What Canadian audit committees should prioritize in 2025

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INTRODUCTION

In this year's edition, we summarize key considerations for audit committees during the 2024 year-end audit cycle and beyond. With the changing risk landscape, the audit committee's role continues to grow more demanding and complex amid the uncertain and dynamic business environment. This report is designed to help audit committees proactively address developments in risk management, financial reporting, tax and the regulatory landscape.

CONTENTS

Risk management

Audit committees may want to delve deeper into enterprise risk management practices and processes to effectively manage risks across the organization, with a focus on building more resilience while retaining the ability to make strategic pivots in 2025.

Top risks and expectations for 2025

Navigating economic conditions, geopolitical volatility, the regulatory environment, election impacts, cybersecurity threats, artificial intelligence and other disruptive technologies, continues to be an area of focus for organizations.

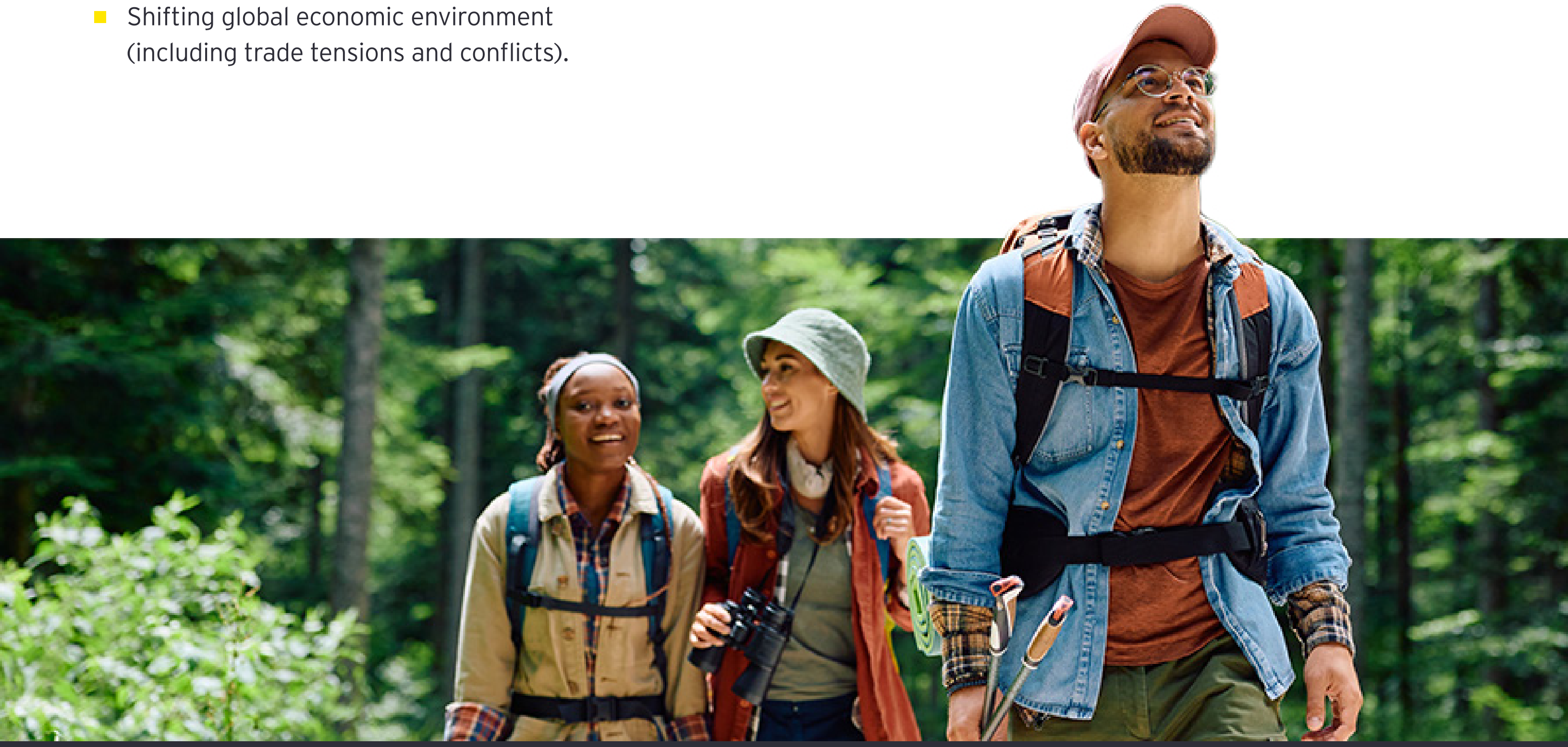
A recent EY global CEO survey finds broad consensus among CEOs that economic conditions, investment opportunities and their company's ability to grow will be positive in 2025. Most are not assuming strong economic tailwinds and are preparing to adapt to take advantage and grow in this ever-shifting business environment.

According to global CEOs, the top disruptive forces that are expected to drive the most change for organizations over the next 12 months are:

- Emerging tech (including AI)
- Changing customer behaviours
- Regulatory impacts
- Supply chain pressures
- Shifting global economic environment (including trade tensions and conflicts).

Ways organizations are preparing include enhancing brand differentiation in certain geographic areas (such as China), diversifying supply chains or developing scenario-based strategic planning processes to prepare for various geopolitical and economic outcomes.

Boards and audit committees may want to consider whether the management team is regularly revisiting and **updating key strategic assumptions** and related risks to the business, and continuously optimizing its portfolio. Audit committees should consider discussing with management how some of these key risks may impact **financial reporting and disclosure** and the **related controls**. Additional conversations around scenario planning and risk mitigation plans - including **emerging risks** resulting from changes in the political and regulatory landscape, may be prudent along with **stress-testing assumptions** surrounding these key risks and opportunities.



Internal audit areas of focus

To help internal auditors and their stakeholders, including audit committees, better understand the risk environment and prepare audit plans for the upcoming year, the Internal Audit Foundation recently issued its survey reports *2025 Risk in Focus: Hot Topics for Internal Auditors*. We've excerpted some notable highlights from these reports[1]:

- The areas of highest risk for organizations globally continue to be **cybersecurity, business continuity, human capital, digital disruption (including AI), and regulatory change**. In North America, supply chain (including third parties) and market changes/competition are ranked high as well.
- The fastest growing risk in the next three years is expected to be **digital disruption** (including AI). We also anticipate **supply chain** risks may significantly increase. None of the other risks are expected to have large increases, and this trend is expected by internal auditors worldwide.
- In recognition of the growing risk of AI, the Institute of Internal Auditors updated in October 2024 their **AI Auditing Framework**. The Framework comprises three overlapping components – **AI strategy**, **governance** and the **Human Factor**. It also provides guidance in areas such as cyber resilience, AI competencies, data quality and measuring AI performance.
- A key theme emerging from CAEs is the acknowledgment of a general immaturity of **AI governance**. The zeal to keep pace with the opportunities created by generative AI is driving rapid adoption, sometimes without sufficient consideration for supporting governance and controls. Strategies or policies for using and managing AI are inconsistent, uncoordinated or, in some cases, nonexistent.
- To address this possible gap, as AI is implemented, some internal audit functions are providing advisory services to set up processes and controls and are proactive in helping organizations understand the control environment and the need to enhance **governance**, **transparency**, **data quality**, **data privacy** and **ethical guidelines for AI**. After these are in place, internal audit is shifting to providing assurance.

