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MONITORING GROUP CONSULTATION: *STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST*

Dear Messrs. Everts and Hadrill:

Thank you for the opportunity to comment on the Monitoring Group proposals on this very important matter.

International standards for auditing and ethics play a critical role in the global financial infrastructure, assisting in promoting economic stability and international consistency, and in doing so, enhancing international financial and capital flows essential to a thriving global economy. This is especially important for emerging economies.

International standard setting for auditing and ethics, as recognized by an overwhelming majority of stakeholders, has been an outstanding success. This recognition extends across many national securities and audit regulators and international organizations, including organizations represented on the Monitoring Group that inspect against and use these standards in their own activities. As a result, more than 120 jurisdictions, have adopted and use the standards, utilizing jurisdiction-specific adoption mechanisms often enshrined in legislation. These standards are used for audits of small- and medium-sized entities and private non-listed companies, and form the basis of standards used for audits of public sector entities. This is a testament to their outstanding quality and success.

In addition, for well over a decade the current process for developing high-quality standards has been the envy of many other industries and sectors around the world. It has been, in many respects, a model ahead of its time in its focus on shared public sector-private sector collaboration.

Because of its clear commitment to international standards and their role in a stronger global economy, IFAC recognizes that in an ever-changing world, shaped by new technologies, growing regionalism and nationalism, and where the benefits of globalization are being questioned, even the most significant international success should be examined and reassessed.

IFAC supports periodic reviews of the standard-setting model—every five years, as proposed when the current model was established—to ensure its ongoing efficiency, effectiveness, and readiness for the future.

It is of the view that such reviews should be undertaken in the global public interest in a thoughtful and considered manner that is based on strong evidence and analysis, and is alert to unintended consequences that could damage the credibility and legitimacy of international standard setting.

Since the current review commenced in 2015, IFAC has offered considerable information and input to the Monitoring Group, and has suggested that the review be done in close consultation with IFAC and other key stakeholders. However, its offer to engage closely in undertaking the review has not been taken up, and so there are important aspects of the review process and consultation paper where IFAC (and other key stakeholders) and the Monitoring Group have differing views.

Therefore, IFAC is of the view that the Monitoring Group must engage in broad-based, open and collaborative dialogue with the key stakeholders—beyond the information session and roundtables already conducted—to discuss critical issues not addressed in this initial consultation, and which need to be considered holistically, in order to arrive at an agreed set of proposals that can be publicly consulted, and which have the broad support of all the key stakeholders.

To generate fully informed and well-grounded comments from those being asked to provide their views on the current set of proposals, it is incumbent on the Monitoring Group to address these critical issues, before drawing any firm conclusions. They are:

- What a public interest framework will entail;
- How long-term sustainable funding will be secured to replace the current secure source of funding;
- What the risks and impacts are of a move toward implementation of the proposals being posited; and
- How the role and responsibilities of the critical oversight function will be discharged.

The Monitoring Group must ensure that there is a transparent, balanced, and timely process for the analysis of responses to the consultation paper, with a feedback statement that accurately reflects the views of respondents. It should not rush to core decisions and issue firm proposals until it has engaged directly and collectively with IFAC, the international audit firm networks, and key international and regional regulatory organizations to achieve an agreed upon set of proposals that are supported by all key stakeholders across the globe. This is critical to ensuring that all parties achieve the common goal of a successful and sustainable standard-setting model for years to come.

Recent roundtables and public discussions have revealed that there are many high-level points of agreement between the Monitoring Group proposals and major stakeholders' and IFAC views. This includes that the:

- Current standard-setting model produces high-quality standards.
- Key concerns of the small number of stakeholders referred to in the Monitoring Group Consultation Paper relate primarily to perceptions; and not the reality of the current model.
- Current nominations processes can be strengthened and enhanced to address perception issues.
- Most effective model should be a multi-stakeholder model, with most stakeholders recognizing that the stakeholder approach should be embraced across all facets of the model, including oversight and funding.

- Importance of identifying a source of long-term, sustainable funding.

IFAC is confident that frank and forthright collective discussions and engagement by the Monitoring Group, with IFAC, international audit firm networks, and international and regional stakeholders, will be able to reach agreement on these matters.

Such discussions can identify ways forward for a number of areas set out in the Consultation Paper for which the problem analysis is not sufficiently elaborated and for which there is little detailed analysis to support the development of practical and effective options for change. These include the:

- Scope and responsibilities of the standard-setting boards.
- Delineation of responsibilities between the standard-setting boards and the technical staff.
- Importance of the separation of oversight of, and participation in, the standard-setting function.

The dialogue proposed by IFAC will need to keep in mind important contextual matters, such as the:

- Role of auditing and ethics standards in audits of small and medium entities and public sector entities.
- Differences between national and international standard setting. For example, the Monitoring Group Working Group Chair clearly articulated at the London Roundtable that a contractual levy can be statutorily imposed on audit firms nationally but not internationally; although IFAC notes that a statutorily imposed contractual levy may not be possible at the national level in most jurisdictions.
- Potential and evident risk of a reversion to national standard setting, arising as a consequence of the proposals not adequately taking into account the diverse range of adoption and implementation mechanisms across the globe.
- Significance of a profession setting its own ethics standards for its members.

In this context, IFAC attaches its views on the current Monitoring Group proposals, and the Consultation Paper more generally. It offers a suite of proposals that it believes can form the basis of a fruitful dialogue with the Monitoring Group.

IFAC looks forward to collectively engaging with the Monitoring Group and other key stakeholders to continue this important dialogue and arrive at the best public interest outcome for the global economy.

Please do not hesitate to contact us if you have any questions, or require clarification on any points included in this cover letter and attached pages.

Sincerely,



Rachel Grimes
President



Fayeul Choudhury
Chief Executive Officer

**IFAC’S VIEWS AND REACTIONS TO THE MONITORING GROUP CONSULTATION PAPER
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IFAC’s views and reactions to the Monitoring Group Consultation Paper published on November 9, 2017, comprises four parts—a summary and three detailed sections.

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IFAC'S VIEWS AND REACTIONS TO THE MONITORING GROUP CONSULTATION PAPER

Transparent, high-quality international standard setting for standards used by professional accountants is an essential part of the global financial architecture.

High-quality international standards, adopted and implemented around the world are of fundamental public interest.¹ They help promote and enhance the quality, consistency, and comparability of financial information; improve financial stability and promote capital flows; and play an essential role in small- and medium-sized entities' (SMEs) growth and financing.

For 40 years, IFAC has been committed to a global standard-setting system that is credible, inclusive, legitimate, and which produces international standards that are relevant, innovative, and responsive to meet future challenges. Over this period, the accountancy profession has shown that it is the only truly global profession that has been effective in working, in the public interest, with regulators and governments to create and evolve a framework and governance structure for independent international standards development and adoption. This cooperation and collaboration is unparalleled. Much evidence supports the view that today's system works and works well.

IFAC supports periodic reviews that help ensure that standard setting arrangements remain fit-for-purpose to meet the challenges of a digital age, and the needs of a rapidly changing world where technology-enabled advancements impact corporate reporting and auditing. IFAC strongly supports reforms that draw on the existing model's strengths and successes; address clearly identified issues; provide the most orderly, cost-effective, and lowest risk approach; and will lead to better outcomes.

Since the first half of 2015, when the Monitoring Group (MG) initiated this latest review, IFAC has consistently offered its full support and collaboration to examine how existing standard-setting arrangements should evolve and/or be reformed. The IFAC Board undertook a holistic review of standard-setting arrangements in 2015, which informed IFAC's 2016–2018 strategy. Potential significant reforms to standard setting, based on this review, are described later in this paper.

IFAC strongly recommends that the MG convene all key stakeholders to evaluate the current model, and seek to address ways to ensure standards are relevant, timely, and enhance confidence in global economies. Broad-based, open, and collaborative discussions and decision-making are essential to ensure that proposed reforms are globally accepted and lead to a better model. Decisions should not be rushed, as this is too important an issue to risk not having broad, global support for the final outcome.

The Current Standard-Setting Model

To fully understand and evaluate the proposals outlined in the MG Consultation Paper (CP), several integral points about the existing standard-setting model are highlighted. The current model:

- is premised on **collaboration between private and public sectors**, recognizing that the public interest is best protected when all stakeholders cooperate and exercise their public interest obligations. **The collaborative approach is now recognized as a key feature of good regulatory practice;**

¹ In June 2012, IFAC issued Policy Position Paper 5, [A Definition of the Public Interest](#), in which IFAC defines the public interest as *the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy*. In other words, in the context of standard setting, the net benefits of international standard setting are evident by the scale of global adoption and implementation. Procedural rigor employed in international standard setting includes a rigorous and transparent due process, comprehensive public consultation, independent public interest oversight, and checks and balances throughout the system to ensure that all stakeholder input is appropriately considered and no one stakeholder can exert undue influence on the process.

- has robust checks and balances in place to ensure that **no single stakeholder can exercise undue influence** over the development of standards;
- has produced high-quality standards which are widely accepted, including by MG organizations, around the world. **More than 120 jurisdictions** have either directly adopted, or use International Auditing and Assurance Standards Board® (IAASB®) and International Ethics Standards Board for Accountants® (IESBA®) standards as the basis for their national standards with many incorporating them into legislation or adopting them directly as national standards;
- produces standards that:
 - are **applicable to a range of reporting entities**—listed and private, large and small—across a number of jurisdictions around the world; assist smaller and private entities to evolve into public ownership; and are used as a basis for auditing standards for the public sector; and
 - **focus on promoting audit quality—premised on auditor skills and professional judgment**;
- has a **stringent due process and independent public interest oversight over all aspects of standard setting, including the nominations process, providing transparency and accountability, and ensuring the public interest is protected**. Broad stakeholder input is elicited, including through direct dialogue with regulators and other key stakeholders, and comprehensive public consultation;
- involves IFAC, in the absence of funding from other stakeholders, providing funding support for the full cost of standard-setting boards (SSBs), which prepare their own budgets under active Public Interest Oversight Board (PIOB) oversight, with checks and balances in place to prevent **any actions by IFAC that could be perceived as influencing the strategy, work plans, or content of the standards**; and
- is complemented by IFAC's Compliance Program that effectively **drives the adoption and support for the implementation of international standards** in many jurisdictions around the world.

Importantly, IFAC's experience spanning these past four decades has helped it to appreciate the **very tangible differences between international standard setting and standard setting in a national context**. With no legal standing, the IAASB and IESBA must work to persuade national jurisdictions around the world through technical credibility, representativeness, responsiveness, and thoroughness of due process. Global representation and participation, including by national standard setters, is integral to its success. On the other hand, national authorities in most cases have legal authority to impose new rules.

Monitoring Group Consultation Paper and Proposals

IFAC welcomes the topics raised in the MG CP—for example, consideration of the nominations process and a multi-stakeholder composition of the standard-setting boards. IFAC supports the MG's proposals:

- for a multi-stakeholder model, which IFAC believes should not only be applied to the standard-setting boards but should extend through all facets of the model, including oversight and funding;
- for the need to reform nominations arrangements to make it clear that the process is not unduly influenced by the accountancy profession, including having an independent chair—**independent of IFAC, the MG, and Public Interest Oversight Board (PIOB)**—and several members drawn from an open call for nominations;
- to review and clarify the roles and responsibilities of the PIOB; and

- to examine ways to make the standard-setting boards more efficient and effective.

However, **IFAC is concerned about a number of the MG proposals.** Significantly, the CP does not provide respondents with a complete picture of what the MG envisages for standard setting—that is, fundamental elements of the model with respect to governance, funding, transition and implementation risks, and the roles of the MG and PIOB. In parts, the CP fails to accurately reflect the current arrangements and offers proposals that are contrary to the stated aims in the paper.

