

May 4, 2012

The Monitoring Group
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PUBLIC CONSULTATION ON THE GOVERNANCE (WITH SPECIAL FOCUS ON ORGANISATIONAL ASPECTS, FUNDING, COMPOSITION, AND THE ROLES) OF THE MONITORING GROUP, THE PIOB, AND THE STANDARD-SETTING BOARDS AND COMPLIANCE ADVISORY PANEL OPERATING UNDER THE AUSPICES OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

The International Federation of Accountants (IFAC) values the opportunity to comment on the Monitoring Group (MG) public consultation, dated 28 March 2012. IFAC recognizes the importance of ongoing review and dialogue aimed at enhancing the governance arrangements for international standard setting. The high level of response to recent public consultations by the International Financial Reporting Standards (IFRS) Trustees (on its strategy) and the Monitoring Board (MB) (on International Accounting Standards Board [IASB] governance) indicates that there is broad public interest in this topic.

Through its membership, currently 167 professional accountancy organizations in 127 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education. IFAC's mission is to serve the public interest by: contributing to the development, adoption, and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession's expertise is most relevant. The independent international standard-setting boards that IFAC supports, in conjunction with the international regulatory community, set international auditing and assurance, ethics, education, and public sector accounting standards.

IFAC offers comments on the MG public consultation, but has chosen not to comment on the Public Interest Oversight Board (PIOB) "Work Program 2012 and Beyond" Consultation Paper. IFAC does not consider it is appropriate to comment on the strategy and work program of an organization charged with



responsibility to oversee the operations of the Public Interest Activity Committees (PIACs) supported by IFAC, as well as specific duties for which IFAC is responsible (e.g., the nominations process.)

Before addressing the specific questions included in the consultation, IFAC offers the following general comments.

General Comments

IFAC recognizes the importance of private sector/public sector shared arrangements for standard setting. The value of such arrangements was reinforced by the results of the recent public consultations by the IFRS Trustees (on its strategy) and the MB (on IASB governance). Both consultations showed strong support for arrangements of the type currently in place for the standard-setting boards supported by IFAC, which have the involvement of both the private and public sectors.

IFAC has stated its position—and explained how standard-setting is conducted in the public interest through a range of measures aimed at safeguarding that public interest—in its Policy Position Paper 3, *International Standard Setting in the Public Interest* (www.ifac.org/publications-resources/international-standard-setting-public-interest-0). Furthermore, as a member of the Private Sector Taskforce of Regulated Professions and Industries (PSTF),¹ IFAC wishes to reinforce one of the recommendations included in the PSTF Final Report to the G-20: *encouraging the development (initially through the Financial Stability Board [FSB]) of a mechanism for approving shared private sector/public sector standard-setting arrangements (structural and resourcing) for standards of importance to the financial sector. Such a mechanism would legitimize standard-setting arrangements through recognition and endorsement of the standards* (www.ifac.org/publications-resources/private-sector-taskforce-regulated-professions-and-industries-final-report-g-, refer Recommendation 12, including discussion on pages 4 and 30–33.) Furthermore, it notes that a lack of consistent adoption and implementation of key standards around the globe is detrimental to the G-20's ambition of global regulatory convergence, and creates uncertainty and contributes to further economic instability.

¹ The Private Sector Taskforce of Regulated Professions and Industries (PSTF) was established in May 2011 at the request of the Presidency of the G-20 to provide an analysis of, and recommendations relating to, regulatory convergence to facilitate economic stability in the world's capital markets. The PSTF comprises representatives from private sector organizations of professions and industries that are subject to regulation, and operate within the financial sector.



Shared private sector/public sector standard-setting arrangements are crucial to ensure that there are appropriate and requisite levels of technical competence in the standard-setting process, thereby promoting the legitimacy of the issued standards, and global acceptance of the standards by those who rely on them. If those who use the standards—professional accountants, including auditors—feel that the standards are unreasonable in terms of the expected requirements; include ill-defined or incorrectly used terms; and/or cannot be practically applied, there is a risk that they will not be adopted and implemented consistently around the world. This creates uncertainty and confusion, and undermines the validity of the standards.

