Independent Review Committee on Standard Setting in Canada

Consultation Paper

Comments due March 31, 2022

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Purpose

The purpose of the Independent Review Committee on Standard Setting in Canada (the Committee is to conduct a review of the governance and structure for establishing Canadian accounting and assurance standards,[1] and to identify what might be needed for the future – including sustainability standards.

This Consultation Paper is focused on our overall objective of considering what changes might be appropriate to ensure that the national standard-setting system is independent, robust, world-class and responsive to stakeholders' needs.

Our review process will include stakeholder dialogue and consultations, with final recommendations planned for mid-2022.

Request for Comments

The Committee welcomes comments on all aspects of this Consultation Paper. In addition, several questions are posed in the Consultation Paper in specific areas for which the Committee seeks stakeholder input on the issues identified. A complete list of the questions is included below.

Comments are most helpful when they indicate the specific subject to which they relate, clearly explain the concern and the reason for the perspective offered.

The Committee would like to obtain comments from a wide range of stakeholders, including those with a particular interest in financial and sustainability reporting, and standard setting.

We value your input and look forward to your feedback. You can contribute your thoughts and perspective by taking part in the Connect.FRASCanada.ca project or by submitting a comment letter addressed to:

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

Please submit your written comments by March 31, 2022.[2]

[1] References to assurance standards in this Consultation Paper include auditing, assurance and related services standards.

[2] The original comment deadline of February 28, 2022 was extended in early January 2022 to ensure stakeholders have adequate time to take part in the consultation.

Executive Summary

The institutional framework in place in Canada for developing accounting and assurance standards and overseeing the standard-setting process has evolved over time. Global trends and developments have led to a dynamic standard-setting environment and stakeholder needs and expectations that are changing at an increasing pace.

In May 2021, Canada's standard-setting oversight councils, along with Chartered Professional Accountants (CPA) Canada, established the Independent Review Committee on Standard Setting in Canada (the Committee) to conduct a review of the current governance and structure for establishing Canadian accounting and assurance standards, as well as what might be needed for the future – including sustainability standards. The goal is to identify recommendations to ensure Canadian standard setting is independent, world-class and responsive to stakeholders' needs.

The Committee has prepared this Consultation Paper to seek views and ideas on what should be done to best achieve this outcome. The feedback obtained will assist the Committee in completing its review and formulating its final recommendations.

Setting the Context

There are three concepts that framed the Committee's approach to its mandate – the public interest, diversity, equity and inclusion, and Indigenous rights. These concepts are related. Acting in the public interest requires engagement with and the involvement of a full range of diverse stakeholder representatives from across Canada and also Indigenous Peoples and their governments.

A Call for Action on Sustainability Reporting Standards

Demands for information about a company's environmental, social and governance (ESG) performance have increased dramatically. This has led to sustainability reporting initiatives worldwide, and a variety of standards and frameworks with diverse and sometimes conflicting guidance. Not surprisingly, they are being applied differently and adding to reporting complexity. Stakeholders say there is an urgent need to improve consistency and comparability in sustainability reporting at a global level.

The International Financial Reporting Standards (IFRS) Foundation responded in November 2021 by establishing the International Sustainability Standards Board (ISSB) as a sister board to the International Accounting Standards Board (IASB). The Committee considers it important to similarly create a Canadian sustainability standards board that would work alongside Canada's existing accounting and assurance boards and liaise with the new international board. This Consultation Paper outlines the Committee's thinking on why such a Canadian board is important and seeks comment on its design.

Safeguarding Independence

Independence of the standard-setting process from special interest groups, political pressures and personal interests is widely recognized as essential for the development of standards that have integrity and are in the public interest. Independence, in fact, may differ from perceived independence but both have similar effects in terms of how the standard-setting process is viewed and how standards are accepted by stakeholders.

Over time, several structural elements have been incorporated into the Canadian standard-setting model to help safeguard independence. Yet some stakeholders have pointed to certain features of the model, particularly the current relationship between the accountancy profession and the standard-setting process and CPA Canada's role in that process, suggesting that the existing safeguards may be insufficient.

The Committee is considering whether additional safeguards (relating to, for example, legal structure, funding model or board composition) are warranted for the Canadian standard-setting model. This Consultation Paper identifies, at a high level, some possible modifications and invites comments on their desirability and appropriateness.

Being Responsive to Stakeholder Needs

A responsive standard-setting process, among other things, establishes standards in a timely manner and maximizes effective stakeholder involvement to ensure the input and perspectives of those affected by the standards are appropriately considered.

Canada's accounting and assurance standard-setting boards follow an established due process for setting standards. Some have argued that the process is too slow. The boards and oversight councils, themselves, recognize the need to respond more quickly to an evolving environment and are committed to trying new approaches to shorten "time to market."

Another significant challenge in establishing standards has been engaging and obtaining meaningful input from stakeholder groups – financial statement users in particular.

This Consultation Paper describes the boards' current initiatives to enhance timeliness and stakeholder engagement. The Committee welcomes views and suggestions for further enhancements in both these areas.

Other Considerations

This Consultation Paper also addresses other related issues, including:

- transparency and accountability;
- effectiveness of Canadian standard setting; and
- ethics and independence standards for assurance services.

Monitoring for Success

The Committee expects that its review will result in changes to the Canadian standard-setting model and understands the importance of ensuring that these changes achieve clearly articulated objectives and, ultimately, outcomes. It will be necessary to assess these changes and it would be valuable to have periodic reviews by parties outside the standard-setting system. Allowing sufficient time to implement the Committee's recommendations will be important.

This Consultation Paper invites comment on the need for such reviews and how they should be undertaken.

Questions for Respondents

The Committee is seeking responses to the following questions, which are covered in Sections 1-5:

Q1. The Committee welcomes comments on this approach to its mandate.

Q2. Do you think the development of a common public interest framework would be helpful to Canada's standard-setting boards and oversight councils? Are there critical elements to such a framework?

Q3. Do you have comments on how best to ensure that standard-setting processes reflect and respond to Canada's diverse populations, including the unique rights of and responsibilities to Indigenous Peoples?

Q4. Do you agree that a Canadian sustainability standards board should be established? Are there any special factors, beyond those outlined above, that should be considered in addressing this threshold issue?

Q5. Are there any special matters the Committee should consider in developing recommendations with respect to the sustainability assurance standard-setting process and oversight thereof?

Q6. Do you have concerns about independence in the current standard-setting model that should be addressed and suggestions for how best to do so?

Q7. Would the creation of a separate legal entity outside the control of CPA Canada enhance the independence of the Canadian model? Please consider this in the context of independence in fact as well as in appearance and indicate any specific concerns the Committee should be mindful of.

Q8. Should the present funding model for Canadian oversight and standard-setting activities be modified to enhance safeguards to independence, real or perceived? Please provide the rationale for your view. Do you have suggestions on how funding sources could be diversified? Do you have any specific suggestions regarding the funding model for an eventual Canadian sustainability standards board?

Q9. With regard to the oversight councils and standard-setting boards, are you satisfied with the current structure and safeguards in place to ensure independence?

Q10. Do you have comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

Q11. With regard to a Canadian sustainability standard setting board, do you have any views on the structure, composition and specific competencies needed? Please include any comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

Q12. Do you have suggestions on how to improve the timeliness and responsiveness of Canadian standard setting?

Q13. Do you have suggestions on how the Canadian standard-setting boards could further influence the relevance and timeliness of international standards adopted for use in Canada?

Q14. Do you have any suggestions to improve stakeholder engagement (users in particular) in the development and ongoing monitoring of the effectiveness of standards? Should different considerations apply with respect to sustainability standards?

Q15. Given the special considerations relating to sustainability reporting standards, do you have any suggestions on how best to foster (and balance) timeliness with robust stakeholder involvement in sustainability standard setting?

Q16. Do you have any concerns related to the transparency and accountability frameworks that currently apply with respect to the oversight and standard-setting process? Are there additional considerations that should apply with respect to sustainability standard setting?

Q17. The Committee welcomes views on whether consolidation of boards and/or councils is an option that should be considered. If so, please explain why and how.

Q18. What are your views on how best to assess effectiveness of standard setting, including the desirability of periodic reviews by independent parties external to the standard-setting system?

Q19. Are there matters related to ethics and independence standards that you would like to highlight for the Committee's consideration?

Q20. Are there any other matters the Committee should consider as part of its review?

Section 1
Introduction and Background

1.1 Background

1. Accounting and assurance standards play a vital role in the financial reporting supply chain. They provide common and essential measurements for Canadians to assess organizational performance and build credibility and trust in financial reporting. The institutional framework that develops and oversees standard setting in Canada 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).

2. A review of standard setting in Canada last took place between 1996 and 1998. The recommendations of the Task Force on Standard Setting (TFOSS) focused on strengthening the independence of the standard-setting process and led to Canada's adoption of IFRS® Standards and international assurance standards.

3. Stakeholders' needs and expectations have evolved 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 reporting on sustainability.

4. These macro trends are affecting accounting and assurance standard setting globally. 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, the International Financial Reporting Standards Foundation (IFRS® Foundation) established the ISSB as a sister board to the IASB. These events should be considered in terms of their potential impact on standard setting in Canada.

5. The Canadian oversight councils, along with CPA Canada, established the Independent Review Committee on Standard Setting in Canada (the Committee) to consider how best to respond to global developments and to ensure that Canadian standard setting is in the public interest, "fit for the future," and capable of embracing new activities as needed, such as in sustainability reporting.

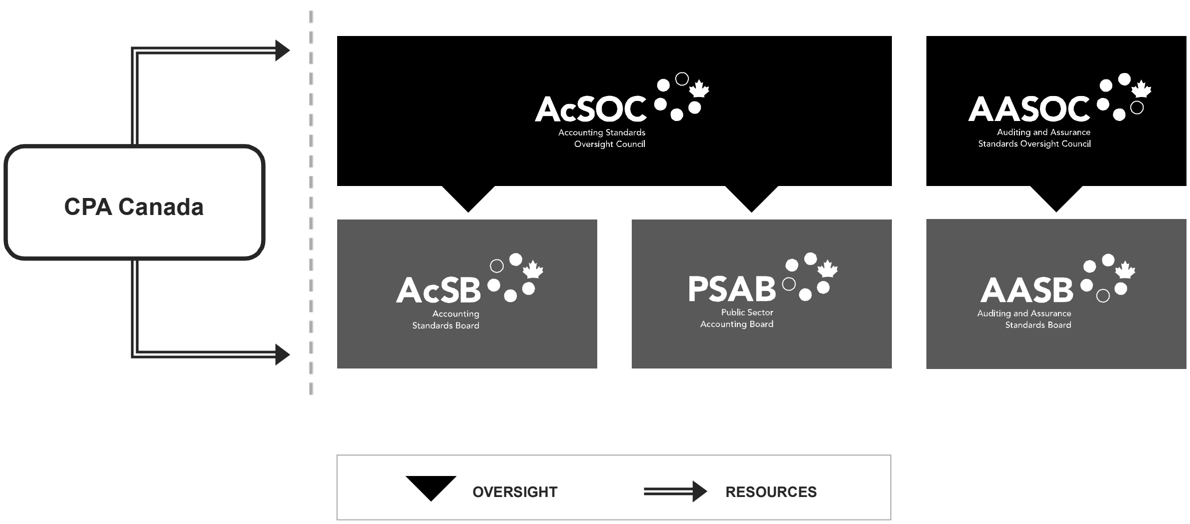
6. Appendix A sets out the members of the Committee and its Terms of Reference.

