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The Monitoring Group
C/O International Organization of Securities Commissions
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Submitted electronically: MG2017consultation@iosco.org

Public Consultation: *Strengthening the Governance and Oversight of the International Audit-Related Standard-setting Boards in the Public Interest*

Dear members of the Monitoring Group:

Deloitte Touche Tohmatsu Limited is pleased to respond to the request for comments from the Monitoring Group (MG) on the important topic of strengthening the governance and oversight of international audit-related standard-setting boards. International audit-related standards are critical in ensuring that audits support the efficient and effective working of the capital markets and that audits are meeting the needs of investors and lenders and serving the public interest.

The current model for governance and oversight of international audit-related standard-setting has been in place for over a decade. In that time, we have observed that:

- The model has been very effective in serving the public interest by developing high quality audit-related standards.
- The quality of the standards and the support of the professional accounting organizations around the world have resulted in wide acceptance of the international standards across the globe, with adoption by approximately 120 countries.

However, in this rapidly changing environment, we believe all constituents, including standard-setters, need to embrace a culture of continuous improvement. Notwithstanding the success of the model over the last decade, we believe that now is a good time to relook at the current model to evaluate steps that can be taken to drive continuous improvement and to build even greater and sustainable trust by all stakeholders in the quality of international audit-related standards.

Core principles

We welcome the above-referred consultation paper (CP) to explore ways the current model may be improved. However, we have several concerns regarding the design and implementation of the reforms outlined in the CP that are being considered by the MG. We believe that a reformed model should be consistent with the following core principles:

- **Separation of governance and standard setting:** Distinct and separate roles for governance and standards development – governance should oversee the activities of the standard-setting boards, but not assume the role of the standard-setting boards by intervening in technical matters;
- **Multi-stakeholder representation:** Participation of all relevant stakeholders at both the governance and standard-setting levels, where the audit profession should be one of the stakeholders; and
- **Funding:** A pathway to a broad-based funding model within an agreed and publicly available timetable.

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Reforms explored in the CP

Approach to Governance of the Standard-Setting Boards – The CP proposes moving the standard setting process from IFAC to an independent entity. This move would result in changing the model from the private – public collaborative process that exists today. In a model in which the standard-setting boards are part of an entity that is independent of the profession, a governance body also needs to be created, which has an oversight role consistent with the oversight typically provided by a board of directors (or trustees). In an independent standard-setting model, one of the key responsibilities of the oversight body would be to set the strategy of the standard-setting organization, including the priorities of the standard-setting boards, and have a process to approve the standard-setting boards' work plans.

We believe that the CP does not adequately explore this fundamental shift to delineation between the standard-setting responsibilities of the board(s) and oversight responsibilities of the governance body. The CP merely attempts to broaden the role of today's PIOB to expand the activities beyond its current monitoring activities to include some additional responsibilities one would expect in a governance body (see our response to Q.1. in the Appendix). In our view, retaining the oversight function with the PIOB blurs the line between governance and operations and will diminish the effectiveness of the standard-setting board by creating a model where governance is not comprised of multi-stakeholder representation and where the governance body can intervene in standard setting at any time, thereby overriding due process and public interest. For the above reasons, we also believe that changes to the governance model need to occur before, or no later than the same time as, the changes made to the standard-setting boards. We also believe that this would be an appropriate time to consider whether changes to the role of the MG are needed.

We also note that the IASB has demonstrated its effectiveness as an independent standard-setter. The broad acceptance of the quality of international accounting standards is a testament to the structure of the IFRS Foundation from a standard-setting and governance perspective. As the IFRS Foundation model is tried and tested, we believe that strong consideration should be given to the adoption of an essentially similar model for governance and monitoring for the international audit-related standard-setting process.

Funding – While we recognize the difficulties in implementing a global mechanism to achieve a diversified, sustainable funding model that does not overly rely on the profession, we believe that it is important that a clear pathway to funding is defined, and is in the process of implementation, at the time the standard-setting reforms are first implemented. All stakeholders will need to have the confidence that the new model is sustainable. Further, moving the standard-setting model into an independent entity may lead to questions regarding the viability of the model unless a pathway to funding is defined upfront.