IFAC's responses to the specific questions asked in the CP are detailed in Section A.

The MG proposals are predicated on **several debatable assumptions**, including that:

- only regulators can act in the public interest;
- the current standard-setting model does not fully satisfy a number of the principles outlined in the CP; and
- that acting in the public interest requires standards to be developed that not all stakeholders will agree with.

IFAC is of the view that the fundamental restructuring contemplated by the MG has the potential to result in outcomes counterproductive to the MG's stated improvement goals. They have the potential to undermine the work spent over many years to advance the legitimacy and credibility of the international standard-setting process, and to have a negative effect on perceptions of independence, the timeliness and relevance of standards, and the ability of standard setting to meet the demands of a rapidly changing world.

The MG proposals:

- **move away from a shared public-private public interest model that reflects many of the key principles of good regulation to a pure regulatory model** that provides the regulatory community the potential to exert undue influence over the outcomes of standards development;
- **create a risk that more rules-based, prescriptive standards will be produced that remove professional judgment as a necessary element of audit.** This will result in standards that produce compliance-type audits against which inspections and assessments may be more readily performed, and which will be less likely to remain relevant over time in a rapidly changing world. By removing the exercise of professional judgment, the MG proposals puts at risk advances in audit quality achieved over time and may stifle the ability to attract talent to the auditing profession;
- **create significant risks:**
 - **of the prospect of jurisdictions deciding to revert to more national-based standard setting and jurisdictional amendments to standards**—especially those jurisdictions where principles-based standards are valued and where standards are used for audits across a broad range of entities—thereby unraveling the tremendous achievements of international standard setting over the last 40 years; and
 - **to the ongoing relevance of standards as they do not recognize the significant challenge to current auditing standards from digital analytics and other technological developments** at a time when the development of auditing standards will be severely disrupted through the transitional period of change being proposed;
- **fail to recognize the important role played by the PIOB in safeguarding the public interest by overseeing all aspects of standard setting, including the entire nominations process.** The PIOB approves all appointments to standard-setting boards, and approves their strategies,

work plans, and budgets. However, the CP does not explain why the existing arrangements are unable to safeguard public interest;

- **create a standard-setting model that is potentially significantly more costly—and less cost-effective—than current arrangements.** The MG proposes that the PIOB will require a significant increase in funding; that all standard-setting board members be remunerated; that an entirely new legal entity in an entirely different location be established; and a significant increase in the number of permanent technical staff;
- **indicate that funding from the global accountancy profession through IFAC should cease but fail to recognize that IFAC collects dues from the diverse global accountancy community at large to fund a range of programs, services, and activities.** Part of this revenue from the large international networks and IFAC's member organizations around the world—which comprise auditors, accountants in business, public sector accountants, academics, regulators, etc.—is provided to fund the standard-setting boards and a significant share of PIOB funding. IFAC agrees that there should be a multi-stakeholder funding model; and
- **are based on the assumptions that:**
 - **despite IFAC being an independent legal entity representing the accountancy profession the international regulatory community will state IFAC's future role.** It is important to recognize that IFAC performs a range of public interest activities that may be impacted by the MG proposals, including supporting the development of public sector accounting standards; and
 - **there will be a lengthy transition,** which IFAC believes would be highly disruptive to standards development and have a significant adverse impact on staff morale and make the attraction and retention of talent more difficult.

IFAC does not support:

- **the creation of a single standard-setting board for auditing and ethics.** Combining these two boards potentially dilutes the focus on each of the topic areas, and significantly reduces the current level of expertise and resources—that is, the time of board members and their technical advisers—devoted to each area of standard setting;
- **the bifurcation of ethics standards for professional accountants,** and having two separate sets of ethics standards—one for auditors and one for all other professional accountants;
- **funding via a contractual levy on the audit firms** rather than the global accountancy profession at large as part of a broader multi-stakeholder funding base. This would heighten perception issues with respect to a lack of independence from the profession and the ability of the auditing profession to exert undue influence. Additionally, there is no mechanism internationally by which to impose a levy, which would therefore be a voluntary contribution by audit firms. This could lead to a concentration in funding as some networks choose not to make contributions, as well as concertation in the audit market for audits of listed entities and public-interest entities due to some networks leaving the market;
- **a model that merges the roles of participation in, and public interest oversight of, the standard-setting process,** potentially reducing the legitimacy and credibility of standard setting, and confidence in the standards developed;
- **proposals that do not clarify the key role of the PIOB.** IFAC recognizes the important role of public interest oversight, which it believes must be clarified and reinforced. The MG must act to ensure that this role is properly fulfilled, and that the PIOB has the confidence of all stakeholders by acting in a transparent and consistent manner. Importantly, the separation between oversight

and participation must be maintained and the PIOB should not engage in intentional direct technical input into standards;

- **a model that is insufficiently analyzed, has significant associated transition risks and adoption challenges, and where the costs and benefits are not adequately assessed;** and
- **a model that requires stakeholders to accept in good faith as yet unexplained key elements that will be designed at some point in the future**—for example, the role and responsibilities of the MG and PIOB, the public interest framework that is the foundation of the MG proposals—to give effect to the fully envisioned proposals of the MG.

IFAC is also concerned that **the CP includes methodological shortcomings, as well as certain misleading assertions and misrepresentations**. In particular, the CP:

- **does not provide sufficient details on the consultations conducted to elicit the stated concerns** of constituents and stakeholders;
- **does not faithfully represent the features of the current model**, and incorrectly implies that the current model has fundamental flaws;
- **includes no risk and impact assessment**, especially in relation to the significant transition risks and challenges the proposed model presents with respect to adoption and implementation of standards;
- **is not structured to faithfully elicit a broad range of perspectives and views from a diverse stakeholder group** through a balanced approach;
- **has significantly incomplete information**, with many fundamental matters being deferred for later consultation; for example, the public interest framework; and
- **gives respondents the option of not making their responses available publicly**.

More detailed discussion of IFAC's concerns are included in Section B.

IFAC's Proposed Reforms

IFAC is open to consideration of reforms to standard setting that make the model stronger and more sustainable for the future. It is of the view that a series of potential significant reforms should be considered as an alternative to the proposals of the MG. These would substantially address the stated concerns raised in the CP.

Based on the holistic review undertaken by the IFAC Board, potential reforms can be characterized as a **suite of seven significant proposals building on the strengths and successes of the standard-setting model**. Taken together, they would: address the stated—albeit in IFAC's view, misconceived—perception that the accountancy profession exerts undue influence in standard setting; retain and enhance the strong checks and balances currently in place to prevent undue influence by any one stakeholder group; and focus on enhancing the efficiency and effectiveness of standard-setting operations and processes. They reinforce the strong public interest focus that comes with a robust due process, exceptional levels of transparency, and an oversight structure that ensures that the public interest elements embedded in the system operate as expected.

At the same time, they promote **multi-stakeholder representation and funding throughout the process**, including on the standard-setting boards, the PIOB, and Consultative Advisory Groups (CAGs). Additionally, IFAC believes that redesigned operating processes allow for efficiencies that address concerns about the relevance and timeliness of standards, which it recognizes are important matters that must be considered.

IFAC is of the view that potential reforms must be considered in the context of:

- recognizing the importance of independent multi-stakeholder public interest oversight and ensuring that the roles of oversight and direct participation—that is, direct input into standards development—are not mixed;
- ensuring that the scope of any changes to arrangements is proportionate to the problems being addressed;
- promoting the principle of a balanced multi-stakeholder model that ensures all public interest elements and key stakeholder groups—including SMEs—are appropriately considered, and which encourage a more sustainable, long-term funding model;
- carefully considering the balance between principles-based standards and the exercise of professional judgment and rules-based, prescriptive standards that promote a compliance culture;
- being clear on implementation and transitional risks and carefully considering the potential for unintended consequences, especially in relation to national adoption and implementation challenges and the disruption to auditing in a rapidly changing digital age; and
- recognizing that reducing global representation in standard setting will potentially encourage greater national-based changes, amendments, and revisions to standards.

To enhance governance and oversight arrangements and related concerns, potential reforms include:

- **Nominations arrangements that include other stakeholder groups.** For appointments to standard-setting boards, IFAC supports a Nominating Committee (NC) chair who is independent of IFAC, the MG, and the PIOB and selected through a transparent process, and a NC comprising an equal number of nominees from the accountancy profession and from other stakeholder groups, as nominated by the MG. IFAC strongly supports the notion of oversight and supports the widely held view that participation and oversight are incompatible. It believes that PIOB members or nominees should not participate in the NC but should continue to observe the entirety of the nominations process, as they do now.
- **Clarification of the PIOB role and operating processes.** In particular, the PIOB should focus on its due process oversight mandate and should not provide technical input into standards development. Transparent and accountable public interest oversight is crucial to the success of international standard setting. In line with this principle of transparency, IFAC believes that PIOB appointments should involve selection criteria that reflect a true multi-stakeholder composition and clearly articulated skills requirements, including broad geographical diversity from developed and emerging economies and time limits on member and chair appointments. The public interest framework may assist in clarifying the PIOB's role. However, disappointingly, it is still being developed.

IFAC recognizes that addressing perceptions of undue influence is crucial, both for the standard-setting boards and for the governance structure more generally. A multi-stakeholder focus is important. Potential reforms should have:

- **A more explicit multi-stakeholder standard-setting board composition,** reformulating the structure from the currently constituted nine practitioners, six non-practitioners, and three public members to better reflect the broad range of global stakeholders and benefit from a range of stakeholder perspectives. IFAC supports a composition including: investors, those responsible for preparing financial statements, those charged with governance, academics, regulators, and audit professionals from audit firms of all sizes from across the globe—and with strong gender diversity.

- **Funding arrangements to which all stakeholder groups contribute, with transparent independent oversight.** Current arrangements, whereby the global accountancy profession—through IFAC—solely funds the standard-setting boards and the majority of PIOB activities, should be reformed. The funding structure should be representative of the global public good and inclusive of all stakeholder groups. For many years diversifying PIOB funding beyond the global accountancy profession—for example, from regulatory authorities—has been an objective but efforts have been unsuccessful. While a robust system to appropriately fund all elements of the standard-setting process is currently in place, IFAC believes that current funding arrangements can be made clearer and more transparent to all stakeholders. It believes arrangements can also be strengthened through enhanced multi-stakeholder oversight of the manner in which funding is deployed to achieve strategies and work plans—noting that currently the PIOB oversees and approves the standard-setting boards’ strategies and work plans, and the adequacy of funding.

To enhance the timeliness and relevance of standard setting, potential reforms should consider:

- **Reconsidering the optimum size of the standard setting boards.** IFAC notes that the standard-setting boards’ current size of 18, which has been in place for many years to promote broad geographical and skills diversity, may not be optimal and could potentially be smaller. However, standard-setting boards should be of sufficient size to reflect appropriate geographic and skills diversity, and international legitimacy, but not be so large as to generate unproductive discussion. This diversity must include representatives of the small- and medium-sized practices community, whose inclusion is not readily envisaged under the MG proposals.
- **Retaining separate standard-setting boards for auditing and assurance, and ethics for the entire accountancy profession.** The public interest arguments for retaining two boards, and the potential risks of creating one single board, were described earlier. Collapsing two boards into one single, 12-member board (or at the least less than 18) would shift the bulk of technical analysis and issue resolution to staff, undermining the perceived legitimacy and authoritativeness of the single standard-setting board.
- **Examining the scope to redesign processes and operations of the standard-setting boards for greater efficiency and effectiveness.** Potential reforms might include the following:
 - **Continued exploration of closer liaison between the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) on key projects.** IFAC welcomes the boards’ efforts to enhance this liaison, including the recently initiated practice of holding joint board sessions.
 - **Review the appropriateness of having different due process arrangements for different work streams.** The standard-setting boards and the PIOB should discuss this, using lessons learned from past projects with a focus on enhancing speed by creating additional flexibility; for example, by having different due process arrangements for different streams of work.
 - **Review processes for identifying and responding to regulators’ concerns,** in particular with respect to the enforceability of standards.
 - **Revise processes to rebalance the detailed work undertaken by the standard-setting boards and technical staff.** For example, consideration should be given to how the amount of detailed page-by-page drafting performed by the standard-setting boards in plenary might be limited. To the extent possible, the standard-setting boards should undertake detailed drafting only once key issues have been discussed and agreed and the near final pronouncement is due to be discussed and approved.