7. Canada develops domestic (Canadian-made) standards for the private and public sectors as well as in the assurance field. Canada is also a significant contributor to the development of all related international standards. The concerted efforts of Canada's standard setters are aimed at ensuring Canadians are represented and their specific interests are considered on the global stage. The Committee is committed to the continuous improvement of Canada's standard-setting processes and to addressing a rapidly evolving domestic and international environment.

Current Canadian standard-setting model

8. There are two tiers in the Canadian standard-setting system. Three standard-setting boards establish and maintain accounting and assurance standards to serve the public interest. They are overseen by two oversight councils that appoint board members and oversee and provide input into the boards' activities.

Figure 1 – Structure of accounting and assurance standard setting in Canada



9. Board and oversight council members are mainly volunteers, with diverse industry backgrounds from the private and public sectors. They include financial statement preparers and users, auditors, academics, regulators and, in the case of the councils, individuals with broader business and legal backgrounds. Board members are predominantly CPAs, whereas the councils have more professional diversity.

Oversight councils

10. AcSOC oversees the AcSB and PSAB. AASOC oversees the AASB and also provides input on the development of auditor independence standards, including the activities of the Independence Standing Committee (ISC).[2] The oversight councils each have between 17 and 21 volunteer members with broad business expertise.

11. The oversight councils are not involved in technical standard setting. Their specific roles and responsibilities are set out in their Terms of Reference and can be summarized as:
    - to appoint board and council members through a public process;
    - to provide input to the boards on strategic direction and priority setting;
    - to oversee the boards' activities, including ensuring they follow due process;
    - to monitor and evaluate the boards' performance, including whether they have fulfilled their responsibilities and accomplished their work programs; and
    - to assess the adequacy and use of volunteer and staff resources.

Standard-setting boards

12. The three standard-setting boards involved in developing accounting and assurance standards for Canada are the AcSB, PSAB and the AASB. They share the common purpose of serving the public interest by establishing high-quality standards to address Canadian stakeholders' needs.

13. The boards each have between 12 and 14 members with significant expertise and experience. While the Chairs of the boards are compensated, the other members are volunteers. The boards develop standards based on a process designed to ensure standards are robust, extensively researched and reflect Canadian entities' reporting environments. Stakeholder input is obtained in a collaborative and iterative manner, and the boards ultimately vote to approve any new or amended standards.

14. Canada has a long history of engaging in the development of international standards. Each of the standard-setting boards has a strategy that includes active participation in the development of international standards and the eventual adoption or consideration of international standards, as well as the development of Canadian-made standards (or guidance).

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[2] The ISC, a standing committee of CPA Canada's Public Trust Committee (PTC), makes recommendations concerning independence standards and related matters. The ISC's mandate is to assist the PTC in serving the public interest by recommending high-quality independence standards for proposed adoption by the CPA profession's provincial bodies in their codes of ethics for use by all Canadian CPAs.

AcSB

15. The AcSB establishes financial reporting standards for Canadian private sector entities, including publicly traded entities, private enterprises, not-for-profit organizations (NFPOs), and pension plans. The development of standards is different based on the type of entity. Entities with securities traded on capital markets apply IFRS® Standards that have been adopted into the CPA Canada Handbook. As part of its activities, the AcSB works closely with the IASB to influence the development of international standards so that the perspective of Canadian stakeholders is heard. After gaining an understanding of the new or amended IFRS Standards and evaluating if the IASB proposals are appropriate for application in Canada, the AcSB endorses the IFRS Standards as issued by the IASB. Canadian-made standards are developed for private enterprises, NFPOs and pension plans following an established due process, including consulting stakeholders.

AASB

16. The AASB sets quality management, audit, other assurance and related services standards. The AASB adopts the International Standards on Quality Management (ISQMs) and International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), as Canadian Standards on Quality Management (CSQMs) and Canadian Auditing standards (CASs). However, the AASB may make amendments to ISQMs or ISAs as necessary to meet the needs of Canadian stakeholders, based on an established set of amendment criteria. The AASB is involved in the development of all IAASB standards through analyzing and commenting on all material the IAASB discusses. For standards other than the CSQMs and CASs (e.g., review engagement standards), the AASB may choose to develop Canadian-made standards or adopt other international standards on a case-by-case basis. Canadian-made standards are developed using an iterative due process.

PSAB

17. The PSAB sets public sector accounting standards for governments, including Indigenous governments, and other public sector entities. These standards are Canadian-made and are developed based on stakeholders' needs, using an iterative due process. In April 2021, PSAB decided that International Public Sector Accounting Standards (IPSAS) would be used as the basis for developing a corresponding Canadian standard if an IPSAS on the topic exists. PSAB is involved in developing IPSAS through analyzing and commenting on material the International Public Sector Accounting Standards Board (IPSASB) discusses.

Due process principles

18. Canada's standard-setting boards adhere to the following principles which are similar to those followed by standard-setting bodies in other jurisdictions:

- Independence/objectivity: seeking to ensure that board members remain independent from special interest groups, political pressures and personal interests.
- Transparency: conducting the standard-setting process in a transparent manner.
- Consultation: considering the perspective of those affected by Canadian financial reporting and assurance standards and guidance.
- Accountability: analyzing the potential effects of proposals on affected parties and explaining the rationale for the board's decisions when developing or changing a standard or guidance.

Role of CPA Canada in the current standard-setting model

19. CPA Canada provides funding, staff and other resources to support these standard-setting processes but does not otherwise participate in the decision-making processes of the standard-setting boards or oversight councils. This is aimed at ensuring that the boards and councils can carry out their standard-setting and oversight mandates independently and without any undue influence. That said, the two councils and three boards are legal entities of CPA Canada.

20. The boards and oversight councils share a dedicated website separate from CPA Canada (www.frascanada.ca), as well as distinct branding. Separate and distinct social media profiles also exist on Facebook, LinkedIn and Twitter.

21. In many jurisdictions, accounting and assurance standard setting is a function of government. For example, it may be part of the Ministry of Finance. Other jurisdictions have created a separate private sector entity to house all or part of standard-setting activities. The Canadian structure is unique in that while standard setting is legally housed within the professional accountancy body, the governance structure is aimed at ensuring that there is no undue influence from CPA Canada.

22. All operating costs of the current Canadian standard-setting system (about $14 million annually) are funded by CPA Canada (which is primarily funded through membership fees and product sales). The staff who support the boards and oversight councils (about 45 people) are employed and paid by CPA Canada. These employees take their direction on standard setting from the standard-setting boards and do not vote on or make decisions regarding any proposed or approved standard.

23. When final standards are approved by the standard-setting boards, they are published in the CPA Canada Handbook, which is trademark protected. Legislation across Canada refers to the Handbook as the authoritative source of generally accepted accounting principles (GAAP) and generally accepted auditing standards. CPA Canada owns the intellectual property comprising the standards and controls their distribution.

1.2 Setting the context for the Committee's review

24. The following concepts framed the Committee's approach to its mandate:
    (a) the public interest;
    (b) diversity, equity and inclusion; and
    (c) Indigenous rights.

    These concepts are related. Acting in the public interest requires engagement with and inclusion of diverse stakeholders, including those representing provincial and territorial regions. It also requires a recognition of the unique constitutional rights of Indigenous Peoples (who include the First Nations, Inuit and Métis peoples of Canada).

Question for respondents:
Q1. The Committee welcomes comments on this approach to its mandate.

The public interest

25. The Committee's recommendations will focus on ensuring standard setting is independent, internationally recognized and in the public interest.

26. The Committee believes that while the public interest concept permeates all standard-setting activities, the public interest and how it might best be served needs to be considered as it relates to particular circumstances. In some cases, this consideration is straightforward. In others, there are complexities and trade-offs, requiring a more thorough analysis and the use of judgment.

27. The Committee's thinking about public interest has been informed by three primary reference documents. Appendix B summarizes these documents. Each of these documents recognizes that standard setting typically involves considering the needs of many stakeholders. When it comes to financial reporting, there is a particular focus on effective mobilization and allocation of capital, and on the markets that facilitate those processes and impose accountability on those accessing capital. The focus of sustainability reporting is broader.

28. The Committee recognizes that the views and interests of all stakeholders should be considered. The Committee also acknowledges that stakeholders may at times have mutually inconsistent interests, at least in the near term. In these cases (and particularly for financial reporting), the Committee agrees with the Monitoring Group that the focus should primarily (but not exclusively) be on the interests of users and, more specifically, protecting the long-term interests of capital providers, as they are key to the efficient functioning of financial markets.

It is acknowledged that this historical focus on users could shift in the future. The Committee understands the need to build trust in financial and sustainability reporting processes and outcomes through professionalism and risk-based, transparent, independent, rigorous and balanced reporting. To this end, the Committee anticipates focusing its recommendations on issues such as independence, stable funding and due process.

29. The Committee hopes to give voice to a diversity of views (institutional and non-institutional) and to recognize the legitimate interests and expectations of various stakeholder groups (e.g., Indigenous communities) both in its own deliberations and, ultimately, in the consultative and governance processes that support effective standard setting.

30. The Committee's recommendations will reflect the qualitative characteristics identified in the Monitoring Group's report, specifically: consistency, coherence, scope, scalability, timeliness, relevance, completeness, comprehensiveness, clarity, conciseness, implementability and enforceability.

31. When it comes to sustainability reporting, the issues that arise are more systemic and arguably address a broader and more qualitative range of subjects. Sustainability standard setting raises other issues, such as:

    (a) proportionality of effect (i.e., ensuring the effective representation of those most affected or whose rights/entitlements are specifically protected); and

    (b) whether the objectives of the standards should relate not only to an organization's reporting metrics (i.e., the usual focus of reporting standards) but also to the underlying sustainability-related actions and initiatives driving those metrics.

32. Ultimately, reporting and assurance standards should address the long-term interests of a diverse range of stakeholders (whose interests tend to converge as time frames extend) and society as a whole. Public confidence in the integrity and utility of the consequential standards and in reporting and assurance processes, and related outcomes is the ultimate test of whether these standards and processes serve the public interest.

33. The Committee believes that oversight councils and standard-setting boards should demonstrate how the public interest is taken into account throughout the standard-setting process. AASOC has developed and publicly issued a public interest framework and a council working group is currently drafting amendments to that document. AcSOC and PSAB have also worked on similar frameworks.

