Mr. Szymon Radziszewicz  
Senior Technical Manager  
Compliance Program  

By Email: szymonradziszewicz@ifac.org  

Dear Szymon,  

Re: CNDCEC comments on the revision of SMOs  

Scope  
The scope of the 7 SMOs appears to be focused on monitoring the “best endeavors” for adoption and implementation of the IFAC standards and IFRS. Of course, this is not the case for those areas of MB activity where no specific international standards are available, such as investigation and sanctions. The message embedded in the current structure of the SMOs is that audit of financial accounts is the central and most relevant activity. Other aspects of IFAC membership, or members’ activities, seem to have been left aside. Information on MBs’ involvement in other standard setting activity (for example: XBRL, valuation, sustainability, corporate governance and non-profit sector etc...) could also be included.  

Objectives  
We understand that Compliance needs to be considered as an ongoing, dynamic process rather than a point-in-time assessment of behaviour by MBs. It needs to be considered as a synergic cooperation between IFAC and its MBs and Associates. It is with no doubt perceived as a valuable project which has been shaped in the years and probably has its added value derivatives which go beyond the concept of “compliance”. For standard setters and regulators (international, EU or national ones) it could be extremely valuable to be able to extract comparative information on specific items included under the various SMOs.  

Definitions  
CNDCEC considers that overall the definitions are well set and this part of the document clears doubts and interpretations which were probably widely shared, but not clearly stated. We are glad that the introduction to each SMO highlights these definitions. We note that the definition of “adoption” and “implementation” is exactly the same one for all the 7 SMOs and so is the
reference to “national financial reporting environment”\textsuperscript{1}. In particular, we wonder if the definition of “adoption” should be to some extent adapted to the domain of each SMO (according to the subject matter); e.g., why should consideration of the Ethics code be limited to the financial reporting environment. This is only one of the “environments” that distinguish the various PAOs from one another. Other aspects, beside financial reporting, could relate to legal system, taxation, level of internationalization, etc...

The ED proposes the definition of “Best endeavors” and a split between two basic situations: PAOs have responsibilities for adoption or implementation of the standard, or they do not. The third option that is wisely introduced is that of “shared responsibility”. The understanding is that “shared responsibility” should follow the concept of “shared regulation” (as opposed to self regulation). The definition proposed is somehow limited as it redirects to the two basic situations for the different parts of a certain SMO under shared responsibility. To be more precise: the concept of “shared” not necessarily corresponds to a split in domains, but to a shared decisional process where the PAO takes part at the voting or expresses an opinion. In this case the concept of best endeavors would mean to support the standard and to promote understanding and familiarity with it.

As to the concepts of “adoption” (and “best endeavors”) in case of direct responsibility – it needs to be kept in mind that some of the standard setting areas are still highly debated and are not subject only to “technical” update (such as IFRS for SME, ISA for SME, Ethics for SME/SMPs).

Notwithstanding the complex consultative process (in the public interest)\textsuperscript{2} at the heart of the standard setting activity, PAOs may still have reservations and considerations on proportionality or appropriateness of the standards to their environment\textsuperscript{3}. Both at international level and within a PAO’s own organizational structure, standards are generally not adopted by an assembly (or a democratic delegation/representation process) but rather by a board.

Content of SMO
Currently part 2 and 3 of the compliance program are arranged according to a sequence based on the various standard setting activities of IFAC, starting with quality assurance. We note that no change has been proposed to the order of the different SMOs. As already mentioned in other comment letters, it can be envisaged to adopt a completely different order, for example starting with SMO dealing with Education and Ethics and then considering the technical ones.

Specifically with regard to Ethics we consider that application of the Code to non PIEs and to SMPs should be considered. It should be reminded that ethics does not relate only to audit activity and therefore distinction of dimension needs to be carefully considered (and even within the specific matter of Audit, implementation of Ethics requirements in an SME/SMP environment is probably worth a close monitoring, also in order to gather feedback and experience).

\textsuperscript{1} In the ED text: “Adoption” is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions, including incorporation into national requirements or requiring the use of international standards through law. 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.

\textsuperscript{2} Including - advisory panels, the PIOB, the public consultations.

\textsuperscript{3} Within Europe this might also be referred to concepts such as subsidiarity and proportionality of EU legislation.
While attention to capital markets and PIEs is welcomed and is duly addressed in the SMOs (1, 2, 3, 4) it is to be considered that the profession is mostly engaged in non audit activities, with non audit clients, with no link to financial markets and that this accounts for over 90% of the activities covered. We would welcome any clearer indication in the SMOs of aspects that are expected to be applied only for PIEs and those that would apply also to SMPs or SME environment. This distinction needs to fairly reflect the current debate and the areas where regulation is still to be defined. As mentioned before - the SMOs provide valuable information that goes beyond the strict concept of compliance. The understanding of thorny aspects and debates that are taking place in the different jurisdictions is, in our view, very important to IFAC as a standard setter, and to the accountancy community for benchmarking and deeper understanding of global trends. The questions posed in the SMO (or action plan) can not only assess the “adoption” and “implementation” but also the level of debate and local convergence. Standards today are not self tailored by the profession but are shared in a wider context and MBs could provide indication on the position of different stakeholders.

As to SMO 6 (investigation and discipline) – we understand that stronger linkage with SMO1 (QC) has been introduced. This is appreciated. Paragraph 13 considers as misconduct also the “unsatisfactory work” (pg. 50). It might be worth carefully considering if this aspect should effectively be considered as matter for a disciplinary proceeding or it can be included as a result of other items listed in the same paragraph.

**Answering for different categories of members**
From a structural point of view it appears that many PAOs have “dual” registrations and represent both auditors and professional accountants. The description under the different SMOs of the PAO’s specific role may of course differ. It is important to set the answer in a way that distinct answers can be provided rather than listing the differences in the free text field.

**Other aspects - simplification of IT infrastructure and information collection**
The papers produced by MBs in the SMO monitoring process represent are a valuable source of information on MB structure and activities. Specific info could be made available, upon request, or a query, more easily searched and compared to others.
We understand that this ED is focused on part 2 and specifically on each of the 7 SMOs. Yet we deem useful a reconsideration of all the parts together, assembling parts 1-2-3 into one collection process.
The current format, based on separate parts, implies unnecessary duplications, use different IT infrastructures, and is therefore more time consuming and burdensome.
We believe that the overall system can and needs to be simplified, for the benefit of both the providers and the users of the information filed.

Yours sincerely

Francesca Maione, Acting CEO