When the current shared arrangements were set up in 2003, it was mutually agreed that the mandate should cover four areas: audit, ethics, education, and compliance. IFAC notes, however, that this Consultation Paper focuses primarily on audit and ethics. In finalizing its conclusions on the appropriate MG governance structures, IFAC encourages the MG to reflect on the breadth of its mandate and develop responses that recognize its important role in all four areas.

In its Consultation Paper, the MG seems to be expressing a view that standard setting might appropriately be, at least in the long term, “completely outside the IFAC sphere of influence” (refer page 11), and in Question 2 seeks views on a “fully independent standard-setting model.” For the profession to have no significant role in the standard-setting process undermines the advantages of the joint private sector/public sector arrangements outlined above.

For this reason, IFAC strongly supports the notion of private sector/public sector shared arrangements for international standard setting and believes there are risks associated with any change to a set of arrangements that has no private sector input.

IFAC plays a central and critical role in the process for achieving the adoption and implementation of auditing and assurance, ethics, accounting education, and public sector accounting standards. As well as providing logistical support for the standard-setting boards, IFAC strongly advances the adoption and implementation of internationally accepted, high-quality standards via its membership network. Through its Statements of Membership Obligations (SMOs), IFAC obliges its member bodies to support the adoption of auditing and assurance, ethical, accounting education, and public sector accounting standards, as well as IFRS issued by the IASB. Changes to standard-setting arrangements, which break this critical nexus with the accountancy profession, risk placing the global regulatory convergence agenda at risk, or at the very least, making its achievement considerably more difficult.



In terms of acting in the public interest, IFAC refers the MG to the work IFAC has undertaken in defining the public interest, and how IFAC assesses the public interest implications of its actions, decisions, and policies. An exposure draft was issued in November 2010 for public consultation, and a final paper (taking into account the feedback and comments received) is expected to be issued at IFAC’s Board meeting in June 2012.² Critically, IFAC does not consider that the development of auditing and assurance, ethical, and education standards is done “for the accountancy profession” (as asserted by the MG in Section 1 [iii] of its consultation). Rather, consistent with the role played by the IOB since 2005 in ensuring that the work, deliberations, and standards issued by the standard-setting boards are developed with a public interest perspective, IFAC considers that the International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), and International Accounting Education Standards Board (IAESB) all set standards with a broad group of stakeholders and interested parties—broader than merely the accountancy profession—in mind. Indeed the current arrangements were agreed between IFAC and the international regulatory community precisely to put in place protections to ensure that standards were not set “for the accountancy profession.”

Finally, the current ongoing sovereign debt crisis has highlighted the urgent need for enhanced public sector financial management, transparency, and accountability, and for a significant improvement in the currently deficient reporting practices and arrangements of many governments. The International Public Sector Accounting Standards Board (IPSASB) has a vital role to play in providing solutions that will contribute to the resolution of these problems that have fuelled the sovereign debt crisis and negatively impacted on the public interest. The IPSASB is the only body that issues high-quality, globally-accepted financial reporting standards (International Public Sector Accounting Standards [IPSASs]) specifically for the public sector. Many of the MG’s own members do or should rely on the quality of financial reporting by national or state/provincial governments in meeting their own mandates. The quality of the financial information relied on by MG members, pension fund managers, individual investors, and indeed the general public would be enhanced if IPSASs were used as the reporting model by governments at all levels. IFAC notes that Eurostat is currently consulting on the suitability of IPSASs as the reporting model for all Member States within the European Union (EU). IFAC considers it critical to ensure that the legitimacy and acceptance of IPSASs is further enhanced through the existence of public oversight. As

² IFAC is happy to provide privately, to the MG, a copy of the paper to be presented to the Board for approval. Once approved by the IFAC Board the paper will be publicly issued.



such, it strongly supports, and encourages, public oversight of the IPSASB through bringing it under the purview of the PIOB.

