

November 7, 2016

Mr. Eddy Wymeersch
Chairman
Public Interest Oversight Board
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2017-2019 PIOB STRATEGY PUBLIC CONSULTATION PAPER (AUGUST – NOVEMBER 2016)

Dear Mr. Wymeersch,

The International Federation of Accountants® (IFAC®) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It works with its member organizations around the globe to achieve this goal. Through its current membership of more than 175 professional accountancy organizations in more than 130 countries and jurisdictions, represents almost three million accountants in public practice, industry and commerce, government service, and education.

For many years in fulfilling its public interest mandate, IFAC has supported the development of high-quality, globally accepted international standards for auditing and assurance, ethics, and accounting education.¹ These standards are in use, or form the basis of national standards, in excess of 110 jurisdictions around the globe.

The contributions over time by IFAC, its member organizations, and transnational accounting networks, to a multi-stakeholder, private-public sector standard-setting model, subject to public interest oversight and monitored by the international regulatory community, have been considerable and significant. This contribution to the global economy by IFAC and its constituents—especially those who fund the entire standard-setting model and provide thousands of hours of volunteer time—cannot be overstated. IFAC believes this model has served economies, governments and organizations, and capital and financial markets tremendously well across the globe for many years.

¹ IFAC supports three standard-setting boards that are subject to oversight by the PIOB. They are: the International Auditing and Assurance Standards Board (IAASB); the International Ethics Standards Board for Accountants (IESBA); and the International Accounting Education Standards Board (IAESB).



Importantly, it is vital that all parties involved in the standard-setting model recognize that the environment represented in their own region or jurisdiction is not replicated throughout the world. The standards are a global product, and are as critical in serving those in the developing world—who do not have as many resources, or as much expertise, to develop their own high-quality standards—as those in the developed world.

IFAC is committed to participating in a constructive manner in any discussions on how the model can be improved. It is in this context, that IFAC offers the following comments on the 2017-2019 Public Interest Oversight Board (PIOB) Strategy Consultation Paper.

General Comments

Serving the public interest is central to IFAC's mission. Accordingly, IFAC is very proud to have been an instrumental part of the development of high-quality international standards for many years. By financially and administratively supporting independently operating standard-setting boards, IFAC works closely with other key stakeholders to protect and promote a model that is free from undue influence from any one stakeholder or group.

The need for multi-stakeholder involvement and collaboration is essential, and is no better evidenced than the failings exhibited during the recent global financial crisis—poor levels of cooperation and consultation between the regulatory community and those being regulated and operating in global financial and capital markets meant that the impacts of the crisis were more severe and prolonged than may have been necessary. However, notwithstanding these failures, including by the regulatory community, the development of high-quality international standards has continued, with the governance arrangements being enhanced and modified to take account of growing interest by all key stakeholders.

The current standard-setting model is a strong model. It serves the global economy exceptionally well, and is arguably a best practice model for all other global standard-setting activities. More than 110 jurisdictions use the standards directly or use them as the basis of their own national standards. While acknowledging that all parties should seek to work together to consider how the model can continue to be enhanced over time, the starting point must be to recognize the strengths and achievements of the current model.

Importantly, protecting and acting in the public interest is the responsibility and obligation of all stakeholders in the standard-setting process. It is not the sole domain of one stakeholder group; nor is it the sole domain of a specific region or jurisdiction. While defining and explaining the public interest is very complex, it is clear that all parties acting honorably as part of the standard-setting arrangements will ensure the best quality public interest outcome.

Specific Questions

Identification of Threats to the Public Interest

Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

IFAC believes that the current arrangements are appropriate. Under the current model, Consultative Advisory Groups (CAGs) to standard-setting boards (SSBs) comprise representatives of key stakeholder



groups and provide direct feedback to SSBs. The public consultation process enables every individual or group to provide their views on the content of standards, and the basis for conclusions, published by SSBs when each standard is issued, includes a full explanation of how comments from the public have been evaluated and addressed. Additionally, the Monitoring Group (MG) also identifies issues which it considers to be most important from a public interest perspective for the PIOB to monitor.

Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

In responding to this question, it is pertinent to clarify that the accountancy profession is also a key stakeholder represented in the standard-setting process. Also, it is important to recognize that all parties are free and able to participate in the standard-setting process, which involves full transparency, in the form of publicly available meeting agendas, papers, and other meetings materials. Nominations to all standard-setting boards are open to all, and anyone can observe standard-setting board and CAG meetings and provide responses and input to all consultations.

IFAC strongly supports a multi-stakeholder approach to standard setting to facilitate more interactive and direct dialogue between key stakeholder groups and to provide checks and balances to prevent undue influence by any one stakeholder group. In addition to the regulators, investor community, and the accountancy profession, IFAC believes that the public interest might be better protected and enhanced by also giving representatives of those charged with governance (e.g., directors, audit committee chairs, etc.) a more direct voice in the standard-setting process.

Q3. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?

Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?

These are matters currently under discussion between IFAC and the MG, and IFAC does not believe that they are matters relevant to the PIOB Strategy Consultation.

As stated to the MG, IFAC's position is that any enhancements to the nominations process must preserve: (i) the objective of selecting the most suitable person for the role; (ii) the rigor and objectivity of the process; and (iii) the imperative that the accountancy profession plays a substantial role in the nominations process to ensure that the SSBs have the skills and experience needed to fulfill their standard-setting mandates.

Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

As noted previously, defining the public interest and what it means to act in the public interest is very complex. It means different things to different groups, and, hence, a multi-stakeholder, consultative approach is essential.

All SSB members are obliged to act in the public interest, including Public Members. Therefore, regardless of their professional and experiential background, whether their perspectives align or differ, all parties bring public interest perspectives to standard setting. All perspectives are important.



Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?

IFAC responded privately on this matter in July, when the PIOB separately sought IFAC's views. In its response, IFAC noted that it does not believe the absence of remuneration has impacted the ability of SSBs to attract high-quality nominees, as demonstrated by the caliber of the individuals currently serving on the standard-setting boards. It added that the impact, and potential unintended consequences, of remunerating public members would need to be carefully considered. It is not just a monetary issue, although that would need to be a consideration, but rather it is an issue of paying some but not other SSB members and the resulting potential impacts on SSB dynamics.

Several of these dynamics described in IFAC's letter include:

- While some Practitioners/Non-Practitioners/Public Members today have been given some time-accommodation from their "day job" for their SSB work, others truly invest in a volunteer capacity (this is true of individuals in every category). The willingness of these members to contribute to SSB and Task Force activities, and their overall satisfaction and sense of equity, may be negatively impacted if a select few (e.g., self-nominees) receive compensation for their volunteer time, especially if the select few are not as equally active.
- If a stipend is seen to serve as an enabler to participate in SSB plenary, then it may inadvertently become a disincentive to their willingness to participate further, e.g., in task forces, where such time is not compensated. This would be counter to the expectations we have of all members concerning contribution.
- It should not be overlooked that there are also several participants in other intense roles, such as the current CAG chairs, who may view a growing sense of inequitable treatment for their volunteer time, and therefore, overall attractiveness of their roles without similar consideration.

Strengthen PIOB Oversight

Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?

An important part of the standard-setting process is the receipt of views, perspectives, and comments in response to public consultations by the standard-setting boards. These views and perspectives are often diverse and may reflect the public interest sentiment of particular regions, jurisdictions, or individuals. It is inevitable that in the richness of standard setting, with a robust due process, that some people will always feel as though these concerns and comments have not been reflected in the final, promulgated standards.

Therefore, the question should not be whether the standards respond to public interest concerns, but rather whether such concerns were adequately identified, considered, and assessed; and whether the SSBs have sufficiently explained the reasons behind decisions made in the finalization of standards. In fact, that is where the robust due process, overseen by the PIOB, is crucial to the ongoing credibility and legitimacy of standard setting, keeping in mind that public interest views are diverse and do not solely constitute or reflect the opinions of one individual or group.



Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?

IFAC believes the current arrangements for standard setting are appropriate. However, it is a matter for discussion between the MG and the standard-setting boards as to whether there are ways to enhance the taskforce arrangements.

IFAC's view is that the PIOB's role is to oversee due process, which is best done through observation of CAG and SSB meetings, and by reviewing comment letters and responses. It seems that there would be no apparent advantage for the PIOB to routinely oversee technical discussions of task forces, where it may not have the technical expertise to draw any meaningful conclusions, and which would incur unnecessary additional cost.

