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Comments on the Public consultation on the governance arrangements and on the PIOB work Program.

The signatories of this letter are respective Chairs of Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC), the two French professional Institutes, member bodies of IFAC. We are pleased to provide here our comments on the two documents which were published on March 28 2012 by the Monitoring Group and the PIOB. Since a single mail address is provided to send replies, we forward the two sets of comments on the same document.

Before we formulate specific replies to the 28 questions raised by the Monitoring group and to the 11 questions put forward by the PIOB, we would like to express some general comments on the present consultation and on some of the topics involved.

- Why this Consultation issued by the Monitoring Group?

Less than two years have elapsed since we were invited to comment on the effectiveness of the IFAC reforms and to express our views on the governance of the various structures involved in the Public Interest Activities of IFAC.

The financial crisis had already developed as a global event at the time of our previous answers, in July 2010. All observers and analysts had earlier qualified the crisis as resulting from loopholes existing in the banking regulation in the US and from insufficient coordination of financial regulations applying to some products which result in a transfer of risks to the final investors.

None of the analysts had considered that accounting standards or professional standards implemented by accountants had an effect on the origin of the crisis or on the way it has spread to affect many countries around the world. Thus, we do not understand very well why the current crisis could appear as a new stimulus to open a reflexion on standard setting activities.

The only area where subsequent events have shown a real lack of transparency and a need for improved standards and harmonized reporting is the area of public debts and liabilities resulting from commitments taken by the governments and by the public sector. We are pleased to see that the Monitoring Group is now giving consideration to the very sensitive and crucial question of the governance of the IPSAS Board which was not covered by the Effectiveness review in 2010.

- Public confidence also results from stability of the principles, methods and processes

IFAC has issued on September 30, 2011 a revised version of its Policy position paper N°3, *International Standard setting in the Public Interest*, initially made public in December 2008 and revised last year to update the description of the governance arrangements resulting from the Effectiveness review and from discussions opened with the Monitoring group. It has also revised and published at the same time the Policy position paper N°1, *Regulation of the Accountancy profession*, more oriented on the ways to implement shared regulation at national level. In 2010, IFAC has started to reflect on the notion of *Public Interest* in relation with the role of the profession and of its international Federation and has consulted on a draft document. We understand that a final position paper on Public Interest could be issued shortly after the IFAC Board meeting in June 2012.

All this work and the resulting papers which were issued by IFAC are quite well known by the different stakeholders interested in International standards relating to accounting and auditing. Actually, there are not so many different categories of stakeholders concerned by the implementation of IFAC standards (we could list: issuers and investors of listed companies, rating agencies, managers, owners and board members of private business entities, their bankers and some financial intermediaries, governments and their administrative structures...). In France, we have not perceived clear signs from any representative of these categories calling for a change in the governance or for a new structure organizing the processes involved. On the contrary, one could fear that any introduction of changes in a system which has been reconfirmed and only marginally adjusted so recently would only bring confusion, misunderstandings and a possible loss of confidence in the reliability of this structure.

- We do not favour the creation of a new International organization.

The Monitoring group appeared in 2002-2003 as the coordinating body allowing holding discussions between IFAC and the international regulatory bodies and financial institutions concerned by restoring confidence in the audit quality. We should not forget that Michel Prada was, at that time, the chair of IOSCO's Technical Committee when René Ricol was the new President of IFAC, those two French figures being committed to restore public confidence and to strengthen the sense of public interest in the international standard setting. Furthermore, since the various scandals and corporate collapses had affected listed companies, IOSCO appeared to be the best structure to play a role of coordination between different institutions. Such a role did not require a permanent secretariat or special means. We know that, since that time, the Monitoring group has set up in 2009 a charter developing

its views on the mission carried out since 2003. Nevertheless, we think there are no good reasons to consider the Monitoring Group as an acting body, having its own program which would require a specific budget and a separate management.

At a time when all the parties involved have not yet been able to find a good solution for the funding of the PIOB, setting up a special secretariat for the Monitoring Group could appear as a provocative decision.

#### Responses to the 28 questions of the Monitoring group consultation.

Q1 : *Do you consider it necessary to enhance representation of the public interest ? (in the PIACs) .* **NO.** We consider that the due-process followed in standard setting activities, under the oversight of the PIOB, provides a very good guarantee for independence, accountability and protection from vested interests. No additional mechanism is required.