Transparency – Transparency at all levels – from the process used to develop standards, to governance by the governance body, to the oversight activities performed by the MG – is the key to achieving confidence, trust and acceptance in the reformed standard-setting model. Particular focus should be given to areas in which transparency may be insufficient or less than what it is under today's model (for example, moving greater responsibility for the development of standards from the standard-setting board level to the staff level as well as areas that are new in the reformed model would benefit from increased transparency).

Public interest framework – The CP notes the importance of establishing a public interest framework, but does not sufficiently describe the framework or attempt to define public interest. The definition of public interest and articulation of the public interest framework are critical to understanding whether a particular standard-setting model can be effective in setting standards that meet the defined public interest objectives. Accordingly, we believe that the first steps in the design of a proposed reformed standard-setting model should be the development of the definition of public interest and the accompanying public interest framework. Given the critical importance that the public interest framework will have in establishing a revised standard-setting model and in the development of audit-related standards in the future, we believe that the process for developing the definition of public interest and the related framework for its application should be transparent and ensure multi-stakeholder participation, including being exposed for public consultation.

Scope – The CP does not clearly define the board(s)' scope with respect to other audit and assurance services, nor whether the scope is intended to include standards other than those related to auditing directly. For example, it is unclear if the CP's scope includes areas such as financial statements' compilation and

reviews, agreed-upon procedures, and other assurance engagements (i.e. in the areas of sustainability). We believe that the scope should be clearly defined by the MG, and should be an area of early focus for the MG.

Global consistency – Continued support and adoption of global standards by national governments, audit and market regulators, and professional bodies is critical. A potential unintended consequence of insufficiently-supported reforms can be that individual countries or regulators may revert to setting their own standards. Not only would the adoption of local standards be detrimental to global consistency, but it would also be detrimental to the consistent application of international audit-related standards for multinational entities. This further underlines the importance that the reformed model should have a multi-stakeholder representation at the governance and standard-setting levels to ensure acceptance by stakeholders, who have confidence that their needs and interests were considered in the development of standards.

Further, the reformed model should not result in having different national standards for public interest entity (PIE) and non-PIE audits as global consistency of standards for all audits is imperative for well-functioning capital markets. We believe that principle-based scalable standards should be developed where, if necessary, the core principles applicable to all audits could be supplemented to address local requirements.

Moving forward

In our engagement with various stakeholders since the issuance of the CP, it is clear that many varied and important stakeholders are very interested in audit-related standard-setting. Multi-stakeholder interest was also demonstrated by the diverse stakeholder representation at the roundtables held by the MG. However, many stakeholders expressed surprise that such fundamental changes in the current model are being considered, questioned how the CP is responsive to addressing the perceptions of over-influence by the profession, and expressed to us the importance of continuing to have a process for setting high quality international audit-related standards. In many of our discussions, questions have been raised as to how will “I” be impacted by a change to the model – for example, what will it mean to me in my role as an audit committee chair, what will it mean to me as an investor, etc. This level of interest and engagement by such stakeholders has reinforced our view that the standard-setting boards and their governing bodies need to have diverse stakeholder participation covering all relevant constituencies.

We have also sensed that a reformed model would have a greater multi-stakeholder acceptance if stakeholders had confidence that their needs and interests were considered in the development of the proposed model. While participation in roundtables and the ability to provide written comments are appreciated by all stakeholders, we believe that it is of paramount importance to proceed in a way that substantively encourages and proactively facilitates ongoing multi-stakeholder participation as the development of the proposed reforms moves forward. Accordingly, we believe that the MG should explore ways in which to drive greater multi-stakeholder participation and increased transparency as it moves into the next phase of its project. Considerations could include – increasing engagement with stakeholder groups throughout the process of developing the proposed reforms, adding representatives from stakeholder groups to the MG standard-setting reform working group, creating a new multi-stakeholder panel or working group to develop the proposed reforms to the standard-setting model, hosting open meetings. No matter which approach is followed, we believe it would be important to increase the transparency throughout the process so that all stakeholders are informed of the decisions made and the basis for such decisions on a timely basis and have the opportunity to interact with the MG standard-setting reform working group in a real time.