Additionally, it is important to recognize that taskforces are not decision-making groups. All decisions about standards, exposure drafts, and other public consultation documents are made by the full SSBs. All SSB meetings are observed by the PIOB, open to the public; and all papers, documents, decisions, and discussions are available and open to public scrutiny. Any decision about greater PIOB oversight of taskforce work needs to be considered in light of the potential it has to slow down the entire standard-setting process.

Q8. Where do you see gaps in the PIOB's oversight?

IFAC does not see gaps in PIOB oversight. The PIOB's primary focus should be on due process oversight to ensure that the robust processes are operating effectively, and by virtue of doing so, ensuring that the public interest is protected.

Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

IFAC believes that where processes might potentially be enhanced to shorten the time taken in standards development, the PIOB and the standard-setting boards need to liaise closely to ensure that the cornerstone of high-quality standard setting—i.e., a robust due process—is not compromised.

As noted previously, defining the public interest and what it means to act in the public interest is very complex. It means different things to different groups, and hence it is imperative that no one group believes that its own view constitutes “the” public interest, and so when expressing its view believes that the SSBs “must” immediately respond by instituting its suggestions. That would be seen as undue influence and is potentially damaging to the credibility and legitimacy of the standards and the standard-setting process.

Supporting Accounting Education

Q10. What topics would you consider – from a public interest perspective - essential additions to the present education curricula?

IFAC is of the view that education curricula is not relevant to the PIOB's strategy. While International Education Standards (IESs) provide a global benchmark for accounting education, it is important that



necessary scope is available for curricula of university programs and professional accountancy organizations' professional qualifications to be conditioned to the local jurisdictional and cultural context, as well as that they do not stifle innovation in education. For example, education requirements and curricula in one part of the world should not be seen as being ideal for, and therefore should not be imposed upon, other parts of the world. In this regard, it is not for the IAESB (or the PIOB) to try to impose curricula requirements upon these organizations.

However, on the assumption that this question was perhaps meant to seek views on potential topics and inclusions in IESs—which is considerably different from seeking views on education curricula—IFAC believes that the public consultations by the IAESB on its strategies and work plans that currently take place are sufficient to engender the input required for the development of high-quality, principles-based IESs. The PIOB's views can best be contributed to the IAESB through this process.

Q11. Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard-setting, and to accounting education practices and processes?

The most appropriate manner in which the PIOB can seek to enhance its understanding of public interest issues relevant to international accounting education standard setting is through the oversight that it currently undertakes. By observing IAESB and CAG meetings, reviewing all responses to public consultations of the IAESB (all of which are available to the public), and participating in other roundtables and events organized by the IAESB, the PIOB will become well acquainted with all relevant issues.

Adoption and Implementation

Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?

IFAC's view is that the PIOB has a natural advocacy role for international standards. However, given its primary oversight role, specific activities to support adoption and implementation are better undertaken by international and national organizations that have the mandates and resources to support these activities.

Transparency and Communication

Q13. Do you find the PIOB Quarterly Updates useful?

IFAC welcomes receipt of the PIOB's quarterly updates.

Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?

IFAC questions the use of the term "defender" of the public interest, as all parties involved in the standard-setting model act in and protect the public interest. It is not the sole domain of just one party.



PIOB Vision 2019 and Beyond

Q15. What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?

We remain puzzled by this question. The discussions between the MG and IFAC on these matters have only recently commenced. The issues that the PIOB has highlighted are not “reforms currently contemplated,” but rather are a list of issues that the MG and IFAC are discussing. Given that the outcome of those discussions—which might also include discussions that impact the role of the PIOB—are far from known, to speculate on the role of the PIOB under various hypothetical scenarios is not appropriate at this time.

Please do not hesitate to contact us if you have any questions or require clarification on the contents of this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Olivia F. Kirtley".

Olivia F. Kirtley
President

A handwritten signature in black ink, appearing to read "Fayezul Choudhury".

Fayezul Choudhury
Chief Executive Officer

cc. Mr. Gerben Everts, Chair, Monitoring Group (Gerben.Everts@afm.nl)