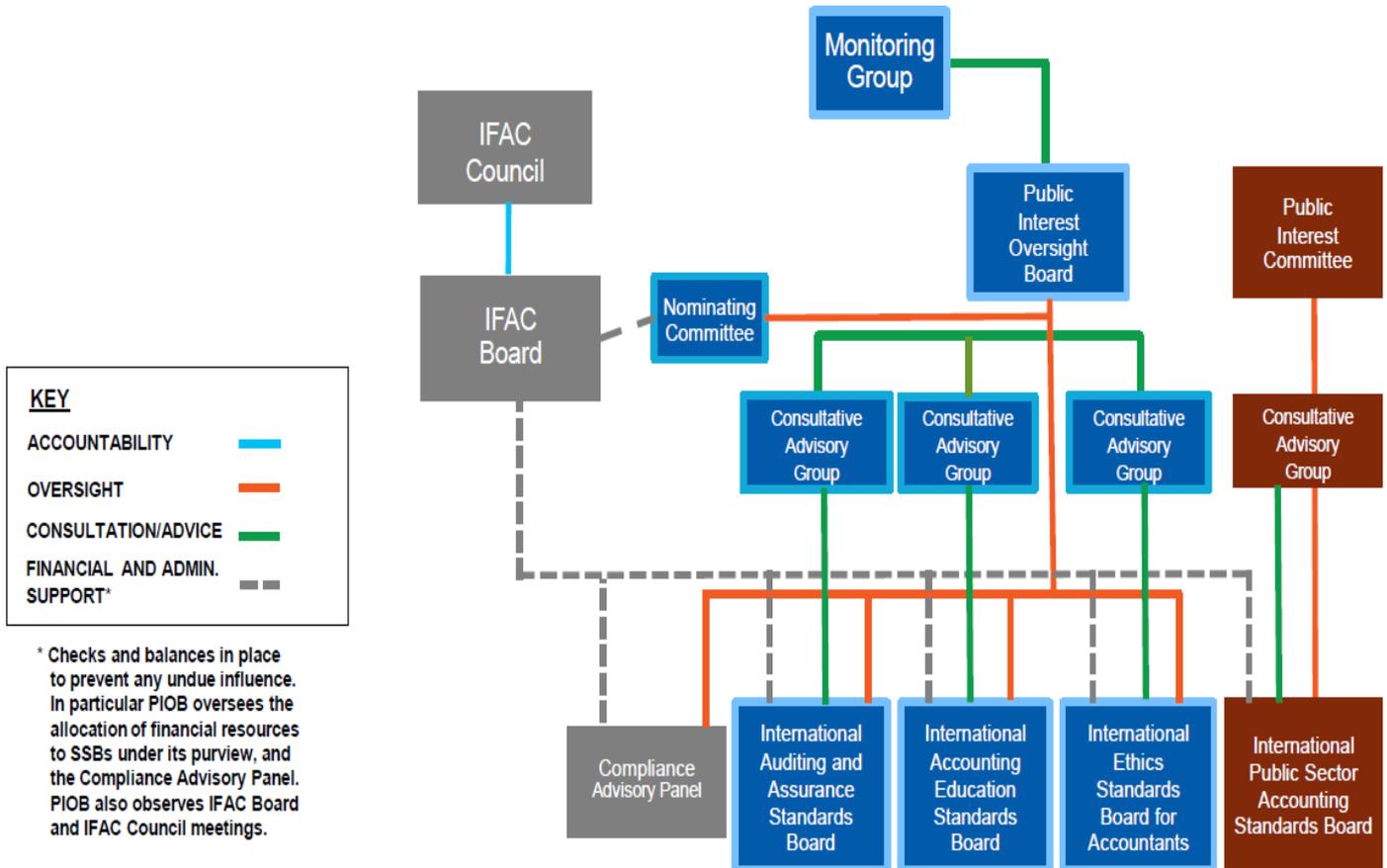
- **Continuously leverage technology to gain efficiencies.** IFAC encourages the standard-setting boards to continue work already underway to examine ways for standard-setting boards to enhance efficiencies through the use of technology, for example, in the areas of stakeholder comment analysis and document review management.
- **Align staff numbers and skills** to evolving standard-setting arrangements. The board chairs, technical support staff, and oversight bodies (as appropriate) should initiate a dialogue to ensure the sufficiency of staff resources. They will need to consider how best to acquire and retain the technical expertise needed to achieve their strategies and work plans.

IFAC is committed to playing its role in solutions that serve the public interest throughout the standard-setting process.

Further details of these potential reforms are outlined in Section C.

RESPONSES TO QUESTIONS IN THE CONSULTATION PAPER

The following diagram is included to clarify current standard-setting arrangements and to clarify the diagram included in the MG CP, which could be misleading to some readers. This diagram provides context to IFAC’s responses, and shows the relationships between various components of the standard-setting arrangements and the manner in which IFAC provides support to the standard-setting boards, with clear checks and balances in place.



1. Do you agree with the key areas of concern identified with the current standard setting model? Are there additional concerns that the Monitoring Group should consider?

IFAC notes that the current standard-setting model is premised on collaboration between private and public sectors, and has produced high-quality standards that are widely accepted around the world.

With respect to the key areas of concern included in the CP, IFAC notes:

- *Stakeholder Confidence in the Standards as a Result of the Level of Influence by the Accountancy Profession*

There is clear evidence that stakeholders have confidence in the standards produced under current arrangements, and by implication that the influence of the accountancy profession is closely monitored through a framework of clear and balanced independent public interest oversight. More than 120 jurisdictions have either directly adopted or use the IAASB standards, and have either directly adopted or use IESBA standards as the basis for their national standards, with many incorporating them into legislation or adopting them directly as national standards. Essentially, all member states of the European Union have adopted International Standards on

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Auditing or apply national standards that are modeled on these standards. Additionally, the MG does not provide any specific examples of where the accountancy profession's perceived undue influence has led to low-quality outcomes.

- *The Public Interest Is Not Given Sufficient Weight*

The current model recognizes that the broader public interest is best protected when all stakeholders cooperate and exercise their public interest obligations. Consideration of the public interest is firmly embedded in the model, particularly in a stringent, highly transparent due process that is overseen by an independent public interest oversight body. The current model works well because checks and balances are in place—with respect to strategies and work plans, budgets, the nominations process, and so on—and are overseen by a separate and independent oversight body to ensure that no single stakeholder can exercise undue influence over the development of standards.

- *Relevance and Timeliness of Standards*

As noted previously, the high level of global adoption of international standards is a testament to the relevance and quality of the standards developed by the current model. The legitimacy of standards comes from the representative composition of boards themselves; the stringent, transparent due process; and the structure of the governance model that protects the public interest. While many argue that the speed of standard setting by the IAASB and IESBA is generally considered faster than comparable standard-setting boards, improvements in due process arrangements discussed and agreed between the standard-setting boards and the PIOB, including additional flexibility for emerging issues, will further enhance speed. The current PIOB mandate allows for this, and logic suggests that enhancing the current model is more efficient and less disruptive than making wholesale structural changes to overcome shortcomings with one part of the model. Additionally, the standard-setting boards continue to explore ways of improving their operations and efficiencies, and IFAC encourages the PIOB to actively support these initiatives.

2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

IFAC generally agrees with the supporting principles listed in the CP, although would articulate them in a different manner. It agrees that the public interest should be at the heart of any international standard-setting arrangements. It is the fundamental tenet that underlies and is central to the current model.

The current model serves the public interest and importantly ensures that no one stakeholder is able to exert undue influence over standard setting. Critically, checks and balances in place throughout the model ensure that neither the accountancy profession, regulators, nor any one stakeholder can “set their own standards.” The current model is a shared public-private public interest model vis-à-vis a regulatory model that the MG appears to be proposing.

A regulatory model is premised on the assumption that only regulators act in the public interest. While regulators are often given a public interest mandate in a national context, this is not synonymous with the broader public interest perspective applicable to international standards, which are global public goods. In addition, this highly debatable presumption that only regulators act in the public interest fails to recognize and acknowledge the potential conflicts of interest to which regulators can be subject (in particular with respect to political pressures and funding—which the model proposed by the MG arguably exacerbates).

The current model has several aspects designed specifically to protect the public interest, including:

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- a robust, stringent due process;
- transparency and openness of all meeting and meeting agenda papers; and
- oversight by a public interest oversight body.

As noted throughout this document, IFAC does not believe that the proposals outlined by the MG are consistent with these principles. IFAC is of the view that the proposals heighten the perceptions of undue influence, especially by the regulatory community, and will be potentially far more costly than the current arrangements.

3. Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so, what are they?

IFAC believes that a framework for assessing whether a standard has been developed in the public interest should include points such as:

- key multi-stakeholder representation that reflects geographical and gender diversity;
- sufficient and appropriate technical input to ensure that standards can be practically implemented;
- a robust due process that includes arrangements for obtaining a broad range of stakeholder views and post-implementation reviews to ensure that standards are operating as intended;
- transparent processes for analyzing and reaching conclusion on public consultations;
- high levels of transparency with respect to the public's access to meetings, agenda papers, and subsequent minutes and conclusion papers;
- independent oversight;
- multi-stakeholder funding, with appropriate checks and balances to ensure that those funding standard-setting activities are not able to influence the outcomes; and
- reporting and monitoring to ensure that assigned responsibilities and obligations are effectively discharged. In the Appendix of Section C, IFAC outlines the different areas of responsibility in international standard setting and the accountabilities in place for the different participants in the standard-setting model.

4. Do you support establishing a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.

[In its response to this question IFAC has assumed that the word "adopt" has been used by the MG to mean "issue" or "publish."]

IFAC does not support establishing a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors.

Serious concerns arise with having a single standard-setting board responsible for developing auditing and ethics standards. Having two boards clearly delineates the work of each, ensures a clear focus on key topic areas, and means that sufficient, specifically assigned resources are devoted to these topics. Over the years this has led to strong engagement with, and encouraged responses from, many different constituents and stakeholders.

There are strong concerns that ethics standards development would be overwhelmed by a focus on developing auditing standards. It is also contrary to the public interest to have separate ethics standards

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developed for auditors than for other professional accountants. Professional accountants provide a vast range of services across the economy supporting financial stability and growth. It is untenable to imagine that different professional accountants—for example, one who is preparing a set of financial statements—might be held to different standards of ethical behavior than the auditor of those financial statements.

Also, there would be significant resource implications in having one standard-setting board. IFAC's experience with nominations is that there are only a limited number of people who would be equally knowledgeable and skilled in both auditing and ethics. Also, the two boards have 18 members each, highly credible in the technical areas of either audit or ethics, and each—except the chair—with a technical advisor. Collapsing two boards into a single, 12-member board (or at the least less than 18) would shift the bulk of technical analysis and issue resolution to staff, undermining the perceived legitimacy and authoritativeness of the single board.

