

# Monitoring Group

## Washington DC Roundtable

24 January 2018

### Welcome

**David Harris**

**World Bank Group**

I am David Harris, a member of the Monitoring Group and representing the World Bank Group. I am delighted to be able to host this third in a series of consultations on the paper that the Monitoring Group has put together, the consultation paper looking at strengthening and governance of oversight of the standard setting boards. Judging from the atmosphere in the room before I opened, many of you know each other. Many of you from the profession and from interested other bodies are here, which is great and we look forward to having a very open discussion in which we are seeking feedback from you on the consultation paper. There are a couple of others joining by videoconference from different parts of America and Europe; if you have anything to interject, you will have to shout loudly and we will give you a moment or two of silence.

This is the third of four of these roundtable meetings. We have had one in Johannesburg, one in London and there will be a further one in Singapore at the end of the month. Today, it is great that Stephen Haddrill has joined us from London to lead the discussion, so I will hand you over to him. In full disclosure, we are recording what is being said so that we have a good and proper record, so beware.

### The Governance of Audit-Related Standard Setting in the Public Interest

**Stephen Haddrill**

**CEO, Financial Reporting Council (FRC)**

Thank you very much, David, and thank you to the World Bank for agreeing to host this. As David said, this is the third in a series of four; the fourth one being in Singapore on 30 January. I was hoping to attend, but am unable to do so, because I am going to be giving evidence before a UK parliamentary committee on audit. The failure of a major company in the UK has raised all sorts of questions for people about the strength of audit and public and political perceptions about how well audit is doing. I only mention that because what we are talking about in the Monitoring Group is about how standard setting is adjusting to changing public perceptions, changing public expectations, whether those expectations are legitimate or not, and whether we are fit for the future as a standard setting organisation. It is not about, and the Monitoring Group has deliberately avoided, saying this standard could have been better in that way or that standard could have been better in some other way. We

are pretty confident that the standards that have been written by the International Auditing and Assurance Standards Board (IAASB) and the Ethics Standards Board have been done with a high degree of due diligence, a high degree of care and are a good basis for auditing, but that does not mean to say that the system, as a whole, should not change for the future as we address new challenges.

Let me give you a little bit of background and then I am going to ask Wes Bricker from the Securities and Exchange Commission (SEC) – the SEC is a member of the Monitoring Group – to give his perceptions on where we are and where we need to go. I will then ask Faye Choudhury to come forward and give an International Federation of Accountants (IFAC) point of view. We will then open it for a general discussion.

For those of you who are not intimately familiar with us, the Monitoring Group is made up of a mix of organisations that are really involved with the regulation of the capital markets, organisations that are primarily concerned about financial stability and one or two, such as the European Commission, that spread across both. We come at this from a capital markets perspective, but also from other perspectives as well: financial soundness, the contribution of audit to that, solvency, and so on.

The objectives of the Monitoring Group are:

- To drive high quality, globally adopted standards for use in all audit engagement, and that is something that we might debate later on. A question that the Group has considered is: are we looking at standards that are relevant to every audit that is done or just to the public interest entity audits?
- Seeking to build justifiable capital markets confidence in audit and corporate reporting by strengthening the governance of standard setting in the public interest, and I stress those words ‘in the public interest’. That is something we will need to debate later, what do we mean by ‘the public interest’, not fully developed yet by any means, and the question about how we take that forward.
- Addressing risks to independence in standard setting in terms of public confidence, investor confidence, perceived or, indeed, substantive risk from a dominant view, wherever it comes from, not being properly tested.
- Ensuring that standards respond to developments in the market and are timely.

To be more precise about that, the key issues addressed by the review are:

- How is the public interest defined and addressed? The consultation paper has not gone into great depth on that and that is something that we would like your responses on, either today or in writing. The Monitoring Group, frankly, found it a bit difficult to define the public interest, partly because, in relation to any individual standard, it shifts. We are trying to create a system that is going to be solid and reliable for the medium to long term and, clearly, the public interest, at the moment, is shifting quite a bit. Nevertheless, a public interest framework is very important to standard setting.

It is easier to see how to develop that public interest in terms of the process of going about setting standards. It is harder to pin down the public interest in relation to the outcomes, although the consultation paper does say a few things about that. There is plenty of opportunity to help us develop that framework. We have asked the Public Interest Oversight Board (PIOB) for their views and we will be working on that; that will be part of a second stage consultation.

- What is the best structure for oversight? Again, at the moment, we have a three-tier structure: the Monitoring Group itself, the Public Interest Oversight Board, which sits underneath it,

and then the standard setting boards themselves. Many people have said to me over the years, ‘Why have three tiers, why not have two?’ That is an issue. We feel that three tiers works, because you have the public interest issue, the guardian for that in the Public Interest Oversight Board, but what you bring in with the Monitoring Group is a degree of more public and regulatory accountability. You bring the regulators in because they have to enforce the standards at some point and they are, themselves, based in a democratic accountability, because they are the creatures of statute and so on, to some extent. That brings together and is a way of strengthening a public-private partnership, which is what this organisation has been over recent years and probably does need to be in the future.

There are questions about that oversight, though. There are questions about the role of the PIOB: how deep it should go into the work of standard setting, if it should just be looking at whether the process has been properly followed by the boards or whether it should be looking at the outcomes of that process. To some extent, my own personal view is that if you get the work of the Board right, the structure of the Board right and so on, then you should be able to lighten up on the oversight, because you should have more confidence or you should have sufficient confidence that the Board is going to be doing a good job, providing it follows the process.

- The third issue is how to balance expertise and wider stakeholder input and reflect regional differences. When we went to South Africa, one of the issues that came up there was, ‘Well, South Africa is a pretty significant economy, but it is not the US, it is not Europe. We want our voice to be heard. How are you going to make sure that the board structures, the oversight structures reflect those views and understands the situation of developing markets or markets in various parts of the world?’ That is the first question. The second question is how do we bring in the views of investors, the views of the regulators, the views of preparers, in particular – companies obviously have a key role here – the views of other users, the banks and so on, all concerned with the public interest and the quality of the work of the standards, but maintain an organisation that does not become too huge; is not so committed to finding a point of consensus amongst so many different views that nothing ever gets done? That is something that we thought about quite hard and is something that we would certainly welcome views on.
- Related to that is how to make sure that decision-making is timely and effective and is, in particular, going to be effective in the future, as there are new challenges from developments in the economy, in IT and so on and so on.
- What is the appropriate scope for standards? We do not say a huge amount about this, but that is something that we do need to consider and the boards and the whole structure will need to consider going forward. Audit is changing quite significantly in terms of the challenges it is having to address. I do not think that 100 governments around the world are going to sit down and agree on a new definition for what statutory audit is about, but it is quite clear that the public, investors and others are looking for more assurance in new areas than they get from that statutory audit, so how do we address that? We have, whether regulators or the profession, tried to close this famous public expectation gap over the years by trying to explain to people what audit does and does not do and, frankly, I do not think that is cutting any ice at the moment. It seems to me that the expectation gap is widening not narrowing, so how do we close it, given that it is quite hard to do, from a statutory point of view? Is there a role for standards in doing that? In effect, providing a new basis for assurance in new areas outside the narrow confines of the law. There are some big questions there.