- Voluntary sustainability reporting and regulatory compliance are often focus areas for **climate change risk management**. Extreme weather is on the rise and driving higher costs for businesses and governments.Additionally, social impact and public opinion are also pushing more businesses and governments to develop climate change responses.
- CAEs globally and in North America rank **cyber risk management** and resiliency as the top area where internal audit will spend the most time and effort. Other top priority areas are governance/corporate reporting, business continuity, regulatory change, and financial liquidity. These internal audit priorities were generally consistent across all geographic areas.
- Securing the right **talent** and skill sets for internal audit is a continuing challenge. Increasing the use of guest auditors from different business functions for specific assignments and boosting rotations from within the business is a strategy organizations are continuing to deploy to strengthen the bench and capabilities of the internal audit function. A longer-term focus for internal audit functions includes **upskilling**, **training**, and **recruitment** to support digital disruption/AI risk management. EY publication "Reimagining skills assessments in Internal Audit" provides guidance on performing internal audit skills assessments.

Internal audit functions and audit committees may want to review this report to benchmark their own internal audit risk areas and planned audit efforts. Additionally, internal audit functions may add value by considering how they will keep boards and executive management abreast of technology, business, social, climate and political trends and developments.

(1) Adapted and sourced from Internal Audit Foundation's 2025 Risk in Focus: Hot topics for internal auditors (Global Summary and North America editions).

Cybersecurity trends and related governance

In our latest analyses of disclosures in the proxy statements and Form 10-K filings of Fortune 100 companies, we have seen increases in the percentage of certain categories of cybersecurity risk and oversight disclosures. We've highlighted below some notable cyber related developments:

- **Audit committees continue to oversee cyber:** Despite an increasingly heavy workload, 81% of Fortune 100 companies report that cybersecurity oversight lies with the audit committee, up from 61% in 2018.

61% → Increase → 81%

- **New technologies are enabling growing threats:** GenAI is now being used in some way by nearly every company, and many report that they have plans to use GenAI to improve cybersecurity by helping companies identify potential cyber risks, detect vulnerabilities and breaches, and prioritize cybersecurity efforts. However, cyber threats continue to grow and extortion – including ransomware – remains a dominant threat.
- Identity access management, **data protection**, **threat and vulnerability management** and social engineering all require greater focus:

Recent research indicates that more than two thirds of breaches are reported to include some involvement by company workers through phishing, social manipulation or other methods to obtain and exploit employee credentials.

(2) "The State of Security 2024: The Race to Harness AI," Splunk.

- **Third-party cyber risks are growing:** Reliance on third and fourth parties for increasingly complex IT operating environments is expanding the threat surface area – the places where an adversary may attack. It also may create single points of failure in critical systems that can be disrupted.
- Organizations are increasingly focused on their ability to effectively respond to and recover from **cybersecurity incidents**. This concern is a top priority for audit committees. We are observing heightened discussions at the executive and board levels regarding cyber recovery capabilities. This has resulted in significant participation in cyber incident response and recovery simulation exercises.
- The latest advancements in **AI and its pace of experimentation** across business functions present opportunities and risks for chief information security officers (CISOs) and boards to consider. AI has great potential to ease cybersecurity workloads and the global skills shortage by expanding the scope of task automation, shortening response time and optimizing visibility across the attack surface. On the flip slide, there may be increased cyber concerns if employees mishandle sensitive data. Additionally, foreign adversaries have started targeting vulnerabilities in AI systems.
- The cybersecurity implications of AI use in the wider workforce accentuate a long-standing concern among CISOs and their teams about **weak adherence to cybersecurity protocols**. According to a recent EY study,

  64% of CISOs were not satisfied with the non-IT workforce's adoption of cybersecurity leading practices.

Audit committees should assess whether training, governance and operational strategies are evolving to address the complexities of AI – including considerations around responsible use of AI and robust data protection.

System implementations

Implementation of new systems and upgrades can have a significant impact on business processes, risks and controls. With more and more companies undergoing technology transformations consideration should be given to performing **pre-and post-implementation technology assessments**. Early intervention through a pre-implementation technology assessment can help mitigate transformation risks on a timely basis.

Benefits of pre-implementation technology assessments

- Address implementation risk sooner
- Reduce surprises
- Avoidance or reduction of control deficiencies
- Identification of opportunities for synergies
- Smoother data conversion
- Potential cost savings

Compliance and Integrity considerations: highlights from the global and US editions of the EY Global Integrity Report 2024

The EY Global Integrity Report 2024 highlights a positive development, with almost half (49%) of global respondents thinking that compliance with their organization's standards of integrity has improved in the last two years. Despite the rise in overall perception of integrity, however, companies struggle with significant incidents and violations. The report found 20% of companies acknowledge they have had a significant integrity incident, such as a major fraud, data privacy or security breach, or regulatory compliance violation in the last two years. Notably, of those who say their organization had a significant integrity incident, more than two-thirds note the incident involved a third party.

According to our most recent reports , there are several key external and internal challenges at play that are creating headwinds on sustaining integrity, such as:

- **External risks:** Nearly half (49%) of global respondents are finding it difficult to adapt to the speed and volume of change in regulations, and say economic pressures, such as inflation, unemployment and exchange rates, make it harder to carry out business with integrity.
- **Employee risks:** Continuing challenges around misconduct are making it difficult for organizations to drive higher standards of integrity across the business and among third-parties and supply chains. More than one-third (38%) of global respondents say they'd be willing to behave unethically if asked by a manager. Nearly half (47%) of respondents say employees pose the greatest integrity risk for the organization over the next two years.
- **Operational risks:** While 40% cite privacy and security as their greatest operational integrity risks, 53% of global respondents say employee turnover and employees not understanding policy are the greatest internal threats to organizational standards of integrity.

(3) Adapted and sourced from: https://www.ey.com/en_us/insights/forensic-integrity-services/us-edition-2024-global-integrity-report and https://www.ey.com/en_gl/insights/forensic-integrity-services/global-integrity-report

20% of companies acknowledge that they have had a significant integrity incident in the last two years.

38% of global respondents say they'd be willing to behave unethically if asked by a manager.

47% of respondents say employees pose the greatest integrity risk for the organization over the next two years.

53% of global respondents say that employee turnover and employees not understanding policy are the greatest internal threats to organizational standards of integrity.

