

Monitoring Group

Transcription of Singapore Round Table

Welcome and Opening Remarks

Mark Babington, Deputy Director of Audit Policy, FRC

Good morning, ladies and gentlemen. It is very good to see a packed house for our discussions today. This is the fourth in a series of roundtable discussions that are being held to support the Monitoring Group's consultation on its proposals for reform to governance and oversight of audit-related standard-setting. This is very much an opportunity for you to give us your views and to also ask questions, because we realise that a consultation paper on its own needs some help – even though it is a fantastic consultation paper, I say, having spent most of the last 18 months trying to get it agreed. Before we run through the proceedings, I would like to hand over to Mr Ong, the Chief Executive of ACRA, who our hosts today in Singapore, to say some words of welcome.

Ong Khiaw Hong, Chief Executive, Accounting and Corporate Regulatory Authority, Singapore

Thank you, Mark. Good morning, everybody. I just want to say a few words. ACRA is very happy to host this roundtable. What we will be discussing this morning is very much in line with what ACRA is set up to do, which is to promote a trusted business environment that upholds market confidence and safeguards the public interest. I would like to welcome all of you to the roundtable. To our overseas participants, welcome to Singapore. I would like to thank all of you for accepting our invitation to participate in the roundtable. We have 50 to 60 participants from around the region; in fact, my staff asked me to increase the budget because there were more than we were originally set up for, but I am happy to do that. With that, I wish you all an engaging and fruitful discussion this morning. Thank you.

Mark Babington

Thank you very much. I certainly would pay tribute to your team for all of the effort that they have put in to making this happen. When we issued the consultation paper, there was suddenly this silence and people asked, 'What are we going to do?' The roundtables idea emerged and, from my perspective, by far the easiest has been today's meeting in Singapore because of the excellent support that your colleagues have provided to us and made it happen.

Just to run through what we are hoping to achieve this morning, I am going to set out the scope of the consultation and what the Monitoring Group is, in case you were uncertain. Fernando Vargas, a member of the Monitoring Group from the Basel Committee, is going to give us some opening views. We will then seek your views and comments from the floor. Some of you have already said that you have comments to make, and we have plenty of time this morning, so please do feel free to participate actively.

The Work of the Monitoring Group

Mark Babington

I. About The Monitoring Group

Some of you may be aware of what the Monitoring Group exists to do, but it is not a subject that perhaps all people are widely aware of. The Monitoring Group is a group of international regulatory bodies, and the World Bank as a financial institution, which are tasked with the oversight of standard-setting for audit. The Monitoring Group came out of the earlier International Federation of Accountants (IFAC) reforms. The organisations that participate include the securities commission regulators, the Basel Committee, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR) and the World Bank. They are the group tasked with coming up with the consultation and the proposals that we have put out for comment.

II. Objectives

In terms of the objectives of what we are trying to do are, the first is to recognise that the Monitoring Group is fully supportive of high-quality, globally adopted standards for use in all audit engagements. Our role is one of seeking to build confidence in audit and corporate reporting. In terms of the objectives, we are intending to look to build on the very strong foundations that we currently have, but this is about looking at futureproofing standard-setting. The objectives include strengthening governance; addressing risks to independence, which could be perceived risks of substantive risks, because of the role of the profession and the support it provides; and looking at standard-setting and how it responds to developments in the marketplace on a timely basis.

The key question that the review seeks to address is: how is the public interest defined and assessed? One of the things that we refer to in the consultation paper is that the Monitoring Group is working on a public-interest framework that draws on the work that the Public Interest Oversight Board (PIOB) has been undertaking for a number of months. Interestingly in that debate, you have also have seen the chief accountant of the Securities and Exchange Commission (SEC) issue a public comment just before the Washington roundtable meeting, in which he set out some of his thoughts about how to best represent the public interest.

We want to think about what the best structure for oversight is, and how to ensure that what goes forward balances the need for appropriate expertise and broad stakeholder input, and reflects the needs of different regions. One thing that you will hear about and see a lot in the consultation paper is the concept of a multi-stakeholder model and how that can be made to work effectively.

We want to ensure that decision-making is timely and to address any public perceptions that impact on independence. One of the key questions there is particularly how standard-setting should be funded. At the moment, we are, of course, entirely reliant on the funding that IFAC provides through its own resources and through the Forum of Firms, and we need to look at whether or not that is the appropriate model and how to reach a position where we have a pathway to a sustainable, long-term funding model for standard-setting.

III. Options

1. Structure

Some of the options that are set out in the paper on which we are very keen to get your views include the structure of standard-setting boards. Do we have a single board responsible for setting ethical standards and standards for auditing and assurance work? Should that be done by one board or two boards?

On the question of ethics, there is a question of whether setting ethical standards for professional accountants in business – i.e. non-auditors – should remain as a function with IFAC or whether it should be built into the remit of a new board or boards. The focus there is a question over whether audit, as a public-interest function, should have its own separate focus.

The proposal is that responsibility for educational standards would stay with IFAC, so we are very keen to get your views on that.

2. Composition

In terms of the composition of the board or boards, 18 months ago I sat in a room with Rachel where the only thing that everyone agreed on was that the right number was 12. Since then, no one has agreed that 12 is the right number; therefore, through careful wording, we have ‘A single multi-stakeholder board of no fewer than 12’ – make it as wide or as narrow as you like.

There is a proposal that the board’s focus should be strategic and, therefore, its focus would not be on the detailed drafting of standards. However, in order to allow that, it would have to be supplemented by a significantly expanded technical staff to do more of the detailed drafting.

The multi-stakeholder model requires membership to be drawn from a diverse range of different representatives: the profession, regulators and users.

There is a question about whether or not the members should be full- or part-time and whether or not they should be remunerated. Some people in early discussions have asked about parallels between the proposals in this consultation and the way the International Accounting Standards Board (IASB) for the setting of accounting standards.

In the paper, the proposal is that the Consultative Advisory Group (CAG) and taskforce structure that supports the work of the current boards would remain, as long as those fitted within the public-interest framework that is being developed, and we want your views on that.

3. Role of the PIOB

There are questions about the role of the PIOB. The stated intention at the time that the consultation paper was developed was that any reforms would be on a stage-by-stage basis. It is fair to say that a lot of the feedback that we have received from the three roundtables so far has been about the need for the governance structure of standard-setting as a whole to be articulated at once, so that people know the full package. I am certainly very keen to hear your views on that today. That would mean changes to the role of the PIOB – and, indeed, the resourcing of the PIOB.

One of the proposals is that would, in due course, become the nominating committee for the board or boards. There is a question about whether the PIOB's role should allow it to veto standards or whether the PIOB's role should just require additional due process where it has concerns.

Should the role of the PIOB change to be more like that of the International Financial Reporting Standards (IFRS) Trustees? Should they have a role in collecting and allocating funding?

Should IFAC continue to nominate a PIOB board member? What is the process for appointing members? What should the scope of the PIOB's oversight be? Should it be just the new board or boards, or should it retain responsibility for oversight of all of those areas where standard-setting is carried out in the public interest?

If we are looking at the governance structure as a whole, should there be changed to the Monitoring Group's role and remit? You may have questions about whether the Monitoring Group's current role and remit remain appropriate or whether they should change. If you do, we would be very interested to hear them.

4. Operational and Funding Options

One option is a larger, independent technical staff to support the work. Those staff would be employed directly by the entity that contains the board or boards.

We need to look at how we can make standard-setting more responsive and more timely through process improvement.

I already mentioned to you the importance of a sustainable funding model.

Are there checks and balances to mitigate the risks to independence if a significant amount of that funding continues to come from the profession? One of the questions that we ask within the consultation is whether or not the funding through the profession should be through some sort of contractual-levy mechanism, moving away from the idea of a voluntary contribution to one that is perhaps more structured.

We also seek your views on whether other sources of funding could be secured. At the roundtable that we held in London a couple of weeks ago, the head of the IFRS Trustees, Michel Prada, was talking about how the funding of the IASB has changed and that no longer will the profession provide voluntary funding to the IASB, but that they will pay a commercial rate to use the standards that are developed. I am not saying that that is a model that we are thinking of but at least we want your views on what alternatives we could look at.

IV. Next Steps and Considerations

The Monitoring Group is seeking to make final proposals by the end of the June, so that is the next three or four months of my life sorted out. We are seeking to issue a feedback statement on the results of this consultation once we have had all the responses and been able to evaluate those. We will then issue a further consultation setting out final proposals, and that will be supported by an impact assessment and a transition plan.

One of the most important things is to ensure that whatever we do maintains the confidence that people have in the current standards and also not to act in a way that would undermine the business as usual that goes on. Certainly, we are very appreciative of the fact that the current workload of the boards is looking at a number of particularly critical areas in the current period.

The consultation closes on 9 February. As well as thinking at a holistic level about what we want to think about, there are four areas that I have suggested for our discussion today.

I hope that that gives you a brief overview. Those are the sorts of things that we are looking to cover. I will now ask Fernando to set out a response to some of these questions from the Monitoring Group's perspective, before opening up to questions and comments from the floor.

Remarks from the Monitoring Group

Fernando Vargas

Monitoring Group

I. Introduction

Thank you very much, Mark. Good morning, everybody. The first thing I want to do is to thank ACRA once again for organising this meeting. The second thing I want to say is that Mark has been very detailed and has covered a lot of the things I wanted to say, so maybe I should have gone first. Anyway, let me try to give you some ideas.

As Mark said, this is the fourth and final roundtable that we are doing. This is a great way of reaching out. It is the first one that I have participated in. We really want to hear your views and to try to answer your questions. This is important before you finalise your comments. I hope that there is no problem here because you probably want to hear our views too, so both things can be accommodated during the roundtable.

Let me first give you some characteristics of the consultation paper. As I said, Mark has gone into detail in some areas, but one thing I want to say is that this consultation paper is, in some ways, is trying to be neutral in its tone, giving options as much as it can. There are some opinions and options given, but not others. We are requesting views rather than final proposals, but we recognise that there are still some important things that are open and that we still have to do. There are also missing pieces that are being developed, such as the impact study or the transition programme for the future.

II. Addressing Concerns

In terms of what concerns the consultation paper is addressing, it is very useful to have Arnold[?] and Rachel here, because this has to do with the past and the future. It must be recognised that the current model that we have, which relies very much on support from the firms, has been quite

successful in terms of high-quality standards. It must also be recognised that these standards have been widely accepted around the globe.

Nevertheless, we know that there have been some concerns, and this is something that we have discussed in the past. For some of you, these concerns are less important; for some of us, they are very real. These concerns have to do, first, with the independence – perceived or substantial – of the drawing up of the standards, and with how responsive they are to the public interest. You can discuss what the proposed model is, and one of the things that it tries to achieve is to ensure that there is independence – perceived and real – and that it is responsive to the public interest.

