

September 4, 2024

Attn: Independent Standards Committee (ISC)  
Canadian Certified Public Accountant (CPA) Association  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Delivered by Email: [isconsultations@cpacanada.ca](mailto:isconsultations@cpacanada.ca)

Dear Sir or Madam:

**Re.: Response to ISC Consultation on Public Interest Entity Designation for Credit Unions**

The Canadian Credit Union Association (CCUA) is pleased to respond to the Independent Standards Committee (ISC) of the Canadian Certified Public Accountant (CPA) Association on [Definitions of Public Interest Entity and Listed Entity in Canadian Independence Standards](#) (the “Standards”).

**Background**

CCUA is the national trade association that provides services to Canada’s credit unions and caisses populaires, excluding the Desjardins Group. In aggregate, the credit union system holds \$309B in assets, is a leader in small business lending, and serves more than 6M Canadians through 1,632 branch locations.

All credit unions are regulated, co-operative financial institutions that are 100% owned and controlled by the people who bank with them: their members. Credit unions exist to improve the economic and social well-being of their member customers and their primary motivation is providing quality products and services to those members.

**Summary**

In general, the credit union sector supports independence standards to ensure objectivity for financial disclosure and the audit function. The majority of the sector also supports the view that provincially regulated credit unions serve a broad group of stakeholders in Canada and that those holding public funds meet the purpose of the requirements outlined by the International Ethics and Standards Board for Accountants (IESBA).

However, the sector also holds that Public Interest Entity (PIE) standards must be applied in a risk-based manner and proportionate to the business's size, scale, and region. It also supports the view that providing deposit-taking services for credit union members is distinct from publicly traded companies and that independence standards should be aligned accordingly.

We offer the following recommendations to strengthen and clarify the ISC’s exposure Draft:

- *Increase Asset Threshold:* The majority of the sector felt that it should be significantly increased to ≥ \$1 billion due to (i) concern of a lack of access to auditing firms in rural and remote areas, as well as (ii) concern that scarce resources of a small credit union may be drawn by elevated frequency of RFP processes. In addition, (iii) a higher threshold is more aligned with the



standards of Canada's partner nations. Finally, (iv) a higher threshold will continue to introduce independence standards to a large majority of the credit union sector. We propose an exemption of  $\geq \$1$  billion in assets.

- *Regional Exemption:* In addition to the above, we recommend that the ISC adopt the regional and proportionate exemption included in the handbook of the International Ethics Standards Board for Accountants (IESBA).
- *Regulator Engagement:* Should standards be introduced to the credit union sector, we respectfully request that the ISC consult with provincial credit union regulators through CUPSA to ensure the ISC's proposed standards align with a risk-based and proportional view of our sector in each jurisdiction and that any change in standards be a response to quantified risk.
- *Harmonized Standards:* Should measures be brought forward, we recommend that those standards be applied equally across Canada among provincial bodies following meaningful consultation.
- *Consultation on Future Updates:* The ISC has stated its intent to introduce additional independence standards for Public Interest Entities once the relevant entities are defined in the Canadian handbook. We recommend that the ISC continue to consult with relevant sectors prior to implementing those provisions.

## Recommendations

### Recommendations on Credit Unions as Public Interest Entities

*Do you agree with the ISC's proposed refinement to mandatory Category B (re. credit unions), to provide an exemption for a provincially regulated credit union that has, in respect of a particular fiscal year, less than \$500 million in total assets in the definition of 'public interest entity' in the Canadian Independence Standards? If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category B.*

In general, most credit unions agree that appropriate independence standards are important if a financial institution is in custody of public funds.

The majority of the sector recommends that the minimum  $\geq \$500$  million threshold be increased to  $\geq \$1$  billion in assets due to (i) concerns about a lack of access to auditing firms in rural and remote areas and (ii) concerns that the scarce resources of a small credit union may be drawn by the elevated frequency of RFP processes for auditors. The RFP process to switch or evaluate auditors is costly for small financial institutions and requires considerable human resources.

A threshold of  $\geq \$1$  billion in assets will continue to introduce independence standards to a large majority of Canadians and their assets within the credit union sector. The ISC has reasoned that size and systemic importance inform public interest in a credit union's financial condition.<sup>1</sup> Whereas credit unions

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<sup>1</sup> "Canadian credit unions (outside Quebec) with greater than \$500 million in total assets account for more than 90% of the combined consolidated assets of the sector (excluding Quebec). In Quebec, Desjardins caisse populaire & credit union is regulated by the Autorité des Marchés Financiers, and accounts for 100% of the sector."

with ≥ \$500 million in assets would cover 94% of assets and 93% of credit union members, credit unions with ≥ \$1 billion in assets still maintain the vast majority of assets, at 88%, and members, at 85%.