Questions for audit committess to consider:

- How do we determine what scenarios to plan for and how are these incorporated into boardroom discussions or exercises? How do we balance short and longer-term scenarios? How do the scenarios help us better understand which tradeoffs the company should make – more resilient, but more expensive supply chains, for example?
- How will board discussions about cybersecurity and data privacy and innovation and emerging technologies change over the next year?
- What are the largest near and longer-term risks associated with emerging technologies? What new critical single points of failure exist in the cybersecurity and technology infrastructure and supply chain? How can these be mitigated?
- Has management considered obtaining an independent pre and post implementation technology review to identify risks, if any?
- What is the current and planned use of AI, and has management considered stakeholder and regulator expectations for transparency, ensuring accountability and mitigating risks related to the use of AI. Whether built in-house or procured through third parties?
- Is management confident in the effectiveness of its whistleblowing process that known or suspected issues in financial reporting would be appropriately reported and addressed? How does management evaluate the effectiveness of its whistleblowing process?

Financial reporting developments

IFRS 18 – Presentation and Disclosure in Financial Statements

IFRS 18 replaces IAS 1 and responds to investor demand for better information about an entity's financial performance. The new standard introduces several new requirements for the presentation and disclosure of financial statements that are expected to impact most, if not all, entities.

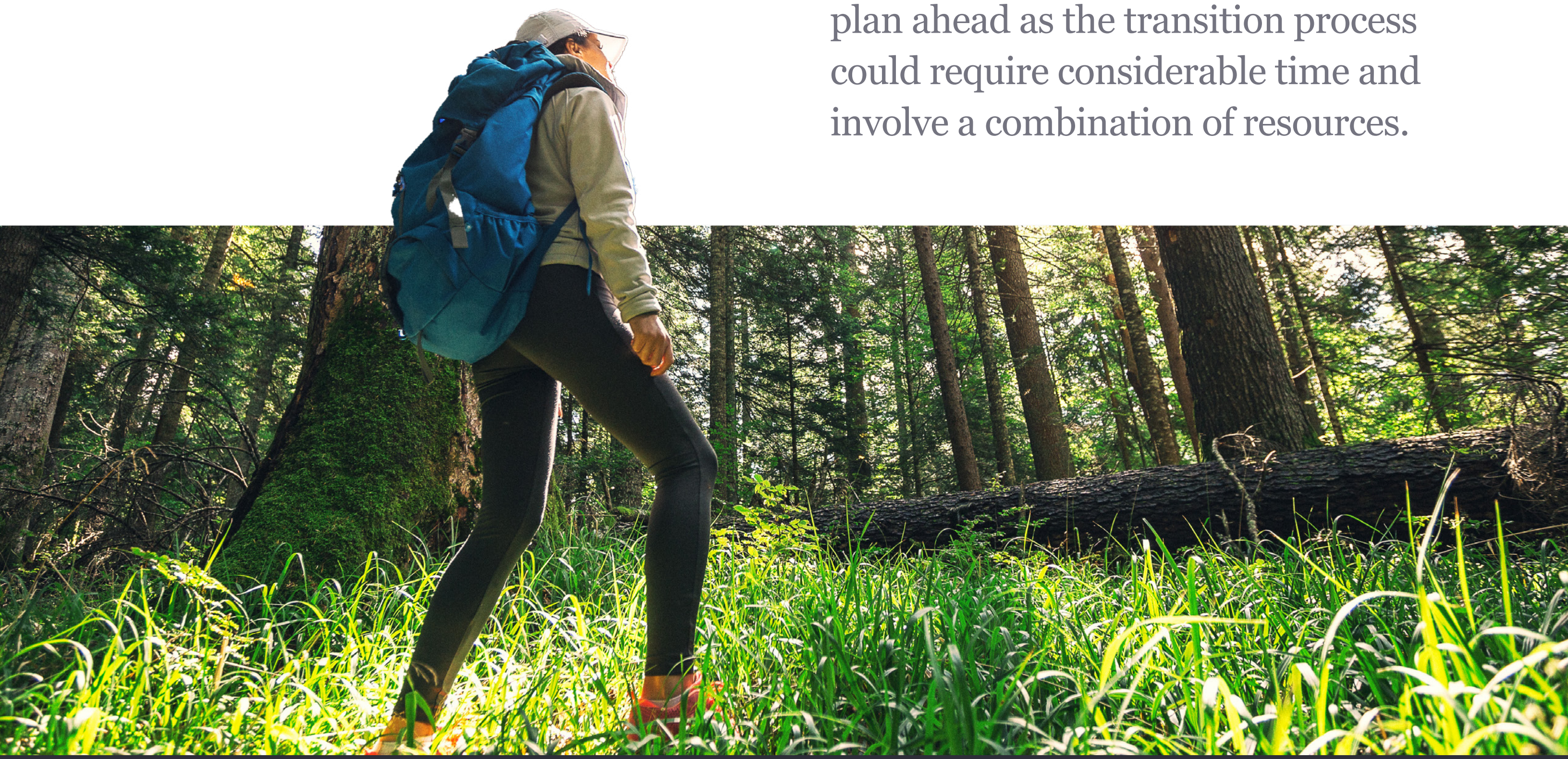
Requirement	Description
Income and expense classification	Classification of all income and expenses included in the statement of profit or loss into one of five categories (three being new- operating , investing and financing).
Management-defined performance measures	Disclosures about certain non-GAAP measures (management-defined performance measures), all in a single note to the financial statements.
Aggregation and labelling	Enhanced guidance on the grouping, labelling and location of information
Effective date	IFRS 18 is effective for reporting periods beginning on or after 1 January 2027. The standard is to be applied retrospectively and earlier application is permitted.

To implement these requirements, it is expected that entities will need to make changes to their **data collection processes**, **information systems** and their **financial statement close process**. In some cases, requirements are also expected to trigger revisiting of remuneration policies and debt covenants.

Please refer to Applying IFRS - A closer look at IFRS 18 | EY - Global for more details.

How we see it?

While there might appear to be ample time before the effective date of IFRS 18, entities are strongly encouraged to begin analysing the new requirements. Management needs to plan ahead as the transition process could require considerable time and involve a combination of resources.



Considerations related to geopolitical events and uncertainty

In recent years, there have been a number of events around the world, including geopolitical instability and conflicts, pandemics and natural disasters, that have led to economic uncertainty that impacts entities globally. In turn, this raises many IFRS accounting considerations. Entities may be impacted by fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, supply chain disruptions and possible slowdowns in global economies.

Impacts of high inflation and interest rates

Higher inflation has prompted some central banks around the world to push up interest rates. Entities that have debt face increased borrowing costs and, potentially, higher refinancing costs in the future. Furthermore, many IFRS standards use **discounting** to account for the time value of money in measuring non-current assets and liabilities — for example, the fair value measurement of investment properties using discounted cash flows. When interest rates increase, the present value of those assets and liabilities will decrease. This may affect a number of areas of financial reporting, including **impairment calculations**, **provisions**, **retirement obligations**, **leases**, **financial instruments and revalued tangible and intangible assets**.

Entities may also have contracts that are explicitly linked to inflation and this may mean assets and/or liabilities, for example, real estate leases, or inflation-linked bonds need to be adjusted for inflation.

There are a number of IFRS standards that specifically refer to inflation as one of the assumptions to be considered for measurement purposes. For example, inflation is particularly relevant in assessing **asset impairments**, which require estimates to be made about future revenue and expenditure. Inflation also affects many other areas of accounting, such as determining the residual value of **property**, **plant and equipment** and net realizable values of **inventories**. The measurement of **provisions for obligations** in the future (for example, decommissioning provisions), can also be significantly impacted by inflation.