IFAC notes that the language used in certain parts of the Consultation Paper may be open to misunderstanding and misinterpretation by those who do not have a complete and thorough understanding of the standard-setting arrangements in place for auditing and assurance, ethics, and accounting education. With this in mind, and in an effort to ensure that our feedback, and that of others, together with the comments by the MG are interpreted correctly—especially where they will be used in producing a final report—IFAC offers its view on several clarifications of wording in the Appendix.

IFAC has chosen not to respond to all questions. Responses to some of the specific questions follow.

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 board members, would you suggest to reinforce the mechanisms to safeguard the public interest?

IFAC is of the view that each of the PIACs operates effectively in the public interest. The reforms that were agreed by the MG in 2003—and those proposed by the MG review of 2011 and accepted by IFAC—are sufficient to ensure that the public interest is protected. Indeed, through the significant authority granted to the PIOB in relation to many aspects of the operations of the PIACs, IFAC believes the public interest is well protected. IFAC recognises the importance of continued dialogue (and further enhancements and reforms, as necessary) between the MG, PIOB, and IFAC.

Refinements to the PIACs' operations agreed to following the 2011 review are, by mutual agreement, being introduced over a number of years to avoid loss of momentum within the programs of each PIAC. IFAC believes that any further changes should not be considered without an assessment of the effectiveness of these refinements after they have been in place for a reasonable period of time.

To ensure that the public interest is safeguarded and enhanced as an integral part of the standard-setting process, IFAC refers to the measures described and views expressed in its position papers, *International Standard Setting in the Public Interest* (www.ifac.org/publications-resources/international-standard-setting-public-interest-0) and the *Definition of the Public Interest* (to be issued in 2012).



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?

As stated previously, IFAC does not support a different standard-setting model. It believes there is value in having a model in which both the private sector and public sector have a role. This includes the involvement of practitioners, within a framework that safeguards the public interest. IFAC refers to its position paper, *International Standard Setting in the Public Interest* (www.ifac.org/publications-resources/international-standard-setting-public-interest-0).

While standards are developed in the broader public interest, IFAC recognizes that they are of critical importance to the accountancy profession, and that in shared private sector/public sector standard-setting arrangements, the profession should make a significant contribution to the funding of standard setting. IFAC supports arguments for the funding of the PIACs to be largely provided by the profession, but does not preclude the notion of seeking external funding—at least in part—as obligations increase. Public sector accounting standards issued by the IPSASB are an example of where greater external funding could be envisaged, given their importance to a much broader stakeholder group. Also, with respect to the PIOB, which IFAC considers should be funded externally to the greatest extent possible, there are clearly strong arguments for significant funding to be provided from sources external to the profession.

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?

IFAC considers that the current governance arrangements for standard setting are both appropriate and sufficient, for achieving the objective of developing and issuing high-quality, globally accepted standards. The current governance structure includes the independent PIACs, overseen by the PIOB, which in turn is monitored by the MG. These arrangements operate with IFAC playing a critical support role. No alternative model is recommended.

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?



As stated above, IFAC strongly supports the IPSASB being subject to PIOB oversight. IFAC considers the need for high-quality, globally accepted financial reporting standards for the public sector to be an utmost public interest concern, and a crucial element of resolving the current sovereign debt problems. There is a need to address (and enhance) the current deficient reporting practices—including transparency and accountability arrangements—of many governments. Greater transparency and enhanced reporting are crucial for the proper functioning of capital and debt markets, and democratic processes.

IFAC anticipates that no special conditions should apply to the oversight of the IPSASB by the PIOB. However, it notes that changes to the composition of the PIOB should be considered to ensure that there is requisite experience to deal with its expanded oversight responsibilities. The fact that the IPSASB deals with financial reporting standards rather than auditing standards, should not impact or affect the manner in which public oversight is performed.