Response to CP questions

We have included our responses to the individual questions contained in the CP in the Appendix to this letter. These responses are presented with the intent of being helpful to the MG as it proceeds in the development of a proposed model for international audit-related standard setting. As noted above, there is no common definition of public interest. We believe that the development of such definition and the related public interest framework should be an early area of focus for the MG. In addition, this project and the issuance of the CP has led to discussion among stakeholders that have been helpful in us shaping our current views and will likely continue to shape our future views on the matters discussed in the CP.

Closing remarks

We appreciate this opportunity to comment, and would be pleased to discuss our letter with you further. Please contact Bill Platt at +1 203 761 3755 or via email at wplatt@deloitte.com, Cal Buss at +1 604 640 3313 or via email at cbuss@deloitte.ca, or Wally Gregory at +1 203 761 3190 or via email at wgregory@deloitte.com.

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Appendix

Section 1: Key areas of concern in the current standard-setting model

Q1. 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?

The current International Federation of Accountants (IFAC) standard-setting model has been effective in serving the public interest by developing high quality standards for audit and ethics. This model also has a positive influence on the global adoption of the international standards – it accelerated the consistent adoption in a number of jurisdictions around the world. The broad global adoption of audit and ethics standards supports public interest and stakeholders', including investors' needs.

However, we have significant concerns about the proposed staged consideration of reforms to the governance model. We strongly believe it is critical that the governance reforms should occur simultaneously with the changes in the standard-setting model. Delaying the reform of the governance model will (i) undermine the credibility of the new standard-setting boards and (ii) negatively impact the ability of the independent standard-setting boards to fulfill their mission of developing standards that are in the public interest.

Specifically, several changes have been made to the model over the years, including a creation of the Public Interest Oversight Board (PIOB). The PIOB was created as a key part of a collaborative model between the accounting profession (IFAC) and the international regulatory community (MG) with the objective of producing high quality global standards that are responsive to the public interest. This model was designed to take advantage of the benefits of a private-public collaboration. The architecture attempts to balance the contribution from the profession to standard-setting – which helps ensure the high quality and applicability of standards – against important checks that help ensure the public interest is addressed with the oversight by the PIOB. Under this model, the PIOB role was designed to operate more in the role of a monitor than as a governance body to ensure that the public interest was being served.

Notwithstanding the effective design and operation of the current model for the past dozen years, in the CP the MG notes that some stakeholders have the perception that the profession has undue influence in the current international audit-related standard-setting processes. In part, to cure this perception, the CP proposes moving away from the current private-public collaborative model to a model in which an independent entity is created (or utilized) for the purpose of developing international audit-related standards. In a model in which the standard-setting boards are part of an entity that is independent of the profession, a governance body consistent with a board of directors (or trustees) would need to exist to provide oversight to the process as a whole (rather than in a monitoring function). One of the key responsibilities of the governance body would be to set the strategy of the standard-setting organization, including the priorities of the standard-setting boards, and have a process to approve the standard-setting boards' work plans. We believe that the CP does not explore this fundamental shift in governance responsibilities and merely attempts to broaden the role of the PIOB to expand its activities beyond monitoring to include some of the additional responsibilities one would expect in a governance body. In our view, this blurs the line between governance and operations and will diminish the effectiveness of the board by creating a structure whereby governance can step into the role of management.

Section 2: Guiding principles

Q2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the MG should consider and why?

We believe that the reformed model should encompass the following three principles:

- Distinct and separate roles for governance and standards development – governance should oversee the activities of the standard-setting boards, but not assume the role of the standard-setting boards by intervening in technical matters. For example, the organization/model similar to International Accounting Standards Board (IASB)/International Financial Reporting Standards (IFRS) Trustees is a model for standard-setting and governance that would meet this principle. The governance body should not have

the ability – nor should it need – to directly influence the content of the standards. Directly intervening in the development of standards would be to override due process and contradictory to the overarching principle of transparency that should underpin the process.

