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The Monitoring Group
International Organization of Securities Commissions
Calle Oquendo 12
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Spain

Dear Sirs:

We welcome the opportunity to comment on the public consultation papers on the governance of the setting of international standards under the auspices of the International Federation of Accountants.

We recognize the important need for the added credibility that a robust system of oversight and attendant monitoring provides to the setting of standards that serve the public interest.

Thank you for the opportunity to provide our comments.

Yours truly,

Ron Salole

Ron Salole
Vice President, Standards



CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

COMMENTS ON THE MONITORING GROUP'S CONSULTATION PAPER ON THE GOVERNANCE OVER SETTING INTERNATIONAL STANDARDS

JUNE 2012

The Canadian Institute of Chartered Accountants welcomes the opportunity to provide comments on the Monitoring Group's public consultation on the governance of the Monitoring Group, the PIOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of IFAC.

Whilst we recognize that there may be some differences between the role and responsibilities of Monitoring Group and the IFRS Foundation Monitoring Board, we believe that there are more similarities than differences. In our view, the final report by the IFRS Foundation Monitoring Board has reached many useful conclusions that could usefully be considered when the comments on the Monitoring Group's consultation paper are being deliberated on.

Q1. Do you consider it necessary to enhance representation of the public interest? In that case, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner members, would you suggest to reinforce the mechanisms to safeguard the public interest?

In our view, the existing governance structure is working effectively to ensure that the public interest is given appropriate consideration with the existing structure. The review does not appear to have revealed any flaws in the standard-setting process.

Furthermore, the issue was addressed in the Monitoring Group's Effectiveness Review and more experience is needed before further modifications to the structure are contemplated. Actions such as the appointment of an independent IESBA Chair and redefining the nature of non-practitioner members can usefully be made in subsequent reviews.

The current governance structure for setting international standards strikes the appropriate balance. Key reasons why this current governance structure works are well noted in the Monitoring Group's consultation paper.

Q2. In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded?

No. We strongly believe that a standard-setting model that is completely removed from the accounting profession would diminish the quality of the standards and the effectiveness of the process. In our view, the continued development and improvement of high-quality standards, essential to serving the public interest, requires significant participation by the public accounting profession. IFAC possesses the required attributes of membership and funding to best ensure that such required participation is achieved efficiently and effectively.

The global profession is currently funding the major part of the activities and we see that continuing. We believe that the existing monitoring and oversight mechanisms increase confidence that the activities are responsive and serve the public interest.

Q3. Do you consider the current three-tier system adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?

The three-tier system as currently structured works effectively. The consultation paper states that a three-tier system has the advantage of making a clearer distinction between direct oversight and high-level monitoring activities. We see no advantages in modifying the model.

That being said, we believe that the system can be refined in some ways. For example:

- The composition of the Monitoring Group and PIOB should sufficiently reflect appropriate relative seniority levels. As the peak body in the structure, the members of the Monitoring Group should be the most senior as implied in the consultation paper.
- The Monitoring Group's role and responsibilities are key and it should remain focused on its core functions. It would be a mistake for it to have a strategic role or become involved in PIAC issues.
- PIOB also has a key role and set of responsibilities and it should continue to focus on the due process oversight of the PIACs and the Nominating Committee.

Q4. Would you support the IPSASB being subject to PIOB oversight? Why? What conditions, if any, would you impose on such oversight? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones?

We believe that the setting of standards benefits from appropriate oversight. Accordingly, we support oversight over the public sector accounting standard setting. As PIOB has developed

strong oversight expertise it would make sense for IPSASB to be subject to PIOB oversight. Such oversight is primarily focused on due process and not the technical content of standards, so a significant expansion of the knowledge base for PIOB members would not likely be required.

However, the PIOB would need to be aware of different types of self-interest threats related to developing public sector accounting standards. For example, threats based on self-interest could come from sovereign governments – not all of whom have shown consistently strong support for accounting standards – that would provide a more transparent picture of their financial position and results of operations.

Q5. Do you see merit in having a “Compilation document” for the whole structure? In this case, which alternative would you prefer for organizing the structure and nature of the Compilation document?

Yes. A single document containing relevant information about all the parties involved in the governance structure for the whole structure would be useful. We believe that organizing the document through the PIOB would be more effective.

Q6. Given the breadth of the current mandate, would you consider it helpful to modify the name of the structure to improve its visibility? In this case, what name would you suggest?

It depends on the name that is picked. The purpose of a name change should be to minimize confusion rather than improve visibility. It clarify the relationship (or the lack thereof) between the monitoring group and the monitoring board, and between international standards for private sector accounting and international standards for auditing, assurance, ethics and education. Words to eschew would therefore include names such as accounting, public interest entities and monitoring.

Q7. Do you agree with the proposal that the MG should have a more strategic role? and Q8. Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIAC’s agendas and receiving appropriate feedback?