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

IFAC sees merit in having a “Compilation document” for the governance structure pertaining to the PIACs. It does not favor having a stand-alone charter for the entire structure, and therefore prefers the first of the two options proposed in the Consultation Paper. IFAC considers that such a Compilation document should be based on an appropriate set of high-quality principles and refers the MG to IFAC’s public policy position papers (www.ifac.org/publications-resources?publication-type=22) and the 2003 “IFAC Reforms” (www.ifac.org/about-ifac/structure-governance/ifac-reforms), which introduced enhanced governance enhancements for standard setting.³

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?

IFAC does not think there are any apparent benefits in modifying the name of the governance structure, and the components therein. It is of the view that the names “Monitoring Group” and “Public Interest

³ IFAC is happy to provide the MG with a copy of the document which details these reforms, including discussion of the background and principles upon which the reforms are based.



Oversight Board” have value and recognition in the wider community and every effort should be made to reinforce and promote these names. Any change in name risks the hard work of the last seven years in creating recognition and acceptance of these bodies. Any proposals to change the names of the MG and the PIOB should only be considered where it can be demonstrated that new names promote greater understanding of the activities and scope of the organizations.

Q7: Do you agree with the proposal that the MG should have a more strategic role?

IFAC considers that the MG should limit its role to the appointment of members to the PIOB and ensuring the PIOB actively meets its mandate. IFAC is strongly of the view that the MG should not have closer involvement in, or a more direct relationship with, the PIACs; that is the role designated to the PIOB and the MG should continue to rely on the work of its appointees to that Board—especially if those appointees have appropriate seniority.

Q8: Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIACs’ agendas and receiving appropriate feedback?

IFAC does not support the notion of the MG becoming more involved with the PIACs’ agendas. Also, IFAC refers to the report of the MB review of IASB governance issued earlier this year. The outcomes of this review indicated that the majority of respondents were not in favor of the MB having greater direct involvement in the role of the IASB. IFAC believes that the same would be true in relation to the MG’s involvement with the PIACs. Furthermore, in its final report, the MB decided that it would maintain its current arrangement, whereby it may refer issues to the Trustees and the IASB Chair but would not be directly involved in IASB agenda setting.

However, it must be recognized that the organizations represented on the MG, individually, already have access to dialogue on the agendas of the PIACs, through their involvement and representation on the PIOB and on the Consultative Advisory Groups (CAGs).

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?



IFAC supports the improvement of communications activities by the MG, in particular, measures that involve making public materials concerning the MG's deliberations, improving website visibility, and permitting public attendance at MG meetings.

However, IFAC does not agree with greater involvement in the PIACs by the MG. In general, IFAC believes that the PIOB is the appropriate body designated by the MG to carry out due process oversight and communicate on its activities. It is the group with a day-to-day role in this activity and the permanent staff to be able to carry out this activity with a degree of institutional knowledge and continuity.

As noted previously, it must be recognized that the organizations represented on the MG, individually, already have access to dialogue on the agendas of the PIACs through their involvement and representation on the PIOB and on the CAGs.

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?

IFAC does not consider that the MG should have any direct role in communicating with investors in regards to the activities of the PIACs. The PIOB is better placed to perform this role with its continuity of Board members and staff team. While IFAC would welcome greater involvement by investors in the standard-setting process, it believes this should be the responsibility of the PIACs and their CAGs. It recognizes that engagement with investors is problematic given that: (i) investors are not a homogenous group that can be easily approached and met; and (ii) standards issued by PIACs are not developed with only investors in mind; they are developed with a broader user and public interest perspective. Therefore, the views that are obtained from investors would need to be considered in this light.

As noted previously, IFAC sees merit—in terms of enhanced transparency and accountability—from having relevant portions of the MG meetings open to the public.

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



IFAC believes that the issue of whether the MG engages with organizations representing governmental institutions is one for the MG to decide.