- Participation of all relevant stakeholders at both the governance and standard-setting levels (geographical representation and diversity of skills, expertise and perspectives), where the audit profession should be one of the stakeholders. The aim should be for a model that is designed to be representative of all key stakeholder groups to have confidence that their views will be considered and appropriately weighed; the board is able to make informed, balanced decisions taking all input into account; and the resulting standards are of high quality and recognized as such by all stakeholders.
- A pathway to broad-based funding within a foreseeable timeframe. One of the factors that leads to the perception of undue influence on the standard-setting process is the fact that the current model's funding is provided solely by the profession. The funding model for the governance body should be equitable and should be free from perceived conflicts of interest.

In order to not undermine the confidence in the proposed standard-setting model, the three principles should be fully met at the inception of the implementation of the new model rather than being introduced in stages.

Q3. 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?

The CP notes that a framework for developing standards in the public interest is being developed by the PIOB. It is challenging to comment on the CP or the future proposed model (i.e., if the developed standard-setting model will strengthen the public interest in the standard-setting process) in the absence of the public interest framework. Given that the public interest framework is such an integral part of the standard-setting model, we are concerned as to how stakeholders can comprehensively respond to the proposals and how the MG can evaluate the proposed reforms and responses to this CP without it.

Consistent with the multi-stakeholder principle outlined above, we believe that it will be important for the public interest framework as it is being developed to have ongoing multi-stakeholder input and to be exposed for consultation prior to its finalization. It is important to recognize that not only regulators but also many other stakeholders focus on acting in public interest and multi-stakeholder input is critical to develop an appropriate public interest framework.

In developing the public interest framework, we believe it is important to consider the public interest frameworks used by accounting standard-setting boards (IFRS) as the work performed by an auditor and related reporting is closely related to the financial statements. Accordingly, the definition of public interest should be aligned for accounting and audit-related standard-setters.

We also believe that understanding the developments impacting the accounting profession is important in addressing public interest. Innovation and globalization are extremely dynamic areas. The changes need to be proactively identified, continuously monitored, and considered for the standard-setting process to address public interest.

Section 3: Options for reform of the standard-setting boards

Q4. 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.

There are pros and cons of having two separate boards responsible for setting (i) auditing and assurance standards and (ii) ethical standards. The key principles to consider when making a decision around single vs. two board should be:

- The standards-setting board(s) operate at a more strategic decision-making level than the current model, with multi-stakeholder representation.
 - The multi-stakeholder representation should ensure appropriate geographic representation and expertise in both ethics and auditing.

- In order for the standard-setting board(s) to be able to function at the appropriate strategic decision-making level, the boards will need to have an expanded staff of highly qualified professionals with relevant auditing and/or ethics experience, who would be responsible for leading individual standard-setting projects.
- Auditing and assurance and ethics standards should be viewed as complimentary to each other and support each other application. For example, if there are two boards, the auditing and assurance and ethics standards boards should be aligned on the overarching principles around standard-setting.

Further, as the CP does not clearly define the board(s)' scope and if the scope should include standards other than those related to auditing directly (e.g. areas such as financial statements' compilation and reviews, agreed-upon procedures, and other assurance engagements (i.e. in the areas of sustainability), careful evaluation is needed of the capacity constraints of any board(s). For example, a single board may not be able to accomplish as much as two (i.e. ethical matters may not get as much attention or focus as auditing matters or there will be less focus on other assurance-related projects, etc.).

Having two boards supported by qualified staff will likely increase costs, which further outlines the importance of the broadened funding base where the profession is not the primary source. If the new model relies more on technical staff to develop proposed standards, it will be important for the staff to operate in a manner that preserves and further enhances the transparency of the current standard-setting model so that stakeholders can follow the development of standards and provide meaningful input into their development.

Q5. 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?

We believe it is appropriate for the development and adoption of educational audit-related standards to remain with IFAC. In the event, the international audit-related standard-setting is moved out of IFAC and into an independent entity, we do not believe that the new governing body (or the PIOB) should have an oversight role or responsibility with respect to such educational standards.

Similarly, IFAC currently manages the international compliance program of its member bodies. We believe it is appropriate to maintain the IFAC compliance program as the responsibility of IFAC in order to help drive continued consistent global adoption of standards.

Q6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

We believe that ethical principles should be the same for the profession as a whole, which could be best achieved by continuing to have all ethics standards be the responsibility of a single ethics standards-setting board. In addition, as an individual may move between roles as auditors and preparers, practitioners or other forms of professional accountants throughout the individual's career, having two sets of similar but not exact standards could give rise to unnecessary confusion about the expectations for the individual.