- How to address public perceptions and funding, in particular. We have not said a great deal about funding in the consultation at the moment, partly because the Monitoring Group wanted to see what emerges from the first consultation in terms of a new shape and, therefore, what it will cost and then think about the question of funding. Funding is very important to perceptions. The public generally believe that the person who pays the piper calls the tune and we do think it is important that there is at least a strong airlock between the profession, as a source of funding, and the work of the boards and we need to look at whether that airlock can be strengthened from where we are now. We also need to look at whether other constituents can provide some funding, so that we end up with more of a multi-stakeholder funding model. As a regulator, the latter is important. Certainly our organisation puts a relatively modest amount of money into the structure; we should be willing to put more in and obviously that is something we would like to consider in light of what comes out of the consultation and I hope others would do as well.

In terms of the structure of the Board, what the consultation paper sets out is a set of proposals. They are proposals; they are there for consultation and to stimulate debate. We are not saying this is the only way forward, take it or leave it. We would not be flying around the world and having all these sessions if that was the case, but we did think that it was important to have a basis for stimulating strong debate. What we have said is:

- One board to set ethical standards and standards for auditing and assurance; bring the two together. An argument for that is, as regulators, it is quite hard to separate the two; that ethics impinges on everything the auditor does, the mindset, the behaviours and so on, and that we should have one board with a strategic vision across the two things. However, I know there are different points of view. Two boards to set auditing and assurance and ethical standards respectively does, however, remain on the table. I did not want to say there is just one option. Generally around the Monitoring Group, there is a preference for the first, but the second one is very much still there.
- The second issue is should responsibility for setting ethical standards for professional accountants in business remain with IFAC and a new board or boards focus just on audit as a public interest function? This generated a lot of debate in South Africa and in London. Is the ethical core of the profession something that should be set up in an independent structure, like the one we are developing, or is it something that should remain clearly in the hands of the profession? There are quite wide-ranging views on this. In my organisation, in the UK, we set ethical standards for auditors as an add-on to the core ethical standards for the accountants and that, for us, works quite well. I am a bit concerned that if you take the setting of the core ethical standards away from the profession what do you leave the profession with? You leave it with some things, but there is a risk that it becomes purely a representative function rather than setting the bedrock of integrity for the profession on a global basis. That is the case on one side, other people say that auditing and the public interest is a core and massive matter for the capital markets and everyone has an interest in the whole range of ethical standards being looked at in an independent way.
- We have made a working assumption that educational standards should stay with IFAC. We felt that, in relation to audit, the key things were ethics for audit and the technical standards.

The next question was about the composition of this board as well as the structure. The Monitoring Group felt that we need to move towards a multi-stakeholder model where the board has a wider range of interests involved, with a balance so that no one group could be regarded as dominant. Originally, what the paper talks about is one-third investor user, one-third people with an

understanding or background in regulation and one-third from the profession. There has to be some flexibility around those numbers, particularly when you add in getting a geographical balance as well.

Another thing that we are keen on is that even if we merge the two boards together, we end up with a somewhat smaller board than we have currently. Altogether, we have about 35 or 36 people involved across the two boards; that is quite big groups.

The Monitoring Group is exploring the idea of what it is calling a 'more strategic' board. This is a board that focuses on the agenda going forward, the big questions about what the standards should be looking at; identifying what the real public interest issues are for those standards; making sure that the work that is being done below the board, by the staff, any technical groups and so on, is consistent with public interest and that those public interest issues have been properly addressed; and then signing off on the basis of its confidence that that work has been properly done rather than turning the pages and reading every line. That speaks to having a board that looks a bit more classically corporate in size and style than representative and large in size and style, but there is a question for debate there.

There is a question for debate also about whether some or all of the members should be full-time. We looked at three executive chairs, vice chairs at the top, maybe one with a particular responsibility for the ethical piece just to make sure that the voice of ethics is solidly heard on the board. Should members be remunerated and, underneath that board structure, how should the advisory groups and the taskforces be organised as well?

So much for the boards, then there is the role of the PIOB. I have already said something about this so I will not go into it in a great deal of detail, but what we are looking for is what is the appropriate balance between the public interest responsibilities of the standard setting boards, because they must be driven by the public interest, and the role of oversight of that. If we are confident that the public interest is being properly pursued by the standard setting boards, is it possible or appropriate for the oversight board to take a bit of a step back from getting into the detail and focus on making sure that the money is being appropriately raised and that there is no pressure coming with the money; making sure that the due process that has been identified is being properly followed; and that the public interest, as a result, is being delivered?

There are questions then about how the shape of the PIOB should be put together to deliver that. Should it be developed on a multi-stakeholder model like the board itself or should the profession not be involved? All that needs to be debated and we are certainly open to different points of view on that.

The consultation does not really say very much about the Monitoring Group itself, but we do recognise that its own composition and role does need to be addressed and we will be looking at that as part of the second consultation. Is it right that the Monitoring Group covers a broad range of interests, from financial stability to capital markets, or should it be more focused? I think it is right, because that reflects the wide user interest in audit, but that is certainly a matter that could be debated. Are there things that we can learn from the way that the International Accounting Standards Board (IASB) is overseen and the Monitoring Board that sits over that? The somewhat higher level board in terms of the people who are involved in it, should that be an aspiration for us? There are questions there and we are not shy of addressing them.

On the operational and funding options, I will not go into detail here, but basically if we have a smaller board, a board that is not turning the pages of the standards and looking at them line by line but addressing the strategic issues, it will need a strong executive and staff. That is not a criticism of James and his team at all now, but you are small and perfectly formed and there is a question about whether, for the future, that staff needs to be strengthened, expanded and able to support the boards

in a timely and effective way as they move forward. That is one issue on the agenda and obviously that comes with a cost and that is something that we want to consider also in the second part of the consultation.

