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**JICPA Comments on the Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC**

The Japanese Institute of Certified Public Accountants (“we”, “our” and “JICPA”) is grateful for the opportunity to comment on the Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC (the “CP”).

As one of the major IFAC member bodies, we have been involved with the IFAC Boards and Committees in various ways, including through nominations for the Boards and Committees, participation in National Standard Setters meetings by our representatives, as well as providing our comments on proposed standards and other documents. Based on these experiences, we provide our views on the questions in the CP, referred to below.

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

Enhancing representation of the public interest is a critical issue, in order to achieve the structure's objective, that is, to serve the public interest. We agree that it is necessary to consider additional actions, in addition to the appointment of a remunerated independent IESBA chair, and redefining the nature of non-practitioner board members. However, the recommendations presented in the final effectiveness review report published in 2010 have not been fully implemented yet. Also, it takes a certain time to assess its effects. In addition, we believe that the representation of the public interest has been achieved to a high degree. Therefore, at present, we believe that it is not necessary to implement any additional actions.

**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 believe that the current structure functions effectively, with the appropriate balance between professional accountants and other stakeholders, in order to achieve the objective to serve the public interests.

We also recognize, as described in the CP, that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion.

**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 believe that the current three-tier system is appropriate to achieve its objectives. At present, we do not have alternative suggestions.

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

The IPSASB, which deals with accounting standards in the public sector, has a different purpose from other standard-setting boards under the IFAC. Therefore, in the future, it would be worth considering a different standard-setting model. However, at present, we believe that it is more efficient to add the IPSASB into the scope of PIOB oversight than to establish a separate oversight body. However, the PIOB may need to review its composition and process, since different expertise would be required.

Considering the purpose of the IPSASB, it is also necessary to consider the funding to IPSASB itself. The funding to IPSASB may have to be requested from wider stakeholders including preparers, not only from the IFAC.

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

The “compilation document” would be useful for more stakeholders to clearly understand the structure and status of monitoring, oversight, and standard setting. However, we believe that a “guide” format would be more effective. A guide would be easier for stakeholders to understand the structure. It would be appropriate for the IFAC to prepare the guide under the PIOB’s cooperation and oversight.

**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 do not believe that it is necessary to modify the name, as the visibilities of each organization have been gradually improved since the IFAC reform in 2003. It would be more effective to steadily improve the visibility of the current names with publications such as the guide described above, press releases, or other types of documents, rather than modifying the names.

**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 believe that it is not appropriate for the MG to have direct and explicit involvement with the PIAC's agendas.

We understand that, for example, the MG already has appropriate opportunities for exchange of opinions with the PIOB and the Consultation Advisory Group (CAG). We believe that more effective operation of the current arrangements will provide more meaningful feedback.

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

We understand that one of the MG's important roles is to create a link between the standard-setters and those public authorities responsible for the adoption and/or supervision of the standards, facilitating a discharge of responsibilities. To properly play this role, improving the communication activities is a critical factor.

Representatives from regulators attend some of the PIAC meetings as observers. In considering involvement with the PIAC activities, we consider it appropriate to review and clarify the role of these observers, rather than to consider their direct involvement.

**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 the public in attendance?**

The Monitoring Board (MB) of the IFRS Foundation and IASB, for example, has already held some of the meetings in public. We see merit in some portions of the MG meeting having the public in attendance. As a minimum, it would be useful to make public the meeting schedules and agenda. We believe that this will improve the

transparency of the MG and be one of the best ways to improve its visibility.

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

As noted above, we understand that one of the MG's important roles is to create a link between the standard-setters and those public authorities responsible for the adoption and/or supervision of the standards, facilitating a discharge of responsibilities. Therefore, in our view, it is useful for the MG to engage with organizations representing governmental institutions. We believe that it is appropriate to engage with relevant governmental institutions, based on circumstances, and not to limit it to the G20 countries.

