal entity thought it unlikely that it would bring any significant benefits. Although they acknowledged that a new separate legal entity could increase the perception of independence, they believed the benefit would be marginal relative to the costs and the potential administrative burden. They also cautioned the IRCSS against any unintended consequences that might result from such a significant change to the current Canadian model.

Respondents in favour of a new legal entity made the following comments:

- Canada is an outlier on the international scene, being one of the few countries where standard setting resides within the profession.
- A new entity would contribute significantly to enhancing the independence of the Canadian standard-setting model, both real and perceived. Certain existing safeguards, such as the oversight councils, would likely be perceived as more effective outside CPA Canada.
- A separate legal entity employing standard-setting staff and resources would reduce the risk that stakeholders view CPA Canada as setting standards.
- Cost-effective organizational arrangements could be made to ensure the operations of both the new legal entity and CPA Canada are conducted efficiently. Such arrangements could include a shared services agreement for common functions like human resources, information technology and finance.



## Funding model

Respondents expressed mixed views on the funding model for Canadian standard-setting activities. Many favoured CPA Canada providing all, or a significant proportion of, funding for these activities provided there are appropriate safeguards to ensure independence (both real and perceived). Suggestions to enhance current safeguards, some of which relate to creating a separate legal entity, included the following:

- Secure a multi-year unconditional funding commitment from CPA Canada supported by a multi-year budgeting process. This would eliminate the need to approach CPA Canada annually for funding;
- Have an unconditional funding conduit from CPA Canada to a separate legal entity, where an independent budget committee would be responsible for allocating the funds to the standard-setting boards and oversight councils on a multi-year basis. This would promote additional continuity in standard-setting activities and allow the boards to invest in the resources needed to address emerging issues in a timely manner;
- Consider using a levy that would flow into the new legal entity. For example, the new legal entity could be allocated a fixed percentage of member dues received by CPA Canada in order to introduce an automatic mechanism for incorporating inflation or changes in the level of member dues received.

Other respondents pointed out that preparers and assurance providers of sustainability information will likely involve various parties outside the CPA profession, and they should bear a proportion of the costs associated with sustainability standards. While acknowledging that CPA Canada could initially fund sustainability standard-setting activities, they encouraged the IRCSS to consider other funding sources appropriate for sustainability standards and offered the following suggestions:

- Obtain public funding for the Canadian sustainability standards board, given the wide range of stakeholders who will benefit from sustainability standards.
- Ask a few large industry groups involved in sustainability reporting to collectively commit to contributing a given amount or a proportion of the costs associated with sustainability standard-setting activities.

Respondents agreed with the importance of a sustainable long-term funding model and suggested potential sources of financing that could be considered over the long term. These included:

- sharing funding responsibilities among CPA Canada, the government (provincial and federal), and industry; and
- levying organizations that provide services relating to sustainability disclosures or assurance via an accreditation or a licensing program.

While respondents agreed that a more diversified funding model would enhance independence, they noted that this model could increase the risk of funding shortfalls in future years (as funding commitments likely would be subject to terms). They also pointed out that some funding sources may negatively impact the independence (real or perceived) and effective functioning of the standard-setting process. Respondents urged the IRCSS to carefully assess any potential alternate funding mechanisms to avoid undue influence (or perceived risks of undue influence) or any other unintended consequences on the standard-setting process.

## Composition of the Oversight Councils and Standard-setting Boards

### Council and board composition

Some respondents questioned the effectiveness and long-term viability of a standard-setting model that relies heavily on volunteer membership. They noted that volunteer members face increasingly complex issues and time constraints (sometimes in part because of their involvement in global forums). In their view, such a model could also hinder the participation of historically underrepresented individuals or groups with time or resource constraints. Respondents suggested that stipends be considered to make the volunteer effort less burdensome. They also referred to the growing trend of having paid standard setters in other jurisdictions around the globe.

Respondents expressed mixed views on CPAs participating in the current standard-setting model, including as board members. Some respondents viewed this as positive and, in fact, favoured a predominance of CPAs since they have:

- the technical knowledge to develop accounting and assurance standards;
- the expertise needed to address any industry-specific issues; and
- an understanding of how existing standards are (or new standards could be) applied in practice.

Other respondents thought a high level of practitioner representation could hinder independence because it results in standards being written by those applying them in their day-to-day work, noting that technical expertise can also be provided at the staff level. Another benefit to reducing CPAs' involvement on boards would be more opportunities for increased representation from diverse communities and groups not typically represented on boards (such as preparers of financial information, in the AASB's case).