We aim to bring forward, in a second paper, our final proposals in June 2018. One of the things we will need to do around that paper, which will be a mix of some core final decisions and things that we are still thinking about, will be to bring forward a detailed impact assessment and a transition plan. It is important that we think quite carefully about transition. We have an organisation that is functioning well, in many respects, at the moment, that benefits enormously from a lot of voluntary time and we do not want to destabilise that. I hope that when people respond to the consultation that is something that they will have in mind as well, and here is the reference to how to respond to that consultation. We close on 9 February, so if you could do everything possible you can to put in your views by then, it would be much appreciated.

Thank you very much.

## **Response to Consultation Paper**

**Wesley Bricker**

**Chief Accountant, SEC**

Good morning. It is perhaps good that Chatham House rules do not apply; the Queensberry rules for boxing do apply – no wrestling, no hugging, to be clear.

Thank you, Chair Haddrill, Chair of the Monitoring Group. This is an important discussion and thank you for bringing it forward and bringing it to North America. Thank you also to Monitoring Group member Harris, who is here and hosting on behalf of the World Bank. Also, thank you to each of the stakeholders, whose input is incredibly valuable to advancing the work of international audit standard setting.

Today is the third of four roundtables across the globe, clearly designed to foster robust discussion that furthers an understanding of the information in the consultation paper and enables the Monitoring Group to hear feedback from a diverse set of stakeholders. The Monitoring Group has an objective of making a long-lasting, sustainable set of enhancements to international audit-related standard setting and associated governance and, in that spirit, I would like to provide my views about how the Monitoring Group could advance its objective.

The first point is one of addressing things in an inclusive and methodical way. In other words, resisting the urgency to change for change sake. That is, the Monitoring Group's objectives I do not believe are served by rushing a process in a way that puts the legitimacy of international audit-related standard setting at risk. Some say that Monitoring Group change is urgent, that changes should be initiated even this year. I do not see the circumstances that are calling for that approach. I support, as I said, an inclusive, methodical approach to reinforcing the system. Consensus, even among capital markets regulators, is an important element that will underpin continued broad acceptance of the international audit-related standards and will foster opportunities to advance them even further. I believe there are more questions to be asked, as Chair Haddrill has described, more analysis to be done, resulting in the need for a second or more consultations before changes are initiated, since the questions that are presented are necessarily interrelated. In this regard, I am pleased, as discussed in the consultation paper, that the Monitoring Group is committed to a second consultation.

Secondly, I would like to address the central idea for the Monitoring Group and international audit standard setting and that is the public interest. It is a valuable and necessary central idea. It is the basis for the Monitoring Group gauging the necessity, the appropriateness and the sufficiency of change. The term 'public interest' is central to the Monitoring Group and, accordingly, it appears throughout the document. For the Monitoring Group to really serve its objectives, the public must understand that central idea, must weigh in on the assumptions that are reflected in the central idea, because ambiguity stands in the way of acceptance. To elaborate, the Monitoring Group, in the consultation paper, indicates that it has asked the PIOB to assist it in preparing a public interest framework, although doing so some time later.

As you know, there are other existing public interest frameworks, yet the consultation paper does not acknowledge or take exception to those other public interest frameworks. That leaves Monitoring Group members, stakeholders to form views or assumptions about the Monitoring Group's views regarding the central idea. Let me illustrate the significance. Some will assume that the central idea is investor and other public interests. They will take that lead from the very important role of audit in protecting investors, in that audit costs are ultimately borne by investors, yet the phrase 'investor protection' does not appear in the consultation paper even though the concept of safety and soundness does. Assumptions are further required as to the current state of audit standard setting. Some may have the view that standards are, on the one hand, set too high and, in that way, are over-regulatory in nature and so the standard setter should lower standards, reduce costs at the expense of audit firms that provide the service. Others may believe that standards are too low, that they are under-regulatory in nature and so the standard setter should raise standards, at a greater cost to shareholders and with greater employment and revenue to firms. My point is not to argue which of those assumptions are right or better or more important. My point is that the Monitoring Group's objective is well served by elaborating on the central idea that is the public interest, since the Monitoring Group has identified the public interest as being the reference point to gauge the necessity, the sufficiency and the appropriateness of a given structure and a given governance system.

Moving on to the third point, suggestions about where the Monitoring Group should go. The Monitoring Group's objective is well served by building consensus regarding a well analysed, comprehensive concept for the standard setter. It should address funding and operational considerations. It should also address, in my view, the feasibility of an audit-related standard setting structure that is free-standing, with three tiers. Again, there are three tiers today, but there are important differences. In the first tier, I believe the Monitoring Group should consider the feasibility of a first tier standard setting board whose members are on the basis of the skills needed to, among other matters, understand and take into account multi-stakeholder input and to address the effects of changes in commerce and technology. As a second tier concept, I believe the Monitoring Group would be well served in evaluating a multi-stakeholder, geographically diverse set of trustees who provide leadership and governance for personnel selection for the standard setting boards through an open and transparent nominations process, as well as governance over the funding and strategic direction of the organisation. In the third tier, the Monitoring Group should consider the feasibility of geographically diverse individuals who focus on investor protection and other public interests.

In considering these, the Monitoring Group should develop a second consultation paper to address the critical questions that have limited discussion in the current consultation paper, such as questions that deal with funding, among other topics.

Why does all this matter? It matters because international audit-related standard setting is critical to maintaining consistency in minimum standards that are used in over 100 countries, including in key sectors in the United States. Of course, in the course of the Monitoring Group seeking to advance its objectives it must not weaken international standard setting, setting the system backwards to the use of regional or national standards that ultimately raise costs for shareholders, reduce the consistency

that underpins good audits and impedes competition. Ultimately, those steps could reduce investor and public confidence in financial information, so I urge stakeholders to provide input to the Monitoring Group on this critical topic.

My views have been submitted to the Monitoring Group in a letter that is also available to the public through the SEC's website. The letter covers these topics in a more detailed fashion and other relevant topics related to the consultation paper. I should say I speak for myself; these are my own views, not necessarily those of the Commission, commissioners or individual colleagues on the Commission staff.

Thank you. I look forward to our dialogue today.

### **Stephen Haddrill**

Thank you, Wes. You have made some very strong and important points and the one thing I would draw out of that is, if you look at the questions in the consultation paper, the first three, including in the third one, 'Do you have suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest and, if so, what are they?' these overarching questions are absolutely as important as the questions about structure and so on, so I do encourage you to respond to those.

I would like to ask Fayezul Choudhury to give an IFAC perspective and then we will have an open discussion.

