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Dear Ian,

Re.: Exposure Draft of the “Statements of Membership Obligations 1 – 7 (Revised) (SMO)”

We would like to thank you for the opportunity to provide you with our comments on the Exposure Draft of the “Statements of Membership Obligations 1 – 7 (Revised) (SMO)” (hereinafter referred to as the “draft”).

Since the SMOs had not been revised since their introduction in 2004, we welcome the initiative by the Compliance Advisory Panel (CAP) and the board of directors of the International Federation of Accountants (IFAC Board) to update them. On the whole, we are satisfied with the content of the new SMOs and therefore matters that we have not addressed in this comment letter should be taken as consent. However, we also have some serious concerns with some of the proposed changes to the SMOs. We address these in this comment letter.

We recognize the efforts of the CAP and IFAC Board to seek to further align SMOs with the expectations of the accountancy profession held by the public and key stakeholders. However, we should recognize that expectations of the

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accountancy profession held by certain segments of the public and key stakeholders at an international level may not align with the expectations of the accountancy profession held by the public and key stakeholders in national environments. National professional accountancy organizations (PAOs) also have a responsibility towards the public and key stakeholders in their respective national environments. It is therefore incumbent upon the CAP and IFAC to recognize these differing interests when designing the requirements set forth in the SMOs. We are not convinced that the interests of the public and key stakeholders in the national environments of PAOs have been adequately considered in the design of some of the new requirements in the SMOs.

First, we will address concerns with matters that apply across a number of SMOs. Then we will address concerns with matters specific to particular SMOs. Finally, we respond to the questions posed in the Explanatory Memorandum.

Concerns With Matters Applying to a Number of SMOs

Adoption Process

We are pleased to see that the term “adoption” used in SMOs 2, 3, 4, 5 and 7 includes incorporation into national requirements, the introduction of limited modifications, or a convergence process to remove differences. However, these SMOs also state that:

“Adoption typically includes a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and where applicable, a convergence process to eliminate or minimize differences between international and national standards [and consideration of necessary limited local modifications]¹.”

First, the use of the term “typically” suggests that the process as described is the one normally expected, as opposed to one possible process. This might lead to the situation that member bodies might need to justify to the CAP why they applied an “untypical” process. Second, through the use of the word “and” at the end of the list of steps, the text implies that all of these steps would need to be included for the process to be typical. However, we would like to point out that translation and public exposure of international standards prior to their incorporation into proposed national requirements are not necessarily useful

¹ The text in the brackets is included only in SMO 3. The question arises whether this text ought to be included in SMOs 2 and 4 as well.

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steps for jurisdictions that use a language other than English and that incorporate international standards into their national requirements, because in these jurisdictions it is more sensible to expose the new proposed national requirements that incorporate the international standard. For these reasons, we suggest that the words “typically includes” be replaced with “may include” and that the “and” at the end of the sentence be replaced with “or”.

Translation

SMOs 2, 3, 4, 5, and 7 include the following requirement:

“In jurisdictions where English is not an official or widely used language, IFAC member bodies shall use best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate and complete translation of international standards and, to the extent practicable, of related exposure drafts.”

In this connection, we would like to point out that “best endeavors” is defined as:

“An IFAC member body will have been considered to have used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.”

We regard the translation requirement in these SMOs to be unrealistic. If international standards are incorporated into national requirements, there is no need for a separate translation of the international requirements. Furthermore, as noted, in these circumstances member bodies would expose their proposed national requirements, rather than translating exposure drafts of international standards. As written, the requirement also means that if there is no other process being undertaken by another body to support, then IFAC member bodies would be responsible for using their best endeavors to have such a process that provides for *timely, accurate and complete* translation.

We also believe those who wrote this requirement have no conception of how expensive high quality translation processes for highly technical texts, such as standards, are. The question here is not whether a member body could not reasonably do more than it has done and is doing under the best endeavors clause, but whether member bodies, who are accountable to their members, have the right to prioritize their budgets as they see fit regardless of whether they could have reasonably done more to translate standards or it were practicable (which means the opposite of “unworkable”) to translate exposure drafts.

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In our view, through this requirement in conjunction with the best endeavors clause, IFAC is encroaching upon the right of IFAC member bodies to prioritize their budgets to meet the needs of their members in accordance with the determination of the member bodies of what those needs are. Given the potential size of the costs involved in high quality translations of all standards and exposure drafts covered by the SMOs, the introduction of such a requirement would lead to either: 1. the requirement being effectively ignored in the CAP compliance process, which would decrease the credibility of the CAP program and of IFAC; or 2. the requirement being enforced, which would mean that virtually all IFAC member bodies in jurisdictions in which English is not an official language would be removed from IFAC membership. The latter is less realistic than the former, but the former begs the question as to why such a requirement ought to be introduced in this way in the first place.