No. We do not agree with such an expanded role. In our view, such an expansion would detract from the important core function of monitoring the work of the PIOB and nominating its members. Moreover, we are concerned with the duplication of activities currently conducted by the PIOB and of the Consultative Advisory Groups of the PIACs. Such duplication would be confusing, inefficient, uneconomic, and redundant.

Q9. Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with PIACs?

Q10. Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having public attendance?

While we would support the development of a communications strategy by the Monitoring Group, we would not support direct involvement with the PIACs for the reasons given above – that is, not blurring the Monitoring Group’s focus.

In the interest of transparency, we would support the opening of Monitoring Group meetings to public observation.

Q11: Would you find it useful that the MG engages with organizations representing governmental institutions? Would the G20 be the most appropriate, or should other bodies be considered instead?

It was not clear to us what the purpose would be for the Monitoring Group to engage with governmental bodies, particularly the G20. In our view, a clear result and outcome-focused result should be articulated before such engagement.

Q12: What is your opinion about the current composition of the MG? (i) Do you believe that other organizations (i.e., national or regional regulators) should or could be represented in the MG? If so, which criteria do you think new members should fulfill to become MG members? (ii) Should a maximum be set to the number of MG members? (iii) Would you favor a change in how the Chairperson is appointed?

In our view, the composition of the Monitoring Group should be international in nature. It is not clear why the EC is a member. However, given that EC’s membership will continue, opportunities for membership should also be extended to other regional bodies. We believe it would be confusing, and likely counter-productive, to include national regulators on the Monitoring Group when they are already represented by international bodies with which they are affiliated.

Q13: Do you see a problem in MG members appointing full-time employees of organizations represented in the MG as PIOB members? and

Q14: Would you consider it convenient to avoid direct hierarchical relationship between the PIOB and the MG members?

Yes. There could be problems, depending on the relative seniority of the respective individuals. If the Monitoring Group is to continue to have effective oversight of the PIOB, it would seem

strange, for example, to have more senior employees of a Monitoring Group organization as members of the PIOB.

Q15: Do you think that the roles and responsibilities of MG and PIOB should be further clarified? Do you have specific suggestions regarding which areas this clarification should address?

No. In our view, the respective roles of the Monitoring Group and the PIOB are quite clear.

Q16. Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?

Yes. Given the changing nature and focus of standard setting, it would be appropriate to regularly review the PIOB's due process and oversight framework. A period of every three years would likely be a reasonable amount of time in between reviews and updates.

Q17: Do you see merit in the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget? What should be the involvement of the MG in the production of these documents?

Yes. The PIOB should develop a strategy document every three years as part of assessing whether the PIOB's goals and objectives remain appropriate. The Monitoring Group's role should be to provide input on the PIOB's strategy, going forward.

Q18: Do you think that the current composition of the PIOB could be enhanced? Would you consider convenient that the PIOB's composition is reviewed each time a new body becomes a full member of the MG?

There is always scope for enhancing the composition of any group. However, there is no indication that the current composition of the PIOB is inappropriate. In our view, there is no clear need for direct correspondence between Monitoring Group membership and PIOB membership, and it is not clear why there should be a need for the PIOB composition to be reviewed each time a new body becomes a full member of the Monitoring Group. The composition of the PIOB should be reassessed when the terms of any members expire, with the recruitment of new members based on suitable transparent criteria designed to ensure that standards are set in the public interest.

Q19: Would you consider the current composition of the PIACs appropriate? Do you see merit, in the context of a second effectiveness review, in exploring the idea of having a majority of non-practitioners and a majority of public members?

Yes, the composition of the PIACs is appropriate. The matter of composition was carefully considered in 2010 and it is not clear why this issue should be opened up again at this time. In considering membership composition, it is unlikely that any PIAC member who does not have a sound grasp of issues being studied would be able to provide a meaningful contribution to the development of technical standards.

Q20: Do you consider best practice a nine years period for rotation of the representatives of CAG member organizations?

We agree that representatives of CAG member organizations should be rotated in a structured fashion. How this is implemented in terms of years is for the PIOB to determine.

Q21: Would you agree that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion? and

Q22: Do you consider it appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the meantime (until the fundraising is able to provide some funds)?

See response to question 2.

Q23: Do you think it feasible to have a similar structure in place for the PIOB to that in place for funding the IFRS Foundation?

There are sufficient structural (rather than role or oversight) differences that would make it difficult to create a similar structure.

Q24: Do you see the need for and/or merit in having a permanent Secretariat for the MG? In this case, do you think IOSCO should provide resources for a permanent Secretariat to the MG?

No, we do not see a need for a permanent Monitoring Group Secretariat. In our view, the Monitoring Group should have a fairly narrow PIOB oversight role, focused primarily on ensuring that PIOB members are chosen based on public interest considerations. That function should not require incurring the very significant costs associated with forming a permanent Monitoring Group Secretariat. It does not seem fair, however, that the Monitoring Group Chair should be solely responsible for obtaining administrative support for the Monitoring Group. That should be shared in an organized manner among members.

Q25 – Q28:

Reponses to these questions would replicate those provided earlier.