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

In relation to the three parts of this question, IFAC offers the following comments:

- (i) To the extent that IFAC would meet with the MG to discuss global issues related to standard setting and compliance, it advises against the representation on the MG of additional organizations that represent national and regional interest, as this potentially creates conflicts of interests, and the reversion to national and parochial interests in respect to the role played by the MG. Only bodies which are truly representative of international public interest should be included on the MG. Notwithstanding this view, IFAC considers it important for the MG to be, to some degree, geographically representative and inclusive of the major economic powers. However, if the MG expands its oversight to the IPSASB, IFAC recommends that additional seats be made available to appropriate groups. For example, IFAC would urge that both IMF and INTOSAI be invited to join the MG.
- (ii) In the interests of the practical operation of the MG, and in recognition that it is a consensus body, IFAC believes that a maximum number of members should be set for the MG. However, IFAC considers that this should be a decision to be made by the MG, based on its own experience, funding availability, and capacity. To allow for changes in future considerations as circumstances change, IFAC suggests that the membership could be set as “not more than xxx members.” This will allow the MG to add a few additional members as it sees fit without needing to change its Constitution/Operating Procedures.
- (iii) IFAC offers no comment on the manner in which the chair of the MG is appointed.



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

In principle, IFAC envisages no problems with the appointment of full-time staff members. However, in practice, the seniority and positioning of the respective MG and PIOB members could potentially generate some issues. IFAC recognizes the importance to the ongoing credibility of the PIOB of having people of recognized seniority on the board. In making future appointments to the MG and the PIOB, IFAC considers it critical to ensure that the current level of seniority of PIOB members is retained.

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

IFAC offers no comment on the specific matter of the direct hierarchical relationship between the PIOB and the MG members. However, IFAC notes that the relationship between the MG and the PIOB is critical to the efficiency and effectiveness of the governance arrangements for PIACs; it needs to be managed appropriately by both parties.

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?

IFAC considers that the roles of the MG and the PIOB are clearly defined. Therefore, rather than further clarification, IFAC suggests that what may be needed is better communication—to the general public—of the roles played. The preparation of a “Compilation document” as proposed in Question 5 may go some way to achieving this aim.

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

IFAC offers no comment on questions pertaining to the operations of the PIOB.

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



IFAC offers no comment on questions pertaining to the operations of the PIOB.

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 full member of the MG?

It is important that the composition of the PIOB is appropriate to ensure that it can effectively and efficiently discharge its public oversight responsibilities. Any proposals to regularly review and alter the composition of the PIOB must be balanced against the need to retain experience and institutional knowledge regarding its activities.

However, the composition of the PIOB may need to be reviewed to take account of the evolving responsibilities of the PIOB. That is, if the PIOB assumes public oversight responsibilities for the IPSASB, there would be a need for the composition of the PIOB to be reviewed—and perhaps altered—to ensure that it has the requisite legitimacy to speak on matters relevant to the breadth of its mandate, and to share what would be, an increased workload.

There is no necessity that additions to the MG should require additions to the PIOB. That should be a matter of agreement between the MG, PIOB, and IFAC recognizing the impact on operating costs of PIOB of decisions made.

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?

IFAC considers the current composition of the PIACs, with a balance of practitioners and non-practitioners (including public members) supported by the other key governance arrangements (e.g., PIOB, CAGs) to be appropriate.

In its policy position paper, *International Standard Setting in the Public Interest* (www.ifac.org/publications-resources/international-standard-setting-public-interest-0), IFAC notes that for the legitimacy of standard setting to be achieved, there are several factors that need to be in place,



including high levels of performance from the standard setter. Such high levels of performance can only be achieved where members of the standard-setting boards (SSBs) have appropriate technical knowledge and hands-on experience, which is available from both practitioners and non-practitioners. The position paper states, *“The performance of the standard-setting board is enhanced if there is an appropriate representation of those with current or recent technical knowledge and those with hands-on experience in the implementation and application of the standards. Non-practitioners contribute to the performance of the boards, especially the IESBA and IAESB, through the expertise and knowledge from the particular fields they bring to the standard-setting process. In doing so, they represent a range of perspectives and the broader public interest.”*

The current balance between practitioners and non-practitioners (including public members) contributes to the necessary level of independence for PIACs, and is supported by other important governance measures, such as: oversight by the PIOB; the involvement of CAGs; independent chairs of the IAASB and IESBA (from 2013); and arrangements to provide direct feedback to an individual MG member regarding its input to the SSB if it does not appear that the SSB will take up the input in a final standard. Taken as a whole, this promotes the legitimacy of the standards. IFAC sees the need for competency on the PIACs to be paramount, and notes that measures are in place to ensure that the highest quality, most competent candidates are appointed as PIAC members.

