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Mr. Russell A. Guthrie, CPA
Executive Director
Quality and Member Relations
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017

Dear Mr. Guthrie,

The American Institute of CPAs (AICPA) is pleased to submit comments on proposed revisions to the *Statements of Membership Obligations (SMOs)*, as approved by the Board of the International Federation of Accountants (IFAC). These important SMOs serve as the basis for IFAC's Compliance Program (CP). The AICPA is an active participant and strong supporter of the CP, as evidenced by our enthusiastic assistance in field testing to establish this program and in our timely reporting of compliance efforts through our Action Plans.

We appreciate efforts by the IFAC staff and the Compliance Advisory Panel (CAP) to consider our previous comments offered on early drafts of the exposure that initially went to CAP and the IFAC Board. As a result, most of our initial concerns are addressed and this letter primarily serves to offer additional observations and suggestions.

One of our initial concerns addressed the use of "Adoption" throughout the SMOs, as an increased level of compliance by member bodies. Because of the varied roles and levels of authority IFAC member bodies have in their countries, we previously suggested that a definition of Adoption in the SMOs would be useful, as long as it provided a realistic expectation of convergence. We are pleased to see that this suggestion was incorporated into all of the SMOs. However, we observe that the definition for Adoption in SMO 3 is different than the definitions listed for the other SMOs and the definition contained in the "*Explanatory Memorandum*" that introduces the SMO revisions. The definition for SMO 3 contains the following additional language at the end of the definition, "*and consideration of necessary limited local modifications*". We suggest that all SMOs should contain only one consistent definition for Adoption to avoid confusion and to prevent the perception that one of the definition versions is faulty. If there is a good reason for this departure in definitions, we feel an appropriate explanation in SMO 3 would help minimize potential questions and confusion.

Following are specific comments regarding some of the SMOs, based upon feedback from our technical staff, who are responsible for managing SMO compliance reporting:

SMO 3 – International Standards, Practice Statements and Other Papers Issues by the IAASB

Comment 1

Paragraph 3 states: "International standards issued by the IAASB comprise International Standards

on Quality Control (ISQCs), International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs). The IAASB also issues practice statements¹⁰ and other papers to provide guidance and practical assistance to professional accountants in implementing international standards, and to promote good practice.”

Footnote no. 10 acknowledges that the IAASB was working on reviewing the authoritative nature of the IAASB Practice Statements. In October, the IAASB approved changes to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements wherein the IAASB eliminated the Practice Statements as an authoritative document. They created a new category of non-authoritative guidance—Practice Notes.

We recommend that the changes are reviewed and accepted before SMO 3 becomes final to reflect the change.

SMO 6 – Investigation and Discipline

Comment 1

Paragraph 23 states, “As required by SMO 1, a link shall be established between unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.” However, SMO 1 only requires such a link be established “where (a) the body responsible for the quality assurance review system (or its committee with appropriate delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism requirement to take corrective action under the quality assurance review system to address this unsatisfactory conclusion...” (see SMO 1, par. 77)

We recommend that this clarification be made in SMO 6 since as drafted, paragraph 23 appears a link would need to be established even when the quality assurance review system has its own mechanism to take corrective action.

Comment 2

Paragraph 31 states that “the system shall allow those who judge such issues to impose a range of penalties, including, if local laws permit: reprimands; fine/payment of costs; loss or restriction of practice rights; loss of professional title (designation); suspension from membership; and exclusion from membership. Furthermore, paragraph 32 states that “32. It is particularly important that the penalties include (a) loss of professional designation, (b) restriction and removal of practicing rights, and (c) exclusion from membership...”

While all may be appropriate disciplinary measures based on specific facts and circumstances, not all member bodies have the ability to impose such sanctions. For example, in the United States, the state boards of accountancy have jurisdiction over the CPA license and therefore are the regulatory body with the ability to revoke or suspend “practice rights.” While the AICPA does not have the ability to restrict practice, we do impose other effective disciplinary measures such as public admonishment, suspension, and expulsion, and we encourage state boards to utilize our investigative file and consider practice right restriction where appropriate.

We recommend that the lead in of paragraph 31 be revised so that it is not implied that the member body must have all of these penalties in place in order to comply with SMO 6. For example, IFAC may wish to revise the lead in as follows:

“The system shall allow those who judge such issues to impose a range of penalties, *including such as the following*, if local laws permit...”

Similarly, we recommend that paragraph 32 be revised to indicate that the member body may not have the ability to impose sanctions such as the loss of practicing rights and professional designation but rather, other regulators within the jurisdiction may impose such sanctions.

Comment 3

Paragraph 48 states: “A process for the independent review of complaints by clients and others shall be established and maintained in cases where it has been decided, following investigation, that the matter will not be referred to a disciplinary hearing.” Paragraph 49 indicates that “the objective of this review process is to study the available information and decide whether the investigation committee reached a reasonable decision on the basis of complete information...”

With the exception of disciplinary actions that are published by the AICPA and sharing the results of the investigation with the complainant and/or regulatory body that has jurisdiction in the matter, our enforcement process is confidential and documents are not shared with the public. If the ethics committee determines that there is no basis for a disciplinary hearing (e.g., there was no violation of professional standards), we do not believe the findings should be made publicly available and the committee’s decisions “second guessed.” In addition, many complaints filed with the investigation committee are highly sensitive and involve personal issues that would be inappropriate to share with the public. Making such information publicly available could have the unintended result of deterring individuals from filing complaints with the investigation committee which clearly is not in the public interest.

We recommend that IFAC allow member bodies to use their judgment in determining whether such review of complaint is appropriate in their jurisdiction.

Thank you for the opportunity for the AICPA to comment on this important exposure draft. We look forward to continue supporting these SMOs and the IFAC Compliance Program.

Sincerely,



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American Institute of CPAs (AICPA)