On the other hand, as Mark has mentioned, in terms of futureproofing we are trying to introduce a structure that ensures, more than the existing structure, the possibility of incorporating changes that we see in the market in technology, which may lead to changes in sampling and data aggregation etc. We are also looking at the treatment of complex accounting standards, and we have spoken before about International Standard of Auditing (ISA) 540, which deals with a very complex standard which is IFRS 9. Without saying that it is not working, we need to ensure that this works in the future.

III. An Evolutionary Governance Structure

Why does this matter and why does this worry us? Why do we really need this to be independent, in the public interest, timely and reacting to the market? The answer is obvious: because we know that audit is a public good. We know that audited financial statements underpin investor confidence and that we need to have high-quality audits. Think about this the other way round and think about what happens when there are low-quality audits. They lead to problems.

The options in the consultation paper look in this direction, including independence from IFAC, which leads to the problem of funding. We really need to know what you think about this and how you can help us in this. Should there be a better alignment between standards in auditing and insurance and ethics? Should there be one board or should there be better coordination between boards? How do we streamline decision-making and how necessary is this? Do we want a smaller and more strategic board? Should the members of this board or these boards be full- or part-time, or both? We need a significantly expanded professional staff. We are also looking for increased transparency and accountability, and maybe a simpler structure.

I started working on and looking at this a year and a half to two years ago. The first time I looked at how standards were set in the IFAC context, I really did not understand. It took me a long time. I had to draw charts and I finally ended up with quite a good one. People thought I could sell it, although I did not. It is difficult.

Having said that, what are the big challenges that we have ahead? First, prior roundtables have told us to focus not only on the tier of standard-setting but also the governance of the whole system. What is going to happen in terms of governance? They told us that we talk a lot in the consultation paper about the infrastructure around how to write the standards, but how should there be oversight of this?

Second, what happens to the step-by-step approach? Is this reasonable or do we need a more holistic view and way forward and to be a bit more ambitious? Do we need something in between, knowing what the endgame is and then moving step by step? These are things that have come up and that we have to think about.

Let me give you, from my point of view, two comments: one practical and one more conceptual. The practical one is that the step-by-step approach that is possible – and there are things that can be done in this standard-setting infrastructure – is something that we should do, because we should not lose momentum. One of the difficult but important things about changing governance – and this has an impact – is that, if we stop it, it is very difficult to move ahead and wait for the holistic thing. Everything can be improved but there is a limit to how much we can do so. That is just a practical view from my side?

From a conceptual point of view, it is also true that what we do in governance of the whole standard-setting process depends on what you do in terms of infrastructure. How you set the infrastructure affects how much oversight you need and the direction of that oversight. It is interesting to reach a point where we are clear what is going to happen to the standard-setting tier.

Let me just give you an idea of one of the possible models that come out from the options in the consultation paper. You might say that this is similar or dissimilar to what exists, or ask what the differences are, and that is something that I am sure you will know better than I. Imagine that I say the following, which is choosing one or some of the options:

- First, we will have a single standard-setting board whose chair and members are nominated by an oversight body, not by the profession.
- The members would be subject to a skill matrix, as they are today, and also to requirements including the responsiveness to the public interest.
- The standard-setting board would be multi-stakeholder – more so than today – which would help achieve and contribute to independence and public interest.
- Board members would be publicly accountable for their achievements.
- They would be subject to an evaluation.
- The board would be smaller and more strategic.
- It would be supported by a larger and more independent staff.
- It would be funded in a way that does not question its independence.
- Decisions would be made by way of majority voting.

This possible model is quite a strong foundation for standard-setting. The stronger the foundation, the less oversight you need. In some sense, then, we need to make sure about this before we have a final say.

Let me stop here. Thank you for listening. I am sure you have a lot of questions and I am sure Mark will answer them.

Mark Babington

Thank you, Fernando. In the roundtables that we have held so far, after the Monitoring Group we have invited IFAC to respond.

Remarks from IFAC

Rachel Grimes

President, IFAC

I. Preamble

Thank you, Mark. Thank you, everyone. I would also like to thank ACRA and the Monitoring Group for hosting this square-table. It is a wonderful forum that will allow good discussion and debate, so thank you. It is very important that it is held in one of the most important regions – the Asia-Pacific region – and thank you for holding it here.

II. Positive Points

IFAC has welcomed and supported the review of this process over almost three years. I acknowledge the comments of Fernando in complimenting the standard-setting process and seeing it is highly regarded. These standards are fundamental to high-quality financial information throughout the globe; therefore, any change must be carefully considered.

It is important to note that the current model is public-private collaboration, which is acknowledged as best practice, and every one of the stakeholders operates in terms of the public interest. The standard-setting process has no legal authority, yet it is adopted in more than 125 jurisdictions. There are checks and balances in the current programme to protect the process from any undue influence from any one stakeholder.

Over the last three years, IFAC has wanted to conduct a review and has been held in a waiting area as this programme has developed. One of the things that the IFAC board had carefully considered was the perception of independence. As IFAC President and Chair of the Nominating Committee, I can say that that was one of the first things that we looked at. We are delighted, in one sense, that we have moved forward in parallel with this process and that the selection panel for the nominating chair of the audit-standard-setting board will be independent.

I am happy to step aside as the IFAC President because, as has been said time and time again – and I am delighted that Jane Diplock is here, who was an observer of the Nominating Committee process for IFAC for the PIOB – I recognise the robustness of that process. I am confident that, whoever in this room was chair of the Nominating Committee, we would still get exactly the same result, because of that robust process. I am delighted that Mr Fumono[?] from Japan has that appointment. It is very important that this region is recognised by having such a high-profile appointment.

IFAC does welcome this programme. We are very keen to have any improvements that we can possibly make. We are looking forward to this programme being completed because we think that there are many more items, particularly in relation to technology, that we can use this advancement to enhance the process.

III. Risks

That said, in terms of the consultation paper, we believe that there are significant risks in the way that this programme is being conducted. We feel that, if the geographic diversity and the economic input from regions such as this are not maintained, there is a real risk that countries will revert to a national model. This will not be helpful for the global audit firms, for regulators, for capital flows and for preparers and accountants in business who regard this qualification as a global passport to the world. There will be many items impacted if the national model was the way forward as a result of different countries not being happy with the proposals being put forward.

In terms of funding, there must be a sustainable model. To suggest that having a levy from audit firms enhances the independence is wrong. There must be a sustainable model that addresses the perception of independence; without that, we are going to have continued discussions such as this for a very long time to come.

A staged approach to governance, with a promise of change, is not a way forward. Governance must be at the heart of any reforms and not an afterthought. IFAC has long argued that the governance model must be a multi-stakeholder and that all parts of the value chain are responsible for the public interest. It is not the exclusive domain of regulators.

Ladies and gentlemen, does it not make more sense to have these roundtables, these discussions and these debates prior to a paper being issued? We are encouraged that the Monitoring Group seek the input of stakeholders prior to the release of the next paper. It is important that the respect of the International Standard-Setting Board process is maintained throughout this programme of work.

Finally, Chair, as I have taken only three of my allotted five minutes, I would ask your indulgence that, at a later point in this meeting, I take off my IFAC hat and come as a preparer of financial statements to put my comments forward in that regard. Thank you.

Mark Babington

Thank you, Rachel, and I will, of course, be saving your minutes for you. With that, I want to open to the floor.

[Housekeeping remarks]

Questions and Comments

Tatsumi Yamada, KPMG

I represent the Global Public Policy Committee (GPPC) in this region. There are four colleagues from the GPPC here, including me, [Dan Higgin?], [Caroline Lee?] and [Julian Tai?]. We are very happy to have this opportunity.

The GPPC supports the necessity of the reforms but we do not agree with some of the proposals, which I would like to articulate. The first is whether or not the reforms should be holistic. We do

not think that a staged approach would work. You show only half of the full picture, and we do not know about the remaining half. Without knowing the whole picture, we cannot make any decisions, especially in the second stage, where there are some important issues such as the structure of the PIOB or funding issues. If we set aside these issues, we cannot make any decisions. Mark asked the question of whether members are fully paid, or full- or part-time. That depends on how we secure funding. This is heavily integrated and we support a holistic approach; a stage-by-stage approach should not be taken.

Second, in terms of governance, the currently proposed function of the PIOB is that they have two roles: oversight and veto. It seems to me that the referee has a role of a player at the same time, so this is very contradictory and we do not support that kind of reform. I was a board member of the IASB for 10 years, between 2001 and 2011, as well as currently. Full autonomy of the standard-setting is given to the IASB. Even though the trustees have a right to oversee the IASB's activities – i.e. whether or not the IASB is following due process – they focus only on due process and do not touch the contents of the standards [inaudible]. That model works very well in the accounting-standards world, so the same thing could apply to auditing and ethics standards. We should follow the IASB's model [inaudible].

Third, regarding the current proposals, there are three layers: the top layer is [more general?]; the second layer is the PIOB; and the third layer is standard-setting organisations. The top layer is the regulators, the second layer is nine members who are assigned linearly[?], and one third of the standard-setting organisation are now proposed to comprise regulators. This seems to me to be too many regulators in the structure. The accounting professions have made the criticism that they are exercising their undue influence, and I am very afraid that, by adopting this structure, too much undue influence could be exercised by regulators. As English is not my mother tongue, I might be impolite, so please forgive me. In order to avoid this, a multi-stakeholder structure is inevitable and essential. In particular, the PIOB, which corresponds to the IFRS Foundation Trustees, comprises 22 members at the moment, and a multi-stakeholder membership is reflected in that structure. To follow suit with the Trustees of the IFRS Foundation [inaudible].

Fourth, in terms of funding, there is a proposal for a contractual levy. I do not understand the English expression 'levy', so what kind of levy is it? Just changing the name does not change the substance. If the accounting profession keeps providing money under the name of a 'contractual levy', and if we are criticised by the public, there is no change in substance. It is very silly for the accounting profession to provide the money and to be criticised, only for the regulators to control [inaudible]. This is neither rational nor sustainable, it seems to me. In that sense, then, how to secure funding, and especially a wide range of funding, is essential in this reform process. You should consider this very seriously.

If I remember correctly, about 10 years ago, when we discussed the current structure, the same argument was had. It was agreed that a wide range of funding sources should be pursued. However, in the last 10 years, only the accounting professions have been paying the money, and I am afraid that the same thing could happen in the future if we do not address funding issues at this time.

The next point is the public-interest framework, which we have not seen yet. Without having this framework, we cannot make any final decisions around whether or not it is acceptable. To my surprise, it is proposed that the framework is set by the PIOB, but I am not quite sure, because, under the IASB, the IFRS conceptual framework is set by the IASB because it is deeply related to the quality of the accounting standards. If the public-interest framework has a different function, it

should be clearly articulated. I am not quite sure why the PIOB, which is just an oversight board, has to make a decision on what the public interest should be, so this should be examined.