34. Standard setters in other jurisdictions have approached demonstrating how the public interest informs their work in various ways. The Monitoring Group specifies that audit-related standards be developed in accordance with the principles set out in the Group's public interest framework. The IFRS Foundation Trustees do not have an explicit framework but have documented how they work in the public interest.

35. The Committee believes a common public interest framework could provide a helpful tool against which the Canadian standard-setting process can be evaluated.

Question for respondents:

Q2. Do you think the development of a common public interest framework would be helpful to Canada's standard-setting boards and oversight councils? Are there critical elements to such a framework?

Diversity, equity and inclusion (DE&I)

36. The Committee thinks that the quality of standard setting in Canada is enhanced when a wide range of experiences and perspectives are embedded in standard-setting (and related oversight) processes, fully reflecting Canada's diversity. 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 discussions, better decisions and better outcomes.

37. Diversity has several aspects: geography, language, gender, experience and expertise, among them. In the Canadian context, diversity may also include different economic sector expertise. Historically, diversity considerations, such as geographic location, language and gender, have been taken into account in selecting members for standard-setting boards and oversight councils. 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.

38. It is important to acknowledge the emphasis in a broader business context for DE&I to address the challenges of creating long-term, sustainable value in an increasingly competitive and global marketplace. It has become generally agreed that a lack of DE&I can pose organizational risks.

Indigenous rights

39. The Canadian Constitution specifically recognizes the rights of Indigenous Peoples. These rights are separate and apart from other diversity expectations discussed previously and elsewhere in this paper. The Constitution recognizes that existing Indigenous and treaty rights of Indigenous Peoples, including modern land claim rights and the inherent right to self-government, are recognized and affirmed.

Indigenous Peoples

40. Nearly 5 per cent of Canada's population is Indigenous. Indigenous Peoples constitute a majority of the populations of Nunavut and the Northwest Territories and a strong minority of the populations of Yukon, Manitoba and Saskatchewan. Every province and territory in Canada is home to important Indigenous populations.

41. There are hundreds of Indigenous governments in Canada, including around 500 First Nations bands, 25 modern treaties (including Nunavut and Inuvialuit) and multiple Métis governments. Indigenous Peoples collectively own an area about the size of Manitoba and have Indigenous rights in every part of Canada. The size of the Indigenous economy has not been historically measured. However, the First Nations Financial Management Board recently calculated the size of the Indian Act band economy to be $17.5 billion per year. Inuit, Métis and non-Indian Act band activity would significantly add to this total. MNP and ATB recently determined that the Indigenous economy in Alberta generated $6.74 billion of GDP in 2019 (two percent of provincial GDP), which is equal to the GDP generated by Alberta's agricultural sector. NATOA (formerly the National Aboriginal Trust Officers Association) estimates that Indigenous trust assets are worth more than $20 billion; Inuit, modern treaty First Nation, and Métis assets would significantly increase this amount. Accounting, assurance and sustainability are core to the operation of Indigenous governments, their investments and their businesses.

42. The Government of Canada and the provincial and territorial governments have a duty to consult and, where appropriate, accommodate Indigenous groups when their actions might adversely affect potential or established Aboriginal or treaty rights. The governments of Canada and British Columbia have also passed laws that require them, in consultation and cooperation with Indigenous Peoples, to take all measures necessary to ensure that laws are consistent with the *United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP). UNDRIP requires governments to consult and cooperate with Indigenous Peoples and obtain their free, prior and informed consent before adopting and implementing legislative or administrative measures that may affect them. It also states Indigenous Peoples have the right to participate in decision-making for matters that would affect their rights.

43. Indigenous Peoples already rely on and are affected by accounting, and sustainability reporting, and related assurance thereon. For example, Indigenous communities and governments rely on AcSB when they make investment and business decisions and on PSAB when they report on their own financial performance. As Indigenous governments and businesses rapidly grow, there will be increased reliance on standards. Indigenous Peoples may be affected by the reporting or absence of reporting of ESG factors in sustainability standards.

44. The governments of Canada and British Columbia plan to adopt all recommendations of the Truth and Reconciliation Commission. Recommendation 92, in particular, emphasizes the role of the corporate sector in reconciliation:

> We call upon the corporate sector in Canada to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and to apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources. This would include, but not be limited to, the following:
>
> i. Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects.
>
> ii. Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.
>
> iii. Provide education for management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the *United Nations Declaration on the Rights of Indigenous Peoples*, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations. This will require skills based training in intercultural competency, conflict resolution, human rights, and anti-racism.[3]

The governance of accounting and audit standard setting, particularly in sustainability, is relevant to and impactful on Indigenous reconciliation.

Question for respondents:

Q3. Do you have comments on how best to ensure that standard-setting processes reflect and respond to Canada's diverse populations, including the unique rights of and responsibilities to Indigenous Peoples?

[3] Truth and Reconciliation Commission of Canada, *Truth and Reconciliation Commission of Canada: Calls to Action*, (Winnipeg, MB: TRC, 2015), 10.

Section 2
Sustainability Reporting Standards in Canada: Charting a Path Forward

2.1 Global demand for, and developments in, sustainability reporting

45. Sustainability reporting is intended to provide information on a company's resilience and ESG performance. Historically, investors and other capital market participants have focused on financial information to help inform their decision-making. Today, with heightened societal awareness of environmental and other systemic issues, there is a growing demand for disclosure of sustainability information from and for a broader range of stakeholders.

46. Companies around the globe, including in Canada,[4] are responding to this demand using a variety of sustainability standards, metrics and frameworks. A September 2021 BDO report estimates that more than 500 formal and informal sustainability reporting standards and frameworks exist worldwide.[5] These standards and frameworks vary and have different requirements depending on jurisdiction, industry and issues covered. Not surprisingly, there is inconsistency in their application. Stakeholders say there is an urgent need to improve consistency and comparability in sustainability reporting, and many are calling for a global framework.

47. The past 12 months have seen significant developments in this area, including the establishment of the ISSB by the IFRS Foundation Trustees, operating alongside the IASB to ensure connectivity between the standards of these two boards.

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[4] KPMG IMPACT, *The Time Has Come: The KPMG Survey of Sustainability Reporting 2020*, KPMG, December 2020. KPMG based this survey on a review of sustainability reporting from 5,200 companies in 52 countries and jurisdictions. It found that Canada is among 10 countries and jurisdictions with the highest sustainability reporting rates in the world. The survey observes that disclosure of some level of sustainability performance is now becoming the minimum required for larger Canadian companies to remain competitive in accessing capital.

[5] BDO, *Sustainability Frameworks: A Snapshot,* (London: BDO IFR Advisory Ltd., 2021), 2.

48. As described in the IFRS Foundation's April 2021 "Feedback Statement" on its September 2020 *Consultation Paper on Sustainability Reporting*, the key features of the strategic direction for the new ISSB are:

(a) **Investor focus for enterprise value**. The new board will focus on information that is material to the decisions of investors and other participants in the world's capital markets.

(b) **Sustainability scope, prioritizing climate.** The new board will initially focus its efforts on climate-related reporting, while also working toward meeting the information needs of investors on other ESG matters.

(c) **Building on existing frameworks.** The new board will build on the work of the Task Force on Climate-related Financial Disclosures (TCFD),[6] as well as work by the alliance of leading standard setters in sustainability reporting focused on enterprise value.

(d) **Building-blocks approach.** By working with standard setters from key jurisdictions, standards issued by the ISSB will provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

49. When announcing the establishment of the ISSB, the IFRS Foundation also announced the following:

- The planned consolidation of two other investor-focused sustainability disclosure organizations – the Climate Disclosure Standards Board and the Value Reporting Foundation (VRF) – into the ISSB by June 2022.
- The publication of prototype climate and general disclosure requirements developed by a working group of the Foundation. The prototypes reflect and consolidate key aspects of work performed in this area by other organizations and will be considered by the ISSB as part of its initial work program.
- The selection of Montreal, Quebec, as the location for one of the main offices responsible for key functions supporting the ISSB and deeper cooperation with regional stakeholders. Frankfurt will house the seat of the ISSB and the office of the Chair.

50. Appendix C of this Consultation Paper provides a synopsis of certain other Canadian and global initiatives in sustainability reporting.

6 "The challenge we're addressing," About, Task Force on Climate-Related Financial Disclosures, www.fsb-tcfd.org/about/. The TCFD consists of 32 members from across the G20, representing preparers and users of financial disclosures, and is chaired by Michael R. Bloomberg. In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. The disclosure recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

2.2 Need for a Sustainability Standards Board in Canada

51. Based on the growing demand for sustainability information, Canada's history of establishing national accounting and assurance standard-setting bodies, and the recent establishment of the ISSB, the Committee believes a Canadian sustainability standards board should be created and welcomes comment on its reasons.

Canada's international focus

52. Canada has adopted IFRS Standards and international assurance standards for more than 10 years. Since April 1, 2021, international standards also form the basis for corresponding Canadian public sector accounting standards.

53. This model has generally been viewed as working well. Accordingly, the Committee believes it should be extended to the area of sustainability reporting and related assurance standards when the new ISSB is in place.

Contributing to and influencing international standard setting

54. The new ISSB requires the support of and good working relationships with governments, regulators and national standard setters. Canada has long been considered an important player on the world standard-setting stage. The Canadian standard-setting boards support and influence the development of high-quality international standards to ensure that the voices of Canadian stakeholders are heard. A Canadian sustainability standards board could perform a similar function for sustainability standards. Given the relevance of sustainability issues to Canada's economic and social fabric, this may be particularly important in the case of sustainability standards which, to date, have been largely market-driven.

Baseline standards as a starting point

55. The ISSB's building-blocks approach means it will produce baseline standards. Unlike international accounting and assurance standards, which are generally developed for application around the world as issued, baseline standards will require more adaptation or supplementation to make them useful in Canada. For example:

- Although the underlying principles may apply regardless of the reporting entity's size, some standards may require tailoring for smaller companies or reporting issuers.
- There could be a need for industry-specific standards or guidance.

- Canadian stakeholders could require implementation guidance to assist in applying the standards.

A Canadian sustainability standards board could consider the need for and develop appropriate adaptation to meet Canadian needs.

Canadian-made standards

56. In addition to supporting the application of international standards in Canada, the standard-setting boards develop fit-for-purpose Canadian standards, for example, for private enterprises and the public sector. These different streams of domestic standards are aimed at reflecting the specific needs of their users and ensuring that unique Canadian experience and requirements are considered. A Canadian sustainability standards board could perform a similar function in developing standards for Canadian stakeholders not specifically considered by the ISSB.

57. Canadian-specific sustainability standards could also be developed for issues relevant to Canadian stakeholders that the ISSB has not yet addressed.

Question for respondents:

Q4. Do you agree that a Canadian sustainability standards board should be established? Are there any special factors, beyond those outlined above, that should be considered in addressing this threshold issue?

