

March 31, 2022

Edward J. Waitzer (Chair)
Independent Review Committee on Standard Setting in Canada
277 Wellington Street West
Toronto ON M5V 3H2

Submitted via email to: info@ircsscanada.ca

Re: Consultation Paper – Independent Review Committee (Committee) on Standard Setting in Canada

FAIR Canada is pleased to provide comments on the above-referenced Consultation Paper.

FAIR Canada is a national, independent charitable organization dedicated to being a catalyst for the advancement of the rights of investors and financial consumers in Canada. It advances its mission through outreach and education, public policy submissions to governments and regulators, and proactive identification of emerging issues. FAIR Canada has a reputation for independence, thoughtful public policy commentary, and repeatedly moving the needle in the interests of retail investors and financial consumers.¹

The Importance of Robust Standard Setting Processes

Audited financial statements are a cornerstone of the securities regulatory framework for protecting investors and fostering fair and efficient capital markets. They provide critical and relevant financial information to investors when making investment decisions.

Accordingly, it is imperative that such statements be prepared based on robust standards that ensure transparency, reliability, consistency, and comparability. It is equally important that these standards be developed free of political pressures or special interests, and in a way that serves the public interest. A keen focus on the public interest is imperative because of the high degree of reliance and involvement of the accounting profession in the standard setting process.

Given that the last significant review of Canada's standard setting processes was undertaken in 1998, we welcome this public consultation. The Committee's review is a valuable and timely undertaking. It is important that we periodically assess the standard

¹ Visit www.faircanada.ca for more information.

setting process to ensure it continues to support investors and other stakeholders and, ultimately, fosters continued public confidence in the reliability of audited financial statements.

Given the ever-increasing demands by investors for information about a company's performance on environmental, social and governance (ESG) matters, we also support the Committee's decision to consider sustainability standards within Canada.

Adopting a Public Interest Framework

FAIR Canada supports the adoption of a common public interest framework by Canada's standard setting boards and oversight councils. Such a framework would supplement the mandates of these boards and oversight councils, all of which include high-level commitments to serve the public interest.

Determining what is in the public interest can be considerably complex and involve a delicate balancing between competing concerns. A common public interest framework would help guide the analysis in such cases and promote consistency in how the boards and oversight councils approach this fundamental goal.

We note that the Auditing and Assurance Standards Oversight Council (AASOC) published a [detailed statement](#) on how it ensures its activities serve the public interest. In our view, this document should serve as a starting point for the development of a common public interest framework. This framework can then be tailored as needed for each individual board and oversight council.

The key elements of the common framework should also draw on the work done at the international level by the [Monitoring Group](#).² As stated by the Monitoring Group, when balancing the various stakeholder interests, the focus must be "primarily on the interests of users" of financial statements.

The importance of earning the trust of these "users" is echoed in the AASOC public interest document, which recognizes the "prominence" of these stakeholders:

Present and potential investors, financial institutions and other creditors of private entities and public institutions [...] have **a prominence as stakeholders** in our considerations. In short, those economic participants who entrust or consider entrusting their money to an entity. (Emphasis added.)

² The Monitoring Group is focused on advancing the public interest in the areas related to international audit standards setting and audit quality. Its members include the Basel Committee on Banking Supervision (BCBS), European Commission (EC), Financial Stability Board (FSB), International Association of Insurance Supervisors (IAIS), International Forum of Independent Audit Regulators (IFIAR), International Organization of Securities Commissions (IOSCO), and the World Bank (WB).

A Canadian Sustainability Standards Board

Developing common sustainability reporting standards is important for institutional and retail investors alike, who are increasingly focusing their investment decisions based on ESG factors. Unfortunately, the increased interest is also creating risks that investors may be harmed by misleading information, also known as “greenwashing.”³

The new International Sustainability Standards Board (ISSB) will help address these concerns over time by establishing globally consistent and comparable sustainability reporting standards. The international standards will be developed using a “building-blocks” approach whereby the ISSB will work with standard setters from key jurisdictions to develop a baseline. This approach will allow jurisdictions to build on any global baseline to create supplemental standards that serve specific domestic needs.

In our view, this global effort should be supplemented by establishing a Canadian sustainability standards board (SSB). This will enable the development of standards that are specific to Canada and that address areas not covered by the global standards. A Canadian SSB would also provide a vehicle to help shape the development of the international standards developed by the ISSB.

In establishing a Canadian SSB, we recommend the Committee consider the factors outlined by the International Organization of Securities Commissions (IOSCO), including:

- Board Expertise: “[T]he importance of securing the right expertise for developing sustainability reporting standards – including at the Trustee and Board levels – acknowledging that this expertise is distinct from traditional financial reporting expertise.”
- Extensive Outreach: Ensuring that the process to establish the board is “based on extensive outreach and engagement with key stakeholders. This may need to be extended to include wider users of non-financial information.”⁴

In our view, board expertise should also include knowledge of issues that are of particular concern for retail investor protection, such as the risk of greenwashing.

Diversity and Indigenous Rights

We agree with the Committee’s view that the quality of standard setting is enhanced when a wide range of experiences and perspectives are integrated in the process, reflecting Canada’s diversity, and respecting Indigenous rights.

³ The October 2021 [Responsible Investment Association survey](#) of Canadian investors found that 73% of respondents showed interest in responsible investing, up from 60% in 2018. When asked, “How concerned are you about greenwashing in the investment industry?” 78% said they are “very concerned” or “somewhat concerned”.

⁴ [IOSCO response to the IFRS Foundation Consultation on Sustainability Reporting](#), page 3.

These are especially important considerations in the stakeholder consultation process, which should include specific outreach to underrepresented and marginalized groups. This could include targeted advertising to encourage feedback from these groups, using both traditional and online media; arranging forums to discuss standards and encourage feedback; or reaching out to leaders and advocacy groups in these communities for comment and input.

Conclusion

We thank you for the opportunity to provide our comments and views in this submission. We welcome its public posting. Please be advised that we intend to make our submission public by posting it to the FAIR Canada website. Should you have questions or require further explanation of our views on these matters, please contact me at jp.bureaud@faircanada.ca.

Sincerely,

A handwritten signature in black ink, appearing to be 'JP Bureaud', followed by a horizontal line and a small upward-pointing flourish.

Jean-Paul Bureaud,
President, CEO and Executive Director
FAIR Canada | Canadian Foundation for Advancement of Investor Rights