Lastly, regional representation on the standard-setting organisation is essential. My country, Japan, is adopting ISA as it is as Japanese auditing standards. In that case, to participate in the discussion at the International Auditing and Assurances Standards Board (IAASB) to express the views and to have that opportunity is essential. The same thing could apply to other jurisdictions, so that means that the number on the standard-setting board or boards is essential. 12 is too few. IASB now has 14. You should think about expanding the number of members of the standard-setting organisation.

I sincerely hope that all the points that I mentioned [inaudible] so it should be reflected in the exposure [inaudible] which will be in June. I strongly believe that a holistic view is essential; otherwise, the current decisions should be revised if the second stage has not started. Like all political things, my experience tells me that, in a staged approach, the first stage could happen but the second stage might not in the future. A holistic view is essential. Thank you.

Mark Babington

Thank you. The points are taken and are certainly consistent with some of the issues that are raised. I will say one thing on funding: that my chief executive, Stephen Haddrill, has participated in other roundtables – unfortunately, he cannot be here today because he is going to be given evidence to a parliamentary inquiry on issues in the UK – and has said that, on accounting standards, the FRC, as the UK regulator, pays a contribution towards the cost of the IASB. In principle, he has no objection to the UK, in regulatory terms, making a similar contribution to audit-standard-setting. That is something that we have to articulate as being essential if we are to achieve a more diversified and sustainable funding model going forward. I would say that only in response to the comment that you made.

Participant, Hong Kong Institute of Certified Public Accountants (ICPA)

I am not going to address the detailed question – I just want to look at the foundation for this particular consultation paper. I suspect that there is not enough consultation before you issued the consultation paper, judging by the apparent lack of consultation within this region. As far as I am aware, individual standard-setters or member bodies of IFAC need to go to their own contact to find out what is going on. I do not think that we have been consulted adequately, if at all, before this consultation paper was issued.

The ICPA are the standard-setters in Hong Kong within full convergence with all international standards: IASB's standards, auditing-assurance standards, ethics standards and education standards. It is interesting for us to participate in this roundtable. Judging by the reaction of the key stakeholders, including IFAC, IAASB, IASB and GPCC, it seems that there are number of issues that should have been sorted before this consultation paper was issued. The recent SEC letter does not help at all, and the Reserve Bank of India has expressed a number of issues. Before we move on to the next stage, if at all, we need to engage all stakeholders in order to develop something meaningful and something that all parties will agree to. I do not want to see another round of consultation or roundtables where almost everybody has different opinions on what the best model is.

The uninformed, outside stakeholders need to base their comments on the consultation paper. I would like to highlight one or two areas where I believe it is quite misleading. The consultation

paper started with a perception issue: some people perceived undue influence exercised by their accounting profession because of the nomination, funding and logistics support. However, the consultation paper very quickly dropped the word ‘perceived’ and just used ‘undue influence by the profession’ throughout. To me, that is quite misleading. If it is only a perception issue, the Monitoring Group, which has overall responsibility for governance and which approved the initial set-up and subsequent improvements, should come out, clarify and explain. That was not at all a very logical first step. The Monitoring Group failed to mention where they had any responses from people and, if so, what they were. Who were the people who expressed those concerns? It was certainly not the Asian standard-setter, so it must be somebody else. The SEC said it is not their concern, so the only logical conclusion is that it is a European concern. It gives me the impression that the Europeans are imposing their views on the rest of the world.

There is another very misleading part in this consultation paper. By raising a number of checks and balances for good governance issues, it implies that none of these exist in the current model. The consultation paper also fails to describe the key roles played by the Monitoring Group and the PIOB. Very few people outside [inaudible] the PIOB approve the work plans of the standard-setting board and approve the budget, and IFAC only [inaudible] the money. Very few people understand that PIOB approve appointments to the standard-setting boards. Why are these checks and balances not working? We need a very detailed explanation from the Monitoring Group in terms of the extent to which the existing checks and balances are not doing their job properly, before we talk about dropping the whole thing.

Rachel raised a point with which I fully agree: this consultation should have taken place before the consultation paper was issued. I hope it will happen before the next stage is embarked upon. Thank you very much.

Mark Babington

Thank you. Just to confirm, there will be a further stage to the consultation, so this paper was very much intended to put out options to get stakeholder views. We have held the meetings that have taken place this month, and there will be a further paper that will come out for stakeholder consultation before any reforms go through a transition plan. Hopefully, that will provide opportunities for people to provide further feedback. Trying to get views is a challenge. In a sense, the Monitoring Group exists as a small group of individuals who meet as representatives of the organisations that comprise the Monitoring Group. I have to say that it has been a challenge to do levels of outreach that we have done, going to four different countries to try to get four different sets of regional views, so we do take that onboard and we look to continue to have that dialogue.

Participant

Good morning. Thank you very much, ACRA, for inviting the retail investors association. We look at the annual reports and financial statements, and we have to accept what has been given to us. We have had many bad experiences with accounting failures and shortfalls in audit standards. I am very glad that this happening but we have concerns.

Firstly, I agree with the perception that the standard-setting boards are currently not seen to be independent, because members and participants are paid by the audit firms. This cannot be. There must be, from our point of view, an independent source. The sponsor of the standard-setting cannot be the provider. That is our first point. An independent fund must be set up, either public or

contributed to by various stakeholders who set up the fund. Find a new source of funding, which would give us comfort.

In terms of board-member composition, we are very pleased to see acceptance of a multi-stakeholder approach comprising investors and regulators. That is the way to go. Regulators can be on the standard-setting board, but certainly my friend from Japan objects to all of you being there. Certainly, we accept that regulators should be on the board. The PIOB should not interfere, and I am sure they do not but we feel that they should not be involved in the technical aspects of the standard-setting board but maybe question the way the board operates.

I am not sure what the consultation paper means when it says ‘in the public interest.’ I think that needs to be defined. I take it as ‘investor interests’ – the ones who provide capital. Is it confined to that or is it more than that?

In terms of a board or boards, we do not mind. There must be communication between the two boards, but we would prefer a single board for auditing assurance and ethical standards. Both should be together, because audit should not be set in isolation from ethics. We would prefer one board.

On the question of board nominations and who is responsible, we feel that the PIOB should nominate board members.

The final objective is, I am sure, to achieve quality in standards and confidence in standard-setters [inaudible] trust and confidence in financial statements and financial reporting. The PIOB would be the best to give us that assurance.

This is not part of the consultation but I would like to make a suggestion. Currently, the UK has implemented a code of governance for auditors. As more jurisdictions work to strengthen their oversight of the profession, an international code of governance for auditors should also be considered, just like the Organisation for Economic Co-operation and Development (OECD) governance recommendations, so that there would be consistency in the governance process globally. You should perhaps consider that. A global code would bring consistency. Investors do cross-border investing quite actively, so we are hopeful that this exercise brings more comfort to investors.

Professor Roger Simnet, Australian Auditing and Assurance Standards Board (AUASB)

Thank you very much for doing the outreach and the roundtable in Singapore. We have two continents represented here – Asia and Oceania – so let me give some perspective from Oceania. We really appreciate this review, which is overdue, so it is very necessary that we undertake a review for the futureproofing of the professions.

We have done outreach on these areas. In terms of some background on the AUASB, we are fully independent and fully funded by the government, so not funded by the profession at all. We have participated very heavily in the standard-setting process. We have had representatives on both the Ethics Board and the Auditing Board. We have had public-interest members on the Auditing Board since the IAASB has been set up, so we can provide some views on that particular area.

It was very kind of Stephen to offer some funding from the FRC; I do not think I will be doing the same from Australia but [inaudible] from Stephen. I do not think I am in a situation where the

government would allow me to transfer funding from the Australian setting to the international setting, but we do need to address the funding issue.

We have done roundtables with the Ethics Board in Australia, and it is true that this consultation paper did not resonate very well with the Australian constitution, for a number of reasons. We understand some concerns about public interest, which seem to be outweighed. We are concerned as to whether or not the outreach of the consultation affects us. Our constituency consists of a lot of small and public-sector audits, as well as public-interest assurance reports about the financial-statement-audit area, so we are concerned. The IAASB currently addresses those; if any were put down, we would have to seriously consider what we would do in those particular areas.

We are concerned about the criticisms, and we have just heard the criticisms on the public interest. Firstly, in terms of my perceptions of the public interest, we have had three members of the public interest. Each of those public-interest members – one being an academic, one being a public-sector auditor and one being an audit-committee member – had been supported. They do not go in unsupported, so there is a perception built up in the paper that the only people who are supported are the people from the firms, and that is not true. Other members of the IAASB are supported. They will not get into the detail on drafting, necessarily, but they will always look at the public-interest perspective, so that needs to be taken into account.

There are a number of checks and balances in the system that are not captured in the particular [inaudible]. I am concerned about the criticisms about the public interest, actual or perceived. Audit is a credence or a reputation [inaudible], and we have to be very careful about the fact that we say that the standards that have been adopted by 125 countries are of high quality. If we lose that reputation, we run a whole lot of risk of damaging the profession, so we have to be very careful about the tone of the discussion as we go forward. We do not see that the reputation that we would prefer to see, with consultation being around the futureproofing of the profession, as distinct from trying to address issues that the profession has not been dealing with appropriately in the past. We have been very concerned about reputation as we move forward in this particular process.

On the specific details, I will make just a couple of points – I wanted to make those overall points. We cannot support a step-by-step approach. There needs to be a holistic approach in the public interest. These areas are so integrated that we need to see the whole particular before we can adjudge whether the public interest is being interested, so we would encourage an integrated approach as we work forward.

In terms of the multi-stakeholder approach, we need to see it, if there are going to be three levels, at all three levels, including room for a multi-stakeholder at the Monitoring Group or the top level. I am not a big fan of the three buckets that have been developed and do not think that they are realistic. We need to get the best people for the positions on some sort of a skills matrix.

One comment that I have not heard a lot about is the evaluation or feedback statement. We are all putting a lot of work into this, so exactly will how the evaluation and feedback work? Who will be evaluating and who will be doing the feedback? Again, I would recommend a multi-stakeholder approach to that evaluation and feedback, so that we know that all these things are done, as well as a transparent approach that we can look at so that we can gain confidence that the views that we have worked so hard on are being heard and considered appropriately. I would certainly welcome some comments on that.

The transition plan is going to be important. I understand that, as we go forward, there will be changes, and we need to be very careful about organising the transition plan.