Presentation and disclosure in financial statements

Entities will also need to consider whether changes to disclosures are required, including disclosure of additional risks, changes to significant accounting policies and changes to the disclosure of significant judgements applied and sources of estimation uncertainty, as required by IAS 1. For example, there may be additional risks that the carrying amounts of assets and liabilities require material adjustments within the next financial year. Similarly, entities should carefully consider whether additional disclosures are necessary to help users of financial statements understand the judgements applied in the financial statements.

Refer to Accounting considerations for geopolitical events and uncertainty | EY - Global for more details regarding the above financial reporting issues.

Climate-related matters in the financial statements

The efforts to reduce society's impact on climate change has never been greater. At the same time, there is unprecedented pressure from stakeholders for entities to communicate clear commitments, pressure that is set to continue for the foreseeable future.

Although there is no single explicit standard on climate-related matters under IFRS, climate risk and other climate-related matters may impact several areas of accounting. While the immediate impact on the financial statements may not necessarily be quantitatively significant, there are **increasing expectations** from stakeholders for entities to explain how these matters are factored into the preparation of the financial statements to the extent that they are material from a qualitative perspective. Stakeholders also expect robust disclosures on the most **significant assumptions**, **estimates and judgments** made related to climate change.

In July 2024, the IASB published the exposure draft **Climate-related and Other Uncertainties in the Financial Statements** which proposes eight examples illustrating how an entity applies the requirements in IFRS accounting standards to report the effects of climate-related and other uncertainties in its financial statements. The comment letter period closed in November 2024 and the IASB will be reviewing the feedback and deciding whether to confirm the proposals in 2025.

Entities are encouraged to consider and address climate-related risks in their financial statements. Significant judgment may be required to identify the accounting considerations that are relevant to the entity's specific facts and circumstances. Areas to consider may include:

- Disclosures of significant judgments and estimates
- Asset impairment, including goodwill
- Useful lives and residual values of long-lived assets
- Fair value measurements
- Changes in provisions

Furthermore, entities should ensure consistency between the information communicated in the financial statements and the information communicated to stakeholders about climate-related risks outside the financial statements, such as press releases, investor updates and disclosures in other parts of the annual report.

Additional support can be found in our recent publication: Connected Financial Reporting: Accounting for Climate Change | EY - Global.

Canadian Sustainability Disclosure Standards

In December 2024, the Canadian Sustainability Standards Board (CSSB) released its inaugural Canadian Sustainability Disclosure Standards (CSDS):

CSDS 1 — General Requirements for Disclosure of Sustainability-related Financial Information
Outlines the general requirements for the preparation and presentation of sustainability-related financial disclosures, including core content disclosures relating to governance, strategy, risk management and metrics and targets.

CSDS 2 — Climate-related Disclosures
Specifies the climate-related financial disclosures, including disclosures about climate resilience, greenhouse gas emissions and climate-related targets.

These new standards are based on the International Sustainability Standards Board's standards issued in June 2023, but include additional transitional relief. The transitional relief includes a later effective date and additional transitional reliefs for disclosures beyond climate, Scope 3 greenhouse gas emissions and aligned timing of sustainability reporting with financial reporting and quantitative climate scenario analysis.

The CSSB Standards are voluntary until mandated by provincial and territorial regulators (see Regulatory Developments section) .

Indigenous participation

In November 2024, the CSSB also issued **Indigenous Matters: What We Heard**. This document acknowledged Indigenous participation and feedback related to Indigenous matters during the public consultation process. It also reinforced the CSSB's commitment to building new pathways to support integrating Indigenous perspectives into the standard-setting process.

Moving into 2025, the CSSB plans to support implementation of the CSDSs, develop a multi-year strategic plan, and develop a work plan to advance trust and relationship-building with Indigenous Peoples.

Other reminders

Accounting implications of recent Canadian tax legislation

On June 20, 2024, amended Bill C 59, Fall Economic Statement Implementation Act, 2023, and Bill C-69, Budget Implementation Act, 2024, No.1 containing various tax measures first presented in the federal 2023/2024 budget, have received Royal Assent and been-enacted. This included the following tax measures:

1. Pillar Two – Global Minimum Tax Act
2. Excessive Interest and Financing Expenses (EIFEL) limitation rules
3. Tax on share buybacks

Companies in scope of the above tax measures will also need to consider how the impact of the new legislation will be reflected for financial reporting.

Pillar Two- Global Minimum Tax Act (GMTA)

The GMTA reflects Canada's adoption of Pillar Two compliant tax legislation. The Pillar Two rules aim to ensure that qualifying multinational enterprises (MNEs) pay a minimum tax of 15% on income arising in each jurisdiction where they operate. This is achieved by imposing a "top-up tax" when Pillar Two GloBE Effective Tax Rate (ETR) in a jurisdiction is less than 15%. Qualifying MNEs are those with consolidated revenues in excess of €750 million in at least two out of the last four years.

A reminder that in May 2023, the IASB amended IAS 12 Income Taxes introducing:

- A mandatory temporary exception from recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
- Disclosure requirements for affected entities including:
  - Disclosure of the application of the mandatory deferred taxes exception.
  - In periods before (substantively) enacted legislation takes effect, disclosure of known or reasonably estimable information to help users of financial statements understand their exposure to Pillar Two legislation. To meet this objective, entities should disclose both quantitative and qualitative information about their exposure to Pillar Two income taxes at the end of the reporting period.
  - Separate disclosure of current tax expense (income) related to Pillar Two income taxes.

Refer to the following publications for further detailed guidance.

- Applying IFRS: Pillar Two Disclosures in practice (June 2024)
- Applying IFRS: Pillar Two Disclosures (November 2023)

EIFEL limitation rules

The objective of the EIFEL rules is to address base erosion and profit shifting (BEPS) concerns arising from taxpayers deducting excessive interest and other financing costs, principally in the context of multinational enterprises and cross-border investments. However, the EIFEL rules can also apply to purely Canadian businesses, subject to certain exceptions. **The EIFEL rules generally limit the deductibility of net interest and finance expenses (IFE) to 30% of 'adjusted taxable income' (ATI)**, which approximates tax-adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) for the year. Note that there are separate provisions available, if elected, under certain conditions for a group of corporations and/or trusts.

Any disallowed IFE, referred to as restricted IFE or RIFE, can be carried forward indefinitely to be offset against future taxable income. Consequently, entities with IFE that cannot be deducted under the EIFEL rules will need to assess the **realizability of** any resulting **deferred tax assets** (DTAs) related to carried-forward RIFE.

It is important to note that the 30% restriction applies to both current-year IFE deductions and the potential utilization of carried forward RIFE.

Tax on share buybacks

Bill C-69 imposes a 2% tax on the net value of share repurchases by public corporations in Canada in excess of $1 million, with certain exceptions. The tax would apply in respect of repurchases, net of issuances of equity that occur on or after January 1, 2024.

