



UPDATE ON IFAC PROPOSALS FOR REFORM February 2005

In November 2003, the Council of the International Federation of Accountants (IFAC) unanimously approved a series of reforms that had been developed by IFAC in collaboration with regulators to strengthen the accountability of the international profession and build investor confidence. The reforms focused on four primary areas: (1) the establishment of a Public Interest Oversight Board (PIOB); (2) strengthening of standard-setting processes, particularly through the Public Interest Activity Committees (PIACs) (see below); (3) creation of a more transparent nominations process and committee structure; and (4) implementation of the Member Body Compliance Program. In addition, the reforms provided for more formal ongoing dialogue between IFAC and the international regulatory community. This update focuses on actions taken by IFAC with respect to areas 2, 3, and 4 and its process for interacting with regulators.

I. PUBLIC INTEREST ACTIVITY COMMITTEES AND STANDARD-SETTING PROCESSES

There are four public interest activity committees that are under the oversight of the Public Interest Oversight Board – three standard setting committees: the International Auditing and Assurance Standards Board (IAASB), the Ethics Committee, and the Education Committee – and the Compliance Advisory Panel.

Since the approval of the reforms, IFAC's standard-setting committees have taken initiatives to increase public input to their standard-setting processes, strengthen their due process and enhance the transparency of their operations. These initiatives are detailed below.

A. Declaration

Beginning in 2004, IFAC's President and Deputy President and members of its Board and of its Public Interest Activity Committees were required to sign a declaration indicating that they will act in the public interest and act with integrity in serving the public interest. The declaration, which will be signed annually, also requires members to agree that they will not submit to improper influence from any source, whether firm, organizational, national, regional or other.

In addition, firms or other organizations that employ the President and Deputy President are required to sign a declaration indicating that they will not exert any undue influence that might impair the President's or Deputy President's ability to act with independence, integrity and in the public interest.

B. IAASB

The IAASB implemented the following reforms:

- *Appointment of full-time Chair:* Effective October 1, 2004, the Chair of the IAASB serves in a full-time capacity.
- *Increased public interest input in standard-setting process:* Since its inception, the IAASB has had public members on its Board, held meetings open to the public and provided agenda papers on its website. Since November 2003, it has further increased public interest input in its standard-setting process by appointing an independent chair to its Consultative Advisory Group (CAG) and expanding the role of the group. The CAG Chair is also an observer at IAASB meetings and Steering Committee meetings.
- *Creation of Steering Committee:* During 2004, the IAASB reconstituted the IAASB Planning Committee as the IAASB Steering Committee. The Steering Committee advises the IAASB on matters of strategic and operational importance, while also relieving the IAASB of the need to address certain administrative matters. In addition, the Steering Committee acts as counsel and advisor to the IAASB Chair and Technical Director on matters and activities relating to achievement of the objectives of the IAASB.
- *Formalized relationship with national standard setters:* Beginning in 2004, the IAASB organized annual meetings with national standard setters. In addition, representatives of the U.S. Public Company Accounting Oversight Board and the Japanese Financial Services Authority have observer seats on the IAASB.
- *Proposed enhancements to the due process:* In July 2004, the IAASB issued an exposure draft (ED) proposing enhancements to its due process and operating procedures to reflect more fully the practices that are being followed and to increase confidence that the activities of the IAASB are properly responsive to the public interest. The ED, which is responsive to the IFAC reforms, calls for the following:
 - Public forums or roundtables, or the issue of consultation papers, where wider or further input would be appropriate.
 - Increased transparency and efficiency of meetings by enhancing meeting materials and providing easier access to comment letters.
 - An expanded description of the process by which the IAASB considers the need to re-expose a draft IAASB international standard or practice statement.
 - The possibility of issuing a separate document explaining its basis for conclusions on final standards or practice statements where necessary.
 - A formal process to address circumstances where issues of due process are raised with the IAASB.

The IAASB is considering at its meeting in March 2005 a revised due process based on input received on the ED.

C. Ethics and Education Committees

- *Increased public interest input:* During 2004, both committees increased the number of their members to 18, including two public members. Each committee also established a CAG. The Ethics Committee CAG held its first meeting in December 2004 and the Education Committee will hold its first meeting on March 1, 2005.
- *Increased transparency:* The Ethics Committee opened its meetings to the public beginning in September 2004 and the Education Committee held its first open meeting in August 2004. Both committees post agenda papers and minutes on the IFAC website.
- *Enhanced due process:* Both committees will follow essentially the same due process as that of the IAASB and are awaiting the IAASB's finalization and the PIOB's approval of that process.