In terms of separate boards, I welcome the comments [inaudible]. These skills are becoming so important that we need to be adaptive to this quickly changing environment. It depends on the skills matrix and whether you can get the right people who can cover all of these areas, and we are struggling at the moment, so we would, at the moment, be supportive of separate boards for ethics and audit. However, we certainly welcome the process and look forward to future consultation, but we need to see every stage of the process and the transparency of the process in order to guarantee that our views are being heard.

Mark Babington

Thank you for that. I do fully take onboard your comments about your transparency of the feedback statement. The Monitoring Group has a working group that is due to meet in February to start working through the comments received from all stakeholders as part of the process. Certainly, I take away from your comments and those that we have received in other roundtable meetings the need to discuss before we do that work and how we ensure that there is appropriate transparency as part of that process, and to ensure that what we are able to issue reflects not only the responses that we have had but also the discussions that we have had as part of the roundtables. What we have produced for each of them is a transcript that we are using as a way of capturing not only the things that come in on letters but also the wider contributions, so thank you for that.

Participant, Chinese Institute of Certified Public Accountants (CICPA)

[Interpreted] Good morning, ladies and gentlemen. We are from the CICPA. Chinese audit inspectors, as well as the code of ethics, have achieved substantial and ongoing convergence with international standards, so we are paying great attention to the reform of the governance structure of international standards [inaudible]. According to our experience, although the current international standard-setting model has much room for improvement, it is widely recognised that the international standards developed in this model are of high quality. That is why these standards have been recognised and adopted in over 120 jurisdictions. Our key message is that we believe that the reform should be able to enhance the public interest. However, enhancing the public interest is more than just a principle. The follow issues must be resolved.

First of all, a commonly recognised public-interest framework must be established as a precondition and is the most important issue of this reform. In our opinion, not only do regulators represent the public interest but all participants in the capital markets are responsible for acting in the public interest. Good governance should be an organic combination of self-regulation and external regulation. We believe that the current model well reflects this model, so the current model should be improved rather than radically changed.

Second, a comprehensive assessment of the current standard-setting model against the above-mentioned public-interest framework is needed. The most important thing is to do a root-cause analysis to find out where the real problem lies, and whether the problem lies in the current model itself or in the failure of implementation of the current model.

Third, if, after analysis, it is proved that the problem cannot be resolved by improving the current model and, thus, a new model is needed, a complete package of proposals should be designed and presented, including the reform of the Monitoring Group and PIOB and how to collect funds from outside the profession.

Fourth, we must attach great importance to the assessment of how the reform would impact capital markets. We are concerned that, if we simply design [inaudible] the current standard-setting model without identifying its defects clearly and accurately, public confidence in the current financial-reporting system might be seriously damaged, and the recovery of international finance and the world economy will be undermined.

Based on the above understanding, we believe that the Monitoring Group needs to consider a methodical approach to moving forward in an orderly fashion. It should not rush to decisions before the above work and consensus has been done; otherwise, the reform may not achieve its stated objectives and may create unnecessary risks due to a lack of thorough planning. Accordingly, we have the following suggestions:

First, we recommend that the Monitoring Group should strengthen cooperation with IFAC and other stakeholders in a more inclusive way to study the problem and consult with each other to establish and enhance the international standard-setting model which is conducive to improving the public interest.

Second, it is important to widen multi-stakeholder representation at all levels of the governance structure to solve the concern over independence. We suggest that different cultures, languages, economies and levels of development, including emerging economies, should be represented. Accordingly, the current Nominating Committee should consider widening representatives from multi-stakeholders.

Third, we believe that, instead of setting bars, the professionals should reach a certain proportion, and the voting on approval criteria should also be set at a high proportion. We are delighted to see that the Monitoring Group has explained that the new model will not be dominated by regulators. As international standards are developed purely from a regulatory perspective, they are likely to be more rule-based and prescriptive and to abandon[?] professional judgement, which is essential to audit quality. In order to effectively prevent the above from happening, we suggest keeping the IFAC representative with PIOB and also adding representatives from national standard-setters to both the Monitoring Group and PIOB.

Fourth, we suggest that members of the IAASB and the International Ethics Standards Board for Accountants (IESBA) should become full-time, and that the team of technical staff should also be expanded.

In addition our key ideas, we also have detailed comments in writing to send to the Monitoring Group. Thank you.

Mark Babington

Thank you very much for your comments and we look forward to receiving those, as well as the wider comments that people had.

Participant, National University of Singapore

I realise that there are a lot of auditors, so I hope that nobody goes and scratches my car after [inaudible]. I want to go back to the comments [inaudible] trust is extremely important. Of course, perception is very important to trust. Therefore, perceptions in rhythm of the standard-setting process is very important. In principle, any reform that can improve that is welcome. However, in

this discussion we are not focusing on the bigger issue, which is the implementation of the standards. As somebody who writes about governance all the time, I look around the world. I am concerned about the significant growth in non-audit services. I am very concerned that, essentially, auditors' fees are determined by the client and, while they are endorsed or approved by members of the company, they are largely appointed by management with the support of independent or not-so-independent audit committees, depending on the company. To me, that is a big issue. I am quite concerned about the continuing growth of non-audit services. I am worried about it [inaudible] but that is for another debate.

Coming back to the paper, I believe smaller boards would be better, so I tend to go for a smaller board. If you need the expertise, maybe the boards could form a sub-committee and call specialised expertise in sub-committees. The board will have so many considerations and, if you want people with skills in terms of representation and [inaudible], the board may become too large, so it may be better to have a strategic board, and then, if you are worried that there is not enough expertise around ethics, for example, have a sub-committee and call on additional members to focus on those issues. In terms of the boards, I support one focusing on audit assurance and ethics together, and one focusing on education and on accountants in the business.

I also agree that you need an overall conceptual framework first in terms of what the whole thing is going to look like. A phrase that [inaudible] is that you have to build a new train while keeping the current train running, because you need to do both together. You need a big picture and to have a plan in terms of how you achieve the final outcome, but it is quite important to understand fairly on what that big picture looks like. Thank you.

Channa Wijesinghe, Chief Executive Officer, Accounting Professional & Ethical Standards Board (APESB), Australia

The APESB is the national standard-setter in Australia for the accounting profession. As Roger mentioned, we had roundtables in December and I concur with the points made by Roger, so I will not repeat those.

One thing that has not come out is the sector neutrality of the standards. In Australia, we try to issue sector-neutral standards, which goes back to Rachel's comments on the public-private model. The standards are not only for public-interest entities but for non-public-interest entities too. Also, another aspect is the segmentation of the accounting profession. This paper tends to focus on the audit profession and, in Australia, the audit profession is 7%, so it ignores the other 93%. Professional accountants in business are about 70%, and the remaining 20% or so are other public practitioners. Other public practitioners are not addressed in this paper, so what is going to happen to other public practitioners in respect of a code of ethics?

Over the last 12 years or so, APESB has issued 20 standards other than the code of ethics. In terms of the code of ethics, we have a copyright agreement with [inaudible], but we have issued 20 other standards that use the code as their base and then integrate aspects of the code. We have probably taken the code apart more than IESBA, and still find that the code is robust enough to address the different aspects of the accounting profession. We have separate standards on valuation services, forensic accounting, insolvency and financial planning. They all use the IESBA code as their base and integrate elements of it.

If we are suddenly in a situation where codes are coming from three separate boards, the whole thing is going to break down. We have a significant concern about multiple codes being there. You

also have to remember that, in the accounting profession, we change roles. We might be an auditor when we begin our lives but then we might go into being a finance manager or chief financial officer (CFO), and having a consistent code assists in this seamless transition. We are not supportive of having a single board; we are supportive of maintaining two separate boards – one for audit and one for ethics. They are separate disciplines. The product is not product. If the product is broken, how can you get more than 120 countries to agree to it? There is no legislative backing. Each one is taken by the national standard-setters.

This paper does not bring out the fact that the national standard-setters are also counter to the profession. In most cases, in some countries the regulator and the national standard-setter are the same; in Australia, however, the national standard-setters are different from the regulator. There are different standard-setting boards, and the regulator is separate. We feel that the role of the national standard-setters does not really come out in the paper.

In the existing system, there is always room for improvement. Processes should be looked at and could be enhanced, but we do not think that the system is so fundamentally broken that there need to be wholesale changes. The paper makes statements but there is no evidence to back those statements. If you are suggesting such radical reform, there should be some evidence backing those statements. We are disappointed that there is no sufficient evidence in the paper.

In terms of voting, we are not supportive of a simple majority. We think that it should be around 66% or 75%. While it may take a bit more time, it is important to build consensus. You might not get full consensus, which is fine – that is why there is a 66% or 75% majority – but we do not think that a simple 51% would work.

The paper suggests that the remaining – let us say there are 190 jurisdictions and there are 70 that I want to talk to – cannot adopt it due to this perception issue. We do not think that that is the case. We think that the remaining 70 jurisdictions have not done because of various other reasons that are totally unrelated to the issue raised in the paper. Thank you.

Kon Yin Tong, Institute of Singapore Chartered Accountants

Today, I am quadruple-hatting but [inaudible]. I am also President of the ASEAN Federation of Accountants. Taking a point from Rachel, if ASEAN were a single country, it would be the seventh largest economy in the world. It has a GDP of 2.5 trillion and about 650 million people. [Inaudible] ASEAN, we have close to 200,000 members, both in business and in practice.

ASEAN also has preliminary views. We will submit our paper by 9 February. Our views are broadly in line with Hong Kong, China, Australia and the GPPC. We feel that this paper is the marginalisation of the smaller economies and of those who would not normally have a voice. ASEAN wants to have a voice in global standard-setting. It is important to us. We want a seat on the board of this three-tiered structure. We want to be heard. This is important to us. We want people on the board who have on-the-ground experience in standard-setting in frontier economies. I do not know how many of you have been on the ground in Laos, Cambodia or Vietnam, where it is a totally different ballgame from what you see in Australia, the UK or the US. That is important to us.

We do not like the step-by-step approach. I fear that this approach will result in rules-based standards. We do not want to go there. It is incongruent with how we have grown up [inaudible]

standards and, more importantly, in terms of financial-reporting standards, so we do not want to go there.

Many of you have talked about a holistic approach. I would like to extend that in terms of what a holistic approach means to me. What the paper and the current IFAC structure [inaudible] in terms of governance and standard-setting are perhaps broad principles of standard-setting. Taking a leaf from the code of ethics, we have five fundamental principles. We need fundamental principles in standard-setting as well [inaudible] principles in the governance of standard-setting. I was on the board of ACRA and stepped down about six years ago. I have also learned from other regulators in Singapore in terms of how they balance the costs of regulatory imperfection against the costs of market imperfection.