2.3 Assurance on sustainability information

Evolving need for assurance

58. The IFRS Foundation's April 2021 "Feedback Statement" on its September 2020 *Consultation Paper on Sustainability Reporting* states:

> There is broad agreement among respondents that the sustainability-related information disclosed in annual reports should be capable of being audited or subject to external assurance. Respondents stated that independent assurance could enhance the reliability of information that companies disclose. Some respondents also suggested that markets will demand assurance over sustainability information, and that in some jurisdictions, such assurance may become mandatory.
>
> Some respondents also suggested that processes for assuring sustainability disclosures will evolve over time and the ultimate aim should be for the auditing of sustainability-related disclosures to be as robust as that of financial reporting.

Some respondents suggested that more consistency in reporting sustainability-related information will enable the development of methodologies for the audit and assurance of this information. In general, respondents also agreed that it would be important for the new board to work closely with the IAASB to allow the IAASB to monitor and evaluate the need for changes to assurance frameworks or standards for auditors or other external assurance providers that would provide assurance on the reported information.[7]

Canadian and international developments

59. There are currently no regulatory requirements in Canada for assurance on sustainability information. However, corporate reporting is changing rapidly. In October 2021, the Canadian Securities Administrators (CSA) published proposed climate-related disclosure requirements (see Appendix C, "Global Developments in Sustainability Reporting," for further details). The proposal is in line with a global trend toward an integrated approach to financial, and sustainability and other non-financial information. Even though there is no current requirement to audit sustainability information in Canada, several corporations are voluntarily reporting on sustainability and engaging assurance providers to attest thereon. The Committee anticipates the demand for assurance of sustainability reporting will continue to increase as reporting standards are implemented.

60. A global study by the International Federation of Accountants (IFAC), the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA), *The State of Play in Sustainability Assurance*, found that in 51 per cent of companies that reported sustainability information, some assurance was provided.[8] Audit firms conducted 63 per cent of those assurance engagements and 88 per cent of the engagements were conducted under International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Readiness of the AASB

61. The AASB has a suite of internationally based assurance standards that can be applied to sustainability and other non-financial information. These include Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, and CSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*.

[7] IFRS Foundation Trustees, IFRS Foundation Trustees' "*Feedback Statement on the Consultation Paper on Sustainability Reporting*" (London: IFRS Foundation, April 2021), 30.

[8] IFAC, AICPA and CIMA, Benchmarking Global Practice: The State of Play in Sustainability Assurance, (New York: IFAC, June 2021), 6.

62. In August 2021, the AASB issued Non-Authoritative Guidance on Applying CSAE 3000 to Emerging External Reporting, which is based on similar international guidance. This guidance assists practitioners in applying CSAE 3000 to different forms of reporting, including sustainability reporting, integrated reporting and greenhouse gas statements.

63. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance services. In Canada, assurance services on sustainability information can be provided by practitioners other than CPAs. While such practitioners do not have to conduct their engagements in accordance with CSAE 3000, they might voluntarily elect to do so. In this case, CSAE 3000 states that in order to represent compliance with this standard, they must be subject to professional requirements (or requirements in law or regulation) regarding quality control, ethics and independence that are at least as demanding as those that apply to the CPA profession.

64. The AASB continues to monitor developments relating to the provision of assurance services regarding sustainability reporting and take actions to proactively address evolving demand for assurance on sustainability information.

Conclusion

65. As sustainability reporting evolves, it will be important to respond proactively to the demands for assurance services and to continuously assess the adequacy of existing assurance standards and the quality of assurance services. This includes considering the need for additional standards.

66. In the field of sustainability reporting, assurance services providers extend beyond the traditional audit profession. Decisions about how and where sustainability information should be reported as well as future regulatory requirements could ultimately affect who provides assurance services. This could heighten the focus of the standard setters and oversight bodies on the need for real and perceived independence.

Question for respondents:

Q5. Are there any special matters the Committee should consider in developing recommendations with respect to the sustainability assurance standard-setting process and oversight thereof?

Section 3
Safeguarding the Independence of the Canadian Standard-setting Model

3.1 Independence is the cornerstone of a standard-setting process that serves the public interest

67. Stakeholders and standard setters around the globe understand that independence, both real and perceived, is essential to develop standards that serve the public interest. Independence relates to both mindset and circumstances and ensures standard setters act with integrity, make unbiased judgments, consider facts objectively and arrive at opinions or decisions without favouritism. Diversity of thought and experience is critical to avoid bias in decision-making. For example, if the standard-setting process is dominated by audit practitioners (such as those connected to audit firms), this could create a risk, actual or perceived, of self-interest. Similarly, individuals with corporate financial reporting backgrounds may have, or be perceived to have, an inherent bias toward standards that enhance reported financial results. Potential impediments to independence could arise from inappropriate levels of self-interest, self-review, advocacy, familiarity and intimidation, or from perceptions that these might exist. To ensure the legitimacy and integrity of the standard-setting process, such situations must be identified, evaluated and addressed.

Current arrangements to foster independence

68. As outlined in Section 1 Introduction and Background, the current Canadian standard-setting model incorporates several safeguards that have been put in place over time to enhance independence. This includes oversight bodies with membership beyond the accountancy profession, procedures for the selection and appointment of board members, requirements for due process and various measures to foster transparency and accountability in the process as a whole.

69. The establishment of the oversight councils was viewed as a particularly significant step forward in enhancing the independence of the Canadian standard-setting model. AcSOC

and AASOC oversee critical elements of the standard-setting process, including the nomination of all board members, ensuring that a due process is in place and is being adhered to, and assessing the performance of the standard-setting boards.

70. Some stakeholders have expressed the view that the accountancy profession's level of influence over the standard-setting process, including the current role of CPA Canada, might be perceived as hindering its independence. To address these concerns, the Committee is considering whether it is appropriate to put additional structural safeguards in place. Specific examples relate to the legal structure, the funding model and the composition of standard-setting boards.

Question for respondents:
Q6. Do you have concerns about independence in the current standard-setting model that should be addressed and suggestions for how best to do so?

3.2 Legal structure considerations

71. CPA Canada plays a significant role in supporting standard-setting activities. The oversight councils and standards boards reside within CPA Canada, and CPA Canada employs all staff supporting their activities. Even though CPA Canada does not participate in the decision-making processes of the councils and boards, concerns have been raised that these arrangements could be (or be perceived as) impediments to independence.

72. To increase independence, several jurisdictions around the globe have created separate legal entities to house the whole or parts of standard-setting activities. For example, the IFRS Foundation and the IASB are each separate private sector entities. On the assurance side, the Public Interest Oversight Board (PIOB) is also a separate entity. While the IAASB is currently part of IFAC, steps are being taken to establish a separate legal private sector entity that would house 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 is also a separate legal entity.

73. One way to enhance independence (and conform to international practice) would be to create a separate legal entity to house Canadian standard-setting activities (e.g., a foundation that is outside any control or direct influence of CPA Canada). The entity's mandate, role and responsibilities would reflect its importance as a key structural element supporting independence in standard setting.

Question for respondents:

Q7. Would the creation of a separate legal entity outside the control of CPA Canada enhance the independence of the Canadian model? Please consider this in the context of independence in fact as well as in appearance and indicate any specific concerns the Committee should be mindful of.

3.3 Funding model

74. As outlined in Section 1 Introduction and Background, CPA Canada funds the current Canadian standard-setting model. This funding constitutes about $14 million per year (about 10 per cent of CPA Canada's total budget, most of which is funded by the CPA profession). Some stakeholders believe this arrangement hinders independence.

75. The funding models in place in other jurisdictions are varied, with some oversight and standard-setting bodies having multiple sources of funding. Key sources of funding generally fall under the following categories:

- Governments: funding for standard setting is provided directly by governments.
- Regulatory: funding for standard setting is mandated by law and regulation.
- Voluntary: contributions, donations and memberships.
- Users: funding comes primarily from the sale and licensing of intellectual property.
- Professional accounting bodies: similar to the current funding model in Canada.

76. To the extent there is a view that diversified sources of funding could be beneficial, establishing alternative funding sources would take time and would likely require some form of mandate or agreement from legislators, regulators, industry organizations or others. It will also be important to consider any unintended consequences, such as the risk of undue influence by other alternative funding sources.

77. On the other hand, the establishment of an independent legal structure, as outlined in the previous section, coupled with a secure funding arrangement, could mitigate potential impediments to independence posed by the current arrangements. Under such a scenario, CPA Canada could commit to continue providing requisite and secure funding to a separate legal entity. Such a model is in place at the international level where, for example, IFAC provides most of the funding for the PIOB Foundation on an unconditional basis.

78. As is already the case with respect to having three separate standard-setting boards and two separate oversight bodies, creating another standard-setting (and possibly oversight) board in Canada under the existing structure would add costs to CPA Canada's commitment to financially support standard setting. While CPA Canada has indicated the willingness to consider this in the short run, it will be essential to ensure that any funding model is sustainable. Additional funding sources may need to be identified to ensure that stable and secure funding is in place for the long term to safeguard the independence of standard setting.

Question for respondents:

Q8. Should the present funding model for Canadian oversight and standard-setting activities be modified to enhance safeguards to independence, real or perceived? Please provide the rationale for your view. Do you have suggestions on how funding sources could be diversified? Do you have any specific suggestions regarding the funding model for an eventual Canadian sustainability standards board?

3.4 Composition of the oversight councils and standard-setting boards

79. Council and board operations, including membership, is a critical aspect in fostering independence and effectiveness in standard setting. Member composition affects other issues outlined in this Consultation Paper, such as diversity equity and inclusion considerations (see Section 1) and responsiveness of standards (see Section 4). How best to include Indigenous Peoples and governments or Indigenous individuals in the standard-setting process is one of these issues.

80. Over the past two decades, several measures have been implemented to help safeguard the boards' independence. For example, before the creation of the oversight councils, CPA Canada appointed the boards' members. The respective councils are now responsible for the selection and appointment of all board members, including their Chairs and Vice-chairs. Each council has established a nominating and governance committee and developed transparent criteria to assist in this function.

81. Potential candidates are identified through an open call-for-nomination process. Candidates are assessed based on competencies matrices the oversight councils developed. Diversity considerations, such as geographic location, language and gender, are also taken into account.

82. The expertise and experience associated with public accounting firms is now considered a competency in the matrices. Previously, some board positions were “reserved" for individuals from public accounting firms, but this practice has been suspended, recognizing the relevance of other types of experience and expertise.

83. When considering board composition, there is an inevitable trade-off between the risks of practitioners/firms holding a dominant role in the standard-setting process and ensuring the required technical expertise will be available. While technical expertise is essential, there are potentially other ways (e.g., supplementing at the staff level) to ensure this input. When considering various approaches, it is important to consider the system as a whole.