However, if the responsibility for the setting of ethics standards is split into two boards with the ethical standards for professional accountants in business under the reformed standard-setting model remaining with IFAC, we believe that the fundamental behavioral standards that apply to all accountants (i.e. all professional accountants should act with integrity and objectivity, etc.) should be the same for all accountants. One way to meet this objective would be for the two ethics boards to jointly develop and work on common behavioural ethical standards. Each board would then independently develop incremental standards that would apply to accountants in business or for auditors, as applicable.

Also, please refer to our comments with respect to Q4 regarding a single vs. retention of the separate boards.

Q7. Do you believe the MG 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.

As the MG is working on the proposed model, we believe it is important to remember that one set of global standards that is principles-based and scalable for small and large companies (PIE/non-PIEs) is critical to the global economy. For example, the new standard-setting model should have a clear plan as to how it will ensure the global buy-in by all relevant stakeholders in the new model and consistent adoption of future standards. Please refer to our comments with respect to Q10 regarding relevant stakeholders.

We do not support a model that would result in having different national standards around the globe for PIE and non-PIE audits. However, consistent with current practice, some incremental requirements could be added at a national level to the "core" standards to address local requirements.

Q8. 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?

We agree that the boards should operate at a more strategic decision-making level (i.e., where board members are involved throughout the standard-setting process at all points where key strategic decisions are being made) with highly qualified technical staff responsible for leading the day-to-day project development. Notwithstanding a move of the boards to operate at a more strategic level, we believe that ultimately the board is responsible for the standards, and that each member of the board voting for or against the adoption of a proposed standard would have the responsibility to fully read and understand the proposed standard. Board members should not just rely on the fact that the staff of the board have followed due process in the development of a proposed standard. In order for each board member to fulfill this responsibility to understand each proposed standard, we believe that it will be essential for each standard-setting board member to have at least a basic understanding of auditing and ethics (in other words, be audit literate or ethics literate, as applicable). This capability would need to be assessed through the nominations process, and periodically re-assessed through the performance evaluations process.

We also believe that remuneration should be used to attract the most qualified members such as audit committee members, investors, regulators and preparers, former or retired auditors, who may not be willing or able to commit the necessary time on a voluntary basis. The remuneration should be based on the market-comparable rates with boards of similar nature and responsibilities.

Q9. Do you agree that the board should adopt standards on the basis of a majority?

No. It appears that this recommendation is based on a premise that this change will speed up the process of standard setting. We do not believe that the timeliness will be improved by the boards adopting standards for issuance on the basis of a majority vote if broad-based consensus is not reached. Accordingly, we recommend that the super majority currently required be retained in the new model. Further:

- We believe that the timeliness of standard development should be evaluated in the context of specific projects. Moving too fast or not fast enough both present risks. It is necessary to find the right balance to not jeopardize quality of the standard-setting, while at the same time not falling behind in the fast paced environment where technological advancements that have an impact on standards may be revolutionary rather than evolutionary.
- The change in the boards' composition so all stakeholder groups are represented will add value and depth to standard-setting; however, it will likely add time to the process on the front end, but may result in efficiencies at the end of the standard-setting process.

We also believe transparency during standard-setting process overall is important – which could include practices similar to today's model such as open meetings, and publically sharing "in process" drafts. In addition, we believe that the standard-setting boards should provide sufficiently detailed "basis for conclusions" to promote consistent implementation around the world, which is critical to serve the public interest. In addition, to the extent that a consensus is not reached, we believe that dissenting board members should describe the basis for their dissent in a public publication.

Q10. 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?

In determining the right number of standard-setting board members for each board, there is a need to strike the right balance so that the board is:

- Small enough that the board can engage in meaningful dialogue and that all members take ownership and participate actively (i.e., every member does his/her own work to form views and has the desire, intent and ability to engage in the dialogue). Both part-time and full-time board members should have equal voice and influence.
- At the same time, large enough that an appropriate diversity of representation can be achieved (i.e., through a variety of geographic, experience and skills mix being brought to the board).

