

THE WORLD BANK

COMMENTS ON THE MONITORING GROUP'S PUBLIC CONSULTATION ON THE GOVERNANCE OF THE INSTITUTIONS INVOLVED IN ISSUING INTERNATIONAL PUBLIC INTEREST STANDARDS FOR ACCOUNTANTS

JUNE 2012

The World Bank welcomes the opportunity to comment on the Monitoring Group's public consultation. We recognize the ongoing importance of the Monitoring Group's maintaining a dialogue with stakeholders on the institutional arrangements for international standard-setting in the fields of auditing, ethics and education.

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

We believe that the existing arrangements are adequate to ensure that the public interest is properly represented, but there is always scope for refinements and incremental improvements within the existing structure. However, these questions were explored in depth as part of the Monitoring Group's Effectiveness Review: in our view it is a little premature to be revisiting them at this point. A further airing of the issues could be factored into the next review.

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

We would not favor a different and fully independent standard-setting model outside the IFAC structure, nor do we see this as a realistic proposition over any time horizon. The development of standards in the fields of auditing, ethics and education necessarily requires leveraging the specialist expertise that is typically found within the large accounting firms; and it is a fact of life that these firms exercise significant influence over IFAC and over the organization of the profession. Accordingly, we do not regard it as realistic to envisage a standard-setting model that is somehow separate from the profession or from IFAC. Rather, we support the continued monitoring and refinement of the mechanisms that were put in place as

part of the 2003 reforms, to increase confidence that IFAC's standard-setting activities are properly responsive to the public interest.

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

We consider the current three-tier system to be adequate for achieving its objectives. The Monitoring Group (MG) monitors the activities of the Public Interest Oversight Board (PIOB), which in turn oversees the standard-setting activities of the Public Interest Activity Committees (PIACs). That being said, we feel that some refinements could be made to the operation of the three-tier system, for example:

- It would be beneficial for the relative seniority of the current memberships of the MG and the PIOB to be inverted. As the body that monitors the PIOB, MG members should be more senior than those on the PIOB.
- The MG and the PIOB should remain focused on their core functions, as specified in the 2003 reforms. We see no need for the MG to have a more strategic role, nor for it to become more involved in PIAC activities. Similarly, the PIOB should focus on due process oversight of the PIACs and the Nominating Committee.

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

Before considering the optimal oversight arrangements for the IPSASB, there is a prior question to be addressed: within which organization should the international standard-setter for the public sector be located? In our view, over the medium- to long-term the International Accounting Standards Board should take on the development of accounting standards for the public sector. There is a high degree of commonality between the principles and rules that should dictate accounting and financial reporting in the private sector and the public sector. Accordingly, we see no good reason for there to be separate arrangements for standard-setting for the two sectors.

That being said, given the reluctance of the IFRS Trustees to take on this role at this point, it is clear that the IPSASB will continue in its current form for the foreseeable future. In order to enhance the credibility of the Board, as well as to provide assurance that it acts in the public interest, it is important for the IPSASB to be subject to some form of oversight. Given the existing structures in place for oversight of the PIACs, there would seem to be persuasive arguments for the PIOB to take on the task of oversight of the IPSASB. The only condition we would impose on such oversight would be for the membership of the PIOB to be reconfigured so as to include the requisite public sector experience and expertise.

We do not see the fact that the IPSASB deals with accounting rules as raising any particular issues from an oversight perspective. The PIOB oversees PIACs that set standards for auditing, ethics and education: it is primarily concerned with the quality of the process associated with the setting of the standards, rather than with their technical content, so we do not see particular issues with the inclusion of accounting standards.

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

We certainly see merit in having a Compilation document for the entire structure, given the low level of understanding that currently exists among stakeholders as to the structure of the standard-setting, oversight and monitoring arrangements.

Of the two options presented, we would prefer the first – for the document to be organized through the PIOB Foundation.

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

We agree that a comprehensive name for the entire structure would provide clarity to stakeholders and other parties. Of the options presented, in our view the name “International public interest standards for the accounting profession” combines accuracy and succinctness.

Whilst we believe that a comprehensive name for the structure would be beneficial, we do not think it follows that all the entities within the structure need to change their names so as to replicate the overarching name. In our view, the PIOB name should remain as is, and consideration should be given to extending the MG name to: “Monitoring Group of the International Public Interest Oversight Board”.

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

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

We do not agree with the proposal for the MG to have a more strategic role, as outlined in the consultation document. We believe that the MG should adhere to its core mandate, which is to monitor the activities of the PIOB, and to nominate its members. We see no need for the “closer and more strategic involvement with the PIOB” as proposed in the document, as this would seem to blur the respective roles

and responsibilities of the MG and the PIOB. Similarly, the proposal to engage in closer involvement with the PIACs seems to be taking on a role that is explicitly assigned to the PIOB. Moreover, ample opportunities exist for MG members to provide advisory input on standard-setting via the CAGs.