It is pertinent to note that over the past year, the IAASB and IESBA have implemented initiatives aimed at strengthening their long-standing efforts to work more closely on key projects that impact their respective mandates, and where there is essential overlap and liaison required. This is in recognition of the growing number of topics relevant to both boards' strategies and work plans, and the need to enhance the coordination arrangements that previously existed. The closeness of this relationship is underscored by the fact that they now utilize joint task forces and hold joint board sessions.

5. Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not, why not?

[In its response to this question IFAC has assumed that the word "adoption" has been used by the MG to mean "issue" or "publish."]

IFAC agrees that it should have responsibility for the promotion of high-quality education for professional accountants across the globe, as it is the members of the profession who see the changing needs of skills and technology on the future of the profession and the consequential impact on the manner in which professional accountants are educated and maintain their skills over time. Through its Compliance Program, IFAC has a very good understanding of the education needs of the profession and the different ways in which education is delivered across the globe.

IFAC continues to assess the most cost-effective, efficient, and impactful way in which this can be achieved.

As the name suggests, the Compliance Program is an IFAC initiative that relates directly to IFAC membership, requiring IFAC member organizations to use their best endeavors to promote the adoption of international standards across the globe. The Compliance Program has been the most significant driver of global adoption of standards in the last decade, and the main reason why more than 120 jurisdictions have adopted international auditing standards and the international *Code of Ethics for Professional Accountants*.

There is no other international mechanism that exists that could maintain a similar program outside of IFAC, and which could oblige IFAC members to act in the manner outlined in IFAC's Statements of Membership Obligations. Therefore, IFAC strongly believes that the Compliance Program must remain with IFAC. However, there could be no guarantee that the program would be used to promote global adoption of standards produced by a proposed new model until an assessment is made of the quality of the standard-setting process and the standards issued to ensure that they are developed in the global public interest.

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6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not, why not?

[In its response to this question IFAC has assumed that the word “adoption” has been used by the MG to mean “issue” or “publish.”]

As noted earlier, it is contrary to the public interest to have separate ethics standards developed for auditors than for other professional accountants. While the current set of ethics standards are contained in one unified *Code of Ethics for Professional Accountants* (Code of Ethics), the MG proposals seek to bifurcate the Code of Ethics with ethics standards for auditors covered by the proposed new board, and ethics standards for other professional accountants in practice and professional accountants in business (for example, those responsible for preparing financial statements) being done by IFAC under separate standard-setting arrangements.

In the context of the financial reporting supply chain, where professional accountants are involved in all aspects—as preparers, directors, management, regulators, internal auditors, and so on—it is illogical to suggest that professional accountants in some parts of that chain should be subject to different ethics standards than others. It is also illogical to assume that two different sets of standards will remain in tandem, for that essentially undermines any reason for splitting the board into two separate boards.

Finally, IFAC recognizes that a significant part of the current international Code of Ethics relates to independence requirements for auditors, and notes that the IAASB and IESBA have implemented initiatives aimed at strengthening their long-standing efforts to work more closely on key projects that impact their respective mandates, and where there is essential overlap and liaison required. However, the CP is not clear whether it is only the independence requirements that would be the focus of the combined board, or whether it is ethics principles more generally (of which independence requirements are a subset) that are critical to attaining of a successful, high-quality audit.

7. Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard setting boards? If so please set these out in your response along with your rationale.

IFAC offers no further comments in relation to the standard-setting boards’ organization. However, in responses to other questions in this paper, it offers a number of comments and suggestions for enhancements, with an emphasis on a multi-stakeholder approach across all aspects of standard setting, including funding.

8. Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?

Without a clear description of the manner in which a strategic board would function, IFAC is uncertain about what is meant by the notion of a “more strategic” standard-setting boards. The presumption is that a more strategic board means less involvement by board members in the detailed development of standards, and IFAC believes that consideration should be given to how the amount of detailed page-by-page drafting performed by the boards in plenary might be limited; noting that ultimately the standard-setting boards members must read the standards in detail to be able to take responsibility for and approve them. However, greater reliance will be placed on staff and task forces for detailed work. IFAC is of the view that this could arguably heighten the perceptions of undue influence by the accountancy profession, especially where staff are recruited or seconded directly from audit firms, and where task forces comprise largely those from the profession.

The CP does not elaborate on why the MG believes that remunerated standard-setting boards members would be intrinsically more effective than the current arrangements where significant volunteer contributions have been at the cornerstone of standard setting success. Although, IFAC acknowledges

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that remunerating board members it may attract more non-practitioner and public members to the role. However, the proposal to remunerate standard-setting board members raises several important concerns.

In particular, IFAC questions the proposal of having remunerated standard-setting board members, where some members are employed full time and others part time. It potentially creates a two-tier structure and risks both dysfunction and the opportunity for undue influence to be exercised by the three full-time members (due to closeness to staff and the detailed work being done) or, conversely, by the nine part-time members voting as a block to oppose a standard in which they have been less directly involved. Additionally, it is not clear how the fiduciary duties of members will be affected once they are remunerated—especially for part-time members where they might have another “main” employer—and how such arrangements would be sustainably funded.

9. Do you agree that the board should adopt standards on the basis of a majority?

[In its response to this question IFAC has assumed that the word “adopt” has been used by the MG to mean “issue” or “publish.”]

IFAC does not favor having standards approved on the basis of a majority vote by a standard-setting board.

The current process requires a super majority—that is, 12 out of 18—to approve pronouncements, which means no one group (practitioners, non-practitioners, or public members) can approve a pronouncement without at least some support from other groups.

Moving from a super majority to a simple majority for decisions related to issuing standards and exposure drafts, especially if this coincides with a reduction in the number of standard-setting board members, is potentially problematic. Such a change is contrary to the notion of international standard setters gaining consensus over time—that is, persuading national jurisdictions through technical credibility, representativeness, and thoroughness of due process. Indeed, the success of the current model in having standards adopted across the world is in a large part due to this consensus approach.

Furthermore, it also heightens the perception of undue influence being able to be exerted in standards development. The current proposals for some members to be full-time remunerated members, and others part-time remunerated members, may mean that a standard can be approved, for example, even though all of the full-time members object to it. Similarly, with the three constituent groups proposed, it is possible for all members from one constituency to unanimously oppose issuing a standard, and yet the standard could still be issued.

10. Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members, allowing both full time (one quarter?) and part time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?

IFAC supports a multi-stakeholder composition of standard-setting boards.

IFAC recognizes that the current arrangements could, in some people’s minds, create a perception that the accountancy profession dominates the technical discussions of the standard-setting boards. Therefore, it is appropriate to recast board composition to more explicitly reflect the various stakeholder groups—investors, those responsible for preparing financial statements, regulators, those charged with governance, and the accountancy profession—in a true multi-stakeholder model.

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However, IFAC believes the merits of moving to a smaller board size need to be carefully assessed. Many involved in standard setting believe that the current board size is effective at leveraging resources to optimize throughput of products, concurrently with gaining buy-in from the broad array of stakeholders under a robust public interest oversight framework.

11. What skills or attributes should the Monitoring Group require of board members?

IFAC does not see the need to change the skills and attributes from those currently sought for standard-setting board members, who on the whole are competent, highly-skilled professionals in their respective fields and bring a broad range of important skills to the role. A multi-stakeholder board composition would implicitly promote a diverse skills mix. However, it is imperative for a number of members to have strong technical skills, and for the standard-setting boards as a whole to have a sufficient number of members with thorough and up-to-date auditing knowledge to ensure that any standards promulgated are able to be practicably and readily implemented to achieve the stated objectives. Other relevant specialist skills and expertise (for example, audit committee experience) are also important to have on standard-setting boards.

12. Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?

Consultative Advisory Groups (CAGs) are an integral part of standard-setting boards' formal consultation process and provide the IAASB and IESBA: advice on agendas, project timetables, and work programs, including project priorities; technical advice on projects; and advice on other matters of relevance to the boards' activities.

CAGs are geographically diverse, multi-stakeholder groups representing 31 organizations for the IAASB CAG and 26 for the IESBA CAG. The multi-stakeholder membership of the CAGs means that a significant cross-section of views are provided by members of a diverse array of stakeholder organizations that have a keen interest in ensuring the best level of corporate reporting and information, and auditing is supported by the globally accepted, high-quality international standards.

IFAC believes there is a strong argument for the ongoing existence and role of CAGs to provide insights into issues relevant to standards development from a broad range of perspectives.

13. Do you agree that task forces used to undertake detailed development work should adhere to the Public Interest Framework?

As the public interest framework proposed by the PIOB has yet to be developed, consulted on, and published, the extent of its applicability to task force work cannot be assessed.

Nonetheless, IFAC understands that task forces play an important role in supporting the completion of complex projects on a timely basis. Standard-setting board technical staff have explained that on average, task forces comprise five to seven members including the task force chair, who is always a standard-setting board member. The balance of task forces is typically in line with the composition of the standard-setting boards, that is, they normally comprise half practitioners and half non-practitioners, including public members, regulators, national standard setters, and so on. Task forces exist from the stage of project proposal approval through to the final approval of the standard.

All parts of the standard-setting process, including the work of task forces are, and must continue to be, subject to stringent due process, into which is embedded the protection of public interest. Current task force members work in the public interest to contribute to standards development.

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14. Do you agree with the changes proposed to the nomination process?

IFAC supports changes to the composition of the Nominating Committee (NC), such that for appointments to standard-setting boards, it has:

- an independent chair, subject to clear agreement on what constitutes “independent,” and a selection process that ensures someone of the highest quality and integrity; and
- three NC members nominated by the accountancy profession and three members nominated by the MG and representing other stakeholder groups.

IFAC believes this would address stated concerns relating to the perception of a lack of independence.

The PIOB currently oversees all aspects of the nominations process. It has access to all papers and observes all meetings and discussions of the NC. Concerns about perceptions of independence would be allayed by increased transparency of the PIOB, which could issue a positively worded public statement about its oversight of the NC and its adherence to due process.

IFAC strongly disagrees with having the PIOB participate directly in the nominations process. This is in conflict with the fundamental foundational concept underpinning independent public interest oversight of standard setting—that is, separating “oversight” and “participation”—and gives free rein for undue influence to be exerted by one stakeholder.

The current nominations process for appointment to a standard-setting board already includes an open call for nominations for all positions.

Finally, notwithstanding any changes to the NC composition, the process employed by a reconstituted NC must be at least as robust as the current process, and the principle of “best (most appropriate) person for the job” must be retained as a guiding principle.

15. Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?

[In its response to this question IFAC has assumed that the word “adoption” has been used by the MG to mean “issuance” or “publication.”]

IFAC notes that the PIOB has been asked by the MG to prepare and issue a proposal for a public interest framework for future public consultation. Subject to a review of this proposal, IFAC does not agree with the roles and responsibilities of the PIOB as set out in the CP. In particular, it disagrees strongly to the envisaged role for the PIOB with respect to the nominations process, the ability to veto a proposed standard, challenging the technical judgments of standard-setting boards, and funding.

The proposals for the PIOB to veto a standard or challenge the technical judgments of a standard-setting board are contrary to the foundations of robust and independent international standard setting, and the critical distinction between participation in and oversight of standards development. Many would argue that these proposals are tantamount to having the PIOB set standards. They are indicative of the view that the MG is proposing a regulatory model for standard setting, which would be unacceptable to many parts of the world.

The MG proposals with respect to the role of the PIOB do not address key stakeholders’ current observations about the operations and activities of the PIOB and appear to confirm the MG’s aim to create a regulatory model where undue influence can be exerted by one key stakeholder.