We believe that the size of each standard-setting board should be fixed and, therefore, would not support the concept of a minimum board size. In considering the fixed board size, it would appear that a board with twelve members would allow for the right level of engagement within board discussions, but may not be large enough to have the appropriate diversity in stakeholder representation (geographic, subject matter expertise and stakeholder cohort) to achieve appropriate stakeholder representation. It may be that a board of fifteen or eighteen members is needed to achieve the diversity objectives. Accordingly, we encourage the MG to continue to explore what size board is needed to meet the preceding outlined objectives.

While we believe that the list of already identified stakeholders is comprehensive, it will be important to identify sub groups within each group to obtain appropriate multi-stakeholder representation. For example, the regulator group could include securities regulators, audit regulators and financial institution regulators. It may also be appropriate to move users (investors) to the regulators' group as their interests may be more aligned with certain regulators. Using this approach, the third group would be a preparer group, which would include preparers, audit committee members, and others involved in governance, representing both public and private sectors. Participation by active audit practitioners should not be precluded.

In addition to stakeholders, evolution in the profession may translate into the need for individuals with specialized knowledge to participate in the standard-setting process. For example, in addition to accountants, the next generation of auditors may include engineers, data scientists, and psychologists.

The participation of all relevant stakeholders at both the governance and standard-setting levels is needed. To ensure that a reformed standard-setting model has wider acceptance, we believe there should be greater multi-stakeholder involvement in the development of the reformed standard-setting model. One way to effectively accomplish this would be for the MG to explore ways in which to increase multi-stakeholder participation as the MG moves into the next phase of its project such as increasing engagement with stakeholders throughout the process of developing the proposed reforms, adding representatives from stakeholder groups to the MG standard-setting reform working group, creating a new multi-stakeholder panel or working group to develop the proposed reforms to the standard-setting model. This will ensure that the multi-stakeholder views are incorporated from the beginning, which should facilitate a smoother transition from the current model to the future model.

Q11. What skills or attributes should the MG require of board members?

We believe that all board members should be respected representatives of the stakeholder groups that they represent, where all members are audit literate and some members are also audit experts. The individuals should also have appropriate time, interest, and energy to commit to the standard-setting activities. Please refer to our comments with respect to Q8 regarding specialized skills.

Q12. 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?

Yes. We believe the Consultative Advisory Groups (CAGs) add value as they evaluate proposed standards at a more granular level, providing timely subject-matter input throughout the standard-setting process. However, there should be a greater transparency around CAGs meetings (e.g., meetings could be recorded, or meeting minutes could be circulated). Further, depending on the nature of a project, additional expertise may be required to supplement CAG members' subject matter expertise.

Q13. Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

Please refer to our comments with respect to Q3 regarding the public interest framework that has not been developed yet, making a response to this question challenging.

Q14. Do you agree with the changes proposed to the nomination process?

As discussed in our comments to Q1 and in Section 4 below, we have significant concerns about the current governance model and the current operation of the PIOB. We strongly believe it is critical that the governance reforms should occur simultaneously with the changes in the standard-setting boards; therefore, the nomination process will need to be considered accordingly.

We believe that public confidence will be enhanced when stakeholders see multi-stakeholder representation on the governance body that appoints standard-setting board members, which would be the case if the current governance were reformed to have multi-stakeholder representation. We believe that a reformed multi-stakeholder governance body, should be responsible for the selection and appointment of standard-setting board members using open nomination process. We also believe that appointing the highest caliber individuals is the most important consideration.

Section 4: Oversight – Role of the PIOB

Q15.1. Do you agree with the role and responsibilities of the PIOB as set out in this consultation?

No. We believe that in a reformed model, the governance of the standard-setting boards also needs to be reformed. The path contemplated in the CP retains the current role of the PIOB with expanded responsibilities. We believe that in many ways the current role of the PIOB is to be a monitor, which is more invasive in the standard-setting process than the role that a governance body should play. The role and effectiveness of the governance body will be a key to the success of the standard-setting reforms and earning the confidence of all stakeholders that neither the profession nor any other constituent has undue influence on the standards being adopted. In our view, it is necessary to redesign oversight so that the oversight body serves as the guardian of the model and its effectiveness. It should oversee that:

- Due process has been observed
- The model is robust
- Stakeholders have confidence in it

The governance body should not directly intervene in work of the standard-setting board and technical debate. The credibility of the standard-setting process depends on its independence from any particular outside influence.