The tax on share buyback is calculated based on net share repurchases and, as such, falls outside the scope of IAS 12. It should be accounted for as a 'levy' in accordance with IAS 37 and IFRIC 21.

Although the levy is based on net repurchases in the year, it is not appropriate to anticipate future share issuances to reduce the liability recorded for repurchases to date. This liability should only be reduced subsequently when the company issues additional shares. The tax is treated as a direct incremental cost incurred in acquiring own equity instruments and, therefore, should be recognized as a deduction from equity.

IFRS pronouncements and interpretation Committee (IFRS IC) agenda decisions

The following is an overview of upcoming changes in standards and interpretations issued by the IASB and an update on selected active projects from the IFRS IC as at December 31, 2024. For more details please refer to IFRS Update Standards and interpretations in issue December 31, 2024 | EY - Global.

IFRS pronouncements

New pronouncements	Effective for annual periods beginning on or after
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1	January 1, 2024
Lease Liability in a Sale and Leaseback –Amendments to IFRS 16	January 1, 2024
Disclosures: Supplier Finance Arrangements — Amendments to IAS 7 and IFRS 7	January 1, 2024
Lack of exchangeability –Amendments to IAS 21	January 1, 2025
Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7	January 1, 2026
Annual Improvements to IFRS Accounting Standards — Volume 11	January 1, 2026
Power Purchase Agreements – Amendments to IFRS 9 and IFRS 7	January 1, 2026
IFRS 18 – Presentation and Disclosure in Financial Statements	January 1, 2027
IFRS 19 - Subsidiaries without Public Accountability: Disclosures	January 1, 2027

IFRS Interpretations Committee (IFRIC) agenda decisions

Agenda decision	Date
Merger Between a Parent and Its Subsidiary in Separate Financial Statements – IAS 27 *Separate Financial Statements*	January 2024
Climate-related Commitments — IAS 37 *Provisions, Contingent liabilities and Contingent assets*	April 2024
Payments Contingent on Continued Employment during Handover Periods — IFRS 3 *Business combinations*	April 2024
Disclosure of Revenues and Expenses for Reportable Segments – IFRS 8 *Operating segments*	July 2024

Questions for audit committess to ask:

- Has management considered which financial reporting items and disclosures may pose heightened restatement risk, such as through the company's regular risk assessment activities?
- What approach has management taken to consider multiple scenarios related to its projections and underlying assumptions that are expected to have a material impact on the results of operations or capital resources? Have there been material changes in controls and processes to evaluate the reasonableness of the assumptions and key estimates?
- How is the audit committee overseeing the implementation and compliance with the EIFEL rules? Has the realizability of any resulting deferred tax assets been appropriately assessed?
- What is the organization's transition plan when it comes to preparing itself for a smooth and effective adoption of IFRS 18? How will the organization adapt its information collection, internal information systems, internal controls and financial reporting processes to meet the new requirements of IFRS 18 especially regarding the presentation changes to the statement of profit or loss and new disclosure requirements for management defined performance measures?

Tax and other policy-related developments

Recap of Canadian legislative developments

As discussed earlier, 2024 saw the enactment of Bill C-59 and Bill C-69 bringing into law significant proposals most of which had been previously introduced in previous federal budget announcements.

A summary of some of the changes contained in these bills, that may be applicable to Canadian multi-nationals, can be found in the table below:

Tax rule:	Description	Effective date
Excessive interest and financing expenses limitation ("EIFEL") rules	Enactment of the EIFEL rules intend to limit the deductibility of interest for Canadian income tax purposes to 30% of Adjusted Taxable Income. Conceptually, Adjusted Taxable Income is akin to "EBITDA" for income tax purposes. The EIFEL rules are complex and nuanced and require modelling to ensure the relevance and impact to an organization has been properly considered.	Taxation years beginning on or after October 1, 2023.
Hybrid mismatch rules	Enactment of rules intended to neutralize the tax benefits arising from cross-border tax avoidance arrangements that exploit differences in the income tax treatment of business entities or financial instruments under the laws of two or more countries.	Payments arising on or after July 1, 2022.
General anti-avoidance rule ("GAAR")	Amendments to modernize and strengthen the existing GAAR by implementing the following changes: ▪ A new GAAR preamble ▪ A reduction in the threshold for the avoidance transaction test ▪ A new economic substance test ▪ A new 25% penalty (subject to certain exceptions) ▪ And an extended reassessment period Any new tax planning should consider the potential application of the new GAAR.	Transactions occurring on or after January 1, 2024. * *New GAAR penalty provisions apply to transactions occurring on or after June 20, 2024.
Tax on equity repurchases	Enactment of a new "share buyback tax" of 2% of the net value of share repurchases by public corporations in Canada.	Transactions occurring on or after January 1, 2024.
Various clean energy & clean technology incentives	Enactment of a series of refundable tax credits to incentivize investment in clean energy and clean technology.	Different dates apply to the different incentive schemes depending on when property was acquired and put into use.

Tax rule:	Description	Effective date
Digital Services Tax Act	Enactment of a Digital Services Tax ("DST"). This is Canada's unilateral response to OECD's Pillar 1 initiative. The DST would apply at a rate of 3 per cent on certain revenue earned by large businesses from certain digital services reliant on the engagement, data and content contributions of Canadian users, as well as on certain sales or licensing of Canadian user data.	In force from June 28, 2024 with retroactive impact to January 1, 2022.
Global Minimum Tax Act	Enactment of the Global Minimum Tax Act to implement the OECD Pillar 2 minimum tax regime.	Years starting on or after December 31, 2023.

On January 6, 2025, Canada's Parliament was prorogued until March 24, 2025. The prorogation does not impact the status of any income tax measures for financial reporting purposes. All measures that have previously become enabled and substantively enacted, remain the same before and after prorogation. Measures proposed but not enacted will need to be included in a newly issued Bill in order to become enacted. As companies may have filed tax returns on the basis of certain proposed measures that are not yet substantively enacted, there may be a misalignment between a company's tax filings and tax provision for financial reporting purposes.

US federal tax policy outlook

Given the broad scope of tax changes enacted in the 2017 Tax Cuts and Jobs Act (TCJA), the 2025 tax debate is likely to be expansive, affecting corporate and international taxes. Allowing the TCJA provisions to expire or change would result in a nearly US$3.5t tax increase to individuals and corporations, and it is widely expected that Congress will try to prevent such a large tax increase.

Republicans have indicated they want to extend most or all of the TCJA expiring provisions, which the Congressional Budget Office has estimated would cost at least US$4.6t. Due to federal debt and deficit concerns, there are likely to be debates among policymakers over how to pay for at least some of the cost of extending these provisions, and if so, how.

With Republicans gaining control of the White House and both chambers of Congress, tax changes could be on a fast track. That said, single-party control in Congress does not necessarily make legislating these complex tax issues easy. There is not unanimity within the party on how to handle potential tax increases, international tax changes, and the future of the Inflation Reduction Act's (IRA) renewable energy tax credits, all of which could be pulled into a debate over revenue sources. In addition to revenue offsets, spending cuts and tariffs have been mentioned as ways to offset the cost of extending the TCJA. With so many variables at play, trade-offs will need to be made for tax legislation to be enacted.