Q2 : *Would you favour a different standard setting model outside the IFAC structure?* **NO.** We cannot think of any possible structure setting professional standards which would not imply members of the profession in the preparation of the standards. We can see that each of the regulators always have to consult closely with the experts of the various regulated activities before producing new regulations; acting in a different manner would affect the reliability and the quality of the standards. In addition, the funding of such a structure would, very likely, be a complex issue.

Q3 : *Do you consider the present three-tiers system adequate for achieving its objectives?* **YES.**

Q4 : *Would you support the IPSASB being subject to PIOB oversight? Why?* **YES.**

The works of the IPSASBoard and the initiatives it takes should really be overseen by an independent body with sufficient authority and prestige to make sure that this work is done in the public interest. This covers the standard-setting and the positions taken on the reporting by the public sector.

The PIOB, which has developed a rich experience in the oversight of the standard-setting boards appears as perfectly qualified to do so. We are not absolutely convinced it should seek to obtain a complementary qualification in the fields covered by the standards themselves (accounting rules, differing from auditing rules), since the oversight deals with the procedures, their transparency and the fairness in taking into account all reasonable opinions. If, however, one or several “technicians” or experts having a good understanding of public sector financial reporting have to be introduced to enrich the expertise of the PIOB, the Monitoring group should make sure their nomination maintains the perfect independence of the PIOB from all sorts of pressures.

In our view, a public sector exclusive model of oversight could not guarantee full independence in these politically sensitive areas.

Q5 : *Do you see merit in having a “Compilation document” for the whole structure?* **NO.** We view IFAC Policy position paper N°3 (*International Standard setting in the Public Interest*) as sufficiently explicit to allow all the stakeholders to understand how the system works. Combining IFAC constitution and by-laws with the MG charter and the PIOB Foundation by-laws in a single document would certainly not help much in terms of clarification.

Q6: *Would you consider it helpful to modify the name of the structure?* **NO.** There is no need for a comprehensive name.

Q7: *Do you agree with the proposal that the MG should have a more strategic role?* **NO.**

As mentioned in page 10 and page 21 of the MG document, the *raison d'être* of the Monitoring group is to create a link between the standard-setters and those public authorities responsible for the adoption and /or supervision and implementation of the standards. In the middle of this link, the PIOB is the structure in charge of the oversight.

We view the true independence and transparency of the PIOB as major assets in the confidence given to the stakeholders that standard-setting is undertaken and done in the public interest. If the Monitoring group of regulators and financial institutions comes to exert a strategic role and to get closely involved with the mission of the PIOB or with the oversight of the PIACs, this confidence will be reduced. The stakeholders will view the interference of the MG as exerting a pressure and as a possible source of conflicts of interests.

Q8: *Do you agree with the objectives proposed and with the possibility for the MG to confer with the PIOB on the PIACs agendas....?* **NO.** Of course, it is always important to exchange views and to make sure there is an accepted common understanding of the priorities of the mission given to the PIOB. But it is equally essential to make sure the PIOB plays its role of overseeing the standard-setting Boards and the other public interest activities of IFAC with a total independence and a deep sense of accountability to the public opinion. The PIOB must not be considered as a tool depending on the MG views.

Individual members of the monitoring group have the possibility to attend the Consultative Advisory Groups of the different PIACs and to express their views on their agendas as well as on each of the exposure drafts.

Q9: *Do you agree with the suggested ways of improving the communication activities ?* **NO.**

The Monitoring Group happens to coordinate a large diversity of objectives and purposes. There are no obvious common and completely shared views between the three regulators of the financial activities, the World Bank, the European Commission and the FSB, apart from their commitment to promote high quality international standards. Considering this, we cannot imagine that the M. G. could speak with a common voice through direct contacts with stakeholders, through public conferences or through a website.

Q10: *Any specific suggestion on how liaison with investors could be improved?* **NO suggestion.** Some other categories of users are interested in the quality of audits; investors are not the only one concerned.

Q11: *Would you find it useful that the MG engages with organisations representing governmental institutions?* **NO.** First of all, some of the MG members are already representing governmental institutions : that is the case for the World bank or the European Union. Secondly, the MG role and *raison d'être* vis a vis IFAC and standard-setting boards does not justify any change in the structure of the group. Thirdly, if some communication with the G 20 happens to be necessary, we think the Financial stability Board has been given a general mandate to coordinate the views of its participants (and MG members are apparently all members of the FSB in Basel).