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There is a significant body of opinion that believes that in recent years the PIOB has overreached its mandate. Indeed, in its 2016 Annual Report, the PIOB notes that “the PIOB will strengthen its mandate,” although it is not for the PIOB to unilaterally decide on such matters. Rather than focusing on overseeing that the standard-setting due process is operating effectively, the PIOB has aimed to broaden the scope of its activities. This creates confusion about the role of the PIOB when it aims to “participate” in standards development, as well as being responsible for overseeing due process, creating an unmitigated conflict of interest. The mandate of the PIOB is very clear that it must not provide direct input into the technical development of standards.

IFAC makes the following recommendations with respect to the PIOB:

- The PIOB must operate within its mandate and focus only on the design and operation of the due process arrangements, including oversight of the nominations arrangements. It has assumed a broad and unspecified role of protecting the public interest (and to date it has not sought to define what that entails), which is not a role that has been assigned to it and which—in any case—is not the sole responsibility of any one stakeholder.
- Recreate the PIOB into a true multi-stakeholder board—with representatives from investors, preparers, those charged with governance, regulators, academics, and the audit profession—premised on transparency, accountability, and geographic diversity.
- Clearly articulate the skill requirements and nomination and selection processes to the PIOB so that it is more rigorous and less informal than the current arrangements.
- As is required for all standard-setting boards, open all meetings, agenda papers, and minutes of the PIOB to the public to provide transparency into deliberations and decision making.

16. Do you agree with the option to remove IFAC representation from the PIOB?

This question reflects an important misunderstanding by some stakeholders of the role of the PIOB.

PIOB members are appointed in their individual capacity and are not representatives of the organizations that nominate them. This misunderstanding is at the root of many stakeholders’ concerns about the PIOB’s recent activities, as it is evident that a number of PIOB members see themselves as performing a regulatory oversight function—in line with their nominating organization mandates—rather than playing a public interest oversight role. This occurs notwithstanding the formal obligation placed on PIOB members to act in their personal capacity in the public interest.

Therefore, IFAC chooses not to answer the question asked but presents its views on whether IFAC should be able to continue to nominate people for approval by the MG for appointment to the PIOB. As noted above, IFAC believes that the PIOB should be a true multi-stakeholder body, in line with proposals for the standard-setting boards. A broad range of skills, experience, and geographical regions, including having members with strong auditing and accounting knowledge and expertise, must be represented on the PIOB. Therefore, in an open call for nominations for appointment to the PIOB, IFAC should be able to continue to put forth nominations, alongside other nominating organizations and individuals who meet the relevant skills and expertise criteria.

17. Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

Refer to response to Question 15.

In line with responses to other questions, IFAC strongly supports a multi-stakeholder approach to encompass nominees from investors, those who prepare financial statements, those charged with

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governance, regulators, academics, and the accountancy profession. A multi-stakeholder composition and members with appropriate skills will ensure that the PIOB has appropriate technical understanding of audit matters.

18. Do you believe that PIOB members should continue to be appointed through individual MG members, or should PIOB members be identified through an open call for nominations from within Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?

IFAC does not agree with appointments through MG members, or limiting nominations to being “from within MG organizations,” as this does not constitute an “open call.”

IFAC supports a process whereby the MG issues an open call for any organization or individual to nominate for the PIOB. Approval of appointments would be made by the MG based on a predetermined skills matrix, and bringing multi-stakeholder perspectives.

IFAC believes that a robust selection process must be employed, where there is a thorough evaluation of nomination applications and CVs, and a rigorous interview process.

19. Should PIOB oversight just focus on the independent standard setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard setting boards (e.g., issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

IFAC does not support a structural, long-term PIOB oversight arrangement for an accounting education standards board that is moved to IFAC. The entire focus of global support for accounting education is currently being assessed by IFAC, and potentially the most fit-for-purpose arrangements may not necessarily include public interest oversight.

As noted previously, IFAC does not support bifurcating ethics standards development between separate standard-setting boards, where one board sets standards for auditors and another sets standards for all other professional accountants.

20. Do you agree that the Monitoring Group should retain its current oversight role for the whole standard setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards, and supporting public accountability?

Given that the future roles and responsibilities of the MG and PIOB have been deferred to a future time and are not included as part of this CP, it is premature to answer this question. The CP indicates that the MG believes that no changes to its role and remit are required “in the medium term.” However, it is not clear what time period is envisaged by the medium term.

IFAC believes that the MG composition and its method of operations should be more formally detailed with respect to the role of members, frequency of meetings, transparency of work plans and proceedings, and related issues. Consideration should be given to the seniority and experience of representatives of the organizations on the MG to ensure they have the capacity to truly represent these organizations. They should also be appointed for a set period of time, as the MG has suffered in recent years from substantial turnover in those attending meetings, especially during the period it has taken to develop and publish this CP. Together, these points are critical to ensuring that the relationship between the MG and PIOB is appropriately managed.

SECTION A**21. Do you agree with the option to support the work of the standard setting board with an expanded professional technical staff? Are there specific skills that a new standard setting board should look to acquire?**

Technical staff play a key role in developing international standards, and it is important for staff to be sufficient in number, be appropriately expert and skilled, and represent broad geographical diversity. Expanding and uplifting the technical staff—as and when advised by the standard-setting board chairs and the head of professional standards staff—is appropriate and is a matter that needs careful consideration.

This matter is not simple, and the CP does not fully explain the relevant challenges and complexities. In particular, the proposals for a smaller, single standard-setting board for auditing and ethics for auditors implies a significant shift in the technical work of standards development away from the board members to staff, and hence away from the public scrutiny that is afforded the standard-setting board. This creates significant risks and vulnerabilities related to:

- recruiting technical resources of the nature required, both in relation to the required sufficiency and diversity of staff. Put simply, such resources are not easily found, particularly when adding in the crucial factor of geographical diversity; and
- finding staff resources, which most likely will be sourced from audit firms. This, and the use of secondments as proposed in the CP—which implies drawing on audit firm resources—alongside a smaller, less technical strategic board, has the potential to heighten the perception of undue influence by the accountancy profession and does nothing to diminish concerns with respect to perceptions of independence.

IFAC chooses to not respond to the question asked with respect to the skills of technical staff for a new standard-setting board. However, it does draw attention to the key skills and attributes of the staff currently employed. These include:

- outstanding technical skills that are complemented by firsthand experience across all parts of the financial reporting value chain, including the practical application of standards;
- excellent organizational skills, and strong computer literacy;
- motivated and confident in dealing with others on complex technical matters with the flexibility to meet internal and external demands;
- ability to work in a collaborative and team environment;
- strong project management skills, in particular those necessary for the timely delivery of outputs including interpretation of what is needed for the success of a project;
- strong interpersonal skills and the ability to work in a multicultural setting;
- excellent communication skills including written, verbal, listening, and presentation;
- keen interest in public interest and practical auditing or assurance issues; and
- ability to liaise with senior members of the accountancy profession and regulatory community, as well as with senior officials from other external organizations.

IFAC also draws attention to the geographical diversity of the current staff who originate from 10 different jurisdictions and speak at least eight different languages. Their range of skills and experience include international and national standard setting, practice experience, regulation and inspection experience, policy setting, and legal experience.

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Finally, IFAC notes that risks associated with staff recruitment and retention are amplified during times of uncertainty. The current MG review process has been underway for well over 30 months and has created growing unease among existing technical staff. It has made it considerably more difficult to attract high-quality staff to vacant positions, especially where relocation of standard-setting technical staff to another country has been floated in the discussion. This highlights a key point that seems to have been misunderstood by the MG throughout the process, with respect to differences between international and national standard setting where the effectiveness of the former relies on the ability to attract and retain talent from across the globe.

22. Do you agree that the permanent staff should be directly employed by the board?

The standard-setting boards have no separate legal status and so are unable to employ staff. IFAC is of the view that the costs and challenges of having technical staff employed directly by the standard-setting boards, or another organization, need to be thoroughly analyzed and assessed, recognizing the significant implementation and ongoing costs associated with establishing and maintaining a separate legal entity with the full range of corporate support services.

IFAC provides administrative support to four standard-setting boards in accordance with a service-level agreement. The benefits of IFAC's expertise and knowledge, and the synergies of supporting four boards, must be recognized.

23. Are there other areas in which the board could make process improvements—if so what are they?

The standard-setting boards, in liaison with the PIOB, have the ability to make process improvements. IFAC recommends that they be given an opportunity to consult and determine improvements that can be introduced to address some of the perceived weaknesses of the current model. This is a more prudent and less disruptive approach than a fundamental restructuring of the entire standard-setting model.

Specifically, IFAC proposes that, as permitted under the current arrangements:

- improvements in due process arrangements should be discussed and agreed between the standard-setting boards and the PIOB, including additional flexibility that will enhance speed; and
- process improvements should result in having different due process arrangements for different streams of work, for example, new standards, revised standards, and minor updates.

The MG notes in its CP that the IAASB and IESBA chairs have offered to test, on a pilot basis, proposals with respect to enhancing process efficiencies with the aim of improving the speed of standards development. IFAC supports approaches that aim to strive for continuous process improvements, and these pilot tests appear to be one means for doing so. IFAC believes there is merit in ensuring that these pilot tests are carefully monitored over a two-year period to determine whether they lead to enhanced efficiencies. Where it is determined that they have achieved the outcomes desired, they can potentially be incorporated into an enhanced model.

Additionally, work is already underway by the standard-setting boards to examine ways to enhance their efficiencies through the use of technology, for example, in stakeholder comment analysis and document review management.

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24. Do you agree with the Monitoring Group that appropriate checks and balances can be put into place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB who would distribute the funds)?

IFAC agrees that checks and balances can be put into place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession. In fact, appropriate checks and balances are already in place. However, the MG does not acknowledge, describe, or explain in its CP why it considers these checks and balances to be insufficient.

Essential elements of a sustainable, robust funding model for standard setting for auditing standards include:

- multi-stakeholder funding contributions;
- contributions made with the knowledge that the model has checks and balances in place that prevent them, or other contributors, from influencing the standards;
- contributions from the auditing profession—those who use the standards developed—not being directly provided to the standard-setting boards but through an intermediary without influence over the process;
- standard-setting boards determining their own funding needs based on the achievement of their strategies and work plans, approved by an independent public interest oversight body;
- those funding needs being communicated to the funders and contributions being made to fulfill those needs on an unencumbered basis; and
- a mechanism of reporting and monitoring that ensures that standard-setting boards are discharging their accountability to their funders.

Except for the first element—multi-stakeholder contributions—the current funding arrangements reflect these elements.

As noted earlier, the CP does not explain the current funding arrangements, and hence does not outline the various checks and balances that currently exist. It offers no explanation why it now considers these arrangements to be inadequate. It is important for current funding arrangements to be clearly explained, in particular, to highlight these checks and balances.

- IFAC levies dues on its 175+ member organizations from over 135 jurisdictions, and receives contributions from international audit networks that are members of the Forum of Firms. These funds are not “earmarked” or linked specifically to standard setting, and are used to fund both standard setting and IFAC’s other programs and public interest activities.
- The standard-setting boards operate independently in terms of establishing their own strategies and work plans, and standards development, under direct PIOB oversight and observation.
- Funding requirements to deliver the approved strategies and work plans are developed by the standard-setting boards’ chairs and the Managing Director, Professional Standards. The requested funding is allocated unencumbered and unconditionally by IFAC, based on the standard-setting boards’ budget requests.
- The standard-setting boards confirm to the PIOB that sufficient funding has been attained to accomplish their strategies and work plans, which are approved by the PIOB.

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- IFAC provides administrative support to the standard-setting boards in accordance with service-level agreements.

In this way, no individual entity or grouping of accountancy profession interests can be perceived as funding the standard-setting model, in sharp contrast to what the MG is proposing.