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

We agree that the MG should have a communications strategy, and for the most part we agree with the specific proposals in this regard. However, we do not agree with the proposal for the MG to have greater direct involvement with the PIACs, as this is the PIOB's responsibility.

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

We agree with the suggestion to conduct portions of MG meetings in public, as a means of enhancing the transparency of its activities. The MG could also prepare meetings summaries shortly after its meetings, as well as making recorded proceedings available on its website etc.

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

We believe that it would be useful for the MG to engage with organizations representing governmental institutions, possibly with a view to putting in place appropriate accountability mechanisms for the MG's activities. However, any such engagement should be undertaken as part of a co-ordinated approach on behalf of the overall structure, rather than the individual organizations (IFAC, PIOB, MG) all making their own approaches.

It would probably make more sense to focus on the Financial Stability Board rather than the G-20 for this purpose.

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

- (i) We believe it would be beneficial for the membership of the MG to be broadened. However, in our view additional members should be drawn from

- regional regulators and international organizations only. We do not support the inclusion of national regulators on the MG, as the MG should be purely concerned with international/global issues.
- (ii) From a practical perspective, we would suggest that a ceiling be established for the number of MG members. The determination of what the ceiling is should be is a matter for the MG.
 - (iii) We would favor a change in how the MG Chairperson is appointed.

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

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

Please refer to our response to Q3: the respective levels of seniority of PIOB and MG members should be inverted. The MG should be the more senior group. Once this has been accomplished, we see no problem with MG members appointing full-time members of their organizations as PIOB members, provided that some form of Chinese wall arrangement is in place to ensure that information is not shared inappropriately. In this context, we believe that direct hierarchical relationships between PIOB and MG members should be avoided.

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

We believe that the respective roles of the MG and the PIOB are clear. The issuance of the Compilation document proposed under Q5 will be an important tool for promulgating these roles.

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

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

These would seem to be matters that should be worked out in the first instance between the PIOB and the MG.

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

The PIOB composition is a function of the agreed nominating arrangements, whereby its membership broadly reflects that of the MG. That being said, as the

consultation paper notes, consideration should be given to whether the new MG members – the FSB and IFIAR – should appoint members of the PIOB.

Going forward, we do not believe it would be helpful for the entire composition of the PIOB to be revisited each time a new body becomes a member of the MG. There should be sufficient flexibility to be able to appoint new members on an *ad hoc* basis to accommodate new MG member bodies, without the need to review the composition each time.

As we note elsewhere in these comments, we believe that the relative seniority of the MG and PIOB memberships needs to be adjusted. This may call for changes in the current composition of the PIOB.

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

Questions pertaining to the optimal composition of the PIACs were canvassed in detail as part of the MG's Effectiveness Review in 2010. It seems a little premature at this point to be seeking the views of stakeholders on essentially the same set of issues. We suggest that this be revisited as part of the planning for the next Effectiveness Review.

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

We support the rotation of representatives of CAG member organizations. How this is implemented in terms of term lengths, maximum number of terms, staggering of rotations etc is a matter for the PIOB to determine.

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

We agree that it is not realistic at the current time to revisit the funding arrangements for the overall structure of standard setting arrangements. In the current climate, considerable effort could be expended with little tangible result.

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

We do not consider it appropriate for IFAC to be financing the largest part of the PIOB budget. Even with the blind trust arrangements in place, it is awkward for

IFAC to be perceived to be funding its own oversight body: this raises issues of independence as well as credibility.

In our view the PIOB, the MG and IFAC should jointly undertake ongoing fundraising activities in order to secure external funding for the larger part of the PIOB's operations, and thereby limit the perceived conflict of interest that currently exists.

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

Whilst it may be feasible to construct similar funding arrangements for the PIOB as those in place for the IFRS Foundation, we do not believe that this should be the organizing principle for fundraising activities. There are structural as well as legal differences between the IFRS Foundation and the IFAC structure. Moreover, whilst there is some degree of overlap of stakeholders/potential funders, there are also potential sources of funding for the PIOB that would not have an interest in financing the activities of the IFRS Foundation. We believe that IFAC, the MG and the PIOB should develop their own fundraising strategy, rather than seeking to mimic what is in place for the IFRS Foundation.

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

We believe there is a need for a permanent Secretariat for the MG. The current arrangement, where the Chair is responsible for providing the Secretariat, is not sustainable. Questions of how the Secretariat is to be organized and resourced are for the MG to answer.

Q25 - Q28: We offer no further comments on these questions, since they tend to replicate questions that are raised earlier in the consultation document.