In terms of governance and broad principles, what we look at are independence, transparency, accountability, proportionality, inclusivity and diversity, competence, evaluation and impact-assessment mechanisms, and, lastly but quite importantly, sustainability. Most of the conversation surrounding sustainability today is around funding, but sustainability is a lot more than funding. Funding is important but not the most important. We need a sustainable model of standard-setting and governance. This is what other regulators are focusing on in terms of broad-based [inaudible] standard-setting in terms of performance. Standard-setting is really performance-standard-setting, so, hopefully, before the ED[?], these broad principles, in terms of a holistic approach, can be considered. Thank you.

Shinji Someha, Japanese Institute of Certified Public Accountants

I wish to acknowledge that the current consultation proposed by the Monitoring Group is, indeed, an important and influential exercise for all stakeholders involved in the financial-reporting supply chain. For that, I believe we must pay close attention to varied views and perspectives on standard-setting and try to come to an agreement on the most effective [inaudible]. In our view, we share the same objectives stated in the consultation. To achieve them, we particularly believe that two boards – IAASB and IESBA – need to be maintained separately in order to produce technical infrastructure effective under the relevant standards.

For the standards to be properly produced and maintain, it is also important that diversity or participation by multi-stakeholder [inaudible] for both standard-setting and oversight, so that no one view is overwhelmingly reflected and, thus, standards are accepted as global standards.

In terms of ensuring the participation of multi-stakeholders, we believe that boards consisting of 18 members, as they are now, is quite reasonable and have merit. [Inaudible] standard-setting boards [inaudible] oversight should be clearly separated and, therefore, oversight functions do not come [inaudible].

Lastly, I wish to emphasise that all of the changes or improvements that we discuss or try to improve must be supported by a valuable funding model. If we do not have a clear picture of how financial resources are collected and allocated for putting the model into operation, we cannot assess the feasibility and the relevance of the new model. Thank you.

Diana[?]

I wanted to come back to a couple of times this morning where I have heard, ‘Where is the case for change?’ I think that came out at the Washington roundtable as well a number of times: a thought

that there was the solution looking for a problem. I wanted to come back to that and pick up on a couple of points.

As we have been looking at things, over time, in the model that exists, at the governance level, the PIOB have felt it necessary to comment more or get to an end of the standard-setting process and decide that perhaps the public interest had not been met. If you get to a point where governance feels it needs to intervene in the standard-setting and get into the technical detail, there is an issue of lack of trust. There is a lack of trust that the design of the standard-setting and how it operates is producing standards in the public interest. If that is the situation that we are in, that is something that to we should all be very concerned about: that the design of the board did not produce standards in the public interest that our oversight board would look at and agree that that was there.

We have to take that very seriously and acknowledge that there is an issue and that we should be looking at it. If we are then looking at the standard-setting level to change that dynamic, what do we need to do? That is looking at the standard-setting level and asking, 'How do we bring the various multi-stakeholder views to be participating on an equal footing on the standard-setting decisions? How are we bringing together the users so that we know that the standards are producing what they are looking for? How do we bring the views of regulators into that decision-making process? How do we continue to keep the input of practitioners?' In terms of having that real-life experience to understand the technical details, what is needed on the ground, where innovation is coming, how disruption is changing practice, it is vital that practitioners continue to be at the table as well, but we have to acknowledge that they all need to be brought together.

There are proposals in the paper and there are numbers of things that we will have to think about in terms of how best you bring those things to bear. If we get that right and we are producing standards that everyone agrees are in the public interest, where is governance? Governance is absolutely vital as well, and nobody is saying that governance should go away. No one is saying that the PIOB should be a compliance exercise or a tick-box to say [inaudible] due process. Governance is there to have guardianship of the model as a whole and to be satisfied that, on an ongoing basis, it continues to be robust, that it holds the board's feet to the fire, and that the board is able to demonstrate how it followed appropriate due process to come to it. There is a very valid role and we do think that the comparison to the IFRS Trustees is a valid model to be looking for. It is one that is in place and it is working and operating well.

What needs to be on that board? These global standards are adopted voluntarily by jurisdictions, member bodies and firms all over the world. All of them play a role – and an important role – in getting those standards adopted and implemented around the world. They have a vital stake in that model and an interest in the model moving forward. They need to be represented on the oversight. They need to be part of the body that oversees and ensures that the model is robust.

That needs to all come together because, if we are changing the standard-setting model, we have to walk into it with confidence and give it a chance to succeed. We have to have it such that they are aware of how the governance and the standard-setting is going to fit, so that you attract the right people to the board and to the staff to be able to support it, and you give it a fighting chance to succeed. As all the roundtables have shown, there is a phenomenal amount of interest. There are a phenomenal amount of people who have a stake in the game. We need to be brought together and move forward on this together, and part of that is involving them in the governance process.

There is lots to do. There is an issue. We need to address the issue. We need to move this forward. We need to think about it holistically. There is going to be lots to talk about. There is

devil in the detail. There are loads of operational matters that we need to think about. The consultation paper has proven the level of interest and has started to bring people together talking about it, and we need to take that and carry it forward.

I did want to come back and say, for those who are asking ‘Is there an issue?’ I think there is an issue. The GPPC would say that there are issues and we need to be aware of them, to embrace them and to work with them collectively to find a solution to take them forward.

Mark Babington

Thank you, Diana. The point is very much taken about the interests that people have in this process. I said we had the meeting in London a couple of weeks ago and, if someone had told me three or four months ago that we would get 120 people in a room to talk about the future of standard-setting, I do not necessarily know whether I would have believed that were possible. The level of engagement in all of the roundtables has given testament to that and shown the importance of being able to maintain a dialogue as we go forward into developing further proposals or recommendations for consultation.

Fernando Vargas

I just wanted to say a few words before we break, so that we can continue the discussion after. It has been extremely interesting to learn and I think you for all your comments. Some are very tough comments, which is quite alright. I notice – which is, again, normal – that there are differences of opinion, depending on whether you are coming from the practitioners or the users.

Things that I would like to note especially include the issue of private-public coordination or cooperation around standard-setting, and if the governance of the whole process should be multi-stakeholder, as the standard-setters should be. I have an opinion there that is, of course, conditioned by my background. I have been a banking prudential supervisor. In banking prudential supervision, what we do in world standards is regulate from the regulators. The people who set the standards in banking, in insurance or in securities from the prudential side of things are regulators. For me it is a little alien to hear people saying that regulators have undue influence over standards. That sounds very strange to me – almost as strange as saying that national parliaments have undue influence over national regulation. When you are regulating a public good, you are doing it from the point of view of the regulator. That does not mean at all that it is not important to have everybody’s point of view. It does not mean that we do not need input from practitioners or that there is outreach, consultation papers, transparency and accountability. However, this seems a bit strange to me. That is the first thing that I wanted to note, and we may or may not want to come back to this.

Second, in terms of the holistic approach, most of you have said you need the whole model and you need to move ahead with everything at the same time. As I said at the beginning, it is good to know what the endgame is. You need to know where we are going before we start moving. You turned around my argument when you said that you needed to know what the governance was before knowing what the standard-setting is, with the example of funding. I still think that the infrastructure is necessary and that we can move step-by-step already; for example, the Nominating Committee. Rachel and I have been working on how to change the Nominating Committee for the next Chair of the IAASB. That is a step in that direction that can be taken before the whole thing is set, but I understand what you are saying and, again, we have to think about this.

Financing and funding are a big issue. There is a lot of concern around the table, and I understand that concern. The only thing that I do not understand is why you do not see that a levy is different from funding that comes from the industry on a voluntary basis. A levy means that the industry is obliged to finance this process. This happens in banking supervision. In many cases, banking supervisors are financed by the industry, and nobody doubts that they are independent. Why? Because the industry cannot not finance, so there is never an argument around, 'If you do not do this, I will stop financing you.' It is not voluntary. I do not understand that argument very well.

There are many things that you have said but the last thing I want to take from this is what happens to small economies and small practitioners. I see that that is something that worries you around this table. That is reasonable but I am not sure why the new model is different from the old. Is it because we have a minimum of 12 members instead of 18? Is that the issue? As you know, IAASB is not a representative body. It is not supposed to represent everybody per se. It is supposed to have multi-stakeholder members who are sensitive to the worries of everybody and who can have outreach and consultation papers. That does not mean that they represent everybody, so I am not sure of exactly where this comes from. You asked us for proof – I ask you for proof. Maybe in the second part of this conversation, we can come back to some of those things, but you are free to talk about anything else you want. Thank you.

Mark Babington

Thank you, Fernando. I suggest we now pause for coffee.

[Housekeeping remarks]

[Break]

Jane Diplock

There have been quite a few disparate views, as we have heard this morning. It is encouraging that we are hearing quite a number of perspectives openly and in public, which is helpful for the Monitoring Group to try to formulate where they calibrate the decisions they might make.

It is also useful from the PIOB perspective, and I would like to address the group briefly from the PIOB's point of view and then perhaps make some personal comments in my other role sitting on the Audit Committee of the Singapore Stock Exchange. The PIOB thoroughly welcomes the review of the standard-setting process and, as many of you will be well aware, the PIOB, over the last few years and in our strategy paper that we released recently, has made a number of suggestions that go to the purpose of trying to improve the standard-setting processes and, through our observations, to bring about some limited changes that we think would encourage greater confidence in the standard-setting process. We are pleased to see some of those reflected in the consultation paper, and we have others that we might still want to raise with you when we formally respond to the consultation paper, which we will do to the closure of that.

The PIOB, like many other institutions around this table, have some disparate views on some of the recommendations, and we are still working through those to develop a consensus. When that consensus is reached, that will be reflected to you. I do not intend, today, to pre-empt those views, and it is not appropriate that I do so. However, you will see that, in our strategy consultation last year and then later, as a request from the Monitoring Group, we have been developing a public-interest framework. That is a work in progress at the moment. We are developing it, and I

can assure those of you who were concerned that framework might not be available that, as the PIOB sees it through our lens, it will be available to the Monitoring Group to assist in the further consultation that has been canvassed.

The Monitoring Group takes the IFRS model in accounting standard-setting as a reference, and some members of the PIOB have drawn to my attention – and I draw it to yours – some differences between standard-setting in auditing and accounting. The way in which this has been articulated – and I have to say I am not entirely sure that I understand fully the depth of this argument – is that the stakeholders in relation to the accounting standards are very much engaged, and that, by and large, they have a broader stakeholder community, whereas the stakeholders have not been so engaged in the audit firms. The explanation for this was that there is a strong reliance approach taken by those stakeholders in the profession in relation to audit. Perhaps it is that the accounting standards go so much to the heart of the business model of the entity that they take a slightly different approach and are willing to participate with a more hands-on approach in the accounting standards. I am not entirely sure that I have had that well-explained enough to me, but it may be something that you want to consider in terms of whether it is an important point.

