

March 30, 2022

Edward J. Waitzer,
Chair of the Independent Review Committee
on Standard Setting in Canada
c/o 277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Waitzer,

The Board of Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the Consultation Paper issued by the Independent Review Committee on Standard Setting in Canada (Review Committee) in December 2021. We thank the volunteer members of the Review Committee for their dedication and independence. The Consultation Paper considers some challenging and complex issues, and the broad consultation will provide valuable insights.

In this submission, we offer some comments on select areas for the Review Committee's consideration after providing some background information.

CPA Canada's current support of standard setting

CPA Canada is one of the largest national accounting organizations in the world, representing more than 220,000 members. Legislation, rules and practices set out that authoritative accounting, audit and assurance standards to be followed in Canada are those published in the CPA Canada Handbook. In recognition of that responsibility, CPA Canada has actively supported the building and maintenance of an independent standard-setting structure and process in Canada.

Oversight of the standard-setting process in Canada lies with the Accounting Standards Oversight Council and the Auditing and Assurance Standards Oversight Council. To ensure the Canadian Accounting, Public Sector Accounting, and Auditing and Assurance Standards Boards and their Oversight Councils are independent and function without undue influence, they operate at arm's length from CPA Canada. The Councils appoint members and oversee the activities of the Boards. The staff resources take direction from the Councils and the Boards, and the Boards make all standard-setting decisions.

With the strategic and day-to-day oversight exercised through the existing Oversight Councils and Boards, CPA Canada sees its role as a guardian of the public interest by providing appropriate resources and support for Canada's standard-setting process. CPA Canada supports this country's independent standard-setting process by providing the established Boards and Oversight Councils with the funding, staff and other resources they need to set their agenda and complete their work. CPA Canada also supports the process by developing non-authoritative implementation guidance, tools and educational materials to help professional accountants and other stakeholders consistently apply the standards set by the Boards.

CPA Canada's comments

Our seven primary comments relating to the consultation are:

Continuing commitment

1. CPA Canada stands ready to continue supporting and strengthening the independence and process of standard setting in Canada, so it remains fit for purpose today and in the future.

High-quality accounting, audit and assurance standards contribute to a strong capital market system as well as inform decision-making and accountability in the public sector. CPA Canada stands ready to continue its long-standing commitment to support standard setting in Canada on behalf of the profession and the public. CPA Canada remains committed to doing so in the public interest and is open to strengthening the independence and process of standard setting, so it remains fit for the future, including considering the evolving needs of a wide variety of stakeholders.

In that capacity, CPA Canada anticipates it may be charged with overseeing the implementation of aspects of the Review Committee's recommendations. We will work with the appropriate parties to fulfill that role in an effective and timely manner.

Sustainability standards in Canada

2. CPA Canada agrees with establishing a Canadian sustainability standard-setting function for Canada to play its role internationally and domestically.

3. We think that the recommendation on establishing a Canadian sustainability standard-setting function should be developed by assessing and clearly enunciating the roles critical to its future success, including those set out below.

Members of the IFRS Foundation and International Organization of Securities Commissions have identified the importance of jurisdictions building a strong infrastructure to contribute to the work of the International Sustainability Standards Board (ISSB), as well as to work locally to adopt and mandate the use of international sustainability standards. Today, the Canadian Accounting and Auditing and Assurance Standards Boards are a vital component of such an infrastructure and work alongside their international counterparts, securities regulators and others in that infrastructure. The establishment of a sustainability standard-setting function could fulfill a similar role.

Setting sustainability standards is in the public interest and will bring significant benefits to organizations, investors, the economy and society at large. Appropriate processes are needed in Canada to carry out due process to develop standards, build acceptance of the standards, and work with securities regulators and others to determine their enforceability. To do so, a Canadian sustainability standard-setting function could work to:

- influence the development of international sustainability standards to ensure Canadian needs and issues are considered by international sustainability standards setters;

- adopt international standards to contribute to globally comparable and consistent sustainability reporting, and adapt the standards, as necessary, to provide sustainability reporting that is fit for purpose for various types of Canadian organizations; and
- develop standards to meet the broader sustainability reporting needs in Canada, which can, in turn, support further international advances in sustainability reporting.

4. The structure of Canada’s sustainability standard-setting function should be developed by considering multiple elements, including those outlined below, regardless of the form of structure that is recommended.