Some respondents supported the current practice of not reserving spots for individuals from public accounting firms. Others suggested that seats be assured for other identified groups, such as preparers and users of financial reports, people from non-financial and business backgrounds, and provincial/territorial CPA regulatory bodies.

Respondents considered composition-related safeguards more important at the oversight council level than at the board level, given the councils' monitoring and oversight roles. They encouraged a mix of representatives from outside public practice on the oversight councils and pointed out that council composition should not focus on technical expertise, since this is already addressed at the board and staff levels. Respondents also noted that there is a need for enhanced public sector knowledge among Accounting Standards Oversight Council (AcSOC) members (having regard for the differences in entities, users and financial reporting objectives between the public and private sectors), and that consideration could be given to adding representatives from legislative audit offices to AcSOC.

A number of respondents made specific comments about the composition of a Canadian sustainability standards board, including the following:

- It should allow for sufficient agility to address the many aspects of sustainability topics and adapt to evolving trends;
- Relevant representation may include:
  - technical experts on environmental and climate-change matters;
  - legislative auditors and other government representatives;
  - preparers and users of sustainability information;
  - practitioners, academics and valuation specialists; and
  - individuals and groups significantly impacted by sustainability standards and policies;
- The composition required for a Canadian sustainability standards board to truly represent its much larger stakeholder group could pose challenges in terms of manageability. To mitigate potential difficulties in obtaining true diversity and a broad range of views, the creation of an advisory council to that board could be considered; and
- The ISSB could serve as an example when determining the appropriate skillsets for the membership of a Canadian sustainability standards board.

## DE&I and Indigenous representation

There was general agreement among respondents that board and council composition should reflect Canada's diverse population to foster independence (both real and perceived) and serve the public interest. Comments and suggestions included that:

- boards and oversight councils should identify and remove existing or perceived barriers to diverse representation in their recruiting and nominating processes;
- membership composition should be modified to improve DE&I by revising the composition matrices included in calls for nominations. Factors suggested for incorporation included race, ethnicity, gender, geographic location, language, socioeconomic status, and intergenerational considerations;

- Indigenous Peoples should be represented on boards, oversight councils and their expert working groups. Consideration should be given to amending board and oversight council terms of references to require permanent representation of Indigenous Peoples; and
- DE&I and Indigenous representation is particularly important for sustainability standard setting given the broad scope of sustainability issues and their impacts on historically underrepresented groups, including Indigenous Peoples.

## Responsiveness of Standards

### Establishing standards in a timely manner

Respondents had mixed views on the extent to which timeliness of Canadian standards is an issue. On the one hand, timely standards are important to address urgent issues in today's environment (especially for sustainability, given the rapid developments in this area). On the other, timeliness is an issue almost all standard setters face; it is not unique to Canadian standard setters.

Respondents stressed the importance of not overemphasizing timeliness to the detriment of due process and effectiveness. They emphasized the need for standard setters to take the time necessary to thoroughly consider complex issues and obtain the necessary stakeholder input to support their decision making (which could take longer for sustainability standards given the broader spectrum of stakeholders from whom input should be sought).

Respondents suggested ways to improve the timeliness of domestic standard setting in Canada, including:

- placing an increased focus on “high-value” projects;
- taking phased or non-linear approaches to standard setting so that the most pressing issues are addressed first;
- ensuring the standard-setting process is flexible enough to accommodate differences between standards in terms of the level of due process followed (i.e., “fast tracking” to meet an urgent and narrow need);
- looking for innovative ways to obtain stakeholder input that do not involve the current lengthy exposure periods;
- providing additional funding for standard-setting activities; and
- scheduling more frequent board meetings.

## Considering the input and perspectives of stakeholders

Respondents agreed that robust stakeholder engagement is important to develop responsive and high-quality standards and offered suggestions for improvement. Many of the suggested activities are already being carried out by the standard-setting boards to some degree. Others included:

- providing consultation participants with short, plain-language documents explaining the issues in an understandable way and asking clear questions;
- addressing "consultation fatigue" by coordinating stakeholder consultations between the standard-setting boards to avoid multiple consultations with the same stakeholder groups, and by making publicly available a consolidated (i.e., among all the boards) work plan of documents for comment with expected release dates and comment periods to help stakeholders plan for effective reviews of standard-setting proposals;
- making better use of technology (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 stakeholders and obtain their feedback on a proactive and ongoing basis;
- working to increase stakeholder awareness of the standard-setting process and the opportunities to get involved throughout; and
- paying honorariums to stakeholders to compensate for time spent on standard-setting matters.