Q12: *Views on the current composition of the Monitoring Group ?* **We see no reason for any modification.** The way the chairperson is appointed is irrelevant, as long as the Monitoring

group is not an institution but a collective service rendered to the global economy by the MG members.

Q13 and Q14: *appointing employees and hierarchical relationship*. Our understanding of what public interest means and of the selection of the best people to fulfil a mission would not require writing down precise rules....

Q15: *Do you think that the roles and responsibilities of MG and the PIOB should be further clarified?* **NO**. The arrangements discussed in 2003- 2005 and described in IFAC's Policy position paper N°3 are clear enough. We see no good reason for any change or complements.

Q16: *Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?* **YES**, provided such a review is undertaken at times when its result is meaningful, considering changes occurred in the composition or in the presidency of the PIOB, as it is the case now. The reviews should not introduce instability or doubts in the permanence of the missions and objectives.

Q17: *PIOB strategy document?* Same reply. It is good if it does not affect the permanence of the objectives.

The Monitoring group could be involved at an earlier stage, as a "monitor" of the overseeing responsibility but should not be directly involved in the production of the documents.

Q18: *Composition of the PIOB*. See our response to Q 4 and Q12. We do not think the Monitoring group should include new members. Considering the PIOB, we see no reason for changes in a balanced composition which helps building up real independence and wisdom in this Board.

Q19: *Composition of the PIACs* : **YES**, the current composition is appropriate, considering the requirement which was put forward by the MG to have a 50% composition. There is no need for an effectiveness review before some years have passed to implement the new structure. We consider the idea of a majority of non-practitioners involved in the works of the PIACs as a bad idea leading to risks of loss of qualification and experience resulting in a drop in the quality of the standards.

Q20 : *Nine years period for rotation of the representative of Consultative Advisory group members organisations ?* It is a good suggestion

Q21 : *Is it realistic to attempt to alter the funding structure of standard setting activities ?* We agree to consider it would not be realistic at the current time to obtain changes in the existing Situation, where IFAC covers the costs of almost all standard setting activities (see reply to Q2).

Q22: *Do you consider appropriate that IFAC finances the largest part of the PIOB budget?*

Q23 : *funding structure similar to the one obtained to finance the IFRS Foundation?*

It certainly is not satisfactory to see IFAC cover the costs of the activities performed by its oversight body up to almost 70% of the PIOB budget. IFAC contribution should be very marginal. However, we do not believe in the success of the PIOB fundraising program, as no one will feel accountable for covering the costs incurred for public interest.

This means that the only organisations responsible for the funding of the PIOB should be the members of the Monitoring group themselves. The MG has requested IFAC to submit its public interest activities to the oversight of an independent Board. A strict minimum of 51% of the PIOB budget should now be covered by the Organisations and institutions monitoring the public interest priority of IFAC activities.

Q 24 : *need for, or merit of, a permanent secretariat for the Monitoring group ?* We do not see a need for such a secretariat, since we object to enhancing the role and activities of the Monitoring group beyond the minimum coordination which is required between its members.

Q25 to Q 28- *Final questions about governance, structure, interactions and efficiency.*

See our general comments on page 2 and 3 and please refer to the results of the consultation made on the Effectiveness review in 2010.

We cannot see why changes should be made in a system which works efficiently. The oversight carried by the PIOB has undoubtedly resulted in advancing the public interest in the area of audit standard setting. The way the PIOB is composed makes this board a truly independent authority which has gained credibility and has reintroduced confidence. All this process is placed under the supervision and overall monitoring by the MG members. Modifying the roles of the bodies involved would affect the balanced situation resulting from a successful implementation of the IFAC reforms.

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#### Responses to the 11 questions of the PIOB consultation.

Q1: *Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms still appropriate?* **YES.** There is a permanent need to maintain confidence of all the parties involved in the responsiveness to the public interest of all the public interest activities of IFAC (and this should cover the activities, works and statements produced by the IPSASB). An independent oversight body is central to maintain that confidence.