As discussed in the Consultation Paper, the concept of public interest is evolving and will continue to do so. For example, expectations are changing in areas such as diversity, equity and inclusivity, and Indigenous rights and perspectives. To accommodate the need to adjust to meet future expectations, the form of structure recommended for setting sustainability standards should enable maximum effectiveness and flexibility. Therefore, when considering the governance structure to recommend, we encourage the Review Committee to consider:

- the connectivity of sustainability standard-setting activities with accounting and auditing standards. Applying new sustainability and existing accounting standards should result in reporting that provides an expanded view of performance in an integrated and consistent manner. The standards over assurance of that information will also need to adapt. It is imperative that the governance structure ensure strong and continuous connectivity between all standard-setting Boards and activities to enable an integrated approach to performance reporting and assurance standards.
- diverse representation in the board, committees and consultations responsible for sustainability reporting. Representation should leverage expertise from various stakeholders (such as Indigenous Peoples, academics and professionals), be reflective of Canada (such as by population, knowledge accumulated, sectors and geography) and include individuals who mirror society (such as by age and gender). Diverse representation in the standards responds to the evolving expectations of the public and provides information to meet the needs of a broader range of stakeholders (i.e., needs that extend beyond investors and other participants in the capital markets and consider the additional interests of a multiplicity of stakeholders). Diverse standards also reflect the characteristics and strengths of the Canadian economy and its sectors.

Be future focused

5. We encourage the Review Committee’s recommendations to be forward looking for standard-setting in Canada to be fit for success over the coming years.

To be fit for purpose, considering factors likely to influence standard setting in the future is imperative and could include the following topics:

- **Future evolution of assurance standards** – The International and Canadian Auditing and Assurance Standards Boards have issued guidance to support the consistent application of its existing standards when assuring sustainability information. They are taking proactive steps to assess what further standard setting action may be needed. The demand for assurance as well as

for a higher level of assurance over sustainability reporting will likely increase to be similar to the expectations related to financial statement audits are today. This will require the evolution of assurance standards or developing new guidance. Sustainability standards will also need to evolve so that required disclosures can be assured or audited.

- **Data standards** – Fulfilling the requirements of sustainability standards will require reporting entities to gather and use the requisite data. In many instances, this data is not reliably collected, processed and recorded by entities today. And, unlike financial reporting, which has commonly accepted approaches to collecting, controlling and aggregating financial data, current approaches and practices related to sustainability data are developing and are not commonly adopted. More comprehensive guidance and standards provided by standard setters or the accounting profession, concurrent with the development of sustainability standards, could assist in the advancement of related processes, controls and use of the data.
- **Digitalization and real-time reporting** – Some Canadian multinational companies submit XBRL filings using taxonomies developed, for example, by the IFRS Foundation. The digital transformation of business and other technological advancements could result in more frequent and new audited forms of external reporting and different assurance needs in the future in Canada. Such processes and data could enhance how users access, automate and analyze information for decision making. Digitalization and real-time reporting could enhance the cohesiveness, comparability and timeliness of reporting audited financial and non-financial information. Standard setters could play an important role in supporting the rising demand for “real-time” reporting and “continuous auditing”, including determining what type of guidance might be required.

6. With the current pace of change, considering whether more frequent or ongoing reviews should be conducted to ensure standard setting in Canada remains fit for purpose.

The last set of recommendations on standard setting was rendered over 20 years ago. Society, the economy and business will evolve too rapidly in coming years to wait for another generation to assess the fit for purpose of standard-setting. Canada will benefit from a future approach to standard-setting that allows for continuous improvement, in place of the historical approach that limited the evolution of standard-setting only to the outcomes of periodic comprehensive assessments.

Independence and funding

7. We ask that the Review Committee’s recommendations on funding be practical and implementable, based on sound analysis of cost-effectiveness, and ensure any diversified funding sources are also independent and stable over the long term.

Independence in fact and appearance is a cornerstone of Canada’s standard-setting process. Today, the role of the Oversight Councils and the due process principles of the Boards that are published, practiced and reported are key to this independence. Funding can also impact actual or perceived independence.

When any third-party funds another's activities, questions arise as to what influence, whether intended or unintended, they may have.

A broad base of funders could help mitigate concerns about independence and address:

- the new funding requirements to establish a sustainability standard-setting function; and
- provide additional funds to implement other recommendations related to the existing standard-setting activities.

As a member-based organization, CPA Canada's funding for standard setting is borne by CPAs through their membership dues which are often indirectly paid for by their clients or the organizations they serve. Hence, the funding is in fact from all types of organizations and sectors of the Canadian economy. From that perspective, CPA Canada respects and relies on the independent standard-setting governance structure and practices, and provides funding as requested as part of its mandate to protect the public interest.

The independence of standard setting in Canada is strong and should remain a benchmark for its peers. In that spirit, CPA Canada is open to the Review Committee's recommendations on how the independence of standard setting can be strengthened and the funding potentially diversified. Securing additional or alternate funders whose commitment and contributions are durable over the long term has proven elusive in the past. The likelihood of successfully implementing any recommendations on other sources of new funding will be greatest when accompanied by suggestions on an approach to securing such funding.

We appreciate the opportunity to provide these comments at this stage of the review. We would be pleased to discuss our comments and answer any questions you may have related to them. Please contact Gord Beal, Vice-President, Research, Guidance and Support (GBeal@cpacanada.ca).

Yours truly,



Richard Olfert, FCPA, FCA, CMC, ICD.D
Chair, CPA Canada Board of Directors