Given the broader range of stakeholders in sustainability reporting, respondents thought it likely that stakeholder engagement in this area would require additional effort. In addition to the plain-language point mentioned above, they suggested:

- examining possible barriers to participation (e.g., resource constraints, travel distance and time commitment) and finding ways to resolve or alleviate them;
- proactively identifying relevant organizations and asking for their assistance in reaching 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 look for input in the sustainability area.

As previously noted, most respondents recognized the importance of effective engagement with Indigenous communities, particularly during the development of sustainability standards.

## Transparency and accountability

A number of respondents indicated a need for enhanced transparency and accountability in Canadian standard setting with a view to increased acceptance and understanding of the final

standards. Some expressed concern (relating primarily to the Public Sector Accounting Board) that while oversight council meetings are open to the public, board meetings are not and supporting agenda papers are not publicly available. In addition to encouraging access to live meetings, respondents suggested providing detailed background on how the boards arrived at their decisions, what data points they analyzed and what factors they considered during their decision-making processes. Some respondents suggested that the oversight councils should be more transparent about how they ensure that they and the boards have adequately considered stakeholder views, in part through clearer documentation of how stakeholder feedback was incorporated into the final standards and the rationale for not incorporating certain suggestions.

Respondents also commented on what they saw as a lack of transparency around board and oversight council member selection and appointment processes, suggesting that information about these processes (including composition matrices used to nominate and appoint members) be made public.

## Effectiveness of Canadian Standard Setting

### Effectiveness of the oversight council structure

Several respondents (particularly those from the public sector) favoured maintaining the existing two-council oversight model. The main reasons included the following:

- The work of AcSOC and the Auditing and Assurance Standards Oversight Council (AASOC) is different: one oversight council focuses on financial reporting and the other focuses on auditing and assurance services. Priorities for these two oversight councils may differ over time and the separation helps each attend to the most critical priorities for the two distinct profession practice areas.
- Each oversight council handles unique standards requirements. Combining the councils could contribute to having certain groups being less “heard” than others (i.e., to having dominant voices) and could decrease diversity.
- The range of issues might be unmanageable for a single oversight council, and determining an appropriate representative size for the council could be challenging.

Other respondents thought it would be appropriate to consolidate oversight activities into a single oversight body, and that the IRCSS should analyze such an option. In their view:

- consolidation would result in better connectivity and foster consistency across the boards in terms of their performance, process and approach; and
- since the responsibilities of the oversight councils are broad and not technical in nature, creating a single oversight council could achieve efficiencies (e.g., by reducing the total number of members) without compromising effectiveness.



Comments received regarding the oversight council structure reflected a lack of clarity around the current role of the oversight councils relative to the existing standard-setting boards.

## Assessing the effectiveness of the Canadian standard-setting model

Respondents supported the continuation of existing mechanisms already used by the boards and oversight councils to regularly monitor their effectiveness and thought these mechanisms should incorporate:

- comparisons of results achieved against desired outcomes;
- post-implementation reviews of issued standards to ensure they are operating as intended;
- environmental scans for considerations that could affect standard setting (e.g., the direction of the profession, and innovations); and
- regular feedback from board and committee members on the standards-development process (i.e., at least twice a year and systematically after each meeting), as part of a continuous improvement process.

Respondents also encouraged more frequent comprehensive reviews of the overall standard-setting system performed by external, independent parties, the results of which should be made public. Such reviews were seen as especially important given the accelerating pace of change in the standard-setting environment. Respondents' views on how often the reviews should occur varied from every five to ten years, with the opportunity to trigger an earlier review if needed.

## Ethics and Independence for Assurance Services

Some respondents indicated that there were no matters related to ethics and independence standards to highlight and that the current process for setting and monitoring ethics and independence rules is robust and responsive to stakeholders' needs. However, others expressed concerns in this area.

One respondent thought that the principles of independence, responsiveness, transparency and accountability described in the [Consultation Paper](#) should equally apply to ethics and independence standard setting. Another believed that the [Public Trust Committee](#)<sup>1</sup> is not held to the same level of rigour as the accounting and auditing and assurance standards boards, and that the oversight of its activities could be enhanced. Views were also expressed that Canada's provincially led structure for setting ethics and independence standards is out of step with international peers, directly and adversely impacting Canada's ability to monitor and respond to emerging issues, including revising

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<sup>1</sup> At the national level, the Public Trust Committee oversees and proposes harmonized independence standards for CPAs for adoption by the provincial/territorial CPA bodies in their own codes of professional conduct.

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Canadian independence standards in a timely manner in response to developments in the *International Code of Ethics for Professional Accountants*.

It was also noted that a separate process or framework could be put in place for addressing ethics or independence matters as they relate to sustainability, given the extensive area of focus and broad range of stakeholders associated with sustainability issues.