## **IFAC Perspective**

### **Fayezul Choudhury**

#### **CEO, International Federation of Accountants**

Thanks very much, Stephen, and also for hosting these roundtables, which are an incredibly important way of discussing issues that are of fundamental importance to the profession, to investors, to everyone who uses them, and we have certainly welcomed the participation that we have had. We have been engaged with the Monitoring Group now for almost three years on these topics, we are in the thick of it and are certainly very engaged in them.

Our overall view on the consultation paper is that there are a lot of very good issues raised and a lot of important questions that need to be fully addressed. In order to get a fulsome and well thought through response to some of those issues, given their significance, which Mr Bricker has pointed out, you cannot really get it wrong. It is very difficult to reconstruct something once you deconstruct it when something is of this scale and magnitude. That requires a very deep analytical approach to examination of the issues, to identification of possible solutions and to carefully think through how those should be effected.

The things that we would have liked to have seen in the consultation paper – and I certainly acknowledge Stephen's comments that the model has worked well and produced high quality standards – is a bit more of a discussion on why those standards have worked and have gained international acceptance. One element is that it is a shared public-private collaboration, which is the direction that regulation is heading in at the moment and, in that sense, it was in some ways ahead of



its time that no one group dominates in terms of the discussions that lead to the development of high quality standards.

It is also very important to understand the complexity of getting international acceptance for these standards and for the adoption and implementation of them. Over 120 countries have done so and they have done so because, in a national standard setting environment, a national standard setter has a mandate under law to say, 'Okay, the due process has been sufficient and we will now adopt these standards and enshrine them in legislation'. There is no global authority that has that right, so for the 120 jurisdictions, give or take, that have adopted those standards, they need to have seen something in this model that satisfies them that high quality international standards have been developed. That legitimacy derives from inclusiveness, geographical representation, technical authoritativeness of the board, a very stringent and elaborate due process, including mechanisms for public consultation, and the existence of a public interest oversight body that makes sure that those elements are working, but also that where there are necessarily issues that might create perceptions of undue influence, the checks and balances in place ensure that those perceptions are not manifesting in harm. It is those attributes that people see in the current model that give the model legitimacy and that have led to this extensive scale of adoption and implementation and that is a very important point to recognise.

Mr Bricker pointed out that even perhaps within the Monitoring Group they may have different perspectives of what the public interest is. Certainly one very important consideration is: are they global public goods? Are they meant to encourage harmonisation of global standards? Are they meant to encourage a common language of reporting financial information that encourages capital formation and stimulates capital flows? If that is the case, then that element of public interest would suggest this kind of inclusiveness and if that inclusiveness disappears, it might have negative effects. However, 120 countries, 120 different adoption structures, potentially 120 different national standard setters is a huge infrastructure and it can be very easily upset and toppled if any new model is not seen to have been thoughtfully constructed, thoughtfully implemented and a thoughtful and elaborate discussion to address people's concerns undertaken. I cannot stress how important that is; that they are global public goods and we certainly do not want to reverse that important momentum towards the creation of a global infrastructure.

The other issue that we would certainly welcome more discussion with the Monitoring Group on is a more holistic understanding of the issues involved. As Stephen has mentioned, the consultation paper focuses primarily on the standard setting boards and their operations, but it is very difficult to make a judgement on those absent an understanding of the governance construct, of the funding mechanisms, of the oversight mechanisms that will be in place, of the residual perceptions of lack of independence that might remain and how those will be addressed, absent an understanding in questions of funding and, of course, risk. Again, a very elaborate infrastructure at the moment; you cannot unsettle that when you transition and move to something new and so a full assessment of the risk, culminating in an overall impact analysis, is really very important to give considered and thoughtful responses to the specific questions that have been raised.

Another aspect that IFAC feels very strongly about, from our perspective of the public interest, is that the model needs to be truly multi-stakeholder, and multi-stakeholder in the sense of multi-stakeholder-ism pervading all elements of the structure. Certainly Mr Bricker's comments are very much in line with IFAC's – a monitoring board to ensure that accountability is maintained in the oversight body and standard setting body. Multi-stakeholder should be a feature of each of those levels, not just of the standard setting boards with the other two explicitly excluding the accounting profession. I think that is odd, frankly. If we believe the checks and balances in which we all believe and act in good faith that everyone is acting in the public interest, and if the people involved are the people who create the perceptions, then we do not need to go to that rather damaging step of removing

the profession from certain levels just to address a perception that is, in many ways, already addressed.

There is a host of issues that arise from the technical discussions around the size of the board, the composition of the board, whether they are paid or unpaid, the role of the board vis-à-vis the role of the staff. Those are incredibly complex questions and anyone could sit and identify 10 different alternatives of how one might address them, but I am not sure that is particularly helpful. We would support a much deeper analysis of what are the specific issues that need to be addressed and how might those be addressed based, as far as possible, on some analysis, on some empirical evidence, comparator analysis of what has and has not worked in other areas, and then the trade-offs made. For example, the notion of having a multi-stakeholder board, which we fully accept, that is shifting a lot of work to the staff, depending on your perspective, one could argue heightens the perception of influence by the accountancy profession. Instead of a technically authoritative board undertaking its deliberations and discussions in the sunshine, in the public domain, accountable to public opinion, the technical pen shifts to the back rooms of highly qualified staff without that level of sunshine being spotlighted on it and a generalist – using the word loosely – board that is not steeped in the detail will now pronounce on those. Again, depending on your perspective, does that heighten the perception of influence of the accountancy profession or does it lead to a balanced one?

These are arguments that we can debate in the abstract ad infinitum, but at some point we need a process where analysis, evidence, consultation, comparison become far more powerful and important tools for the very powerful and important issues on the table. Again, Stephen, on behalf of IFAC, we welcome this discussion that has been initiated. We welcome fora such as this as one where we can discuss them and get different ideas and we look forward to working with you and the other stakeholders as we move forward on this very important work.

Thank you.

### **Stephen Haddrill**

Right, now it is your turn. There are mics on the table. When you ask a question, please state your name. We have about three-quarters of an hour before we have a break for coffee and then we will start again. I have aspirations to do a bit of management of the discussion, but I suspect I will fail completely. I would like to hear people's views – perhaps this is a place to start – on the goals of reform, the need or not need, as you see it, and, secondly, how you see the public interest. If we start there and then move on to some of the more detailed questions later, that would be a good platform for the discussion. Who would like to kick us off?