Global tax – conform or go it alone?

Globally, the tax landscape continues to evolve as many countries, such as Canada, have followed the 2021 OECD/G20 Inclusive Framework Pillar Two agreement and enacted a 15% global minimum tax rule through domestic tax laws.

It remains to be seen whether and how the new US administration will engage on the Pillar Two minimum tax, but among a series of executive actions President Trump took his first day in office, he released a memo putting the OECD on notice that any agreements made by the Biden administration on BEPS 2.0 would have "no force or effect within the United States absent an act by the Congress adopting the relevant provisions" of the deal. The memo directed the Treasury Secretary and US representative to the OECD to investigate whether any foreign countries are not in compliance with any tax treaty with the US or "have any tax rules in place, or are likely to put tax rules in place, that are extraterritorial or disproportionately affect American companies, and develop and present a list of options for protective measures or other actions that" the US should adopt or take in response, within 60 days.

Trade

Current geopolitics, consistent and increasing protectionism in North America, and developments in Canadian import duty and tax revenue collection and management by the Canada Border Services Agency (CBSA) will continue to impact Canadian traders in the coming months and years. Canadian trade policy will continue to be a dynamic space and is another area to watch in 2025.

Potential US tariff policies and US President Donald Trump's executive order initiating a public consultation process for renegotiating the **Canada-United States-Mexico Agreement (CUSMA)** prior to the agreement's scheduled joint review in 2026 by the parties could have wide-ranging implications for Canada's trading relationship with the US.

While Trump did not include new tariffs as part of his first-day actions, his trade executive order outlines a cross-agency effort to investigate a range of trade issues, including exploring whether US citizens or corporations are being subjected to discriminatory or extraterritorial taxes as defined under IRC Section 891, which, if so found, would allow for the doubling of rates of tax on citizens and corporations of certain foreign countries. During his campaign, Trump proposed various general tariffs on imported goods that may impact Canadian multinational businesses. He has also said he would levy 25% tariffs on products coming into the United States from Mexico and Canada, as well as an additional 10% tariff on top of other tariffs on imports from China although he did not specify how soon that would be. This has caused many companies to start thinking now about the potential impact of these kinds of tariffs on their supply and value chains.

Tax compliance and controversy

Whatever happens from a tax policy perspective in 2025, companies will continue to face an increasingly challenging tax compliance environment. Resource-constrained companies are facing more complex and interdependent tax return processes, ongoing legislative and regulatory change including tax accounting complexities that coincide with the onset of Pillar Two reporting requirements.

These trends mean consistency and mapping of tax and financial statement data will be critical, and companies should be focusing on ways to further integrate and reuse data throughout the tax lifecycle. At the same time, **new tax technology tools** that can help with these demands are becoming more widely available.

From a controversy perspective, the increased funding the Canadian government has allocated to the Canada Revenue Agency (CRA) over the last few budget cycles, has translated to an **increase in audit activity**, with many Canadian taxpayers seeing one if not multiple audit enforcement actions covering domestic, international, incentive, and withholding tax matters for multiple years.

In the US, the Internal Revenue Service (IRS) will be affected by a federal hiring freeze ordered by President Trump in another executive action on his first day in office. While the hiring freeze expires after 90 days for most federal agencies, it is to remain in effect for the IRS "until the Secretary of the Treasury, in consultation with the Director of OMB and the Administrator of USDS, determines that it is in the national interest to lift the freeze," according to Trump's executive order. Prior to this order, the IRS had been increasing hiring, using funds from the Inflation Reduction Act enacted under the Biden administration. The shift in policy could affect the IRS's ability to continue its recent enforcement focus on complex partnerships, large corporations and high-net-worth individuals.

Questions for audit committees to consider:

- How does management include the tax department in the organization's broader strategic and business discussions?
- What plans does management have in place to monitor potential federal and provincial tax legislation and model out areas that might impact the organization's specific situation?
- Does the organization plan to engage with policymakers on tax legislative issues of interest, and if so, does the audit committee have any input into the plan?
- Is management prepared for potential trade policy changes and increased supply chain risks?
- Has management explored integrating AI resources into the tax function to address any emerging data needs or resource constraints?

Regulatory developments

Canadian sustainability developments

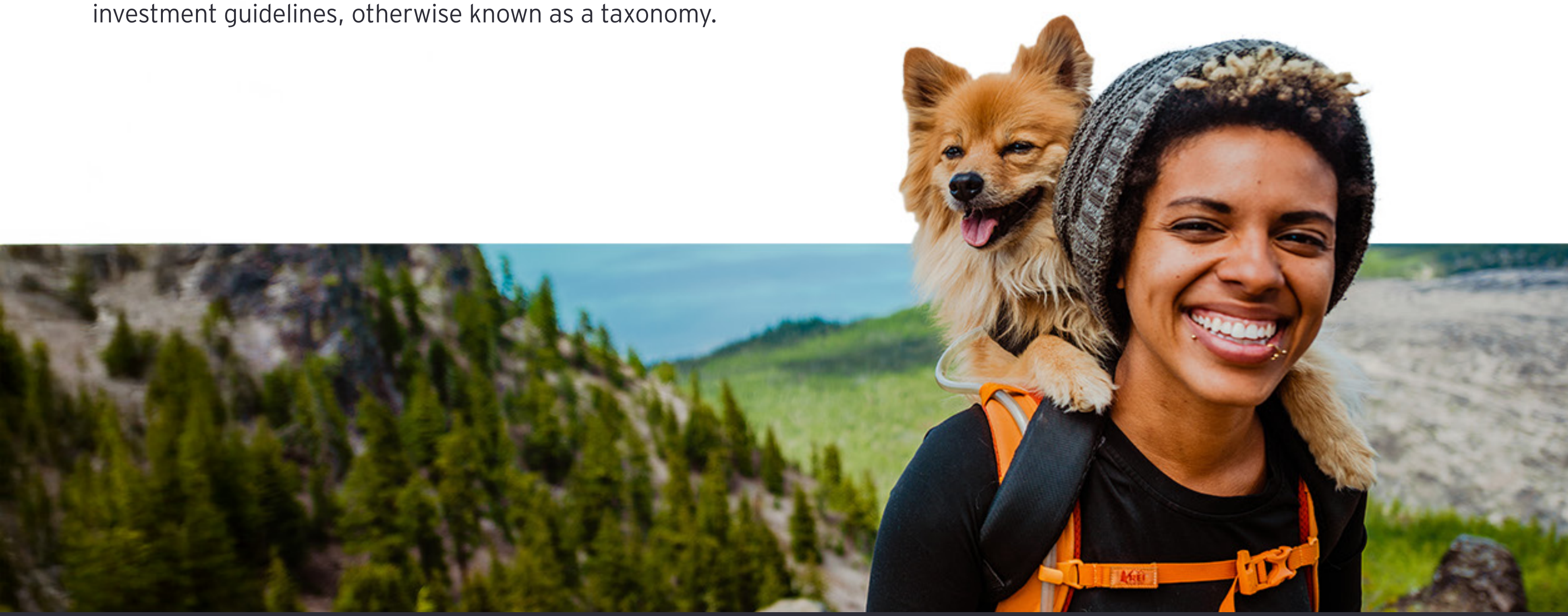
In December 2024, the Canadian Sustainability Standards Board (CSSB) released its inaugural Canadian Sustainability Disclosure Standards. These are discussed in the Financial reporting developments section of this report.