IFAC believes that a true multi-stakeholder model requires multi-stakeholder funding. Diversification of funding should be seen as a priority. However, the experience over the past 13 years with the funding of the current standard-setting model—especially the funding of the PIOB where diversified funding was identified as a major priority—suggests that this is no easy task. IFAC continues to be the majority PIOB funder, given the inability of the MG and PIOB to achieve a more diversified, sustainable funding base.

Logic suggests that the MG, and the international regulatory community, would need to ensure that it has committed long-term diversified funding in place before embarking on any new, significantly more costly standard-setting model. Any transition costs would need to be funded exclusively by stakeholders other than IFAC, which would be continuing to fund the current model.

In the meantime, the checks and balances of the current funding arrangements can be further strengthened and clarified through a process whereby the MG chair, PIOB chair, and senior standard-setting board representative play a role in the process of assessing the funding requirements and confirming the unfettered allocation of funds to standard setting to achieve the standard-setting boards' strategies and work plans.

25. Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those proposed in the paper, and if so what are they?

IFAC believes that a true multi-stakeholder model requires multi-stakeholder funding. Diversification of funding should be seen as a priority. It does not support the imposition of a contractual levy on audit firms for reasons of both principle and practicality. As well as heightening—rather than mitigating—the perception of undue influence by the audit profession in standard setting through funding, it raises several questions.

- Is it possible to enact and enforce a levy at a global level? If not, it then becomes a voluntary contribution and concerns about undue influence are heightened.
- How would the levy be calculated to ensure it is applied in an equitable and proportionate manner, taking into account jurisdictional differences and differences in capacity to pay?
- Would the levy aim to be imposed on all audit firms around the globe, or just a small number of major networks? If the latter, then it reinforces the view that the proposed model is being developed with a very narrow definition of the public interest in mind.

Additionally, if a contractual levy could be imposed, there is a real chance that many audit firms would leave the market, leading to greater audit market concentration. This would reinforce the view that the MG proposals are focused on audits of listed companies and large multinationals by large audit firms.

26. In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

This consultation seeks the input and views of stakeholders on potential enhancements to standard-setting arrangements, the outcome of which will not be known for several months. Furthermore, it defers until a later time many fundamental elements of the potential reforms, that is, the roles and

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responsibilities of the MG and PIOB; the finalization of the public interest framework; and funding. Therefore, it is premature to consider implementation issues at this time.

27. Do you have any further comments or suggestions to make that the Monitoring Group should consider?

IFAC has no additional comments.

However, IFAC encourages readers of this response to read the response in its entirety and to not rely solely on only reading and assessing a response to a specific question.

SECTION B**IFAC's COMMENTS ON THE CONSULTATION PAPER**

As a global organization with decades of experience supporting the development of international standards, IFAC is concerned about key overriding assumptions, assertions, and recommendations made in the Monitoring Group (MG) Consultation Paper (CP).

These are detailed below in two parts: the first part describing IFAC's concerns with the proposals and the second part outlining IFAC's concerns about the CP itself.

MG Proposals

IFAC is of the view that the fundamental restructuring contemplated by the MG has the potential to result in outcomes counterproductive to the MG's stated improvement goals, by undermining the work of many years to advance the legitimacy and credibility of the international standard-setting process. It is not evident that they will lead to better outcomes or will address—and indeed may have a negative effect on—perceptions of independence, and timeliness and relevance of standards.

The MG proposals:

- move away from a shared public-private public interest model that reflects many of the key principles of good regulation, to a pure regulatory model that provides the regulatory community the potential to exert undue influence over the outcomes of standards development;
- create a risk that more rules-based, prescriptive standards will remove professional judgment as a necessary element of audit. This will result in standards that produce compliance-type audits against which inspections and assessments may be more readily performed, and which will be less likely to remain relevant over time in a rapidly changing world. By removing the exercise of professional judgment, it puts at risk advances in audit quality achieved over time and may stifle the ability to attract talent to the auditing profession;
- create significant risks:
 - of the prospect of jurisdictions deciding to revert to more national-based standard setting and jurisdictional amendments to standards—especially those jurisdictions where principles-based standards are valued and where standards are used for audits across a broad range of entities—thereby unraveling the tremendous achievements of international standard setting over the past 40 years. However, IFAC recognizes that there will be certain jurisdictional issues where national standard setters and regulatory authorities can provide greater specificity on matters covered by international standards, such as auditor independence requirements; and
 - to the ongoing relevance of standards as they do not recognize the significant challenge to current auditing standards from digital analytics and other technological developments at a time when the development of auditing standards will be severely disrupted through the transitional period of the change being proposed;
- fail to recognize the important role played by PIOB in safeguarding the public interest by overseeing all aspects of standard setting, including the entire nominations process. The PIOB approves all appointments to standard-setting boards, and approves their strategies and work plans and budgets. However, the CP does not explain why the existing arrangements are unable to safeguard public interest;
- create a standard-setting model that is significantly more costly—and less cost-effective—than current arrangements. The MG proposes that the PIOB will require a significant increase in funding, that all standard-setting board members be remunerated, that an entirely new legal entity

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in an entirely different location be established, and that there is a significant increase in the number of permanent technical staff;

- indicate that funding from the global accountancy profession through IFAC should cease, but fails to recognize that IFAC collects dues from the diverse global accountancy community at large. Part of this revenue from the large international networks and IFAC's member organizations around the world—which comprise auditors, accountants in business, public sector accountants etc.—is provided to fund the standard-setting boards and a significant share of PIOB funding. IFAC agrees that there should be a multi-stakeholder funding model;
- are based on the assumptions that:
 - despite IFAC being an independent legal entity representing the accountancy profession, the international regulatory community will state IFAC's future role. It is important to recognize that IFAC performs a range of public interest activities that may be impacted by the MG proposals, including supporting the development of public sector accounting standards;
 - IFAC will be fully supportive of assisting the transition from the current arrangements to a new more costly, regulatory model, for which there is no supporting evidence that it would function effectively; and
 - there will be a lengthy transition, which IFAC believes can only be highly disruptive to standards development and have a significant adverse impact on staff morale, and make the attraction and retention of talent more difficult; and
- are predicated on several debatable assumptions:
 - first, that only regulators can act in the public interest. While regulators are often given a public interest mandate in a national context, this is not the same as the broader public interest in an international context where standards are global public goods. For example, the CP notes that it is important that the views of those with the greatest concern about and commitment to the public interest—which the MG sees as being regulators—in a particular area are properly considered. Therefore, the MG's proposals wish to move from a model where no one stakeholder can exert undue influence to one where the regulators have a clearly predominant role and can exert undue influence in preference to other stakeholders;
 - second, that the current standard-setting model does not fully satisfy a number of the principles listed in the section titled, *Supporting Principles*, of the CP. IFAC believes this is a highly subjective conclusion, and is clearly open to challenge. IFAC argues that all the principles listed are satisfied, and that there has been a failure by the MG to fully recognize and understand the operation and structure of the current model; and
 - third, that acting in the public interest requires standards to be developed that not all stakeholders will agree with. IFAC disputes this assertion and notes that this is the key difference between an international, collaborative public-private standard-setting that is currently in place and a national-based regulatory model that is being proposed.

While IFAC welcomes several of the topics raised by the MG and that are being consulted on—for example, consideration of the nominations process and a multi-stakeholder composition of SSBs—it has concerns about, and does not support, the MG proposals.

In particular, IFAC does not support:

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- the creation of a single standard-setting board for auditing and ethics. Combining these two boards potentially dilutes the focus on each of the topic areas, and significantly reduces the current level of resources—that is, the time of standard-setting board members and their technical advisors—devoted to standard setting;
- the bifurcation of ethics standards for professional accountants, and having two separate sets of ethics standards: one for auditors and one for all other professional accountants;
- funding via a contractual levy on the audit firms, rather than the global accountancy profession at large as part of a broader multi-stakeholder funding base. This would heighten perception issues with respect to a lack of independence from the profession and the ability for the auditing profession to exert undue influence. Additionally, there appears to be no basis on which to collect a levy, and could lead to a concentration in the audit market for audits of listed entities and public-interest entities due to some networks leaving the market;
- a model that merges the roles of participation in and public interest oversight of the standard-setting process, potentially reducing the legitimacy and credibility of standard setting, and confidence in the standards developed;
- proposals that do not clarify the key role of the PIOB. IFAC recognizes the important role of public interest oversight, which it believes must be clarified and reinforced. The MG must act to ensure that this role is properly fulfilled, and that the PIOB has the confidence of all stakeholders by acting in a transparent and consistent manner. Importantly, the separation between oversight and participation must be maintained and the PIOB should not engage in intentional direct technical input into standards;
- a model that is insufficiently analyzed, has significant associated transition risks and adoption challenges, and where the costs and benefits are not adequately assessed; and
- a model that requires stakeholders to accept in good faith that as of yet has unexplained key elements that will be designed at some point in the future—for example, the role and responsibilities of the MG and PIOB, and the public interest framework that is the foundation of the MG proposals—to give effect to the fully envisioned proposals of the MG. Indeed, the fact that the public interest framework is not being developed at the same time as the CP is concerning, and means that respondents to the paper do not have the full and appropriate context on which to base their responses and make informed comments.

The Consultation Paper

IFAC identifies several serious shortcomings with the CP published by the MG.

First, **the CP refers to a rather limited consultation with stakeholders and implies that all stakeholders are in consensus on the concerns presented.** Without details of these consultations and given its involvement with international standard setting over many years and the feedback received from its own outreach and discussions, IFAC is aware that a common set of concerns has not been clearly articulated. The international community is a diverse group and we find it difficult to accept that their viewpoints are universally aligned. To that end, IFAC would welcome the publication of more detail to support the MG's claims, such as: (i) who was consulted; (ii) how those consulted were chosen; (iii) at what level they sit in the organizations they represent; (iv) whether they are expressing personal or organizational opinions; and (v) what evidence they provided to support their views. This will ensure there is broad understanding of the potential stated concerns, but also that the insights and expertise of a broad range of stakeholders are appropriately taken into consideration. This level of transparency and openness is the discipline to which international standard setters hold themselves and we believe the MG should hold itself to this same standard of transparency and rigor.

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Second, **IFAC has considerable concern about the lack of risk assessment undertaken to date.**

The current CP makes no/little reference to the risks associated with dismantling the current model. It does not outline a clear road map on how the future model will maintain, and in time enhance, existing standards, nor does it describe the level of disruption that is likely to arise and for what time period. The CP does not explain the risks and challenges, nor does it attempt to enumerate any related safeguards or other risk-mitigating factors or activities. Furthermore, the financial implications of the proposed model are not presented. IFAC has substantial concerns about a consultation calling for views without the entire picture being presented to respondents. Although the CP indicates that an impact assessment will be undertaken at some future point in time, and notes that details about transition will be forthcoming, it is difficult for respondents to the CP to properly assess the proposals and provide fully informed responses. A risk/impact assessment should be completed as a matter of high priority. This assessment should be very clear with respect to the risks associated with transition to a new model, as well as the challenges to global adoption and implementation of standards across the globe, and explain in detail how those will be addressed.

Third, **IFAC is concerned that the consultation paper is not structured to faithfully elicit a broad range of perspectives and views from a diverse stakeholder group through a balanced approach.** Instead, it aims to center respondents comments toward one proposed model. Questions that simply ask respondents to agree with the proposals presented are not consistent with principles of good regulation. This is especially worrying and IFAC asks the MG to consider these concerns and to work with IFAC to find the best solution to ensuring that the full range of views of respondents and stakeholders are being elicited and seriously considered.