In relation to the composition of the PIACs, it must be noted that in 2011, as part of the MG review, agreement was reached to change the practice of reserving seats on the IAASB, IESBA, and IAESB for nominees of the Forum of Firms (FoF) and IFAC member bodies. From 2013, any organization or individual is able to nominate candidates for all positions on the standard-setting boards. Therefore, it would be premature to suggest again reviewing the composition of the PIACs before the effects of these most recent changes can be assessed.

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

IFAC supports a reasonable period for rotation of representatives of CAGs and leaves it to the PIOB to determine the appropriate rotation period.



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?

Refer response to Question 2. IFAC believes that the current funding arrangements for the PIACs themselves are appropriate. However, if an enhanced funding model were to be found for the IASB, IFAC would be open to considering whether such a funding model could be applied for the PIACs.

Furthermore, IFAC believes that the funding for all standard-setting and governance arrangements can be improved if greater external funding support is provided for the PIOB.

Q22: Do you consider 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 mean time?

IFAC notes that in the 2003 “IFAC Reforms” document “as a general principle, both IFAC and the MG consider it to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB. IFAC will seek contributions to cover 50% or more of the PIOB costs. Given the public interest nature of the oversight activities of the PIOB, the MG members may provide contributions to support the PIOB’s activities. The PIOB may also be involved in seeking contributions to cover its costs.”

IFAC is concerned that the credibility of the PIOB might be undermined by a perception of majority funding from IFAC. With respect to external fundraising, IFAC notes that the MG, PIOB, and IFAC are currently engaged, as has been the case since the establishment of the PIOB, in an effort to seek financial support for the operations of the PIOB, from organizations external to the accountancy profession.

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

It is difficult to make comparisons between the operations of the IFRS Foundation and the PIOB. It is worth noting that the governance arrangements for the IASB, while similar to the governance arrangements for the PIACs, are not identical to those of the PIACs. While the PIOB is a separately constituted legal entity that provides oversight of the PIACs, it is the IFRS Trustees—responsible for the



governance of the IFRS Foundation—that perform the oversight role for the IASB. Also, the IFRS Foundation provides the funding for the IASB, whereas the PIOB does not have a role in funding the PIACs. This makes it difficult to draw direct comparisons between the different funding arrangements.

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?

IFAC is of the view that there is merit in having a permanent Secretariat for the MG. This is critical for the continuity and retention of organizational knowledge and capacity, and the ongoing relationship with the PIOB and IFAC. IFAC offers no comments on how such a permanent Secretariat should be structured and resourced.

Q25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?

IFAC considers that those responsible for the governance of the PIACs should ensure that they always act in the public interest in respect to their responsibilities for standard setting. IFAC is of the view that the work of the PIACs and the manner in which they currently undertake their tasks advances audit quality. It does not see that a major change in governance arrangements is necessary, but acknowledges that all parties must remain vigilant in working to enhance and improve these arrangements.

Q26: What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?

IFAC believes that the current governance structure and arrangements pertaining to the PIACs are appropriate for the development and issue of high-quality international standards, including auditing standards which significantly contribute to improved audit quality.

Q27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so, do you have any



suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?

IFAC offers no comment with respect to the current levels of empowerment and responsibility of the bodies that compose the current structure, beyond noting the importance of effective dialogue and interaction between the various bodies that comprise the governance structure for the PIACs.

Q28: Do you think that there is any other overall structure that could achieve improvement in audit quality more efficiently? If so, what could they be and how might they be financed?

Refer response to Question 26.

Please do not hesitate to get in touch if you have any questions or require further clarification of any the points raised in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ian Ball', written in a cursive style.