II. GOVERNANCE ARRANGEMENTS

The following changes were made in 2003 and 2004 as a result of both the Reform Proposals as well as the recommendations by the IFAC Governance Issues Group.

- *Greater member body representation:* In 2004 the IFAC Board, which is comprised of representatives of IFAC member bodies, was increased in size from 16 members to 21.
- *Establishment of formal liaison between IFAC and international regulators:* An IFAC Regulatory Liaison Group was created in 2004 to liaise with the Monitoring Group of regulators.
- *Reformatted Council meetings to provide for greater participation by members and others:* Beginning in November 2003, IFAC restructured its Council meetings to include breakout sessions and to provide more opportunities for individuals outside of IFAC to make presentations to stimulate discussion on public interest and other relevant issues.
- *Provide for consultation with the PIOB:* Effective from the formation of the PIOB, the PIOB Chair is invited to attend IFAC Board and Council meetings. The PIOB also approves PIAC Terms of Reference.

III. NOMINATIONS PROCESS

- *Increased opportunity for participation on IFAC committees:* As mentioned above, public members now serve on IFAC standard-setting committees. Council approved this change to the IFAC Constitution in November 2003.

- *Public interest involvement in nominations process:* IFAC's Constitution was also modified to provide for PIOB approval of nominees to PIACs.
- *Increased transparency of nominations process:* The IFAC "Call for Nominations" was posted on IFAC's website for the first time in February 2004 and, in addition to this, a press release calling for public member nominations to the IAASB was issued in February 2005.

IV. IFAC MEMBER BODY COMPLIANCE PROGRAM

In July 2003, the IFAC Board unanimously approved the creation and implementation of an IFAC compliance function to support the development of high quality auditing, ethical, accounting and related standards and to contribute to global convergence of such standards. The compliance program's focus is on encouragement and support.

- *Establishment of compliance function:* A Compliance Advisory Panel was established in November 2003 to oversee the IFAC Member Body Compliance Program. A Director of Compliance was named in January 2004 and a manager was hired in March 2004.
- *Establishment of Statements of Membership Obligations (SMOs):* SMOs serve as the foundation of the IFAC Member Body Compliance Program. Approved in March 2004, they outline a member body's obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding processes for quality assurance and investigation and discipline.
- *Development of program:* The program has established two primary components: Part 1, Assessment of the Regulatory and Standard-Setting Framework and Part 2, Member Body Self-Assessment. Both components are based on questionnaires.
- *Implementation of program:* The program was launched in March 2004 when Part 1 was sent to IFAC member bodies for completion. Regional accountancy bodies have provided assistance in the implementation of the program. To date, approximately 125 member bodies have submitted responses to the questionnaire. Part 2 of the program, the issuance of the Member Body Self-Assessment Questionnaire, will begin in the second half of 2005.
- *Increased transparency:* A description of the IFAC Compliance Advisory Panel and the Member Body Compliance Program was posted on the IFAC website in January 2004. Additionally, it is the intention that all responses to Parts 1 and 2 will be posted on the IFAC website. To date, 20 member body responses to Part 1 of the questionnaire are posted on the IFAC website.

V. SUMMARY OF CONSTITUTIONAL CHANGES

The following Constitutional changes, some of which are mentioned above, were made over the past two years to reflect the IFAC Proposals for Reform and, in particular, the role of the PIOB.

- Granting the Chair of the PIOB the right to attend and speak at IFAC Board and meetings.
- Formally establishing within the Constitution the public interest activity committees of IFAC to signal the organization's commitment to those committees, to require the Board to establish terms of reference for each committee, and to grant each the independent authority to set standards.
- Establishing the ongoing obligations of IFAC with respect to the PIOB.
- Formalizing the requirement that all individuals with significant roles in IFAC shall make a declaration that in carrying out their roles within IFAC, they will act with integrity and in the public interest.
- Granting the PIOB the authority to approve or not approve recommendations developed by the IFAC Nominating Committee and the IFAC Board in relation to the appointment of individuals to be members or chairs of IFAC's public interest committees.
- Providing for the PIOB to have the right to attend and to speak at meetings of the Nominating Committee when the Committee is considering candidates for the public interest activity committees of IFAC.
- Providing for the PIOB to approve the operating procedures of the Nominating Committee in relation to those IFAC committees subject to PIOB oversight.

VI. CONCLUSION

IFAC is committed to continuing the implementation of IFAC reforms which it perceives as vital to its mission:

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

In addition to the reform-related activities in this update, a significant IFAC focus for the future will be on supporting the work of the PIOB.