We agree that there should be an independent and impartial governance body with oversight of the standards-setting process to ensure that no stakeholder has undue influence and that proper due process is observed in standard-setting. We believe that it will be critical for the governance body to have broad governance responsibilities beyond the public interest oversight that is contemplated in the CP.

In light of the broader governance responsibilities, we believe that the name of the governance body should be changed. It should not be referred to as the PIOB as the name PIOB implies that the governance body will only be responsible for the sub set of their broader oversight responsibilities related to the public interest.

We recommend that the governance body is modelled after the IFRS Foundation Trustees, who we believe serve as an effective governance body and ensure the accounting standard-setting board appropriately serves the public interest.

Q15.2. 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?

No. We do not believe that the PIOB/governance body should be able to veto the adoption of a standard, or challenge the technical judgements made by the standard-setting boards. The role of the governance body should be the oversight rather than putting itself in a position in which it becomes the de facto standard-setter via veto rights or the right to challenge judgements made by the standard-setting boards. In the event of disagreements with the technical conclusions made by the standard-setting boards, resignation of a member(s) of the governance body should be the only option available, consistent with the practices established by the IFRS Foundation from a standard-setting and governance perspectives.

In exercising its governance responsibilities, the governance body should have the power, after public consultation, to reconsider or amend the due process used by the standard-setting boards or recommend, for example, improvements to the standard-setting board's outreach activities.

In addition, we believe it would be beneficial to require the governance body to undertake a formal, public review of the structure of the standard-setting boards, its governance arrangements and its effectiveness in fulfilling its objectives periodically (say once every 5 years).

Q15.3. Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?

As noted above, we believe that the PIOB needs to be replaced with a new governance body. The CP notes that there is a perception that the profession has undue influence on the standard-setting process. If that is true, a key challenge for the new governance body and reformed standard-setting boards to overcome will be the perception by some stakeholder groups. A critical component of such process is to involve all stakeholders, including those who are currently challenging the focus on the public interest in the debate. The governance body can play a greater role by publically communicating the rigor of the due process followed by the standard-setting boards and the rigor of its oversight of the standard-setting boards' activities.

Q16. Do you agree with the option to remove IFAC representation from the PIOB?

We do not object to the removal of the right for IFAC to appoint a representative to the governance body. However, we believe that it is critical for the standard-setting and governance bodies to have a multi-stakeholder representation, where the audit profession should be one of the stakeholders.

Further, as noted in the responses to Q18, it is critical to reform the current governance process around standard-setting where the new governance body is selected using an open nomination process (i.e. a model similar to the IFRS Foundation).

Q17. 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?

Similar to the composition of the standard-setting boards, we believe that the governance body should also have multi-stakeholder representation. All board members should have current relevant experience of using audited financial statements where some members are also audit experts.

It is important for the governance body to include some individuals who have previously served in governance roles (boards/audit committees/risk committees) on PIE. Such individuals are well recognized for their background in assessing both management and the auditors work in their fiduciary role to represent the shareholders' interests. Please refer to our comments with respect to Q10 regarding relevant stakeholders.

Q18. 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 MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

We believe that the process to identify individuals for appointment to the governance body, should include an open nomination process, in which any party is able to nominate individuals for consideration to become members of the governance body and that such process should not be limited to only considering candidates nominated by the MG. The call for nominations should be open to anyone who meet the appropriate criteria and is supportive of a robust and open dialogue on standard-setting that serves the public interest – model similar to IFRS Foundation.

For example, the IFRS Foundation constitution requires that the trustees are appointed by the Board of Trustees itself (self-perpetuating board). Trustees adopt their own procedures for appointing trustees and consult with the other relevant stakeholders before making decisions on trustee appointments. The trustee nominee are required to have an appropriate balance of professional backgrounds – including auditors, preparers, users, academics, and other officials serving the public interest.

Q19. Should PIOB oversight focus only 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?