Ian Ball
Chief Executive Officer



APPENDIX

CLARIFICATIONS ON THE CONSULTATION PAPER

The following comments aim to clarify several points included in the Consultation Paper, which may be misunderstood by people reading it, who do not have a good knowledge of how the standard-setting arrangements operate. In the event that the final report of the MG continues to address these matters, IFAC believes the MG should recognize the following:

1. In the Executive Summary of the Consultation Paper the following wording is used: *“the fact that employees from audit firms still have a very significant involvement in standard-setting.”* This contrasts with the language used on page 10 of the Consultation Paper, which states: *“those employed by audit firms have a non-controlling but significant involvement in standard-setting.”* IFAC considers that the former language may be open to misinterpretation and fails to recognize that audit firms and their employees do not control the standard-setting process. Furthermore, it seemingly fails to recognize the reforms to governance arrangements that have taken effect, as well as those already proposed to take effect. This includes matters pertaining to the establishment and role of the PIOB, independent non-practitioner chairs of standard-setting boards, the diverse composition of the boards, and the removal of fixed positions on the boards for nomination/appointment by the audit firms. At the very least, IFAC believes that the latter wording better represents the current position.
2. On page 7 of the Consultation Paper reference is made to *“improvements to encompass practices that ..have come to be associated with other credible and effective standard-setting processes.”* It is unclear to what processes the MG is referring. International standard setting for professionals has a limited number of examples. If one assumes that the MG is referring to the standard-setting processes (and practices, including governance arrangements) associated with the development and issue of IFRS by the IASB, then IFAC is of the view that explicit reference should be made to these arrangements. Furthermore, as both the Monitoring Board of the IASB and the IFRS Trustees have recently completed extensive public consultations on the governance arrangements pertaining to the IASB, IFAC believes that it would assist readers of the MG final report if details of the key outcomes of these reviews were explained (especially where direct reference has been made to the reviews).
3. On page 8 of the Consultation Paper, a link is made between the “expectation gap,” how well the standards have worked, how well they have been applied, and the need to assess and review the current suitability and adequacy of governance arrangements for standard setting. It is not clear how



that link can be clearly made, as arguably the manner in which standards have been applied and worked is not directly attributable to the quality of the standards, or the standard-setting process. While it is acknowledged that the practical application of the standards is an important consideration for all standard setters, appropriate and sufficient application of the standards is not their sole, or chief, responsibility. The manner in which the paper describes the link suggests that standard setters are responsible for those using the standards, not applying them as they should be applied. IFAC contends that this is clearly not the case. IFAC refers to the wording of the MG Consultation Paper on page 26, which states that: *“the current role of the three PIAC standard setters is issuing international standards...”*

4. The MG notes that the focus on IPSASs has come about due to “emerging” problems with some sovereign debt (refer page 13 of the Consultation Paper). For several years IFAC has highlighted the deficiencies of the practices of many governments in respect to public sector financial reporting, transparency, and accountability. It is of the view that problems of sovereign debt are not “emerging,” but rather have been existent for some time. IFAC refers the MG to sovereign debt crises over the last 20 years in many regions, including Latin America and South East Asia. IFAC notes that the MG has referred to the “ongoing sovereign debt situation” later in the Consultation Paper.
5. Reference has been made to the IFAC International regulatory Liaison Group (refer page 19). IFAC notes that the correct name of this group is the IFAC Regulatory Liaison Group.
6. On page 26 of the Consultation Paper, the MG highlights that there is “the real question” of the composition of the PIACs. IFAC contends that composition of the PIACs is only one of many questions that need to be considered with respect to the operation of the PIACs. As noted in the general comments, IFAC considers that private sector/public sector shared arrangements for standard setting are imperative for the legitimacy, and ultimately the quality and acceptability, of standards. In this regard, the role of the PIACs in terms of independence, accountability, and performance are equally important as the composition of the boards.
7. Appendix 1 of the consultation paper (page 41) indicates that there is a CAG operating for the IPSASB. IFAC notes that the operation of the CAG for the IPSASB is currently in abeyance, subject to the future changes to the governance arrangements for the IPSASB, including coming under the oversight of the PIOB.