## **General Discussion**

### **James Dalkin, Consultative Advisory Group (CAG)**

I am Chairman of the CAG currently and I would note that on the CAG we do have very good cross-representation. We have preparers, we have the investor community, we have regulators and so we do have diverse input that we provide the board. My sense, in my short time as Chair, has been that the IAASB has been very receptive to our comments and very responsive, so I think that is functioning fairly well.

One group in the CAG is the public sector, by which I mean governmental accounting, and I wanted to note that the international standards, as everyone knows here, have a very broad group of users and that would include governments. In this consultation paper – and I do come from that [inaudible]

background – we talk a lot about the capital markets, which are a very important function, but I have not seen a lot of discussion or consultation from the governmental accounting and auditing of, say, the US government and what not, which indirectly use these standards. When you talk about diversity you also need to consider that governmental accounting function, because the number of public sector audits are very substantial across the world, above and beyond what is included in this paper.

### **Stephen Haddrill**

Thank you very much. You are absolutely right, the public sector has not been a focus of our work, it has very much been the capital markets and, to some extent, related issues of financial stability. I was quite interested to hear, when we were in South Africa, particularly looking at events that are going on elsewhere in Africa, Zimbabwe and so on, that the public sector see transparency, audit and assurance as a hugely important part of establishing good governance in the future. I take the point that it has not been our focus.

### **Participant**

[Inaudible]

### **Stephen Haddrill**

Thank you, Bob. I remember those discussions very strongly. This was the group that was set up by yourself and Sir David Tweedie and we felt, after a while, that what we were doing was having a big discussion about what was, we hoped, a very rare event. That point where a bank might be about to fail, the rules might be a bit different, but that does not necessarily mean that the rules are different for the whole of time.

### **Mohini Singh, CFA Institute**

I represent the investor community. The first thing that we thought when we were going through the proposal was that we were coming up with a list of questions. That is primarily because, as you go through the proposal, you get the sense that the Monitoring Group has come up with a vision without the strategy of how to attain the vision, so there are a lot of open questions. It also feels like you are facing a prisoner's dilemma; every decision seems to be predicated on another, but the entirety of it is predicated on the funding model, which you have to get right. In the ideal world, the investors would be funding it. I do not see that happening. On the other hand, if you go to levying a charge on audit firms, I do not see how you are going to do that across the world, but you also run the danger of creating a pay to play model, so we cannot go there.

A multi-stakeholder board sounds fabulous. Again, I do not know how you are going to get investors on the board. One, they do not have the technical expertise; two, they do not really want to get into the technicalities.

As others have said, you really need to define the public interest and to get the framework right and I did not even realise that until Wes made his comments. I had assumed it was about investor protection, but of course that is my bias.

Finally, we need to move very carefully and in a very considered manner. I am very pleased that the Monitoring Group is having these roundtables, but, frankly, I think even this roundtable is a little early. What we have done within the CFA Institute is had discussions about the proposal internally, but what we normally do is send the draft comment letter to our Advisory Council to get their input. I will only be doing that next week, so, unfortunately, we do not have the benefit of their diverse views.

**Stephen Haddrill**

Let me just follow up on one point you made, because if we do not crack that point it will be disappointing, about whether we can get investors to join the board. It is not explicitly stated in the consultation paper, but one of the reasons for having a board that is focused on the bigger and more strategic questions was to try to encourage that engagement by people who have an important set of concerns and issues, important to the capital markets, but, frankly, are not going to get into a line by line analysis of the standards. Do you feel that will help or not, or is there something else we should be doing?

**Mohini Singh**

I am not saying I do not support a multi-stakeholder board, I am just worried about how you are practically going to attain it. The way you do it now is through the CAG and that works. I just do not know how you are going to get a full-time board member.

**Stephen Haddrill**

Okay, thank you.

**Cindy Fornelli, Center for Audit Quality (CAQ)**

I just want to pick up on Mohini's point, because I do think that the timing of this is critical. The auditing profession, as a whole, globally, is at a very interesting and dynamic point. There has been so much change in our marketplaces, we are more and more global as businesses and I would really urge the Monitoring Group to take its time to think through this. Once an item gets the attention of a group there is an urgency that gets created around it, but the audited financial statements across the globe are the bedrock of our economies. The SEC Chairman says that very well, so I will paraphrase him, that it is the bedrock. We know from the CAQ's Main Street Investor Surveys that investors very much value audited financial statements, so getting this right is critical. To the CFA Institute's point, it takes a while for some of these groups to galvanise to be able to react to these huge consultations and so giving everybody the space and time to talk to their constituents, to understand their various constituents' points of view will be critical.

I do not mean to put people on the spot, but I know that there were requests for an extension for responding to the consultation and it is the Monitoring Group's desire that that not be granted. I know that you are hoping to get the second consultation out by June, which seems very quick to me, given all the feedback that you are receiving. I would just urge that the Monitoring Group really thinks through and gathers the information. If it takes another year to get this right, it is so important, because as Faye said, you get one chance to do it right and making sure that critical stakeholders find their voice and then have an opportunity to provide their voice is going to be very important.

**Stephen Haddrill**

Thank you for that, Cindy. What the Monitoring Group is trying to balance is moving forward in a considered way, but at the same time, recognising that when you put these sorts of issues out there you create a degree of uncertainty in the institutions you are looking to reform. We felt that five months plus, perhaps, to move on to a second consultation was enough time for us to consider the results of the first one and put a second one out there, but not taking too much time so that the people who are responsible for running the existing structure feel that everything is up in the air. That is what we are trying to balance, but I hear what you are saying.

**Bill Platt, Deloitte**

I am from Deloitte, but I also serve as a member of the Global Public Policy Committee (GPPC), which is a group organised by the largest six accounting networks in the world, namely BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. Part of what I am going to talk about now is, as the GPPC has looked at the consultation paper and has followed this project, some views of the GPPC that will begin to explore some of the goals, need and how, but not directly. We will come back to those at a later point.

First, I would like to say that, as the GPPC, we think that this is an extremely important topic that we are here today to discuss. We also recognise the valuable role that international audit standards have played in capital markets, in driving consistency, in creating audit quality across the globe, particularly in the last decade, which is clearly the model that we are currently looking at. When we look at it, we look at the quality of standards and their ability to be implemented across the globe and we think the boards deserve high marks for generating high quality standards in the past.

Notwithstanding that, we understand that audit is a business of trust and not only do you need to trust the auditors in delivering an audit report but you need to trust the processes they follow or the standards that they follow. We realise that there could be some degree of mistrust or not the highest levels of trust in the current environment and, therefore, would encourage relooking at the model that is used for standard setting itself, in order to drive more trust.