Current composition of oversight councils and standard-setting boards

84. AcSOC currently consists of 21 members, 12 of whom are CPAs. AASOC currently consists of 17 members, 13 of whom are CPAs. To balance independence with the need for technical expertise, existing safeguards to ensure independence include the following:

   - For both AcSOC and AASOC, the practice has been that the Chair of the respective oversight councils has typically not been a practising CPA. There is also a strong preference that Chairs of subcommittees are not practising CPAs.
   - Representation from regulatory authorities (AcSOC and AASOC memberships include representatives from the CSA and the Office of the Superintendent of Financial Institutions (OSFI). AASOC membership also includes a representative from the Canadian Public Accountability Board (CPAB).)
   - Representation from practitioners is limited to less than 50 per cent of the membership of AASOC.[9] In practice, representation from practitioners is far lower (approximately 12 per cent on AASOC).

85. The current composition of the AcSB and PSAB consists primarily of CPAs, though the majority are non-practitioners. The AASB is made up mainly of CPAs who are practitioners, and has a small user and academic component:

   - AcSB: 13 members, 11 of whom are CPAs. Of the 11 CPAs, three are public accounting firm practitioners. The remaining AcSB members are financial information preparers or users and an academic.
   - PSAB: 12 members, 11 of whom are CPAs. Of the 11 CPAs, three are public accounting firm practitioners. The remaining PSAB members are legislative auditors and government representatives.

[9] 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.

- AASB: 14 members, all of whom are CPAs. Seven are public accounting firm practitioners. The remaining AASB members include four legislative auditors and other stakeholders.

86. Safeguards to balance independence with technical expertise include:
    - oversight of the standard-setting process by the oversight councils;
    - codes of conduct and conflict of interest policies; and
    - no reserved membership allocation for any specific group.

87. The composition of oversight and standard-setting bodies around the globe varies widely. Some are similar to Canada (e.g., the Australian Auditing and Assurance Standards Board's composition is very similar to that of the AASB). Some are very different (e.g., the U.S. FASB consists of seven members who serve full time. FASB members are required to sever connections with the firms or institutions they served before joining the FASB). On the IAASB, the number of practitioners is currently limited to nine out of 18 members. The Monitoring Group report recommends further limiting IAASB membership to five practitioners and increasing representation from other stakeholder groups such as investors and other financial statements users, regulators and audit committee members.

Questions for respondents:

Q9. With regard to the oversight councils and standard-setting boards, are you satisfied with the current structure and safeguards in place to ensure independence?

Q10. Do you have comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

3.5 Special considerations for a new sustainability standards board

88. The potential establishment of a new Canadian sustainability standards board raises several additional issues that will need to be addressed to foster its independence.

89. The new ISSB will operate alongside the IASB under the same governance structure. It has been highlighted that this is important given the need for connectivity between the two boards. In Canada, the Committee believes there would likewise be merit in fostering connectivity and synergy between a new Canadian sustainability standards board and the existing standard-setting boards. If so, it is logical to consider that a new Canadian sustainability standards board might operate within the same structure as the existing boards under similar governance and oversight arrangements.

90. The nature and breadth of sustainability reporting issues and the wide range of stakeholders involved will require a broader set of expertise and professional experience and a more diversified membership than the existing accounting and assurance standard-setting boards. Board representation will also need to take into account the diversity, equity and inclusion considerations outlined in Section 1, including how best to include Indigenous Peoples and governments or Indigenous individuals in the standard-setting process.

Question for respondents:

Q11. With regard to a Canadian sustainability standard setting board, do you have any views on the structure, composition and specific competencies needed? Please include any comments on how best to include Indigenous Peoples and governments or Indigenous individuals in the current standard-setting process?

Section 4
Responsiveness of Standards

91. A standard-setting process that is responsive to the public interest:
    - establishes new or revised high-quality standards in a timely manner in response to changes in the environment;
    - considers stakeholders' input and perspectives during the development of the standards and on an ongoing basis; and
    - ensures that standards are "fit for purpose" for preparers and users of reporting and assurance.
92. Achieving these three features requires judgment to achieve the right balance. In particular, standard setters must balance the need for timely standards/amendments with the timelines to identify and get input from key stakeholders, especially when users' and preparers' needs are dynamic and evolving

4.1 Establishing standards in a timely manner

93. Ensuring the timeliness of standards requires that:
    - standards setters have sufficient resources available for the standard-setting process;
    - standards setters are effective in identifying priorities and addressing the "right" projects, so that new or revised standards respond to stakeholder needs; and
    - once undertaken, a project to develop a new or revised standard is carried out efficiently.
94. As mentioned in Section 1, accounting and assurance standards in Canada include:
    - domestic (i.e., Canadian-made) standards; and
    - international standards adopted for use in Canada with minimal, or no, modifications.
95. The ability of Canada's standard-setting boards to meet the requirements for timeliness, and the way they do so, varies between these two categories of standards. This is discussed in more detail below.

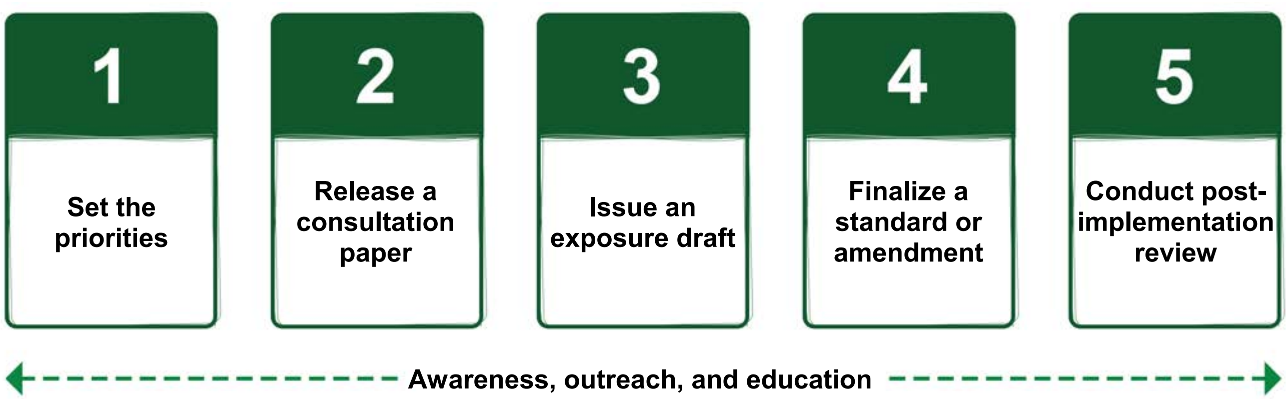
The domestic standard-setting process

96. The boards' due process[10] for establishing new or revised domestic standards generally involves:

- analyzing stakeholder needs to prioritize the topics requiring attention;
- developing the standard in consultation with stakeholders (including through issuing public documents for comment);
- finalizing the standard; and
- reviewing the standard after it has been in place for a period of time to assess whether it is working.

97. Figure 2 illustrates this process.

Figure 2 – Domestic standard-setting process



98. A variety of factors affect the time required to complete the standard-setting process. These include:

- the complexity and contentiousness of the standard;
- the time needed to understand stakeholders' needs and the likely implications of the final standard once it is applied;
- the capacity of the board to take on new projects;
- the resources available to the board, including staff constraints;
- the adequacy and relevance of information provided to the board to inform its decision-making, including input from stakeholders; and
- the ability of the board and staff to manage the project effectively and efficiently.

[10] Due processes of the AcSB, AASB and PSAB can be found on the FRASCanada.ca website.

99. Historically, domestic standards have typically taken three to four years to complete, from the time the need for a new or revised standard is identified to when it is issued in the CPA Canada Handbook. This is comparable to other jurisdictions. Nevertheless, some have said the Canadian standard-setting process is too slow. The boards and oversight councils have also recognized the need to review current processes to respond more quickly to an evolving environment.

Working on the right projects

100. Canada's accounting and assurance standard-setting boards and oversight councils monitor emerging issues to ensure projects are identified early and appropriately prioritized. They do this by:

- obtaining stakeholder input on the prioritization of projects during consultations on board strategic plans;
- hearing from board advisory groups on emerging issues, including issues arising from the application of existing standards; and
- assigning individual staff members to monitor the activities of external organizations (e.g., standard-setting board staff attend meetings of the provincial CPA bodies to learn of practice-inspection findings, practitioner inquiries on the application of standards and other matters that can lead to identifying emerging issues).

Developing standards efficiently

101. The boards have taken several initiatives and are planning others to develop standards more efficiently, including:

- gathering input from Canadian stakeholders before starting a project (through mechanisms such as consultation papers or surveys) to assist with scoping projects and identifying issues;
- grouping minor revisions to multiple standards in a single exposure draft as part of an annual improvements exercise;
- establishing reference groups consisting of users and other stakeholders to act as sounding boards throughout the project;
- shortening the usual comment period for exposure drafts when appropriate; and
- looking at ways to manage staff and resources differently to increase efficiency (e.g., implementing project management software to schedule and assign resources, and engaging academics to assist with research projects).

102. Standard-setting bodies in other jurisdictions have taken various initiatives to improve efficiency that are also being reviewed and considered in Canada. For example:

- The IASB issues interim (e.g., IFRS 4 Insurance Contracts and IFRS 14 Regulatory Deferral Accounts) or temporary (e.g., amendment to IFRS 16 Leases for COVID-19-related rent concessions) guidance to meet immediate user needs until a more comprehensive project can be started.
- The IASB, the IAASB and the FASB take a phased approach to developing standards. This involves conducting a project in two or more phases (with each phase producing standards or guidance) to address the most pressing issues first and remaining issues afterwards.

103. The IASB is currently working on recommendations for a digital financial reporting strategy and to enhance stakeholders' digital experience. The ISSB has been charged to work in tandem with this initiative, designed to improve the timeliness, responsiveness, accessibility and utility of reporting standards.

104. Canada's standard-setting boards and oversight councils are committed to trying new approaches to shorten time to market (e.g., PSAB is experimenting with a phased approach to help accelerate standard setting). The boards are also working to develop new mechanisms to quickly identify projects and exploring opportunities to collaborate with other national standard setters to leverage existing work. The boards and councils are focused on balancing the need for robust due process with timeliness to produce high-quality, relevant standards.

Question for respondents:

Q12. Do you have suggestions on how to improve the timeliness and responsiveness of Canadian standard setting?

International standards adopted for use in Canada

105. The overarching goal for the AcSB and the AASB when adopting international standards for use in Canada is to do so without modification (other than in rare circumstances where issues particular to Canada warrant changes).

106. Accordingly, the development of international standards adopted for use in Canada is primarily driven by the timelines of the international standard-setting bodies.

107. The Canadian standard-setting boards' processes, as they relate to this category of standards, focus primarily on the adoption/endorsement of the international standard after any necessary modifications. Obtaining Canadian stakeholder input to determine the suitability of the international standard and the need for modifications is a critical step.