One of the issues that the PIOB is wrestling with, as are many people around this table, is the question of funding. That is a matter that is of concern to people: the question of horses and carts – whether we need to understand the funding model before we can understand the governance model or whether they can be disengaged – is matter that we are discussing amongst ourselves. I would be interested to hear any further views on that which might assist us in the development of our thinking going forward.

The PIOB has some concerns about transition. The point has been made around this table that high confidence in the standards is in the public interest, and that that confidence must be maintained during this process. Anything that risks that confidence has a significant effect on capital markets. Our Chinese markets made that point very powerfully and we need to be very much aware of that.

There are some more pertinent matters to the PIOB itself in any transition because it is set up under a Spanish trust and it is quite an idiosyncratic structure and framework that would need some consideration by the Monitoring Group if there were to be significant changes there. I am sure that that would be explained. The more holistic question of transition and how we would move from the current framework to the one that is to be adopted in the public interest, without losing any momentum, is a concern for the PIOB and one that we will probably be making clear in our submission to you.

I will end there because the PIOB has not formulated its views in concrete [inaudible] to that consensus-building process. As a personal perspective, however, I would like to say that one of the issues that may assist in deciding between a step-by-step versus a holistic approach is the question of accountability. One of the issues that challenges all of us involved in the standard-setting process is the feedback loop and the question of the efficiency and effectiveness of the standards themselves: do we know whether they are or are not? We see the adoption and we can be grateful for that, but how effective and efficient is the process?

Also, what about the accountabilities of the PIOB ourselves? How effective are we? How effective and transparent are the governance process surrounding, for example, appointments to the PIOB, to the Monitoring Group's processes and to the PIOB's own processes? These are all matters that we should probably look at going forward, which may assist in deciding between a step-by-step process or a holistic one, because they will all be issues that will be need to be canvassed somewhere down the track. I do hear Fernando's point, however, that a step-by-step process is stepping as we speak,

in a sense, with the Nominating Committee, and Rachel's cooperation in that is very helpful. It may be that other smaller pieces could be bitten off without disrupting the appletart and having a loss of confidence in terms of the public interest, which is absolutely critical to the success of this entire project.

I will leave it there. On one board or two, I guess we are still debating that. It is partly a question of manageability and partly a question of cooperation. I know that the two boards have been cooperating significantly for the last little while, which may obviate the need for one board or may suggest that there should be one board. It is very difficult to say and I am sure Arnold will have some views on that.

Another point that I would like to make is that a sustainable model is absolutely vital, in my view. The PIOB has been in existence for nearly 12 years. It arose out of the crisis. These changes are not arising out of a crisis situation but out of the views that there perhaps can be a better or more cogent way forward. Whatever we put in place must be able to withstand the next 12 years at least, without having to undergo this process all over again. I also think it has to take into account – and some people around the table have already made this point – the fact that the auditing profession is undergoing, as many professions are, massive disruption, and that whatever we put in place must be able to understand the role that technology will play and the changes that we can see in terms of sustainability developments, the green economy and the changes in reporting that are going to take place, with integrated reporting now becoming the normal norm. Those things need to be able to be addressed in a very timely and nimble way by the structures that we put in place and, if they are unchanged, for those structures to be able to take these onboard.

There still remains an expectation gap in relation to the work that auditors do, and that still needs to be addressed. I am not sure whether this structural/governance reform is the way to do that or whether there are other ways, but for capital markets going forward, that expectation gap is not disappearing [inaudible]. I will leave it there. Thank you very much for the opportunity to speak.

Mark Babington

Thank you very much. I do assure that, as a success criteria, not having to start off another round of this for another two years will be very high on my list in terms of sustainability.

Arnold

My sincere compliments for the roundtables. I was in London and I heard about Washington in detail. There were fascinating comments from around the table and, as such, it is a very valuable process and one that we should have more of.

I am primarily listening because I am also still thinking hard about what to write to the Monitoring Group. One area might be that, in several pages in the consultation paper, we are struggling to understand what is really meant and what is really different. I will give a few examples. There is a discussion around whether it should be consensus- or majority-based. We are working on a majority basis. We need two-thirds of our 18 board members for approval of a standard. [Inaudible] we practice trying to achieve consensus that we can always do because behind every board member who does not feel able to vote in favour of a standard, there will be many around the world who might have the same difficulties with that standard if it were approved in that way. We try to improve, right up to the last moment, the quality of the standards and to understand [inaudible] implementation throughout the world.

Quality reporting was a great example. We had three rounds of consultations to really make it work, and we have announced a global update [inaudible] with the help of my board member, [Michelle Reid?], with the update in Singapore and Malaysia. I can quote many others. That has to do with how we prepare to really be very clear, understandable and implementable. That has involved a lot of collaboration with many around the world: regulators, national standard-setters, practitioners, and IFAC member bodies that need to advocate members to implement it. This whole process of [inaudible] is multidimensional, and I wonder that is fully recognised and understood in the consultation paper.

Another thing is the PIOB veto. The PIOB has a veto [inaudible]. After the board has approved a standard, we have to submit that to the PIOB, together with a basis for conclusions: how we have arrived at that conclusion and how we have followed due process. It is then up to PIOB to approve that standard. We have never been in a position that that has not happened, but we might. In the board meetings [inaudible] Jane, I recall you being with us – sometimes the board is a bit hesitant in terms of what the best way is. In that example, Jane would come in and make comments particularly from a public-interest perspective, in away encouraging the board to be brave and to take steps forward. I am very grateful for that. Unlike what Diana said, I have never felt that there is a lack of trust. There is another way of stimulating process. It is not just formally reviewing the due process, which is intense and comprehensive, but it is also stimulating the quality of the standards.

If the consultation paper says that the board should not be turning the pages, that is [fully rejected?], but if the same consultation paper says that this so-called strategic board should be scrutinising [inaudible] resolving the reform on consensus matters, have a detailed review adoption and promotion, then the question we are struggling with is, ‘What [inaudible] difference?’ Of course, the board as a whole is not drafting – that is done in taskforces and in preparation – so, what is the difference? That is why we offered to do some experimentation in piloting some of these concepts to have more clarity around what the difference would be and [inaudible]. If you go into a piloting and experimenting phase, there should also be some monitoring. You have presented this from the Monitoring Group. [Inaudible] what we are doing should be fully transparent in order to have more clarity around what the difference will be without disrupting the process.

The same is true for ethics and auditing. We fully recognise the need for further dialogue and cooperation between the two boards, which is why we have [inaudible] steering committees [inaudible] discussion on issues, and there will be more of that. Again, would you like to see more? We are a bit reluctant to have one board, just given the broad agenda that both boards have, so [inaudible] address that.

In terms of the detailed process, it is not a bunch of practitioners deciding what would be in the best interests of practice. Half of the board are non-practitioners, including myself. I have a similar background to Fernando as a prudential banking regulator but there are other members. I have a member who is a director of audit policy at the FRC [inaudible]. I have a director of standard-setting [inaudible] South African regulator. It is a very mixed group of people, and deliberately so, overseen by the PIOB.

As an example, take the ISA 540 standard that Fernando mentioned and which we are revising. This is about auditing for estimates – a very complex subject. The taskforce preparing this revision is comprised of practitioners and non-practitioners, not just from the board but also from the Basel Committee and the insurance supervisor, as well as an official supervisor from the PCOB[?], the national standard-setter from Canada. This group has intense dialogues with, for example,

Fernando. Also involved are the GPPC, because we need to be sure that it is working and implementable, but also the Small and Medium Practices (SMP) Committee about scalability, which is a big issue. The IASB is involved to make sure that it works together with IFRS 9, as well as with the Financial Accounting Standards Board (FASB), to some extent.

We have detailed discussions with our international advisor group, which comprises [inaudible] people with a preparer background, an audit-committee background or a regulatory background. The dialogues with the national standard-setters are very important. We cannot mandate the standards to be implemented; it has to go through the national standard-setters, whether they are an independent body or a ministry of finance that exists in many developing countries.

In the end, it is about a global acceptance based on quality and understandability, which is why we have such a comprehensive due process. The standard is very open to change and to approval. We try that all the time and I have mentioned a couple of initiatives, but a lot will be different. We are very willing to understand that.

We also tend to agree with comments around the table about a holistic approach. This is not trying to approve smaller steps in the meantime. I agree that the Nominating Committee is a good example. When you are reflecting on this, you need to have more clarity about the structure at the top, which will be stable and even more than we have now. If you think of that, then you can go down. The concept of a board of trustees on a multi-stakeholder basis would be very helpful. In the end, my appeal is for more clarity around what you mean precisely. We are very [inaudible] to experiment, but also a comprehensive global approach. You need time – there is no point in rushing, given your comment that it is not broken, although it can be better [inaudible]. Thank you.

Sylvie Soulier, IESBA

Firstly, thank you for inviting us and being able to listen [inaudible] and share our views. I would just add a few points to what Arnold has been explaining. As a standard-setting board, we are operating the same in the same way. To give a few facts about IESBA and particularly our composition today, we are 18 members and five [inaudible] members. Our chair and deputy chair are from regulators. The deputy chair is the former chair of the UK FRC. Of the 18, we have 10 practitioners from firms, and I am one of them. I have a global role with my firm, particularly in Asia-Pacific and Japan, which gives a geographic footprint and understanding to bring to the table. Eight members are not practitioners. We have a diversity of background and we have the same geographic representation from emerging economies and from every continent, so we can have a variety of views.

At this roundtable and others, the work that the [inaudible] are doing has been acknowledged. Indeed, I want to highlight the recent achievements of IESBA, which just approved a fully devised and restructured code of ethics and conceptual framework. We have a number of provisions and statements recently, like Responding to Non-Compliance with Laws and Regulations (NOCLAR), for instance. You mentioned the importance of building consensus and obtaining feedback. The NOCLAR pronouncement was pretty difficult to obtain, and we had broad applicability [inaudible] entire accountancy profession. It is a significant achievement in ethics. Clearly, ethics is so important for the profession because it is how you can really build trust. If you do not have ethics, forget about trust and confidence.

It is for all of our board to work on quality and integration of the ethical requirements for the entire profession [inaudible] but also the entire accountancy profession. Our board is really open to any

change and improvement. We have already started with a few [inaudible] actions and plans to demonstrate our responsiveness, such as the coordination with IAASB that we started last year, including the joint board meetings. I am the coordinator and we participate in taskforces to agree the ethical [inaudible] and we will have joint presentations and actions. The high relevance of the new strategic work plan that we are doing has an emphasis on topics like technology and innovation – all the changes that not only the auditing profession but also the accounting profession is facing, and all the disruption that we are seeing in terms of a changing business model, as well as the fact that we have a number of players outside the accountancy profession that are coming with interactions and new ways of working. We need to make sure that, with everything that touches the supply chain of the accountancy profession, we keep ethics at the core of everything we do.