When we look at the consultation paper, sometimes I view this as more of a concept release, but in other ways, when I read it, I look at it as more of a consultation paper that is hinting a path forward. When we look at that path forward, if we were to view that to be the views of the Monitoring Group, there are certain fundamental things that we think are broken or not right in the path that is described forward.

The first one is that the consultation paper seems to be biased towards a phased approach: we will adopt changes at the standard setting board level first, we will see how that works and then we will decide what changes we need for governance; at the same time, we will try to figure out how we tackle this almost impossible task of funding that is there. We would say clearly that in order for the new board to be effective, if we have confidence in the standard setting board, the only way to give it the power to really develop high quality standards is to change the governance model at the same time. The governance model needs to be changed simultaneously with the change in the board and it needs to be more of a broader governance mandate than just public interest. Public interest is among the aspects that a governance board is responsible for, but not the only aspect that it is responsible for. Even as you presented in the slides, it continues to view a public interest oversight board, maybe with some expanded authority, as being the governance model. We think it is ready for a relook and to make more holistic changes in the way the model is governed.

The other point, which Wes made earlier, is that it is very hard to think about whether a board can operate effectively if it needs to follow a framework of public interest and we do not know what that framework is. We can give you comments about what we like and what we do not like, but the whole model can be made successful or broken based upon how that definition ultimately turns out in terms of the public interest.

An observation I would have is it is clear that, given the constituencies and stakeholders that utilise and rely on audits, either directly or indirectly, there needs to be, as you rightly point out, multi-stakeholder engagement both at the board levels and the governance levels; you might want to also consider maybe even at the Monitoring Group level, but maybe not there. I wonder whether or not there has been enough multi-stakeholder engagement in developing the path we think forward is. As we move particularly from this consultation paper to the next one, roundtables are important, but

the more transparency that can be provided around the thought process of those developing the consultation paper real-time instead of just when it is published, will allow a greater level of engagement and opportunity to contribute in a constructive way to a reformed model.

I just wanted to make those comments. I think they begin to address some of the points, but I just wanted to set those as a stage, so that as my colleagues on the GPPC provide some comment you have those as background. Thank you.

### **Stephen Haddrill**

Thank you, Bill. If I understand you correctly, you would say to make the changes in one go and, therefore, presumably, you would be with those people who wanted this to take a little bit longer to get to that point.

### **Bill Platt**

We need to take whatever time we need to get it right and I would be focused on that, so if that takes longer, fine. However, I do not think we should drag our feet either, necessarily. I am not saying this as a way to try to slow down the process. I just want us to take the time to get it right.

### **Paul Beswick, EY[?]**

[Inaudible] There are two important points that Bill highlighted that I want to make sure we all understand. It is not just make the changes all at one time, but give the opportunity for all these individuals around here to see the direction and be able to give feedback at one time on the entire model. Something Bill pointed out is that, from a process standpoint, we are going through the process in a staged approach and it is causing people some cognitive dissonance to understand where the direction is and how to give feedback, because we are talking about things that are very interconnected. How you define public interest flows through every decision you are going to make and so it is not just make them all at once, it is also seek feedback on the entire process all at once. That is one of the things we want to make sure that we highlight.

### **Stephen Haddrill**

Thank you, Paul.

### **Participant**

[Inaudible] ...that the governance model not only should be focused on public interest but other areas as well. Can you elaborate on whether or not you have given some thought to what those other issues or goals are that this process should be focused on?

### **Participant**

If you look at moving standard setting into an independent organisation or foundation or trust or whatever form of organisation we ultimately choose, you need a governance body that governs the whole operations of that legal entity and also should be very engaged in setting strategy. Wes, you make this point in the letter you wrote. It should be very engaged in those aspects of it. If you look at the International Financial Reporting Standards (IFRS) Foundation and its trustees, clearly they recognise a public interest responsibility, they do things to survey whether or not the standard setting board is meeting the public interest, but they do many other things that go much beyond that.

**Michele Hooper, Directors Council**

My background is audit committees. I have been on corporate boards for many years, I have chaired audit committees and been a member of them. As I read through the paper, I had difficulty really understanding the problem that we are trying to solve. It is quite an elaborate process and – again from my own layman, 90,000-foot perspective, because I have not been engaged in this process at all – it seemed like a solution in search of a problem and I could not figure out what that problem was. It was not as clearly articulated in terms of ‘these are the three things we are trying to solve’ or ‘the four things’, one of which was a perception of a situation in which the profession is too close to the standard setting process. That is only one issue and, quite frankly, it was not clearly articulated exactly how that manifests itself within the current structure so that I could understand whether all these changes really help to solve that.

The second issue that I came away with is I did not understand the current process and the inherent flaws within the process well enough to understand the risks that would be associated with disentangling all of this, knitting it back together and then understanding whether or not the resulting recommendations, if you want to call them recommendations, that are included in the paper would solve those issues and risks that were put forward.

I had a little difficulty following what you have here, although I have plenty to say about it; that would never stop me.

**Stephen Haddrill**

I guess the issues that have been driving the Monitoring Group are the questions of perception, because there is a public confidence, investor confidence matter and confidence is partly about perception. There is a question, looking forward, about whether we have a structure that is sufficiently attuned to some of the changes around, as Wes said, the way the economy, commerce, technology and so on is developing, and there is a question around timing in responding to those challenges. Those are the three main drivers.

**Tom Quaadman, US Chamber of Commerce**

Thank you for holding this roundtable and seeking comment on the consultation paper. The Chamber is a very strong supporter of international standards with both accounting and auditing, with the global world that we live in. We appreciate the Monitoring Group looking at its structure, etc, which we think is always good to do periodically. However, we have a few concerns about the consultation paper, some of which have been addressed already.

First, as Michele was saying, we do not know what the problem is that is being resolved. Perception may not be reality. I would like to see some evidence around a lack of investor confidence, because public capital markets have been very robust for a long period of time now and investors have been willing to dip their toe into those markets. Conversely, however, if you want to unite people in this town, we could have a debate about the structure and health of public companies in the United States, because that number has declined drastically over the last 20 years. Part of it is that businesses do not want to go through some of the hoops that they have to in order to be a public company anymore.

That brings us to the next issue, which gives us great pause, which is the lack of definition of a public interest. The foundation of financial reporting and what audit provides the assurance for is investor protection and capital formation. Clearly, at the centre of the consultation document is the public interest. Without a definition, this then becomes a foundation of quicksand. We can discuss and will discuss further different thoughts about structure issues or whatever, but if we are not going to define what is at the core of the consultation paper, we are not going to be addressing appropriate problems, we may be talking about a structure in much different ways.