108. Canadian standard setters actively seek to influence the development and timeliness of international standards by:

- obtaining Canadian stakeholders' views and commenting on the international standard-setting bodies' strategic plan/agenda-setting consultation documents;
- providing direct staff support through secondment to the international standard-setting body to help expedite an international standard (e.g., ISRS 4400 (Revised), Agreed-Upon Procedures Engagements);
- identifying qualified Canadian candidates for international technical resource groups;
- organizing meetings between Canadian stakeholders and representatives of the international standard-setting boards so that the international boards can hear directly from Canadians on particular projects; and
- raising awareness and encouraging Canadian stakeholders to respond directly to international public consultation documents then incorporating their comments into the Canadian board's own comment letter. Canadian boards also share stakeholder concerns at international meetings and forums.

Question for respondents:
Q13. Do you have suggestions on how the Canadian standard-setting boards could further influence the relevance and timeliness of international standards adopted for use in Canada?

4.2 Considering the input and perspectives of stakeholders

109. A responsive standard-setting process is one that, in addition to being timely, considers the input and perspectives of those affected by the standard. This entails:

- engaging with stakeholders throughout the standard-development process;
- ensuring standards are "fit for purpose" for preparers and users of reporting and assurance; and
- assessing the responsiveness of standards in practice and relative to desired outcomes.

Engaging stakeholders

110. Robust stakeholder engagement contributes to developing responsive and high-quality standards. Actively monitoring stakeholder engagement is important since stakeholders and their views can change and evolve over time. Canada's standard-setting boards foster stakeholder involvement by:

- establishing advisory groups made up of stakeholders with relevant professional backgrounds to address specific topics. For example, the AcSB's User Advisory Committee, a standing committee of 20 to 30 professionals representing a variety of investment and analytical disciplines, provides the AcSB with financial statement user perspectives on relevant projects;
- establishing reference groups consisting of users and other stakeholders. These individuals provide their perspectives on non-technical aspects of a proposed new or revised standard and generally act as a sounding board;
- holding extensive stakeholder consultations on exposure drafts, including roundtable sessions, interviews with specific stakeholders and field testing;
- having ongoing discussions with key stakeholder groups, including regulators, governments and provincial CPA bodies;
- leveraging technology to enhance communications with stakeholders (e.g., social media outreach, online platforms such as project-specific community platforms, webinars and virtual roundtables); and
- developing project-specific communications plans for key stages of a project. These plans include, for example, social media outreach and contacting individuals and groups who have expressed interest in the topic.

Financial statement user involvement

111. Standard-setting bodies around the globe recognize financial statement users as an important stakeholder group and use various mechanisms to engage users in their processes. For example:

- The IASB has a Capital Markets Advisory Committee and an Investor Centre.
- In Canada, users are represented on the AcSB, which also has a User Advisory Committee intended to increase financial statement user participation in the accounting standard-setting process. Also, the boards make special efforts to encourage user involvement in roundtables and other outreach activities.

112. Despite the Canadian standard-setting boards' attempts to enhance financial statement user engagement, hearing from users, including at a strategic level, remains an ongoing challenge.

Question for respondents:

Q14. Do you have any suggestions to improve stakeholder engagement (users in particular) in the development and ongoing monitoring of the effectiveness of standards? Should different considerations apply with respect to sustainability standards?

Assessing the responsiveness of standards in practice

113. Stakeholder outreach helps inform not only the development of a standard but also the responsiveness of standards already in use (e.g., practice-inspection findings or ongoing liaison with regulators may help identify implementation challenges).

114. In addition, after the standards are implemented, the boards conduct reviews to assess whether the standards meet their intended objectives and respond to stakeholder needs. The AcSB and the AASB undertake post-implementation reviews of Canadian standards adopted from international standards when the IASB and IAASB conduct similar reviews on the corresponding international standards. For Canadian-specific standards, the Canadian standard-setting boards have a process to determine when a post-implementation review should be undertaken, resulting in some being conducted.

4.3 Special considerations for sustainability reporting standards

Timeliness of standards

115. Section 2 discusses the growing demand for sustainability information and consistent, comparable sustainability reporting. The sense of urgency stakeholders feel means timeliness will be especially critical for sustainability standard setting. Lessons learned in the formative stages of sustainability standard setting may inform future actions by the Canadian accounting and assurance standards boards to improve their timelines.

116. The proposed Canadian sustainability board will need to:
    (a) identify priorities for standard setting and key factors that could impact the timeliness of its work;
    (b) create a process to ensure standards are ready when needed; and
    (c) determine the resources needed to make it happen.

    This relates not only to standards for entities with publicly traded securities but also for entities not specifically addressed by the ISSB (e.g., private enterprises, NFPOs and the public sector).

117. In terms of the actual development of standards, the proposed board will likely use baseline standards issued by the ISSB as a starting point then adapt them for appropriate use in Canada. It will have to work quickly to produce a corresponding Canadian standard (or identify why the baseline standard is not appropriate in the Canadian context).

118. Activities the Canadian accounting and assurance standards boards presently undertake to develop domestic standards and to influence the relevance and timeliness of the respective international boards will apply to the proposed Canadian sustainability standards board to support the timely issuance of standards. These activities will include raising awareness among Canadian stakeholders about ISSB proposals, encouraging Canadians to respond directly to ISSB consultation documents and raising Canadian stakeholder concerns at international meetings and forums.

Stakeholder involvement

119. The wide range of issues that fall under the rubric of sustainability means stakeholders will be more diverse compared with accounting and assurance standards stakeholders. It is also likely that many stakeholder groups will be small and have few resources. This may constrain their ability to participate in the standard-setting process. These features will affect how a Canadian sustainability standards board identifies stakeholders and encourages their meaningful involvement in its processes.

120. The stakeholder strategy a new board develops will also need to consider how best to engage Indigenous governments and individuals that may be affected by sustainability standards and which would bring a unique perspective.

Question for respondents:

Q15. Given the special considerations relating to sustainability reporting standards, do you have any suggestions on how best to foster (and balance) timeliness as well as robust stakeholder involvement in sustainability standard setting?

Section 5
Other Considerations

5.1 Transparency and accountability

121. Transparent and accountable standard-setting and oversight processes are critical to serving the public interest and achieving appropriate outcomes. They are reflected in many elements of the structure and process of the current oversight councils and standard-setting boards, including:

- The development of all standards is subject to public consultation and consideration of comments received.
- All responses to consultation documents are publicly available.
- All terms of reference and statements of operating procedures for the standard-setting boards and oversight councils are publicly available. Due process manuals for the boards are also publicly available.
- Standard-setting boards publish their strategic plans[11] and annual plans.[12]
- Oversight councils and standard-setting boards publish annual reports on their oversight and standard-setting activities, respectively.
- Meeting summaries of the oversight councils and standard-setting boards are publicly available.
- Oversight council meetings are open to the public and can be livestreamed. In addition, representatives of the CSA, the CPAB and the OSFI are members of the oversight councils.
- The oversight council members observe the boards' meetings.
- IFRS® Discussion Group's and Public Sector Accounting Discussion Group's meetings are open to the public and can be livestreamed.
- Standard-setting boards capture stakeholder input in Basis for Conclusion reports, which are issued in conjunction with the corresponding standards.
- The oversight councils and standard-setting boards share updates on their websites and through other communications.
- The councils and boards review their Terms of Reference at least every three years.

[11] Strategic plans set out the strategic objectives that guide the standard-setting boards in achieving their public interest mandates.
[12] Annual plans set out the activities that the standard-setting boards intend to undertake.

122. Many of these mechanisms align with practices in other jurisdictions. In several jurisdictions, board meetings are also open to the public, including access to recordings and agendas.

123. The Committee is not aware of any significant criticisms of the current transparency and accountability mechanisms in Canada. Since livestreaming was introduced, enabling virtual participation regardless of geographic location, stakeholder attendance at council meetings has increased somewhat.

Questions for respondents:

Q16. Do you have any concerns related to the transparency and accountability frameworks that currently apply with respect to the oversight and standard-setting process? Are there additional considerations that should apply with respect to sustainability standard setting?

5.2 Effectiveness of Canadian standard setting

Current practice in Canada

124. Every year, the oversight councils measure the standard-setting boards' performance against annual and strategic plans. The oversight councils consider whether the boards are meeting their work plans and delivering on commitments. The councils and boards publish these performance assessments in their annual reports.

125. The standard-setting boards provide performance updates at each oversight council meeting. This is intended to ensure ongoing assessment and the ability to address issues early. The oversight councils have found the boards responsive to any concerns raised.

126. The Terms of Reference for AASOC and AcSOC also require the oversight councils to undertake a joint review of their operations and effectiveness at least once every three years. This review includes determining whether there are sufficient financial and human resources available to support standard setting. Past reviews proposed specific changes to enhance the oversight councils' governance activities. All of the recommendations were implemented. To this point the reviews have not been subject to public feedback. However, this is an improvement the oversight councils would likely support.[13]

[13] The joint review for 2020-2021 was not performed because of the Committee's review.

Practices in other jurisdictions

127. Most standard-setting bodies around the globe conduct performance assessments similar to those conducted by the Canadian oversight councils, including regular updates by the standard-setting boards to the relevant oversight bodies. This ensures concerns are addressed on a timely basis.

128. In addition to these regular assessments, every five years, two international oversight bodies, the PIOB (which oversees the IAASB and the IESBA) and the IFRS Foundation (which oversees the IASB), perform a comprehensive review of the overall international standard-setting system. Prior to the review this Committee is currently undertaking, the last time such a comprehensive review was conducted in Canada in 1998.[14]

Effectiveness of oversight council structure

129. The most recent joint review (completed in 2018) between the two oversight councils considered whether they should be merged to a single council to oversee the three standard-setting boards. The joint review committee focused on specific governance changes to better align the activities and approach of the two oversight councils at that time. Therefore, it decided not to address changes to the oversight council's structure.

130. At this point, the Committee has not explicitly considered any change in the structure of oversight for accounting and assurance standards. This question of structure will be affected by any eventual decisions about legal structure, as set out in Section 3, and considerations about adding a Canadian sustainability standards board.

Question for respondents:

Q17. The Committee welcomes views on whether consolidation of boards and/or councils is an option that should be considered. If so, explain why and how.

[14] TFOSS included 24 recommendations that were largely implemented, resulting in significant changes to the structure of the Canadian standard-setting system. The adoption of international standards in Canada was also a major aspect of the TFOSS report.

Assessing the effectiveness of the Canadian standard-setting model after this review

131. As noted in Section 1, the environment is evolving at an accelerating pace, which means regular, independent effectiveness reviews are likely warranted. The Committee invites comment on the manner in which such reviews should be undertaken – by whom and with what level of public input and transparency. After an appropriate time to implement the Committee's recommendations, the effectiveness of the Canadian standard-setting model should be assessed against desired outcomes.

Question for respondents:
Q18. What are your views on how best to assess effectiveness of standard setting, including the desirability of periodic reviews by independent parties external to the standard-setting system?