Fourth, **the CP does not faithfully present the features of the current model, and incorrectly implies that the current model is failing.** Publicly available materials are very clear on how the model works and the features of the current arrangements. These need to be given a full airing so readers of the CP can draw their own conclusions as to whether the current model is operating effectively. The CP fails to recognize that the current model has significantly advanced over the years it has operated. Periodic reviews and regular enhancements are a feature of these robust standard-setting arrangements.

Finally, **the CP does not provide all the information that respondents need to make a well-informed, complete response to what is a complex and challenging topic.** For example, it expects readers to accept, in good faith, the MG assertions that: (i) reforms to the MG and PIOB will be designed and implemented subsequent to the implementation of the proposals outlined in the consultation paper notwithstanding that stakeholders' views on the current governance arrangements include that the PIOB lacks relevant expertise, is inconsistent in its approaches and actions within its mandate, and that there are inconsistent roles played by PIOB observers at standard-setting board meetings; (ii) a public interest framework, still to be developed, will underpin the foundation of the entire proposed standard-setting arrangements. Without having that framework available at the time of responding to this CP, respondents are expected to make their own (perhaps divergent) assumptions about what will be included in the fundamental framework; and (iii) it will reach agreement on IFAC with respect to all matters pertaining to transition, intellectual property, funding, and ongoing activities. In the CP the MG has made significant assumptions on what the future role of IFAC will be, without providing IFAC the opportunity to contribute to the CP and the proposals outlined. Throughout its existence IFAC has been focused on protecting the public interest, and so respondents should not assume that the MG and IFAC will reach agreement on key matters, especially where IFAC believes they are contrary to the global public interest.

Additionally, IFAC notes that the CP includes methodological shortcomings, as well as misleading assertions and misrepresentations. In particular, the CP:

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- does not provide sufficient details on the consultations conducted to elicit the stated concerns of constituents and stakeholders;
- does not faithfully represent the features of the current model, and incorrectly implies that the current model is failing;
- includes no risk and impact assessment, especially in relation to the significant transition risks and challenges the proposed model presents with respect to adoption and implementation of standards;
- is not structured to faithfully elicit a broad range of perspectives and views from a diverse stakeholder group through a balanced approach;
- has significantly incomplete information, with many fundamental matters being deferred for later consultation; for example, the public interest framework; and
- gives respondents the option of not making available their responses to be shared publicly.

IFAC'S PROPOSED REFORMS

The Appendix to Section C contains two tables that provide more details about, and context for, IFAC's proposed reforms.

The first table systematically:

- describes how the concerns and perceptions are addressed in the current model;
- identifies the concerns noted in terms of the perceptions held by some stakeholders; and
- lists potential reforms to address these perceptions.

The second table provides important context by showing the different areas of responsibility in international standard setting and the accountabilities that exist for the different participants in the standard-setting model.

IFAC Proposals

IFAC recognizes the importance of standard setting remaining relevant, innovative, and responsive to meet the challenges of a digital age, and that periodic reviews of the standard-setting model are performed to assess potential enhancements to make a good model even better.

Context

In considering proposed reforms, IFAC has employed the following framework:

- Recognition that public interest oversight is fundamental to a strong governance model and the importance of ensuring that the roles of oversight and direct participation—that is, direct input into standards development—are not mixed.
- Ensuring that the scope of any changes to the model is proportionate to the problems being addressed, and that reforms should not try to “fix” what is not “broken.”
- Promotion of the principle of a balanced multi-stakeholder model that will ensure all public interest elements and key stakeholder groups—including SMEs—are appropriately considered, and that encourage a more sustainable, long-term funding model.
- Careful consideration of the balance between principles-based standards and the exercise of professional judgment, and rules-based, prescriptive standards that promote a compliance culture.
- Recognition of key implementation and transitional risks and careful consideration of the potential for unintended consequences, especially in relation to national adoption and implementation challenges and the disruption to auditing in a rapidly changing digital age.
- Recognition of the need for involvement by the accountancy profession to ensure that standards developed can be readily adopted and implemented.
- Recognition that if there is reduced global representation in standard setting, there is greater potential for national-based changes, amendments, and revisions to standards, significantly reducing the benefits and relevance of globally accepted standards, adopted consistently.
- Proposed reforms that draw on features that have worked well in the past, and which substantially address the concerns raised by the MG in its CP.

Detailed Proposals

The proposed reforms offered by IFAC involve a number of proposals that can be categorized under three broad topics:

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1. governance and oversight arrangements;
2. perceptions of independence; and
3. operating processes and efficiencies to improve speed of standard setting and alignment with emerging needs.

IFAC is of the view that a series of potential significant reforms should be considered as an alternative to the proposals of the MG. These would substantially address the stated concerns raised in the CP.

Based on the holistic review undertaken by the IFAC Board, potential reforms can be characterized as a suite of seven significant proposals building on the strengths and successes of the standard-setting model. Taken together, they would: address the stated—in IFAC’s view, misconceived—perception that the accountancy profession exerts undue influence in standard setting; retain and enhance the strong checks and balances currently in place to prevent undue influence by any one stakeholder group; and focus on enhancing the efficiency and effectiveness of standard-setting operations and processes. They reinforce the strong public interest focus that comes with a robust due process, exceptional levels of transparency, and an oversight structure that ensures that the public interest elements embedded in the system operate as expected.

At the same time, they promote multi-stakeholder representation and funding throughout the process, including on the standard-setting boards, the PIOB, and CAGs. Additionally, IFAC believes that redesigned operating processes allow for efficiencies that address concerns about the relevance and timeliness of standards, which it recognizes are important matters that must be considered.

Governance and Oversight Arrangements

To enhance governance and oversight arrangements and related concerns, potential reforms include:

- **Nominations arrangements that include other stakeholder groups** so that the Nominating Committee is not comprised exclusively of IFAC nominees. Specifically for appointments to standard-setting boards, IFAC strongly supports a:
 - Nominating Committee chair independent of IFAC, the MG, and the PIOB; and
 - Nominating Committee comprising an equal number of nominees from the accountancy profession and from other stakeholder groups, as nominated by the MG. IFAC strongly supports the notion of oversight and is strongly of the view that participation and oversight cannot be mixed. PIOB members or nominees should not participate in the NC, but should continue to observe the entirety of the nominations process, as they do now.
- **That the role and operating processes of the PIOB be clarified and followed.** In particular, IFAC believes that the PIOB should:
 - focus on its mandate of due process oversight and should not aim to provide technical input into standards development, to ensure that the strength of having segregated public interest oversight and direct participation responsibilities—a fundamental element of any good governance model—is maintained;
 - be comprised of members who reflect a true multi-stakeholder interest. It must not be dominated by those from the regulatory community (or from any one region), should include representatives from developed and emerging economies, and should have time limits on members’ and chair appointments;
 - have a chair whose term is shortened and rotated between individuals from different regions;

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- be comprised of members who reflect clearly articulated skills requirements. A formal nomination and selection processes for PIOB should be established for all appointments;
- publish a positively worded annual statement regarding adherence to robust due process in the public interest; and
- open all meetings, agenda papers, and minutes to the public to provide and enhance transparency into deliberations and decision making.

The public interest framework may assist in clarifying the PIOB's role; however, IFAC notes that it is still being developed.

Perceptions of Independence

IFAC supports a collaborative private/public sector model that protects the public interest and where all key stakeholder groups bring their perspectives and contribute to funding, but with checks and balances in place to ensure no single stakeholder can exercise undue influence over the development of the standards. It recognizes that addressing perceptions of undue influence is crucial, both for the SSBs and for the governance structure, more generally. A multi-stakeholder focus is important.

Potential reforms should have:

- **A more explicit multi-stakeholder standard-setting board composition**, reformulating the structure from the currently constituted nine practitioners, six non-practitioners, and three public members, to better reflect the global public good and to benefit from a range of stakeholder perspectives. IFAC supports:
 - a multi-stakeholder composition including: investors, those responsible for preparing financial statements, those charged with governance, academics, regulators, and the audit profession from across the globe—and with strong gender diversity. Strong technical capabilities must continue to be an important consideration in board member selection, as well as a broad range of relevant skills and expertise.
- **Funding arrangements to which all stakeholder groups contribute, with transparent independent oversight.** Current arrangements whereby the global accountancy profession through IFAC solely funds the standard-setting boards and the majority of the activities of the PIOB should be reformed. Specifically, IFAC proposes that:
 - The funding structure should be representative of the global public good and inclusive of all stakeholder groups, in order to address perception issues that arise as a consequence of the reliance on funding from the accountancy profession. Efforts to diversify funding must continue. For many years diversifying PIOB funding beyond the global accountancy profession has been an objective—for example, funding from regulatory authorities—however, these efforts have been unsuccessful.
 - While a robust system to appropriately fund all elements of the standard-setting process is currently in place, IFAC believes that current funding arrangements can be made clearer and more transparent to all stakeholders. It believes arrangements can also be strengthened through enhanced multi-stakeholder oversight of the manner in which funding is deployed to achieve strategies and work plans—noting that currently the PIOB oversees and approves standard-setting boards' strategies and work plans, and the adequacy of funding.

Operating Processes and Efficiencies

IFAC supports strengthening operating processes and identifying and implementing efficiencies to enhance the timeliness and relevance of standard setting. Potential reforms should consider the following:

- **Reconsider the optimum size of the standard setting boards.** IFAC notes that the standard-setting boards' current size of 18, which has been in place for many years to promote broad geographical and skills diversity, may not be optimal and could potentially be smaller. However, the standard-setting boards should be of sufficient size so they can reflect appropriate geographic and skills diversity, and international legitimacy, but not be so large as to generate unproductive discussion. This diversity must include representatives of the SMP community, whose inclusion is not readily envisaged under the MG proposals.
- **Retain separate standard-setting boards for auditing and assurance, and ethics for the entire accountancy profession.** IFAC believes that it is in the public interest to retain separate standard-setting boards for auditing and assurance and ethics for the entire accountancy profession. Combining these two boards potentially dilutes the focus on each of the topic areas, and significantly reduces the current level of expertise and resources—that is, the time of standard-setting board members and their technical advisers—devoted to each area of standard setting.
- **Examine the scope to redesign processes and operations of the standard-setting boards for greater efficiency and effectiveness.** Proposed reforms should include the following:
 - **Continued exploration of closer liaison between the IAASB and IESBA on key projects.** IFAC welcomes the boards' efforts to enhance this liaison, including the recently initiated practice of holding joint sessions of the two boards.
 - **Review the appropriateness of having different due process arrangements for different work streams.** The standard-setting boards and the PIOB should discuss this, using lessons learned from past projects with a focus on enhancing speed by creating additional flexibility, for example, by having different due process arrangements for different streams of work.
 - **Review processes for identifying and responding to regulators concerns,** in particular with respect to the enforceability of standards.
 - **Revise processes to rebalance the detailed work undertaken by the standard-setting boards and technical staff.** For example, consideration should be given to how the amount of detailed page-by-page drafting performed by the standard-setting boards in plenary might be limited. To the extent possible, the standard-setting boards should undertake detailed drafting only once key issues have been discussed and agreed to and the near final pronouncement is due to be discussed and approved.
 - **Continuously leverage technology to gain efficiencies.** IFAC encourages the standard-setting boards to continue work already underway to examine ways to enhance efficiencies through the use of technology, for example, in stakeholder comment analysis and document review management.

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- **Align staff numbers and skills** to evolving standard-setting arrangements. The board chairs, technical support staff, and oversight bodies (as appropriate) should initiate a dialogue to ensure the sufficiency of staff resources. They will need to consider how best to acquire and retain the technical expertise needed to achieve their strategies and work plans.

TABLE 1: CONCERNS, PERCEPTIONS, AND POTENTIAL REFORMS

Governance and Oversight Arrangements

The following table summarizes concerns expressed with oversight arrangements, in particular the operation of the PIOB, as well as potential enhancements to address those concerns.