In December 2024, **the Canadian Securities Administrators** (CSA) stated that the CSSB Standards are voluntary until mandated by provincial and territorial regulators. For the disclosures to become mandatory under securities legislation in Canada, the CSSB Standards would need to be incorporated into a CSA rule. The CSA anticipates issuing for comment a revised climate-related disclosure rule, having previously issued the Proposed National Instrument 51-107 Disclosure of Climate-related Matters in October 2021. As part of this process, the CSA will seek public comment on a number of matters, including the scope of application and the need for additional time or guidance for reporting issuers to comply with certain disclosure requirements, as well as concerns regarding liability with respect to new requirements for climate-related disclosure.

Department of Finance Canada- Climate Disclosure
In October 2024, the Department of Finance Canada announced that the Government of Canada intends to bring forward amendments to the Canada Business Corporations Act to require climate-related financial disclosure requirements for large, federally incorporated private companies, and at the same time it supports the development of voluntary "made in canada" sustainable investment guidelines, otherwise known as a taxonomy.

Labour in Supply Chains Act
Effective January 1, 2024, the federal government enacted the Fighting Against Forced Labour and Child Labour in Supply Chains Act (S-211) to implement its international commitment to fight against forced labour and child labour, increase industry awareness and transparency, and drive businesses to improve their practices. The first reporting on Public Safety Canada's (PSC) website was due by May 31, 2024. On November 15, 2024, Public Safety Canada updated the guidance for reporting entities to clarify key aspects of the reporting process, heading into reporting year 2.

Greenwashing
In June 2024, Bill C-59 included amendments to the Canada Competition Act that introduced provisions aimed at "greenwashing", a term referring to marketing tactics organizations use to falsely portray their products, services or activities as environmentally or climate friendly. These amendments are making organizations take a step back and think about how they report on sustainability, and whether representations they make in public documents will hold up under scrutiny.



International developments

The ISSB's inaugural IFRS Sustainability Disclosure Standards, IFRS S1 and IFRS S2, were effective for annual reporting periods beginning on or after January 1, 2024, with adopting jurisdictions being able to choose their own effective dates. As reported by the IFRS Foundation, between October 2023 and March 2024, more than 1,000 companies referenced the ISSB in their reports. Also, as of September 2024, 30 jurisdictions (including Canada) had decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory frameworks. These 30 jurisdictions represent approximately 57% of global GDP, more than 40% of global market capitalization and more than half of global greenhouse gas (GHG) emissions.
Some of the jurisdictions that announced decisions to early adopt or otherwise use the ISSB Standards included Brazil, Costa Rica, Sri Lanka, Nigeria and Turkey.

1000 companies
referenced the ISSB in their reports

30 jurisdictions
(including Canada)

approximately
57%
of global gross domestic product

more than
40%
of global market capitalisation

European Union (EU)

Canadian multinationals with listings, entities and/or operations in the EU should continue to consider their obligations under the EU's Corporate Sustainability Reporting Directive (CSRD) and the separate Corporate Due Diligence Directive (CS3D). The CSRD will require climate-related and other sustainability matters disclosures and the CS3D will require companies to identify and address potential and actual adverse human rights and environmental impacts within the business, subsidiaries and supply chain operations carried out by business partners.

EU member states had until July 6, 2024 to transpose the CSRD into their laws. So far the majority of states have fully or partially transposed the CSRD.

The date of first application for CSRD is phased and some companies may be required to start reporting in 2025 on 2024 information. Many EU subsidiaries of Canadian multinationals will first report in 2026 on 2025 data, with there being later dates of first application in other situations.

For a comparison to the ISSB's Standards to European and SEC Standards, refer here. Canadian multinationals with affected entities should already have started preparing for implementation, including performing a double materiality assessment to identify which disclosures and metrics are in scope. Double materiality means a disclosure is required if it is material from an impact perspective and/or a financial perspective. Impact perspective pertains to an entity's material actual or potential, positive or negative impacts on people or the environment.

US sustainability developments are covered below.

CSA staff notice related to continuous disclosure

On November 7, 2024, the CSA published Staff Notice 51-365 Continuous Disclosure Review Program Activities (the "Notice") to report on the results of the CSA's Continuous Disclosure (CD) Review Program for the fiscal years ended March 31, 2024 and 2023. The goal of the CD Review Program is to improve the completeness, quality and timeliness of continuous disclosure provided by reporting issuers in Canada. The Notice describes common deficiencies and includes some illustrative examples to help issuers address these deficiencies and understand the CSA's expectations.

Common deficiencies the CSA observed include:

- **Financial statements:** compliance with the recognition, measurement, presentation, classification and disclosure requirements in IFRS including those pertaining to impairment of assets, business combinations, expected credit losses and disaggregation of revenue.
- **MD&A:** compliance with MD&A disclosure requirements including forward-looking information, discussion of operations relating to liquidity and capital resources and discussion of operations relating to business performance.
- **Other regulatory requirements:** compliance with other regulatory matters including material contracts and material change reports.
- **General disclosure:** compliance with general disclosure requirements regarding overly promotional disclosure pertaining to AI and ESG matters.
- **Mineral project disclosure:** compliance with National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101).

Entities are encouraged to understand the CSA comments to identify and consider disclosure improvements to their continuous disclosure documents.

CSA staff notice related to AI

On December 5, 2024, the CSA published Staff Notice and Consultation 11-348 Applicability of Canadian Securities Laws and the use of Artificial Intelligence Systems in Capital Markets (the Notice) to provide clarity and guidance on how securities legislation applies to the use of AI systems by market participants. The Notice addresses key considerations for market participants that may employ AI systems. It highlights the importance of maintaining transparency, ensuring accountability and mitigating risks to foster a fair and efficient market environment. The guidance provided is based on existing securities laws and does not create new legal requirements. The CSA invites responses to the consultation questions in relation to the Notice until March 31, 2025.

Canadian Sovereign AI Compute Strategy

Similar to many other jurisdictions, including the US and the UK, Canada created in spring 2024 the Canadian AI Safety Institute. In December 2024, the federal government officially launched the $2bn Canadian Sovereign AI Compute Strategy and AI Compute Challenge to strengthen Canada's global position in AI and to create for industry and academic researchers accessible, affordable and cutting-edge compute infrastructure. The strategic investments in public and commercial infrastructure include:

- Mobilizing private sector investment;
- Building public supercomputing infrastructure;
- Creating an AI Compute Access Fund.