5.3 Ethics and independence standards for assurance services

132. In addition to the standards for assurance services set by the AASB, CPA practitioners providing assurance services are subject to ethics and independence standards set by the provincial CPA bodies. The Public Trust Committee (PTC), which consists of senior regulatory staff from the provincial CPA bodies as well as some public members, is charged with overseeing such standards. The PTC established the ISC, which works to maintain harmonized independence standards across Canada and monitors whether changes to international standards should be adopted. As noted in Section 1, AASOC has a limited public interest oversight role with respect to the ISC.

133. The Committee's Terms of Reference do not extend to ethics and independence standards, which for CPAs are the statutory responsibility of the provincial CPA bodies. That said, because of the link between assurance standards and ethics and independence standards, including AASOC's limited role in public interest oversight of the ISC, the Committee acknowledges the need to be aware of the work being done on these standards and the interconnections.

Question for respondents:
Q19. Are there matters related to ethics and independence standards that you would like to highlight for the Committee's consideration?

5.4 Other matters

134. While the Committee has focused on what it sees as the key issues, it welcomes thoughts on other issues it should consider and suggestions on how best to address them.

Question for respondents:

Q20. Are there any other matters the Committee should consider as part of its review?

Appendix A: Independent Review Committee for Standard Setting in Canada Members and Terms of Reference

Members

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

Geordie Hungerford, CFA, CAIA, MBA, LLB

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

Marie-Soleil Tremblay, FCPA, FCA, PhD

Michael Jantzi

Paul Rochon

Sonia A. Baxendale

Stéphanie Lachance, LL.B., ICD.D

Observers

Cameron McInnis, FCPA, FCA, CPA (Illinois)

Carol A. Paradine, FCPA, FCA

Renée Chen, CPA, CA, CFA

Stephenie Fox, FCPA, FCA

Terms of Reference

Purpose

It has been more than 20 years since a review of accounting and assurance standard setting in Canada has been conducted. The purpose of the Independent Review Committee on Standard Setting in Canada (the Committee) is to conduct a review of the current governance and structure for establishing Canadian accounting and assurance standards developed by the Accounting Standards Board (AcSB), the Auditing and Assurance Standards Board (AASB), and the Public Sector Accounting Board (PSAB) as well as what might be suitable for future standards (for example, a Canadian Sustainability Standards Board).

The review will consider what changes might be appropriate to ensure that the national standard-setting system will continue to be independent, robust, world-class, and responsive to the needs of stakeholders. In addition, the review will consider the implications for Canada of (a) the recommendations of the Monitoring Group for changes to international audit standard setting and (b) the likely establishment by the IFRS Trustees of an International Sustainability Standards Board (ISSB).

Roles and responsibilities

The goal of the review is to ensure that Canadian standard setting is fit for the future. The Committee's review and recommendations should include:

- The structure and governance of the standard-setting activities currently supported by CPA Canada as well as any future standard-setting activities along with the options for funding.
- The potential creation of a Canadian Sustainability Standards Board to mirror the proposed establishment of the ISSB by the IFRS Trustees.

The scope of the review does not include:

- Any reconsideration of accounting and assurance frameworks used in Canada (e.g., IFRS® Standards).
- Ethics standards, which are the purview of the provincial CPA bodies. A review of auditor independence standard setting could be considered by the Public Trust Committee, the Independence Standing Committee and Auditing and Assurance Standards Oversight Council (AASOC) as a separate and distinct activity at a later date. The current oversight of auditor independence requirements is to be maintained and is not part of the scope of the review at this time.

- Relevant securities and prudential legislation, which is the purview of securities and prudential regulatory authorities.

Examples of topics to be considered are:

- How best to be able to develop timely high-quality standards in the face of an accelerating pace of change.
- Whether the current standard-setting structure and governance provide the most appropriate framework to meet future needs, including the setting of standards for and oversight of alternative performance measures/non-GAAP financial measures.
- The extent of resources, human and financial, needed to ensure that the standard-setting processes are performed in an efficient, expeditious, and responsible manner to meet the public interest.
- The current funding model in the context of perceived independence concerns, and whether a separate legal structure might aid in addressing those concerns.
- The continuing role of and relationships with regulatory authorities in any proposed structure.
- How to enhance user involvement in the standard-setting process.

Guiding principles

The recommendations of the Committee should adhere to the following guiding principles:

- Standards must be developed in the public interest and subject to effective public interest oversight.
- Standards must be developed using a robust process, with appropriate independence, that has regard for international standard-setting processes and includes public consultation with all relevant stakeholders.
- The standard-setting boards must have adequate resources to fulfill their mandates and should be efficient and transparent in the use of those resources.

Review process and accountability

The review process will involve the following:

- Consultation with key stakeholders, including standard-setting boards, oversight councils, CPA Canada, regulators, and users of financial (and sustainability) reporting.
- Examination of global best practices.
- The Committee may choose to propose preliminary findings/options for public consultation. In any event, key assessments and recommendations should be subject to public consultation, no later than eight months after the inaugural meeting.

- Presentation of the final report to the Accounting Standards Oversight Council (AcSOC), AASOC, and CPA Canada no later than 12 months after the first meeting.

The Committee is accountable to AcSOC and AASOC. The Committee Chair will liaise regularly with the Chairs of AcSOC and AASOC on its progress and will report back to AcSOC and AASOC prior to the release of any interim and final reports.

The Committee will strive for consensus in developing recommendations. Where there is not a consensus view, the majority will be reflected, with an opportunity for dissenting views to be expressed.

Membership

The Committee will comprise six to eight members, a majority of whom shall be independent (i.e., they cannot be a member or employee of a public accounting practice or have been a member or employee of a public accounting practice within the past three years). The Chair will have a strong background in governance. The remaining members should have recognized business, legal or academic backgrounds, bringing diverse expertise, across the private sector and public sector.

The following organizations are invited to appoint an observer to the Committee:

(a) The Canadian Securities Administrators

(b) The Office of the Superintendent of Financial Institutions

(c) The Canadian Public Accountability Board

The SVP Standards of CPA Canada will also be an observer to the Committee.

The Committee will be supported by an independent secretariat which will be responsible for research, logistics, and drafting. Two staff members of CPA Canada will provide technical support to the Committee and will report to the Committee Chair.

The Chair and members of the Committee will be appointed by the Nominating and Governance Committees of AcSOC and AASOC based on a skills matrix. The Committee is expected to meet at least monthly.

CPA Canada will support the costs of the review.

Appendix B: The Public Interest

1. **Pal, Leslie A., and Judith Maxwell. A*ssessing the Public Interest in the 21st Century: A Framework*. Ottawa, ON: Canadian Policy Research Networks, January 2004.**

The authors propose a two-stage "Public Interest Accountability Framework":

> Stage I takes the decision-maker through considerations of process, public opinion, specific interests, common interests, and shared values Stage II encourages the decision-maker to explicitly consider the balancing of interests of individuals as consumers/citizens, enterprise or business interests, and collective interests in explaining the reasons for decision.

2. **Malsch, Bertrand, Marie-Soleil Tremblay and Jeffrey Cohen. "Non-audit Engagements and the Creation of Public Value: Consequences for the Public Interest." *Journal of Business Ethics*. March 4, 2021.**

The authors note that the public interest is generally focused on defining professional attributes such as integrity, objectivity, confidentiality and competence. They advocate for a change in approach whereby the challenge of defining the public interest shifts from a narrow focus on the term itself to one of identifying the outcome that best fulfills that definition.

3. **Monitoring Group. *Strengthening the International Audit and Ethics Standard-Setting System*. Madrid: International Organization of Securities Commissions (OICU-IOSCO), July 2020.**

The Monitoring Group's report takes the position that the public interest is best served when standards are developed by independent, transparent and publicly accountable boards. These boards have the relevant expertise, focusing on the public interest and are subject to direct oversight by an independent oversight body. This oversight body is equally focused on the public interest, ensuring the standards appropriately address all stakeholder needs and no undue influence is exercised by any stakeholder.

The Group then sets out a proposed standard-setting framework developed with the view that the public interest should be observable throughout the full cycle of a standard's development. This includes the standard-setting planning, structure and process level, as well as independent oversight. Although the framework recognizes the importance of many stakeholders, it focuses primarily on the interests of users, specifically the longer-term interests of creditors and investors and the protection of those interests.

Appendix C: Global Developments in Sustainability Reporting

The increasing interest in and demand for the disclosure of sustainability information has led to related initiatives in various jurisdictions, a sampling of which follows. The initiatives highlighted in this appendix do not include the IFRS Foundation's establishment of the ISSB discussed in Section 2.

The European Union

In April 2021, the European Union (EU) published a proposal for a new Corporate Sustainability Reporting Directive (CSRD), which would replace its 2014 Non-Financial Reporting Directive. The CSRD falls under the wider EU Sustainable finance package, which:

> aims to improve the flow of money towards sustainable activities across the EU. As well as widening the scope of the earlier Directive and requiring information to be subject to limited assurance, the new CSRD would require information to be reported in line with brand new EU Sustainability Reporting Standards that are now being developed by the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) of the European Financial Reporting Advisory Group (EFRAG).The new Directive will result in nearly 50,000 companies reporting sustainability matters, with companies that meet two of the following three criteria in scope: 1) 250+ employees; 2) €40 million+ turnover; and/or 3) €20 million+ total assets. New requirements include providing information about strategy, targets, the role of the board and senior management, the principle adverse impacts connected to the company and its value chain, and intangibles (which includes social, human and intellectual capital). The proposal requires all future reporting to include the percentage of turnover, capital expenditure and operational expenditure that is considered green under the EU Taxonomy. The CSRD proposal clarifies the principle of double materiality, and requires qualitative, quantitative and forward-looking information to be disclosed. The EU Commission has suggested the CSRD become national law by December 2022, to be applicable for fiscal years beginning on or after 1st January 2023.[15]

[15] Accounting for Sustainability (A4S), *Navigating the Reporting Landscape: An Introduction to Sustainability-Related Reporting for Finance Professionals* (London: A4S, July 2021) 6.