It is beyond just a strategic mindset. The [inaudible] quality of detail will be able to respond to those challenges. The transparency of the model and the acceptability of everything that we are doing cannot be relegated behind closed doors by staff [on the side?]; it has to be fully transparent and fully discussed with a very important role of governance with a multi-stakeholder presentation.

Professor Tan Cheng Han, ACRA

I am on the board of ACRA and I also chair the Public Accountants Oversight Committee. I also need to disclose that I am a law professor by profession, so it always worries me when I speak to a group of accountants. With that very [inaudible], I have two points to make – one is small and one will be a little larger.

The small point is that I do agree in principle with Fernando that, at least from a legal perspective, one would see the contractual levy as being somewhat different and as something that can lend a bit more credence to the perception within public opinion as to independence. Having said that, it seems to me from what I am hearing here that maybe the real issue is whether that is the fairest way of funding what needs to be funded, and also perhaps whether this is the best way to try to change the perception, if there is, indeed, a probable of perception. I am not entirely certain if the real issue is being addressed here, because currently it seems to me that people are perhaps talking at cross purposes and not really identifying what the real issue is. That is my small point.

Maybe the bigger point just takes issue about whether it is step-by-step or holistic, and really it is neither one nor the other all the time, but it depends on the context. While we agree that a solution has to be holistic, we also agree that there are sometimes low-hanging fruit that you can just approach and deal with, which already makes a significant improvement to your current state of affairs. Taking this as a background, I ask myself, ‘What really is the problem here that we are all trying to address?’ Of course, at a very broad level, I understand that the issue is that we all want the standard-setting process to be more robust, more timely and clearly made in the public interest. We can all agree that everybody wants that, but what is it that is stopping this from reaching a level of optimality that everybody is happy with?

When I read the paper, for example, just because there is no perception that the process is independent or that people are being appointed independently – and assuming for the time being that there is that perception out there – that does not necessarily solve the problem of timeliness of standards or good standards etc. Clearly, you can have the perception of non-independence but have a group of people who are truly independent and, therefore, are really churning out rules that are very good, very optimal, very efficiently done and very much in the public interest, because perception does not mean that the reality of what is taking place on the ground is any different. I

guess I ask myself the question of whether it is just perception or whether there is a real problem on the ground.

I could not understand this because, from a lawyer's perspective, it seems to me that, if you have a governance mechanism that goes up three layers, somebody in those three layers will be able to say, 'No, I am not happy with this. Go back to the drawing board.' One of the gentlemen who spoke before me indicated that that is, indeed, the case, so how does the vehicle really help in this context? To me, that is skirting around the edges, or what our Indonesian friends might sometimes call shadow-boxing or puppet play.

Is it a reflection of a lack of consensus around what the public interest is? If that is the issue, then the solution is a different one. Is it because there is a lack of full-time staff that explains why things may be slower, because there is a lot of reliance on volunteers? I can fully appreciate that that is a problem because, in Singapore, we often use part-timers to get real things done, and it takes a long time and is not entirely satisfactory. If that is the issue, then that is a discrete issue that can be tackled without any talk about whether it is step-by-step or holistic.

Is it because, at the heart of this, there is a sense that the rules, as developed, underlie too many vested interests, i.e. the vested interests of the profession? I am just asking questions; I am not saying that that is the case. I guess that I am not really sure that we have come together to have a proper conversation about what the real issues are that need to be tackled and then to tailor-make the kinds of pragmatic, practical and achievable solutions to deal with the real issues. That is all I wanted to say. Thank you very much.

Joel Tan-Torres, Professional Regulatory Board of Accountancy, the Philippines

I will get straight to the point: I agree and disagree with some of the points, but I will be highlighting some of the points and raising new ones that have not been raised and emphasising some key elements.

The issue about what started all of this was raised earlier. There was speculation that probably this came from the Europeans. This is very important: from what geographic area these issues and questions cropped up. I am a regulator in the Philippines. I also am a national standard-setter and accountant in practice, so I can deal with these comments from various perspectives. On the point of why and from where this arose, it essentially comes from the concern of the regulator, who may have perceived that, because they are ultimately accountable for financial reporting or for the area that they regulate, there must be a perception that probably they should have more involvement or control in the standard-setting process. That may or may not be true. That is a typical reaction: if you are accountable, you should probably have a significant role in the key elements here.

My question now is to the regulator, and I would have to admit that this may be applicable for most regulators in quite a number of countries: they probably do not have the resources or the funding to undertake this process of setting national standards or global standards, or a framework for standards, on their own. They are probably implementing rules and regulating but, for them to undertake this monumental task, which is [inaudible] by IFAC and its corresponding boards quite effectively in the past, it would be very difficult for a regulator or group of regulators to implement such.

The winning scenario is perhaps just to enhance the system and the procedure. It is working quite well. Enhance it but do not overhaul it. Put in some refinements. Right now, to address the very

legitimate concerns of the regulators, they have the final say on accountability as far as the implementation of auditing, accounting and financial reporting in their respective jurisdictions. Like what we do in the Philippines, the present system accords the regulator enough opportunity to customise – if I may use that word – an accounting and auditing standard to solve these unique requirements of the country without distorting or changing the general accounting or auditing standards.

That should give comfort to the regulator who maybe uneasy as far as the entire process is concerned, because of a perceived lack of involvement or too much involvement or engagement in the process. That can be further improved but the bottom line here is that the regulator in a country can [inaudible] the implementation of the standards in their particular country. Maybe what can be discussed or taken up in the future, whatever outcome is arrived at, is the extent to which a country regulator can be involved the process of this fine-tuning or tweaking as far as standards are concerned.

My last point is that I would like to emphasise the urgency of realising that there are so many emerging developments and innovations affecting our profession and our sector. As such, there should also be a concern as to the timely response to address these as far as standard-setting and implementation of these fast-developing trends and developments. Of course, the focus here now is on the auditing-standard-setting process. Maybe equally important, although definitely not in the purview of this group, are the same issues that are probably present in the accounting-standards scenario [inaudible].

Again, this is a very enlightening and learning experience, and I would like to express my appreciation for the invitation to the Monitoring Group and our Singaporean hosts. Thank you.

Participant, India

I would like to thank ACRA for hosting this, and thanks for the invitation. The basis of this discussion paper has been the corporate-financial-reporting failures. It is presupposed that a major chunk of these failures is thanks to the audit profession. [Inaudible] the core is the global financial crisis, which is the starting point.

We need to highlight whether it is thanks to the profession or whether it is [inaudible] rating agency, where a bubble was created. People [inaudible] information at a macro level – banking regulators [inaudible] regulator – [inaudible] individual firm doing an audit as well [inaudible]. That is the first observation that I want to [inaudible] continues the foundation for things to come. The way that technology is starting, it is really [inaudible]. We could have challenges there too, so we need to focus on [inaudible] thanks to the use of technology, and this is [inaudible]. Despite all checks and balances, it will be difficult to match it [inaudible] that is the first fundamental basis [inaudible] put it across.

Second, the whole paper has various shortcomings [inaudible]. It does not highlight [inaudible]. My suggestion would be [inaudible] shortcomings, we need to work on it and address it. Whether it is the current model or a different model, we can work on it. [Inaudible] perceived risk [inaudible] how we remove perception gaps in the existing model, whether it is around public interest, independence or undue influence. A lot of it perception but not actual. [Inaudible] needs to address that. My suggestion would be to remove any perception issues through communication and that actual risks are addressed.

Another suggestion is around one board versus two, as my friend from Australia mentioned. There is a lot of [inaudible] between people in the professional accountancy business and industry moving from practice, and vice versa, depending on [inaudible] different ethical goals will not serve a purpose [inaudible] would recommend two separate boards [inaudible] issues coming up.

[Inaudible] the current model is thought of as [inaudible] three out of nine, which is very low. [Inaudible] has brought almost 125 countries onboard since the various standards have started. It has been slightly time-consuming, so we need to improve the timelines, but that time consumption has brought in more consensus and more acceptance, with different levels of [inaudible] different countries in Africa, Asia, Europe and the US. A huge task has been done, and we need to enhance this. Three will not be enough. Different geographical representation and different [inaudible] firms. There is no [inaudible] solution. We need different [inaudible] robust standards.

In my view, the current [inaudible] consulting paper has an issue with confidence in standards and a solution [inaudible] holistic approach rather than a step-by-step approach, because [inaudible] impacted [inaudible] sector. Again, coming to the issue of funding and the levy on practising firms, [inaudible] as it is currently [inaudible] generally the professional [inaudible] some other funding coming up and the firms. [Inaudible] accentuate the issue of perception of a lack of independence [inaudible].

Those were my suggestions. We need to seriously think if it is fundamentally wrong [inaudible] whether it is wholly the audit profession that needs to be blamed for corporate failures [inaudible] let them operate themselves [inaudible]. Are we listening at the base level and improving the corporate function? Thank you.

Carl Renner, Executive Director, IFIAR

We have 52 jurisdictions represented in our membership, which are all independent [inaudible]. I would like to firstly state that IFIAR fully supports [inaudible] reform process and we do believe that reform is needed at all levels but that this [inaudible] approach you are taking step by step does work and is necessary because it is too large a model to attack at once. I agree with Fernando's comments that [inaudible], to some extent, depends on the model [inaudible].

IFIAR has consulted its members extensively throughout this process over the last couple of years, and it has been discussed at board meetings a number of times, including last year[?]. At the high level, our membership has consensus over what the issues are. In the detail, there will be different views [inaudible] but, at the high level, we believe that there are concerns and issues around the independence of the model from the profession that need to be addressed in any new model. We believe that the timeliness and [inaudible] of standards is an issue that needs to be addressed. To address that, we think that a strategic board or boards is necessary, with an enlarged staff that can do the work in a timely manner [inaudible] challenged by a board that has the appropriate skill set to do so.

Financing is an issue. This step of having a levy which makes it compulsory on the profession to fund rather than up to their discretion is important, but a multi-stakeholder approach to financing would be important and needs to be developed. There are [inaudible] around that, so I can understand why that is taking time to develop, and I am looking forward to seeing those proposals in the future and be involved in a number of them.

They are the main points that I wanted to make. At a high level, we are fully supportive, and there are key issues that need to be addressed. There are different issues [inaudible]. It is not only perceived [inaudible] perception but, for many people, the issues are real and need to be addressed [inaudible].

Stephen Harrison, Chief Executive, Global Accounting Alliance

For those of you who wonder what the Global Accounting Alliance is, it has only 10 members. We are, therefore, thought to be insignificant, but those 10 members are all members of IFAC and represent over a million accountants worldwide, operating in over 180 countries. I have participated in these debates for over a quarter of a century and, therefore, my views are becoming increasingly irrelevant. I am pretty passionate about improvement, as is the Global Accounting Alliance. It would love to see improvements made to the current model, where improvements are necessary.