The new governance body should focus only on the independent standard-setting boards for auditing and assurance and ethical standards. While the activities of other standard setters should be closely coordinated so as to not create inconsistencies in requirements, under the reformed model we do not believe that the governance body should have a direct oversight role over the activities of standard-setting boards that are within IFAC or other entities.

Section 5: Role of the MG

Q20. Do you agree that the MG 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?

No. We believe that the role and responsibilities of the MG under a reformed model should also be redefined. In order to holistically address reforms to the standard-setting process, we suggest that the roles and responsibilities of the MG should also be considered at this time. As discussed, in our comments with respect to Q2 and Q15.1, we do not believe the PIOB is the appropriate governance body to oversee the standard-setting model and due process. Given the required changes to the governance model, the MG role, which is currently responsible for the nominations to the PIOB, will likely also change.

We would support moving to a role more aligned with the role of IFRS Foundation Trustees and its standard setting board. Refer to comments with respect to Q18. We also believe that there should be more transparency with respect to the members of the MG and their activities. For example, in the current structure, the groups that are members of the MG are disclosed, but other than the Chairman, the names of the individual members of the MG are not publicized.

Section 6: Standard-setting board staff

Q21. 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?

Yes, we support the increase in permanent technical staff to support the standard-setting boards. The individuals should be of high-quality with recent/current relevant experience in auditing who can lead project development and stakeholder outreach to allow boards to operate at the more strategic level. We believe that the key skill-set for such individuals should be technical, project management, and ability to collaborate and work with others. The technical staff should also have professionals with the deep experience in ethical and independence matters. Further, there should be a mechanism for the permanent technical staff to periodically enhance their knowledge of current audit and regulatory developments and practices to remain relevant, market-focused and up-to-date in the fast changing global environment.

Further, shorter-term seconded staff can be brought in for the specific projects that require deep-expertise in certain areas, including as necessary data scientists, psychologists, fair value specialists, actuaries.

Q22. Do you agree the permanent staff should be directly employed by the board?

Yes. Considerations should be given to forming a construct, including a separate legal entity, similar to the IASB. In order to attract high-quality individuals, in addition to compensation, it is important to consider the process around career progression to retain such staff.

Section 7: Process considerations

Q23. Are there other areas in which the board could make process improvements – if so what are they?

We would like to reinforce the critical need for participation of all relevant stakeholders at both the governance and standard-setting levels supported by increased transparency at all levels throughout the standard-setting process.

Section 8: Funding

Q24. Do you agree with the MG that appropriate checks and balances can be put in 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 which would distribute the funds)?

We do not believe the appropriate check and balances will mitigate the perception risks of the undue influence by the profession unless there is a clearly stated pathway to a diversified sustainable funding model within the foreseeable future. We strongly believe that the multi-stakeholder model should apply to funding too. It is important that a pathway to broad-based funding within a foreseeable timeframe is put in place, and it does not primarily depend on the audit firms.

Further, with the revised model that includes paid board members and permanent staff, the costs of standard-setting are likely to increase. It is important to ensure that any additional amounts needed to support standard-setting reforms are not incremental to the profession's current contribution.

The willingness of the profession to fund a new model depends on the core principles being met:

- Multi-stakeholder representation
- Distinct and separate roles for governance and standards development
- A pathway to broader-based funding

Please refer to our comments with respect to Q2.

Q25. 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 MG consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?

No, unless it is an interim step while a multi-stakeholder, more sustainable funding model is put in place. Please refer to our comments with respect to Q24.

Open questions

Q26. In your view, are there any matters that the MG should consider in implementation of the reforms? Please describe.

We believe it is important that the IFAC continues playing a role in the standard-setting (for example in deployment of standards, monitoring of compliance of its members with the standards, etc.), which ensures consistent global adoption and implementation of the standards.

Q27. Do you have any further comments or suggestions to make that the MG should consider?

We would like to highlight that a reformed model would have a greater multi-stakeholder acceptance if stakeholders had confidence that their needs have been considered from the design of the reformed model. Accordingly, as further discussed above and in our letter, we believe that the MG should explore ways in which to increase multi-stakeholder participation as it moves into the next phase of its project and develops the proposed model that will be exposed for comment.