In August 2021, the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) released a "'Climate standard prototype" working paper. The prototype was prepared by a PTF-ESRS subgroup and made available to the public for transparency; it has not yet been subject to public consultation.[16] The basis for conclusions accompanying the working paper was released in September 2021. EFRAG stated that, "In parallel to the work on climate, the PTF-ESRS continues to work on draft standards covering all other sustainability issues referred to in the European Commission's CSRD proposal, which will form part of the set of draft standards to be delivered to the European Commission in mid-2022."[17]

Also in August 2021, EFRAG issued a call for candidates to establish Expert Working Groups (EWGs) to provide input on the development of draft European sustainability reporting standards. Members of the 11 EWGs were appointed in November with a mandate to "review, provide input and, where necessary, contribute to the work of the PTF-ESRS on the basis of the preliminary pre-exposure draft version of the standards to be submitted to them."[18]

The International Organization of Securities Commissions

In 2020, the International Organization of Securities Commissions (IOSCO):

> published "Sustainable Finance and the Role of Securities Regulators and IOSCO," in which it identified a number of information-based challenges that currently face markets in their efforts to protect investors. Following this, IOSCO appointed a board-level Sustainable Finance Task Force to take on the work of helping its members to meet these challenges, including to improve sustainability-related disclosures made by issuers and asset managers.
>
> …
>
> In 2020, the IFRS Foundation published a consultation on the concept of a global framework of sustainability reporting standards. In early 2021, IOSCO made representations to the Foundation and stressed its strong support for the initiative, which is likely only to accelerate the delivery of a global sustainability reporting framework. IOSCO has stated it will work with the IFRS Foundation Trustees as they develop a plan for the establishment of an International Sustainability Standards Board (ISSB).[19]

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[16] EFRAG, "EFRAG PTF-ESRS Welcomes 'Climate Standard Prototype' Working Paper," news release, August 9, 2021.
[17] Ibid, "Sustainability Reporting Standards Interim Draft," EFRAG, n.d.
[18] Ibid, "Appointed – Members of the Expert Working Groups to Provide Input on the Drafting of European Sustainability Reporting Standards," news release, May 11, 2021.
[19] A4S, Navigating the Reporting Landscape, 7.

Erik Thedéen, Chair of the IOSCO Sustainable Finance Task Force and Director General of Finansinspektionen of Sweden, has said that IOSCO "will continue to engage with key jurisdictions and other stakeholders across the official and private sectors to promote appropriate implementation of the proposed building-blocks approach."[20]

In November 2021, IOSCO published a set of "Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management."

> Ashley Alder, Chairman of IOSCO and CEO of the Hong Kong SFC said that "*Asset managers, who are a critical part of the sustainable finance ecosystem, play a major role in helping investors achieve their investment objectives. Regulatory guidance on how asset managers consider material sustainability-related risks and opportunities, integrate them into the decision-making process, and make disclosures, will allow investors to understand the impact of their investments*."
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> …
>
> The report, which reflects the feedback received in response to the consultation report that was published in June 2021, focuses on these investor protection issues and covers five areas: asset manager practices, policies, procedures and disclosure; product disclosure; supervision and enforcement; terminology; and financial and investor education.[21]

Securities and Exchange Commission

Since 2019, the Securities and Exchange Commission (SEC) has placed increased attention on the importance of sustainability disclosures through, for example:

> the appointment of a new Senior Policy Advisor for Climate and ESG to advise the agency on ESG matters. It has also recently announced the creation of a Climate and ESG Task Force, whose remit is to develop initiatives proactively to identify ESG-related misconduct, and to advise generally on the relevance of ESG issues to market regulation. In addition, calls for new disclosure requirements on ESG matters have emerged from the SEC's corporate finance division.

[20] Ibid. The building-block approach referenced here is described in IFRS Foundation, *IFRS Foundation Trustees' Feedback Statement on* the Consultation Paper on Sustainability Reporting (London: IFRS Foundation, April 2021), 4.

[21] OICU-IOSCO, "Setting regulatory and supervisory expectations for asset managers is fundamental to address greenwashing concerns, says IOSCO," news release, November 2, 2021.

> In early 2021, the interim Acting Chair of the SEC issued a request for public input on climate change disclosures. This request is an important step in the Commission's ongoing assessment of if, and how, to enhance climate (or other ESG) related disclosure.[22]

Of the 550 comment letters received by the SEC to its consultation, three of every four supported mandatory climate disclosure rules. SEC staff are developing a mandatory climate risk disclosure rule proposal for the Commission's consideration by the end of 2021.[23]

The Task Force on Climate-related Financial Disclosures

The TCFD consists of 32 members from across the G20, representing both preparers and users of financial disclosures, and is chaired by Michael R. Bloomberg. "The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."[24]

In 2017, the TCFD released climate-related financial disclosure recommendations to support informed capital allocation. The recommendations are structured around four interlinking thematic areas: governance, strategy, risk management, metrics and targets.

In addition to helping companies implement its recommendations, the TCFD promotes advancements in the availability and quality of climate-related disclosures in general.

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[22] A4S, *Navigating the Reporting Landscape*, 8.

[23] U.S. Securities and Exchange Commission (SEC), "Prepared Remarks Before the Principles for Responsible Investment 'Climate and Global Financial Markets' Webinar," speech, Washington, D.C., July 28, 2021.

[24] "The challenge we're addressing."

Overview of Canadian Sustainability Reporting Landscape

Sustainable Finance Action Council

In May 2021, the Department of Finance Canada announced the launch of the Sustainable Finance Action Council. A brief description of the Council follows:

> The council will bring together public and private sector financial expertise to support the growth of a strong, well-functioning, sustainable finance market. Financial sector leaders will provide input on the foundational market infrastructure needed for a stable and reliable sustainable finance market in Canada that will boost investor confidence and drive economic growth. Mobilizing capital is a critical part of Canada's work to meet its 2030 Paris target, achieve net-zero emissions by 2050, and ensure that Canada continues to have a prosperous economy.[25]

The Honourable Jonathan Wilkinson, Minister of Environment and Climate Change said:

> As financial systems around the world are increasingly looking to measure, price and disclose climate risk, the Sustainable Finance Action Council will help ensure Canada stays ahead of the curve. There is no question that climate change presents unprecedented risks and economic opportunities. The sooner we understand and disclose them, the more effectively we can address and seize them. Taken with other measures our government has announced, these measures will help accelerate the flow of capital to investments needed for a sustainable economy. This is what global investors are looking for, what Canadians expect, and what will set our businesses up for success in the 21st century.[26]

Current Canadian ESG regulatory reporting requirements and developments

Under Canadian securities legislation, issuers must disclose "material" information on ESG matters in their continuous disclosure documents as prescribed by underlying "general" disclosure requirements.[27]

25 Department of Finance Canada, "Canada Launches Sustainable Finance Action Council," news release, Ottawa, ON, May 12, 2021.
26 Ibid.
27 Note that there are also requirements in other contexts (e.g., prospectuses). However, this appendix focuses on continuous disclosure requirements for reporting issuers.

Environmental and social reporting requirements

National Instrument 51-102, *Continuous Disclosure Obligations* (NI 51-102) requires the following:

- Under item 5.1(4) of Form 51-102F2, *Annual Information Form*, if an issuer has implemented environmental or social policies that are fundamental to its operations, such as policies regarding its relationship with the environment or with the communities in which it does business, or human rights policies, it must describe them and the steps it has taken to implement them. Under item 5.2 of the *Annual Information Form*, an issuer is required to disclose risk factors relating to the issuer and its business, including environmental risks.
- Under items 10 to 15 of Form 58-101F1, *Corporate Governance Disclosure*, subject to certain exceptions, an issuer listed on the Toronto Stock Exchange (TSX), and certain other non-venture issuers, is required to provide certain disclosure on an annual basis regarding director term limits and women on boards and in executive officer positions.[28]
- **Reporting of results**: Since these requirements came into effect, the CSA has published a multilateral staff notice on an annual basis summarizing the disclosures provided by reporting issuers. The March 2021 report, "CSA Multilateral Staff Notice 58-312 – Report on Sixth Staff Review of Disclosure regarding Women on Boards and in Executive Officer Positions," can be found on the Ontario Securities Commission's website.
- Under item 1.4(g) of Form 51-102F1, *Management's Discussion and Analysis*, the issuer is required to discuss its analysis of its operations for the most recently completed financial year, including commitments, events, risks or uncertainties that it reasonably believes will materially affect the issuer's future performance.

Governance reporting requirements

National Instrument 58-101, *Disclosure of Corporate Governance Practices* (NI 58-101), Form 58-101F1, *Corporate Governance Disclosure*, and National Instrument 52-110, *Audit Committees* (NI 52-110) contain relevant disclosure requirements for governance.

Additional CSA resources to facilitate ESG reporting

The following CSA staff notices provide additional guidance to support issuers with ESG reporting:

- CSA Staff Notice 51-333, *Environmental Reporting Guidance* (October 27, 2010): Notes that disclosure of material environmental matters, including those relating to climate, is necessary to comply with the existing continuous disclosure obligations established by NI 51-102.
- CSA Staff Notice 51-354, *Report on Climate Change-related Disclosure Project* (April 5, 2018): Reports on the findings of the CSA's review of climate change-related disclosures by reporting issuers on the risks and financial impacts associated with climate change.

[28] Applicable only in Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Quebec, Saskatchewan and Yukon.

- CSA Staff Notice 51-358, *Reporting of Climate Change-related Risks* (August 1, 2019): Expands on the 2010 staff notice to provide guidance to issuers and their boards on identifying and disclosing material climate change risks to investors. The CSA's 2019 Notice acknowledges developments in voluntary disclosure frameworks, such as the TCFD.

Current CSA developments

In May 2021, the CSA announced further research and consultations with issuers, investors and other industry stakeholders on its consideration of broader diversity on boards and executive officer positions. The CSA has indicated that, "This work will help determine whether, and how, the disclosure needs of Canadian investors, and corporate governance practices among public companies have evolved since the 'women on boards' disclosure requirements were first adopted in most CSA jurisdictions."[29] The consultations will inform further policy-making in this area.

In October 2021, the CSA published for comment proposed climate-related disclosure requirements that it says "address the need for more consistent and comparable information to help inform investment decisions" and "demonstrate the CSA's commitment in favour of the growing international movement toward mandatory climate-related disclosure standards."[30] The CSA also states that "the requirements are also intended to address costs associated with reporting across multiple disclosure frameworks, improve access to global markets and facilitate an equal playing field for issuers."[31] The resulting disclosures would be largely consistent with the TCFD's recommendations and would be included in annual filings due in 2024 and 2026 for non-venture issuers and venture issuers, respectively.

Office of the Superintendent of Financial Institutions

In January 2021, OSFI released the Discussion Paper, *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks*. OSFI sought feedback from federally regulated financial institutions (FRFIs), federally regulated pension plans (FRPPs), and other interested stakeholders on "how FRFIs and FRPPs define, identify, measure and build resilience to climate-related risks" and how OSFI "can facilitate FRFIs' and FRPPs' preparedness for, and resilience to, these risks."[32] In October 2021, OSFI released a summary of feedback received on its Discussion Paper, and outlined next steps on its planned guidance for FRFIs and FRPPs.[33]

[29] Canadian Securities Administrators (CSA), "Canadian securities regulators to hold upcoming consultations on broader diversity in corporate leadership," news release, Montreal, QC, May 19, 2021.

[30] Ontario Securities Commission (OSC), "Canadian securities regulators seek comment on climate-related disclosure requirements," news release, Calgary, AB, and Toronto, ON, October 18, 2021.

[31] Ibid.

[32] Office of the Superintendent of Financial Institutions (OSFI), "OSFI launches consultation on climate-related risks in the financial sector," news release, Ottawa, ON, January 11, 2021.

[33] Ibid, "OSFI Summarizes Responses to Its Climate Risk Discussion Paper," letter to federally regulated financial institutions and federally regulated pension plans, Ottawa, ON, October 12, 2021.