As the credit union sector is distinct from publicly listed entities, independence standards should not be brought forward to align with those entities but with internationally accepted standards for credit unions. To that end, we agree that provincially regulated credit unions may be included, but recommend that the above proportionate exemption should be added.

The credit union sector supports the ISC's intention to develop a harmonized and interoperable application of assurance independence standards among credit unions, as well as to reinforce confidence in the marketplace through alignment with other international bodies, including the United States, the United Kingdom, and the European Union. In addition, we submit that this amendment will not obstruct the ISC's goal of interoperability for the following reasons:

- In the United States, credit unions are not included in the Public Interest Entity designation, as they generally have a common bond and regional market share. However, the relative scale of a credit union in the U.S. is significantly larger than Canada's largest credit unions.<sup>2</sup> In comparison, many of Canada's smallest provincial credit unions have a common bond or have a local community focus. In contrast, credit unions of a larger scale generally offer broader services to a diversity of customers professions in multiple communities; and
- To our knowledge, the Financial Reporting Council (FRC) in the United Kingdom does not include credit unions or mutuals as part of their PIE framework. Instead, the FRC intends to treat large private companies with both 750+ employees and annual revenue of £750m+ as PIEs. A credit union of \$5 billion in assets would be more comparable to the FRC standards for private companies.

Respectfully, we hold that expanding PIE standards may be risky without sufficient evidence that it would be in the public interest to impose additional independence requirements on such entities. Whether other jurisdictions have successfully adopted the IESBA Code for credit unions of a similar size is an important indicator.

## Implementation

*Do you agree that the effective date is appropriate to implement the proposals? If you disagree, please explain why. Refer to discussion of the proposed effective date.*

We do not object to the proposed timeline.

## Other Recommendations

### *Recommendations on Regional Exemption*

The greatest challenge with the proposed measures relates to how the time on period will affect small and mid-sized provincially regulated credit unions due to the limited number of audit firms currently available. For example, if a small credit union is in a remote or rural area, would it have access to audit firms to facilitate the staff, partner, or firm rotation requirements? Currently, some small and mid-sized

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<sup>2</sup> Navy Credit Union in the U.S. is \$156.6 billion vs. Vancity in Canada has \$28.5 billion in assets.

credit unions express frustration with securing audit firms at a reasonable cost due to the limited number of available firms offering services to the sector. Credit unions believe that this proposal stands to increase the RFP and audit costs of small, mid-sized, and regional credit unions and may further limit firm selection.

To that end, we advocate raising the exemption from \$500m to \$1b in assets.

In addition, we recommend that regional exemptions be included in the ISC's recommendations. Precedent for such exemptions can be found in sections R410.21, R410.21 A1, and R540.9 of the IESBA's [2023 Handbook for International Code of Ethics for Professional Accountants](#).<sup>3</sup>

### *Recommendations on Provincial Regulator Engagement*

We request that the ISC consult with the provincial credit union regulators through the Credit Union Prudential Supervisors Association (CUPSA) to ensure the ISC's proposed standards align with a risk-based and proportional view in each jurisdiction.

### *Recommendations on Provincial Regulator Engagement*

Last June, the CPA provincial bodies of Ontario and Quebec announced their separation from CPA Canada, which will take effect at the end of 2024. In light of this change, it is unclear whether provincial bodies across Canada will adopt the PIE definition in CPA Canada's handbook concurrently and in a harmonized manner. While provincial credit unions across Canada also operate in similar but differentiated regulatory frameworks, the sector advocates for the equal and harmonized application of independence standards across provincial jurisdictions.

### *Consultation on Future Updates to Independence Standards*

We believe industry feedback is essential to the effective implementation of independence standards. Therefore, before the ISC recommends additional independence standards for PIEs – as is its stated intention – we urge the ISC to consult with relevant sectors included in that definition, such as credit unions.<sup>4</sup>

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<sup>3</sup> "A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business." IESBA, [2023 Handbook](#), R 410.21 A1, p. 171.

<sup>4</sup> Para. 11 states the following: "The IESBA code has more prohibitions applicable to audits of PIEs than are currently in CIS. Following consideration of the IESBA's definition of a PIE the ISC will, in accordance with its mandate, continue to evaluate and make recommendations for PTC approval to update those aspects of the CIS that are determined to be less stringent than the IESBA Code." CPA, [Exposure Draft – Proposed Revisions Relating to Definitions of Public Interest Entity and Listed Entity in Canadian Independence Standards](#), p. 5.

## Conclusion

The Canadian credit union sector appreciates the opportunity to participate in ISC's consultation on [\*Definitions of Public Interest Entity and Listed Entity in Canadian Independence Standards\*](#).

Please do not hesitate to reach out if you have any questions regarding this submission or if we can provide further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Morgan Paulgaard", is centered within a light gray rectangular box.

Morgan Paulgaard  
Policy Advisor, National & Federal  
Canadian Credit Union Association