Let me not repeat many of the very soundly made comments already made. I would like to leave three words and try to add some other comments that have not necessarily been made. I would like to leave the words ‘concern’, ‘evidence’ and ‘transparency.’ In London, I heard, for the first time, a statement from a regulator that said ‘There are weaknesses in the current standards.’ It was the chairman of the Monitoring Group. What is the evidence for that? It was not presented, we have not heard it and, until we understand the evidence, it is very hard to talk about improvements. We heard today that there is a lack of responsiveness to the public interest in the current standards. What is the evidence for that? The PIOB has released many reports and I have read some of them, but I have not seen the evidence for that lack of responsiveness to the public interest. If it is there, we need to know and we need to understand it, and then we can start to make improvements.

On transparency, I was very rewarded to hear what Mark said about the way in which the submissions are going to be evaluated, and the transparency that will be attached to that, but good luck. When the members of the Monitoring Group are being encouraged not to make submissions – and I am sure they have views and want those views to be heard – where is the transparency? It cannot be transparent if they are not making submissions. I know at least one regulator is debating whether or not to make a submission, and the only condition under which they will make it will be if it is kept confidential and the Monitoring Group has permitted submissions to be made confidential. I cannot see that that is going to be very transparent, because those views will be important and they will be taken into account, and it is going to be very difficult for others outside the process to understand how they have been properly assessed if confidentiality is to be maintained. It does not add up, to me.

The other comment that I can make is about funding. [We will be a defence?] in our thinking about a new funding model. The reality is that, in the last 10 years, there have been numerous attempts to find multiple sources for funding for the standard-setting process [inaudible], and they have really struggled. Jane could tell you, in good detail, just how hard it has been, even for the PIOB, to raise something like half a million dollars. You only have to take in a small [inaudible] and do a few calculations to know that, if only a part of the recommendations coming forward in the consultation paper area implemented, the costs of the current model would increase rapidly.

Let us be a bit more realistic. Let us thank the National Federation of Accountants and its members for being so willing to support the process without any undue influence. Let us thank the Forum of Firms for the amount of money they have put into the process, willingly, for the same purpose. For the rest of you who think more funding should be made, please leave your details with

Mark before you leave, because that is the only way we are ever going to get a funding model which will accommodate all the needs that we have been expressing that need to be addressed. It will not be a new funding model. Be grateful for what you have. Make good use of that and look for others who are equally as willing. I am delighted that Stephen has had the guts to put his hand up and say he was one of the first, but I am afraid, Mark, I do not expect there to be many who follow.

Participant, Asian Corporate Governance Association

Thanks to other Monitoring Group for inviting the Asian Corporate Governance Association. We are a non-profit, membership-based association based in Hong Kong. We have been helping many [inaudible]-related reforms in the Asia-Pacific region over the past many years.

Regarding today's consultation, we would like to state that we think it is moving in the right direction as a basic comment. We appreciate the initiative of the Monitoring Group to help improve the credibility of financial reports to the public. Without repeating the points already made, we would like to say that, in terms of the reforms proposed, we have a concern around the influence of investors in the whole process. If the proposals were to be made by this consultation paper, non-industry participants in the financial-standard-setting process should have limited voices, because many of them do not have expertise or a background in the accounting profession compared to accountants or auditors in the standard-setting process. Also, to improve the public interest, which is the main purpose of this consultation paper, we feel that the term needs to be defined first, so that, in the future, we can have a benchmark to see the achievement of this reform.

The other issue that has been repeatedly discussed this morning is the funding issue. We think that the payment model [inaudible] needs to be changed. This is the core issue here that we think needs to be solved in order to move forward on this reform.

Last but not least is the governance issue, which is not fully discussed in this paper, but we feel that at least the industry professions, and especially the accounting firms, should not be included in the oversight board, so as to avoid a conflict of interest in the governance structure. Thank you.

Rachel Grimes

Having listened and looked at transcripts and summaries of the roundtables, I do not believe that the view of the preparer has largely been put, so if I could just ask for your indulgence as I take off the IFAC hat and come as totally independent of that. If I reflect on my career, it started as an auditor. I then moved to BT Financial Group – a subsidiary of Bankers Trust – where I became one of the people responsible for the manager of managers, where we selected fund managers and investors, including BlackRock, Putnam, AEW and Principal Group etc. I sat in many of those meeting, where they selected what stocks. Whilst a very important role, the audit opinion was always a gate-opener and was not the most conclusive piece of the investment decision.

I then moved on to mergers and acquisitions, and people asked me, 'Why do you do this role for IFAC?' I guess it was in the mergers-and-acquisitions space where, particularly in this region, 10 to 15 year ago, I was asked, if I wanted to invest in a company, what set of accounts I would like. Once I was asked that question, it would be very hard to get any of the due diligence done or approval from my board to make that acquisition, and that is why the standards – accounting, ethics, education or audit standards – are so important in ensuring the smooth capital flows to places where they are required and needed, and investment decisions can sensibly be made.

I then moved from mergers and acquisitions to, for the first time, a preparer. I am the CFO of Technology for Westpac, Australia's second biggest bank and oldest company, where I oversee a budget of more than US\$ billion. Westpac declares a US\$7 billion profit. As a preparer – and, Sylvie, I agree with everything that you said in relation to ethics – I can tell you that that is a key part of the value chain. To suggest that you want my ethics to be any less or different to that of the audit profession is, I find, quite remarkable.

Another role and that I am very proud of is the Audit Committee Chair of Surfing Australia. I am delighted that surfing will finally be another big sport in Japan. With that comes a lot of scrutiny, and I can tell you, sitting there as the Audit Chair, that I am equally reliant on my KPMG auditors as I am on my financial controller. To suggest again that the ethics should be any less for one or the other is not going to work in terms of the value chain going through.

I just wanted to give you a practical perspective on the different components of what I see in my career, and the importance that I think ethics plays and underpins the very profession of every accountant in the world. Thank you.

Gary[?]

I just want to reflect on some of the comments that you made, Mark, before the break. In some respects, you have highlighted an issue a lot of people have raised today about regional differences and needing to listen to regional voices and different stakeholder voices. Just to reflect on my experience as a former prudential regulator, you said you found it strange to think that regulators would not set the regulations. I find it strange, coming from Australia, that you would have that view because, as a prudential regulator, we were always and constantly consulting the people we were regulating – the auditors and the profession – in developing prudential standards that were on top of and added to the assurance standards or reporting standards that we already had. I thought that was interesting because, culturally, I would say we are diametrically opposed on that view: you think the regulator should set the regulation without the –

Fernando Vargas

Sorry to interrupt: I never said 'without'; I said regulators should have a responsibility to regulate, which does not mean that they should not seek the opinion of everybody. I said 'outreach', 'consultation papers' and 'meetings', which is what we do, but the final responsibility for regulation lies with regulators.

Gary

I was just drawing on that point to say that it might be a prudential standard issued by ACRA, but the group that prepares it is not just ACRA, and I think that is important. Those differences in the way regions look at things is really important for something that Roger and Stephen talked about earlier when looking at the submissions and the way in which they are assessed in the feedback statement. Roger, you suggested perhaps a multi-stakeholder approach to that. While it puzzled me a bit, I would agree with you; otherwise, we risk doing this assessment or analysis through a potentially narrow lens, so we need to look at the way in which those submissions have come in and what that means from different perspectives, whether it is regional and stakeholder.

The final point was about the contractual levy. I have heard Stephen Haddrill mention a couple of times now that the big difference between national and international perspectives on a contractual

levy is that, internationally, it can be statutorily imposed. Nationally, you can; internationally, you cannot. That means that a contractual levy ends up being voluntary, and I think that that was the point that people were making. There is no difference from what you have now – it would just be a voluntary contribution, because you cannot impose it statutorily. You could do it at each country level and then feed it up, but you cannot do it at an international level, and I think Stephen has made that point a couple of times.

Caroline Lee, GPPC/IESBA

Thanks to the Monitoring Group for holding this roundtable here, and thanks to ACRA for hosting us. At the start, Mark, you said that one objective is ‘high-quality, globally adopted standards for use in all audit engagements.’ Everyone around this square table agrees with that objective. The GPPC is in agreement with that and fully supports that. The international standards on auditing and the code of ethics have to apply to all audits, whether public-interest entities, non-public-interest entities or public-sector entities. In the case of non-public-interest entities, they might be small but the might also be large. Just because they are not non-public does not necessarily mean that they are not complex, so we do need appropriate auditing standards to cover all these entities. Non-public-entities will, hopefully, one day be public-interest entities and, as a result, you want them to have the same robust audits throughout the process.

In the case of a group public-interest entity, it might have components that are non-public-interest. If we then allow differences in standards to be applied when it comes to the group audit, it presents a challenge for the group auditor. At the end of the day, whatever is proposed, we have to work towards consistency in auditing standards: consistency across regions and across different types of entities, and across different sizes and structures of audit firms. Consistency is really important for audit quality. That is with my GPPC hat on.

With my hat as a member of IESBA, a point that I very much want to make is that it is vital that ethics standards apply to professional accountants as a whole. The paper is focused on audit-related standard-setting but, when you look at the current code of ethic that IESBA has, it applies not only to auditors but to other professional accountants in public practice and to professional accountants in business. In this region, in our discussions with the regulators, we always emphasise that, in order to achieve excellent financial reporting and robustness in the public interest, it is an ecosystem. That ecosystem runs from financial preparers all the way to the auditors and the regulators. If we allow national standard-setters or national bodies to set different standards for professional accountants in business, we are going down the wrong path. Thank you.

Closing Remarks

Mark Babington

Thank you very much. Thank you to everyone today for being so willing to contribute and for giving us so much feedback. We really did want to get out there and get as many views as we could. This is a dialogue that will carry on because we have to make sure that we do talk through what we are doing. We are aware of the need to ensure that we do not do anything that undermines confidence in the standards that we use, and I would encourage you to make sure that you give us

your feedback in writing or by email, and continue the dialogue in whatever way we can. There will be further opportunities because we are committed to producing a feedback statement and then also going on to produce the final series of proposals.

The main thing, however, is that we have had an opportunity to get a huge breadth of different views and input, and whether you like the consultation paper or not, it has been enormously successful in provoking that discussion, which I think has been of great importance.

Thank you once again to our colleagues at ACRA for hosting us today and giving us all the opportunity to listen to the debate. I only apologise for my dismal failings in running 12 minutes over. If I can encourage you all to respond, please, by 9 February, I will be making sure that Rachel does not submit several responses as audit-committee chair, preparer, IFAC President and whatever else. We look forward to hearing from all of you.

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