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

The IFAC is an international standard setting organization. Its Boards and Committees are composed of members, considering the balance of countries and jurisdictions. Therefore, we are of the view that it is also necessary for the MG to be representative by global organizations serving international public interests.

We offer no comments on the questions such as the criteria to be fulfilled by new members and the maximum number of MG members, since this would be appropriate to be decided by the MG, based on its experiences and discussions.

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

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

We believe that it is not appropriate for the MG and PIOB to have excessive strong

relationships, since it has the potential of undermining their respective independences. We understand that human resources for PIOB are limited, and that a certain level of relationships cannot be avoided. However, each PIOB member is expected to maintain independence and ensure fairness. Therefore, we believe that it is appropriate to avoid a direct hierarchical relationship.

**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?**

**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 the involvement of the MG be in the production of these documents?**

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

Overall, we believe that the current oversight activities function appropriately.

We chose not to provide specific comments on the questions related to PIOB program, since we nominate our members for the PIACs, and may be indirectly subject to PIOB oversight, as is the case in the IFAC.

**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?**

We consider the current composition of the PIACs appropriate.

We provided the following comments on Recommendation 4 in the public consultation conducted by the MG in 2010.

“... since the audit environment is significantly changing and becoming more complex, in order to identify issues which need to be considered by the auditors in their audit practice while maintaining independence, and develop standards that are relevant, we believe that it is essential that the Board members have sufficient understanding of

most recent audit practice based on their actual experience and knowledge. Especially, in setting international standards, we believe it is very important that the matters are discussed beyond the subject of considering the existing national laws and regulations. Without considering these views, it is impossible to develop standards which are relevant as well as effective.

Therefore, in order to develop effective standards that serve the public interest, it is necessary to maintain an appropriate balance between members who have audit experience and others, within the current framework, rather than seeking to utilize other structures. We believe that, within this framework, standards that serve the public interest are developed through the exchange of views between auditors with sufficient audit experience, expert knowledge, and ethical sense, (and having a full awareness of what an auditor should be) and other members who are not auditors. We believe this is completely achievable.”

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

We consider the rotation of the representatives as being appropriate. However, we offer no comments on the specific number of years.

**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.

**Q22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?**

The 2003 IFAC Reforms stated “As a general principle, both IFAC and the MG consider it to be in the public interest that parties other than IFAC shall fund at least

50% of the cost of the PIOB. IFAC will seek contributions to cover 50% or more of the PIOB costs. Given the public interest nature of the oversight activities of the PIOB, the MG members may provide contributions to support the PIOB's activities. The PIOB may also be involved in seeking contributions to cover its costs."

Even now, from the viewpoint of the public interests, we believe that it is not appropriate for IFAC to finance the largest part of the PIOB budget. Although we have no other effective ideas at this time, we believe that it is necessary to continue discussions regarding alternatives.

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

The funding structure for IFRS Foundation is made possible by a wider range of direct users of IFRSs, developed by the IASB, and its constituency. It would be difficult to have a similar funding structure in place for the PIOB, since the standards developed by each PIAC are different from IFRSs, and its direct users are limited.

**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 see merit in having a permanent Secretariat for the MG. However, we offer no comments on the resources, since this should, perhaps, be decided by the MG.

**Q25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?**  
**Q26: What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?**

As noted above, we believe that the current structure is appropriate, and at present, it is not realistic to attempt to alter the structure in any substantial fashion.



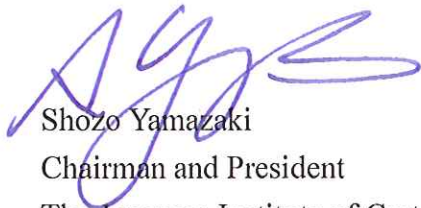
**Q27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?**

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

As stated above, we believe that the current structure is appropriate.

We wish to express, again, our appreciation for this opportunity to provide our comments.

Sincerely,



Shozo Yamazaki

Chairman and President

The Japanese Institute of Certified Public Accountants