Concern	Current Arrangement	Perception	Potential Enhancements
Operating Outside Mandate	The MG is charged with monitoring activities of the PIOB to ensure that it is accountable and operating within its mandate.	Over the past few years, the PIOB has self-admittedly expanded the scope of its activities, beyond its formal mandate.	<ul style="list-style-type: none"> Activities reflect a broader group of stakeholders. Positive annual statement regarding adherence to robust due process in the public interest.
Lack of Representation	MG appoints PIOB members based on nominations received from MG organizations and IFAC.	PIOB composition does not reflect the broad stakeholder interest in standard setting; and is dominated by one region.	Recreate the PIOB: true multi-stakeholder board premised on transparency, accountability, and geographic diversity.
Lack of Appropriate Skills	<ul style="list-style-type: none"> MG appoints PIOB members based on nominations received from MG organizations and IFAC. No predefined skills and expertise requirements, or geographical diversity targets, to inform selection process.	PIOB composition does not indicate it has appropriate skills to address the matters before it.	Clearly articulate skills requirements and create formal nomination and selection processes for PIOB appointments.
Lack of Transparency	<ul style="list-style-type: none"> The PIOB issues updates after each meeting, which is closed to the public and key stakeholders, is not recorded and which does not have minutes published. Meeting agenda papers are not published.	Within PIOB, it is not clear how matters are evaluated, how decisions are reached, and whether there is unanimous support for published outcomes. Hence, PIOB is not discharging its accountability to the public and the MG.	Open all meetings and agenda papers of the PIOB to the public to provide transparency into deliberations and decision making.

Perceptions of Independence

The following table summarizes the key pressure points across the standard-setting model where perceptions are held that one stakeholder may be able to exert undue influence over standard setting. Potential additional checks and balances are identified.

Pressure Point	Checks and Balances	Perception	Potential Additional Checks and Balances
Oversight	See above		
Nomination and Appointments	<ul style="list-style-type: none"> • Robust nominations process, based on notion of “best person for the job,” but with appropriate gender and geographical diversity. • All meetings observed by PIOB and all papers provided to PIOB. • Open nominations for all standard-setting boards. • “Reserved” positions for a certain number of nominations abolished some years ago. <p>Performance program for all standard-setting board members to assist in determining re-appointments.</p>	<p>Nominations and appointments dominated by the accountancy profession, especially as Nominating Committee chair is IFAC President and all Nominating Committee members nominated by IFAC member organizations.</p>	<ul style="list-style-type: none"> • Chair to be independent of the accountancy profession, the MG, and the PIOB. • Balance Nominating Committee composition between accountancy profession and other stakeholder groups. • Ensure that roles of participation and oversight remain separate.
Composition of Standard-Setting Boards	<ul style="list-style-type: none"> • Appointments to standard-setting boards are made based on notion of “best person for the job.” • Two-thirds majorities required for approval of all key pronouncements. • Robust due process and independent oversight are in place, including direct PIOB observation. <p>All standard-setting board meetings are open to the public and all materials and proceedings are made publicly available.</p>	<p>As nine of the 18 standard-setting board members are practitioners, there is a perception that the accountancy profession has undue influence over standard setting.</p>	<p>Restructure the standard-setting boards’ composition to more explicitly reflect a multi-stakeholder composition, (for example, accountancy profession, preparers, investors) recognizing that strong technical capabilities are important.</p>

Perceptions of Independence (cont'd)

Pressure Point	Checks and Balances	Perception	Potential Additional Checks and Balances
<p>Funding</p>	<ul style="list-style-type: none"> The standard-setting boards operate independently in terms of establishing their strategies and work plans, and in standards development, under direct PIOB observation. They are required to confirm to the PIOB that sufficient funding has been attained. Funding delivered by IFAC is unencumbered and received unconditionally, inasmuch as IFAC is unable to direct the standard-setting boards on how funds are utilized. <p>IFAC provides administrative support to the standard-setting boards in accordance with service-level agreements.</p>	<p>Funding for the standard-setting boards and a majority of funding for the PIOB is provided by the accountancy profession through IFAC, thus some perceive the accountancy profession to have undue influence over standard setting.</p>	<ul style="list-style-type: none"> Other stakeholders contribute to funding the standard-setting model to reduce reliance on funding from the accountancy profession. <p>Either:</p> <ul style="list-style-type: none"> Strengthen arrangements through enhanced financing oversight. <p>Or:</p> <ul style="list-style-type: none"> Introduce a process whereby a funding amount, within agreed parameters, is allocated by a "committee" comprising relevant representatives, to respective standard-setting boards. IFAC transacts on behalf of standard-setting boards and reports on utilization to the "committee."
<p>Staffing (Note: The standard-setting boards are not separate legal entities and hence not able to employ staff in their own names.)</p>	<ul style="list-style-type: none"> Although contracted by IFAC, staff report to Managing Director, Professional Standards; and IFAC is unable to direct the standard-setting boards on how staff are utilized. Performance assessment of Managing Director, Professional Standards based on assessments by board chairs. Performance assessment of standard-setting board staff executed and overseen by Managing Director, Professional Standards. IFAC supports standard-setting boards in accordance with service-level agreements. 	<p>As staff contractually employed by IFAC, some perceive the accountancy profession to have undue influence over standard setting.</p>	

Operating Processes and Efficiencies

The following table summarizes concern expressed with the operations of the standard-setting boards; as well as potential enhancements to address those concerns.

Concern	Current Arrangement	Perception	Potential Enhancement
Size of the Standard-Setting Board	18 members on a board ensures that there is broad geographic and skills diversity. Most decisions are supported unanimously by the standard-setting boards, which means that positive votes reflect broad acceptance (which is helpful for subsequent adoption and implementation).	Current size of 18 members is considered too large to allow the boards to develop and issue standards in a timely manner.	Consider whether the standard-setting board could retain appropriate geographic and skills diversity, and international legitimacy, with a smaller number.
Composition of the Standard-Setting Board	The composition of SSBs is based on having up to nine audit practitioners, and at least nine non-practitioners, of which at least three must be public members.	By having nine (50 percent) of the seats on the standard-setting board, audit practitioners exert undue influence on standard setting. Many non-practitioners are also members of the accountancy profession.	Restructure standard-setting board composition to more explicitly reflect a multi-stakeholder composition, (for example, accountancy profession, preparers, investors), while continuing to reflect the strong technical capabilities needed.
Role of the Standard-Setting Board	Notwithstanding the existence of task forces which are used for detailed discussion and drafting, the standard-setting boards in plenary often focus on specific detailed wording and editing of documents.	The standard-setting boards are too involved in detailed writing of standards and “turning pages”; they should have a more strategic focus.	<ul style="list-style-type: none"> As standards are technical in nature, the input of standard-setting board members, who have relevant expertise, is important. Consider whether staff should have a greater role in leading projects, and what role task forces should play. Focus standard-setting board members on higher-level review, rather than detailed drafting.
Staff Resourcing	<ul style="list-style-type: none"> Technical staff support task forces and standard-setting board members in drafting, and provide administrative support. 	Current technical staff levels—in terms of number and expertise—are not sufficient to meet standard-setting demands.	Potential staffing enhancements are dependent on the outcomes of other aspects of the standard-setting arrangements under discussion.

Operating Processes and Efficiencies (cont'd)

Concern	Current Arrangement	Perception	Potential Enhancement
<p>Speed of Standard Setting</p>	<p>The current PIOB mandate allows for the development and execution for more flexible due process arrangements; but PIOB has not acted on this point.</p>	<p>Time taken for the IAASB and IESBA to develop and issue standards is too long; the standard-setting boards are not sufficiently nimble and responsive. (However, the speed of standard setting by the IAASB and IESBA is arguably faster than comparable standard-setting boards, for example, the International Accounting Standards Board and the US Public Company Accounting Oversight Board.)</p>	<ul style="list-style-type: none"> • Improvements in due process arrangements discussed and agreed between the standard-setting boards and the PIOB, including additional flexibility for emerging issues, will enhance speed. • This includes having different due process arrangements for different streams of work—for example, new standards, revised standards, minor updates. • Explore productivity enhancements through greater use of technology

TABLE 2: ACCOUNTABILITY FRAMEWORK FOR INTERNATIONAL STANDARD SETTING

Item	Oversight Body ²					
	SSB	PIOB	MG	IFAC	SSB Staff	Others
Entire System Working Effectively	Adheres to robust due process.	Ensures effective due process arrangements, oversees compliance with due process, approves standards on basis that due process has been followed, and endorses SSB funding request to achieve SWP, and submits to IFAC.	Undertakes periodic reviews and consults with key stakeholders to identify public interest matters.	Provides support for standard setting in accordance with service-level agreements, and within the limits of IFAC overall resource constraints.	Adheres to robust due process, and ensures that expertise and skills are maintained.	
Quality of Standards Developed	Adheres to robust due process.	Ensures effective due process arrangements, oversees compliance with due process, and approves standards on basis that due process has been followed.		Provides support for standard setting in accordance with service-level agreements.	Adheres to robust due process, and ensures that expertise and skills are maintained.	
Ensuring Public Interest Is Protected	Adheres to robust due process and provides suggestions to PIOB on how due process can be improved.	Ensures effective due process arrangements, oversees compliance with due process, and approves standards on basis that due process has been followed.	Undertakes periodic reviews and consults with key stakeholders to identify public interest matters.	Provides support for standard setting in accordance with service-level agreements.		
Oversight Operating Effectively		Adheres to clear objectives and oversight role.	Robust nominations process for appointments to PIOB, periodic review of PIOB chair and members' performance, and ensures that PIOB has sufficient funding.			

² This framework identifies the MG and PIOB as separate organizations. However, if the two organizations were to be merged, the accountabilities would be relevant also for the single oversight body.

Item	Oversight Body ²					
	SSB	PIOB	MG	IFAC	SSB Staff	Others
Funding	Assesses and requests funding sufficient to achieve strategy and work plan; and reports periodically to IFAC Board on utilization of funding.	Endorses standard-setting board funding request to achieve strategy and work plan, and submits to IFAC.		Provides support for standard setting in accordance with service-level agreements; within the limits of IFAC overall resource constraints.		
Quality and Level of Staffing	Ensures staff resourcing and technical expertise is sufficient to achieve strategy and work plan; and reports periodically to IFAC Board.			Provides support for standard setting in accordance with service-level agreements.	Ensures that expertise and skills are maintained to achieve the strategy and work plan; and supports standard-setting board members.	
Nominations and Appointments	Standard-Setting Board chairs review performance of individual SSB members who provide input to nominations process.	Oversees nominations process (including full observation of all meetings) and approves nominations on basis that robust process has been followed.		Provides support for standard setting in accordance with service-level agreements. Adheres to robust nominations process, including extensive review of standard-setting board chairs' and individual board members' performance.		
SWP³	Adheres to robust due process; including broad public consultation (including input from the CAG).	Oversees due process and approves strategy and work plan on basis that due process has been followed.				
Adoption and Implementation	Adheres to robust due process and ensures feedback received on new and revised standards is fed back into future standards development.	No specific accountability, but through achieving clear objectives pertaining to oversight, enhances the credibility and legitimacy of the arrangements and the standards.	Promotes the strength of the standard-setting arrangements and the quality of standard developed	Promotes adoption and supports implementation through its global representation and advocacy activities, and its Compliance Program.		Many stakeholders, including IFAC members, firms, international organizations (for example, IOSCO, IFIAR) promote adoption and support implementation.

³ Currently work plans of standard-setting boards outline projects and timelines over the coming period, but are presented without the primary focus by the standard-setting board, and other key stakeholders, being on the timeliness (speed) of standard setting