The current SMOs contain only one translation requirement in SMO 3 in relation to the IAASB standards that applies **only** when they are generally used by professional accountants in the jurisdictions of those member bodies, or where an understanding of those international standards is necessary for the proper implementation or interpretation of national standards. This requirement is entirely appropriate: it applies when professional accountants need to apply the translated standards in some way; in this case, the IFAC member body does have a responsibility towards its members to help provide such a translation. In our view, this ought to be the requirement for all of the standards in SMOs 2,3,4,5, and 7.

Concerns With Matters Applying to Individual SMOs

SMO 1

Audits of financial statements other than statutory audits of financial statements are, in many jurisdictions, an unregulated activity that need not be performed by qualified professional accountants. Consequently, member bodies in those jurisdictions only have a legal mandate to apply quality assurance to those members that actually perform statutory audits and are not permitted to extend quality assurance beyond this. Hence, the proposed requirement in the first sentence of paragraph 15 is unenforceable and should therefore be removed. It is unclear what the second sentence in paragraph 15 is trying to convey: it should either be clarified or removed. Since other engagements described in paragraph 16 would also not qualify as statutory audits, member bodies in the noted jurisdictions would also not have a legal mandate to extend quality assurance to professional accountants who perform these other engagements.

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Consequently, the development of criteria to determine whether such engagements should be covered becomes irrelevant and the requirement in paragraph 16 is unenforceable: the requirement can therefore also be removed.

Paragraph 20 requires member bodies to have firms directly apply ISQC 1 and ISA 220, rather than to require member bodies to adopt ISQC 1 using the broader definition of “adoption” (which includes incorporation into national standards). Furthermore, ISQC 1 or its national equivalent often cannot be required by member bodies in many jurisdictions for other than assurance engagements because other engagements (such as compilations) are not regulated activities. For these reasons, this paragraph needs considerable amendment.

Paragraph 53 requires members of the quality assurance team to possess certification or credentials required by the body responsible for the quality assurance review. We agree that this requirement ought to apply to review team leaders, but it seems excessive to apply this requirement to every member of a review team, who might be in training or have special skills other than such a certification or credential. We therefore suggest that paragraph 53 be limited to review team leaders. Likewise, paragraph 55 requires not only review team leaders, but also other members of the review team to be members in good standing in the profession. For the same reasons, this requirement should also be limited to review team leaders.

Paragraph 60 seems to suggest that the IESBA Code of Ethics applies directly, rather than the IESBA Code of Ethics or national ethical requirements that are at least as demanding. Paragraph 66 does make a reference to other relevant national codes of ethics. Consequently, paragraph 60 should refer to the IESBA Code of Ethics or national ethical requirements that are at least as demanding.

Paragraph 61 requires those selecting the review team to consider the objectivity of not only the team leader, but also of each member of the review team. This does not appear to us to be practical. Those selecting the review team should consider the objectivity of the team leader, and the team leader should be responsible for considering the objectivity of the members of the review team.

We do not understand the requirement in paragraph 64: the requirement does appear to make sense to us if the word “reciprocal” were to be deleted.

There appears to be an inconsistency between paragraph 77 and paragraph 78 (together with paragraph 23 of SMO 6). Paragraph 77 states that a link only needs to be established between unsatisfactory conclusion of quality assurance

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reviews and the initiation of disciplinary proceedings only if there is no mechanism requirement to take corrective action under the quality assurance review system to address this unsatisfactory conclusion. However, paragraph 78, together with paragraph 23 of SMO 6, state that actions taken as a consequence of unsatisfactory results of quality assurance reviews shall be carried out under SMO 6. The latter is inconsistent with paragraph 77 if there is an appropriate mechanism under the quality assurance review mechanism. In our view, paragraph 78, and 23 of SMO 6, need to be amended to be consistent with paragraph 77.

IES 2

It seems rather strange to have a translation requirement for education standards because these are never applied by professional accountants directly. Rather, education standards are incorporated into national education requirements (e.g. curricula). The translation requirement appears superfluous in this case.

Responses to Questions Posed in the Explanatory Memorandum

- 1. Considering differing national regulatory environments around the world, does the applicability framework included in each SMO provide sufficient clarity on what is expected of member bodies, when they have varying degrees of responsibility for an SMO area?*

On the whole we believe that the applicability framework included in each SMO provides sufficient clarity on what is expected of member bodies.

- 2. The SMO refers to adoption and implementation of international standards and provide descriptions of both concepts to ensure that both terms are understood in their broader meaning. Are these descriptions sufficient to ensure clear understanding that adoption and implementation encompasses a broad range of actions including national convergence, harmonization, incorporation, transposition, and integration of international standards into national frameworks?*

On the whole these descriptions would be sufficient if they were to list the possible means noted in the question above (national convergence, harmonization, incorporation, transposition, and integration into national frameworks) in the text describing adoption.

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We hope that our views will be helpful to the Compliance Advisory Panel and IFAC Board in their deliberations about the contents of the proposed revised SMO. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours truly,



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Executive Director



Wolfgang P. Böhm
Director, International Affairs