Q2: *Do you agree that the PIOB's main focus should continue to be to oversee due process and protect the public interest?* **YES.**

Q3: *Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?* **YES, definitely.**

Q4: *Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?*

The credibility of the PIOB relies partly in the existence of a single and central mission carried on behalf of all IFAC stakeholders: the PIOB provides an assurance that standards set up and supervised by the PIACs are responsive to the public interest. This should remain the core responsibility of the PIOB.

But the quality of the collective reflexions of the PIOB and the structurally built-in independence of that Board could easily justify using this body as a sort of an advisor to the IFAC Board (and to its subgroups) whenever Public policy or public interest is at stake.

One specific area could be the nomination process. The Nominating Committee is supposed to operate on behalf of the IFAC Board to prepare the best selection of nominees for the different Boards and Committees. The complete nomination process is very crucial, in terms of good governance and may affect the confidence in IFAC's dedication to the public interest. But the work of the nominating Committee is not really transparent enough for all the stakeholders to be absolutely convinced that the process is totally fair.

IFAC has to make sure that no stakeholder could ever question the selection of the different persons who take a part in IFAC public interest role (and this includes the Board members, the heads of the Committees and the leadership of the Federation).

The PIOB could be asked to bring along its independent reflexions on how to improve further the Nominating process in order to make sure the transparency is as developed as possible

This should however not affect the main role of the PIOB vis a vis the PIACs.

Q5: *Do you agree with the medium-term strategic objectives for the PIOB?* (as listed on top of page 12 of the document). **YES.**

Q6: *Will the Oversight Assurance Mode provide stakeholders with a sufficient level of comfort that the public interest is being protected?* **Probably YES**, knowing that the PIOB has developed an experience and a methodology to oversee the standard setting by the PIACs. It is worth testing the new Mode of oversight proposed here. In case it appears to be less protective of the public interest, the PIOB would certainly return to previous methodologies and to direct observation.

Q7: *Do you agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest priorities?*

It is important for the PIOB to form its own opinion on the priorities given by the PIACs to the various possible projects and to exchange with the PIACs and their advisory groups on the public interest value of future works. To forge its own views, the PIOB will need to consult freely with all stakeholders concerned, including the MG and each of its components.

Q8: *Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its approach to oversight requires an active interaction with all stakeholders?* **YES.** See answer to previous question

Q9: *Do you agree that the PIOB mandate requires an active communication policy?* **YES.**

*Do you think the present minimalist policy is sufficient?* **NO.**

*Do you think that raising awareness of the work of the PIOB should be an objective of its communication policy?* **YES.**

In order to limit excessive increases in communications expenditures, the PIOB could decide to coordinate its communication policy with IFAC when the Federation provides regular information on works and achievements of the standard-setting boards, as well as on their programs and strategic plans. IFAC could certainly reserve some space for PIOB comments in

the press releases referring to Public interest activities of the Federation. Similarly, the PIOB could certainly use some of the documents produced by IFAC and its independent boards as a basis for additional explanations and comments to raise awareness on the role of the PIOB. Public Policy paper N°3 provides an example of a multi-purposes document. Information given by IFAC on the compliance program or on the nominations could also be used by the PIOB to illustrate its role as a guardian of the public interest

Q10: *Do you agree with the view that has been put forward that funding has to be diversified and should not be largely dependent of IFAC funding?* **YES.**

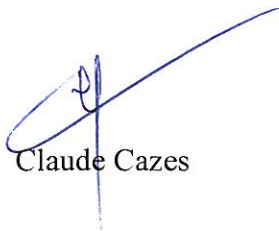
Q11: *Please suggest alternative sources for diversifying and financing the PIOB budget.*

As we mentioned in our response to Q22 in the MG list, we think it is the final responsibility of the organisations and institutions taking part in the monitoring group to bear the costs of the functioning and management of the PIOB. This oversight board was created as the best possible structure to protect the public interest through standard-setting activities, because it combines in a single independent body the concerns of the various regulators and institutions involved.

IFAC should certainly maintain a contribution to this funding, since the oversight improves the value and the credibility of the standards produced under IFAC auspices, but this contribution should be only marginal; it could be limited to the free assistance given to the PIOB's secretariat or to the free organisation of meetings or to some assistance in terms of communication... In all circumstances, the accounting profession and the Federation should not cover more than 20% of the total budget of the PIOB.

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Yours sincerely,



Claude Cazes



Agnès Bricard