CPAB activity

On September 12, 2024, CPAB published a thought leadership paper titled The use of artificial intelligence in the audit – balancing innovation and risk to provide an overview of their observations on how AI could enhance audit quality and outline how they expect audit firms and auditors to manage the risk of using these tools. CPAB states they have "*observed that the adoption of AI technologies in audit tools is in the early stages, with limited implementation noted in public company audit files*" they have inspected, however they "*anticipate an increased use of AI-enabled tools in the near future*." They recommend that when using AI-enabled tools, auditors:

- Employ a human-led approach;
- Maintain a heightened level of professional skepticism and not rely solely on AI-generated conclusions;
- Set responsible and appropriate use of AI-enabled tools;
- Consider the risks, limitations and potential biases associated with AI-enabled tools;
- Provide ongoing training in the effective use and interpretation of AI outputs;
- Perform certification testing of AI-enabled tools used;
- Implement monitoring programs for AI-enabled tools to evaluate the impact on overall audit quality.

CPAB Big Four firm inspection findings

CPAB issued its 2024 Interim Inspections Report in October 2024 and noted that to date it has inspected 50 of the 66 files planned for inspection across Canada's four largest audit firms and identified significant inspection findings in four of those files. This compares to 10 files with significant inspection findings across 63 inspections in 2023.

The common themes identified in CPAB's report included:

- The auditor's identification and assessment of the risks of material misstatement in the financial statements.
- Oversight by the audit team of the auditor's expert involved in the audit (e.g. valuations specialists).
- Auditors not incorporating information such as whistleblower reports, complaints, and short seller reports, when identifying and responding to the risks of material misstatement due to fraud.
- Effectiveness of the engagement team's supervision and review process
- Significant findings related to the identification and evaluation of threats to independence caused by non-audit services provided by auditors.

CPAB's report also highlights questions that audit committees may want to ask their auditors, including questions related to group audits, economic risks, use of AI in audits and non-audit services provided by the auditor.

Canadian Audit Quality Roundtable

In October 2024, the CSA, the CPAB and the Office of the Superintendent of Financial Institutions (OSFI) cohosted the sixth annual Canadian Audit Quality Roundtable. The roundtable facilitates a dialogue between senior representatives from financial regulators, audit firms and other key stakeholders on perspectives relating to current and emerging risks impacting audit quality in Canada.

Topics discussed included:

- The impact of global trends on audit quality in Canada, including the attractiveness of the profession, and sustainability assurance.
- Opportunities and challenges arising from the use of new technologies such as generative AI.
- Observations and learnings related to audit firm culture stemming from the recent adoption of the Canadian Standard on Quality Management.
- Consideration of climate-related risks in financial statement audits.
- The critical role of external auditors in the capital markets and the demand for additional assurance services.

The following were some of the key takeaways from the roundtable:

- Auditors play an essential role in evaluating economic and other uncertainties, key assumptions, and disclosures in financial reporting. Notably, uncertainties may lead to increased credit, liquidity and market risks, as well as areas in non-financial risks such as risks to operational resilience.
- Audit firms have made advancements in the design, implementation, and operation of systems of quality management, and they continue to prioritize firm culture, which are foundational to audit quality.
- Generative AI provides opportunities for both audit firms and their reporting issuers to improve the quality and efficiency of their processes. To mitigate risks associated with the adoption of such new technologies, internal oversight mechanisms and strong governance are needed.

US regulatory developments

Market participants should expect regulatory changes in 2025 as part of the change in the US administration. President Donald Trump has nominated a new SEC chair, who in turn will bring a shift in the agency's priorities. Among other responsibilities, the SEC oversees the Public Company Accounting Oversight Board (PCAOB) and has the authority to appoint its members. Thus, a change in the SEC Chair can impact the PCAOB and its agenda in turn. In addition, several landmark US Supreme Court decisions in 2024 are expected to further impact the SEC's approach to rulemaking and enforcement.

Climate-related disclosures

The court cases over SEC and California climate reporting requirements remain pending, meaning there's ongoing uncertainty about whether they will be overturned. The courts handling the cases are not expected to make decisions until sometime in 2025. The next SEC Chair is expected to attempt to roll back the SEC's rule if the court does not vacate it.

California

Canadian multinationals, both public and private with US entities that meet certain annual revenue thresholds and do business in California will be impacted by California's climate disclosure laws, being required to provide disclosures on GHG emissions and climate-related information initially in 2026. Several amendments to these climate disclosure laws were enacted during the year, granting the California Air Resources Board (CARB) more time and discretion to adopt implementing regulations. CARB also issued a notice in December providing certain relief from the reporting requirements for the first year.

A further Californian climate disclosure law on the voluntary carbon market was effective from January 1, 2024.

SEC enforcement

Looking ahead in 2025, a new SEC Chair will likely bring a different focus to the SEC's enforcement program, although the program is expected to remain robust. Some activities will carry over, for example, securities fraud and insider trading are expected to remain a priority.

The next SEC Chair is expected to have a different approach to **crypto assets** than former Chair Gary Gensler. The SEC has confronted the crypto industry head-on for the past several years through its enforcement activities, charging dozens of crypto industry participants for operating as unregistered broker-dealers and failing to register digital tokens as securities. President Donald Trump has said that he will foster an environment that is friendlier to crypto assets. He also committed to appointing a Bitcoin and crypto presidential advisory council tasked with designing regulatory guidance and pledged to create a stablecoin framework.

PCAOB standard setting

The PCAOB has adopted five standards that will become effective over the next two years and will impact the audit process. The standards relate to quality control systems, general responsibilities of the auditor, technology, other auditors and confirmation. The PCAOB also finalized rules to require expanded audit firm and engagement-level reporting in November, and the rules would mostly take effect starting in 2027, if approved by the SEC. Audit committees may wish to ask about firm implementation plans, challenges and the near and long-term impacts on audit quality.

Additionally, the PCAOB's current standard-setting and rulemaking agenda includes plans to finalize several standard setting projects in 2025.

Helpful publications: Audit committees should be aware of the PCAOB's guidance publications, which are designed to provide information to facilitate auditor oversight. Recent reports share insights on:

1. Sound auditor independence practices, including technology-based tools, personal independence representations and establishment of disciplinary actions.
2. Improving inspection results by sharing good practices with auditors and audit committees for audits of companies with crypto asset activity, significant or unusual events and multi-location audits.

Questions for audit committees to consider:

- Has management considered which of the various ESG jurisdictional requirements they may be subject to, including the potential scope and underlying disclosure requirement?
- What steps is management taking to adopt processes and controls related to new sustainability disclosures and related assurance requirements? For instance, does the company have sufficient controls and procedures over nonfinancial data?
- If sustainability-related matters are currently being discussed in more than one place (e.g., continuous disclosure filings, earnings releases, analyst communications, annual report, sustainability report, company website), is there consistency in the disclosures? Has the company evaluated controls related to such disclosures?
- In light of the changing environment, what additional voluntary proxy disclosures might be useful to shareholders and stakeholders related to the audit committee's time spent on certain activities, such as cybersecurity, data privacy, business continuity, corporate culture and financial statement reporting developments?
- What is management's technology strategy? What is the three-to five year transformation plan and has it been discussed with the audit committee?

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