The other thing that is concerning is that if we are now going to put an undefined term on the same par as investor protection and capital formation, we could be negatively affecting those two important pieces of capital allocation. That gives us great pause and we will have more to say about some of the specifics, but we really think it is important to maybe take a slower approach and come up with a definition of the public interest that stakeholders can live with and then start to build from there.

### **Stephen Haddrill**

Okay, I heard that. Bob.

### **Robert Herz, FASB[?]**

[Inaudible] That model seems to work pretty well. If you look at the IFRS setup, they have gone through [inaudible] just in terms of the structure, that seems to be a model that many stakeholders are familiar with and, more importantly, it seems to work. I also think you need to take your time and think about the differences between [inaudible] at an international level [inaudible]. I do not know if there is any possibility of having [inaudible] a monitoring group or monitoring board [inaudible] the same constituent organisation and all that. Ideally, the governance of [inaudible] although I admit there are problems; they are mostly practical problems of bandwidth and [inaudible].

### **Stephen Haddrill**

Good points. At the London roundtable, I asked the question of Michel Prada about whether we should just have one monitoring group/monitoring board. It was not a question he particularly wanted to answer, but there is an issue there. Can we create some efficiencies almost in the oversight system? We have not considered that in any depth in the Monitoring Group.

We have looked at other models and we looked at the IASB model. Again, very effective in some ways. This timeliness issue, though, is a question and that is something that we felt we were not quite sure about with the IASB model, and you have quite a big staff there, several times the size of the staff on auditing, and a board that is very expert and spends a lot of time on the detail. I suppose the question is if that is inevitable in this rather technical environment or not.

### **Colleen Conrad, National Association of State Boards of Accountancy (NASBA)**

In the United States, the state boards, 55 jurisdictions, regulate US Certified Public Accountants (CPAs) and US CPA firms in everything they do, including audit and tax consulting work. I guess I will layer on and caution on the pace at which this is moving. I was interested to hear you say that the final consultation paper would be in June. It does seem such a large and very important topic to be moving so quickly, from a paper in November to a final consultation paper in June, so we were concerned about that.

We have a standard setting oversight committee that monitors standard setters on behalf of our licensing boards. That group, in taking up the consultation paper with our initial discussion, brought up the same question that Ms Hooper did. That is, we are not seeing the compelling argument for change. Yes there are fundamental flaws in the current arrangement, but are we seeing the PIOB reporting undue influence? Are we seeing evidence of issues with the current structure? Thus, our group, too, was asking for the arguments or the reasoning for why and why now. Not that we are against change, we just felt that we needed to hear more.

We, too, have the public protection mandate, through our state licensing boards, and it goes to the heart of everything they do. It is protecting the public interest and, in their case, it is the constituency, the citizens of their states, and it is broad; it is not just investors in public companies, it is the community banks, the lenders, the partner in a partnership where they do not have control or a say,



it is those involved in not for profits and education and government. We would, therefore, encourage a broad public protection mandate.

### **Stephen Haddrill**

Thank you. On the point you raised about the PIOB, we have heard two points of view. There are some people who say that the PIOB is right in that it is quite involved as an observer in the standard setting process, and the PIOB feels that that is appropriate and necessary. There are other people who feel that it should be standing further back. My personal view on that is that the Public Interest Oversight Board should be able to stand further back, should not be attending every meeting and perhaps commenting on and testing all that is going on in that detail, because it can have the confidence not to do so due to the way that is being conducted. Whether it should have that confidence now or not is a matter for debate, but that is what I would like to see. I would like to see it lifting back because it has confidence in the structure.

### **Jules Muis, PIOB**

Unbeknownst to most of you, this year we are also celebrating the 20<sup>th</sup> anniversary of the first meeting, convened by the World Bank at the time, of the audit profession in the wake of the East Asian crisis. Just two blocks from here, we met with the audit profession, with the Monitoring Group's constituency, the International Organisation of Securities Commissions (IOSCO) was there, etc, to discuss the after effect of the East Asian crisis, where economists and whole finance houses keeled over under the collective weight of bad accounting and auditing. It is a good celebration here to see what has happened since, because we obviously have made progress. We have been on a treadmill of progress, but we have also witnessed the events of 2008, Enron came thereafter, as did dotcom, we have now had Libor, so there are a number of observations that we can probably make on what progress have we made over those 20 years that were, on one hand, equally confused but at a much higher level. The equality of the discussion in those days was much more exploratory. Whatever we may think of the consultation paper, we now have much more orderly discussion and a much better framework. We have proved, over time, that as a rule basically the audit profession and particularly the standards work, or at least that the standards themselves have an adequate quality to make it work. The main expectation gap that we see is basically the adoption gap – we have 120 countries, but there are 80 others – and a compliance gap and we have to look at the [inaudible] of this world to understand, but not the standards.

With this introduction, I just want to make it clear, from a PIOB perspective, echoing the observations of the Monitoring Group and also of many of the speakers here, that there is a lingering question of: what is the problem? That question lingers also within the PIOB. We have to answer that question and we look at our own annual reporting and come to a number of observations, which are very close to the underlying reasons that the Monitoring Group reports on, but have never risen to the level of saying the whole construct is broken and needs a fundamental fix. I just want to put that on the table. However, we have much welcomed, and I think it was about time, 10, 12 years after the foundation of the PIOB and the Monitoring Group, that we need a discussion just to see and look back and explore better ways of doing things. We also much welcome the consensus that exists with a number of crucial stakeholders that beefing up the process would probably be good for our world, for this world and for the rest of the world.

At the moment, we have about 10 chefs in the kitchen who are trying to formulate an answer to the consultation paper and we do that with a lot of fun and excitement, because it is really a challenge to work with a paper that has some very good indicators and, at the same time, also a number of unknowns in the equation. There are quite some black holes and we have pointed that out – the funding issue and everything else. I cannot and will not give you a preview of what we are going to

say, but you expect us to give a reaction to the Monitoring Group proposals as well as the public interest piece, so let me just share with you my own experience. As a member of the PIOB, I have gone through all public interest studies that we have made. The Canadian Institute did some wonderful work, the English Institute did some wonderful work, IFAC's paper, which is no longer than four or five pages, is wonderful, and there is a Dutch paper that runs to 80 pages and one of my conclusions is that the law of diminishing returns also applies to public interest papers; at the very end you are even more confused than where you start. From the elements that have been mentioned here, we are basically talking about competing qualitative characteristics, but the big unknown in the equation is the accountability framework, how we, as oversight bodies, as the PIOB, as actors in the international financial architecture, are holding ourselves to account in terms of the outcome of work. For that – it is a circular argument – you need proper criteria or metrics of what public interest is.

On a personal note, I have tried for 20 years – I may have launched it the first time 20 years ago – to get oversight bodies to sign off on an assurance statement that there are no major weaknesses that may lead to a fundamental upset of the financial markets. In other words, a systemic assurance statement. I have repeated that many times over since and the reaction is always, both within the PIOB as well as all our co-actors, we all go for the exits if we hear that. I remember the SEC chairman, in 2009, putting his arm around my shoulder when I proposed it and saying, 'Listen, can you not wait until I am retired?'

One of the things I would like to leave behind is, out of all those studies it comes forth that we have to talk also about the accountability structure and if it is just best effort, open-ended and does not have anything tangible, we will keep running around in circles. We will get intellectually drunk by public interest papers, but we will not progress. One of my inputs here would be can we put accountability structures also on the table?

There are a few elephants in the room, One of them is the accountability construct of the oversight bodies themselves, including the PIOB. The second one is the business and earnings model. We have a public service by the audit profession in an unbridled for-profit setting. We keep mentioning, it comes back in the papers all over and every time again, but we never really delve very deep into what that means. It is the biggest elephant in the room and we will never solve or come to a proper set of ethics standards unless we start with the question would the audit profession be the only profession in the world that does not have to be constrained or contained, in some way, in terms of their profit ambitions? Again, this is a very personal piece of input. I am not necessarily speaking on behalf of the PIOB.

At this juncture, all I can say is that we are working very hard on the two papers. If you expect a philosopher's stone on public interest, I would like to expectation-manage that a little bit here upfront. If we really want to do that, we have to go one step further and ask ourselves are we willing to have an accountability structure with teeth? We can put the bar as low as we want and I am putting the bar on systemic risk. Audit standards should not be a source of systemic risk. We can, in good conscience, basically say yes, we can, except maybe for two factors that we can see coming. One of them is cybersecurity. I do not think the profession has that under control. The other one is exotic monetary policies and the consequences thereof.

Thank you for the time you have given me. It has been a longwinded celebration of, basically, 20 years of experience here in this house, where the World Bank kicked off much of the discussion we are having today.

**Stephen Haddrill**

Thank you very much, Jules.

**Participant**

Jules, a question on the public interest framework. If you think about auditing, we audit financial information as prepared in accordance with another framework, let us say International Financial Accounting Standards. Should the public interest framework for the accounting standards be the same as the standards for the public interest framework for auditing? To me, they might be slightly different, but if they are diametrically opposed we will never be able to close that gap by just auditing. I would be interested in your perspective in terms of how you have worked with accounting standard setters in thinking about public interest.

**Stephen Haddrill**

Briefly, Jules.

**Jules Muis**

Obviously, if we had a conflicting public interest it would not work, but let me just remind you that accounting standard setting is predicated on the qualitative attribute called verifiability and the difference between verifiability and auditability is not very big, so it has to be consistent in each other's extension.

**Stephen Haddrill**

Thank you very much. We will take a break now. As Jules said, there are possibly too many cooks in the kitchen. The message I have received so far is that too many of them are short order chefs, so we will do our best to reflect on getting this right for the longer term. Thank you very much indeed.

[Break]

**Stephen Haddrill**

I am sorry to interrupt what are obviously good conversations, but we had better get on. We started to get into the ethics issues, Jules put those on the table, so it is timely to ask Stavros to give his perspective, as Chairman of the Ethics Board.

**Stavros Thomadakis, International Ethics Standards Board for Accountants (IESBA)**

A belated good morning to all. Thanks very much, Stephen. I am very happy to be here and what I would like to do is convey to you and to this group the first reactions and the feelings of the International Ethics Standards Board for Accountants, of which I am the independent Chairman, so independent is a very important word for me.

From the discussion we had up until the break, there was very little mention of ethics. There was a focus on audit and rightly so. Audit is, of course, very important, but ethics is also a cornerstone, especially of behaviour in the public interest, so we should integrate that into the discussion. I say this realising that Jules mentioned ethics; indeed, as he always does.

Let me say that the Ethics Board is very willing to discuss change and all questions of concern about how improvements can take place. We do feel and I do feel a little strange in this instance, however, because we are the object of the cookery – since everyone is talking about cooks – and we have to make sure that we do not appear as defensive in our comments, we are not; defensive of the status quo, we are not. Nevertheless we have to share some of our concerns.

Let me give you two facts about IESBA. First of all, our composition is one that really approaches the multi-stakeholder idea that seems to circulate around in the consultation paper. We have five public members, several of them from a regulatory background, including myself. We have eight

practitioners who are from auditing practices, but that includes big firms, small firms and medium firms. We have a number of non-practitioners, besides the public members, who come mainly from a corporate governance type of background. I think we are approaching a multi-stakeholder model, a flexible multi-stakeholder model and we are very happy to talk about multi-stakeholder models. We do not have a problem with that.

The second thing I would like to say is that our major recent achievement is, a month ago, in our board meeting we agreed unanimously to approve a restructured Code of Ethics. This is a major undertaking that has been going on for four years, a strategic one. Essentially, it does what the clarity project did for the IAASB and the standards of audit some years back, and it produces similar public interest benefits by offering a more useable, easier to adopt, easier to implement and easier to enforce set of ethical standards. One of the features of this new Ethics Code is that it is an ethics code for the entire accounting profession, not just the audit but accountants in business and government as well. This integrated view of ethics is, of course, installed very clearly in the unified conceptual framework and fundamental principles of ethics, which are the same across the board. Of course, the Ethics Code includes the part of independence that is specific to auditors, but its integrated character is very prominent for anybody who cares to look at the restructured Code. By the way, the restructured Code is waiting for approval from the PIOB, which I hope will decide that it responds to the public interest, as it has with all our other standards. We feel a little strange, it is a bit of a historic irony, that at the point where we have completed the structured, unified Code for the accounting profession there is a lot of discussion about breaking up the Code and breaking up IESBA as we know it. You will permit me to say, Stephen, that that is a very human reaction, but you have to take this into account aside from all the other arguments.

The other thing is that we are, of course, not averse to change at all and have instituted many changes. One I will mention is that we have initiated major, systematic coordination with the IAASB over the last year and this has taken a lot of effort, thinking and energy, because we do think that, yes, there are areas of overlap and we have to coordinate. That does not mean, however, as I will be explaining, that we think we should have a merged board.

The last thing I would like to say about ethics, which is relevant to what we are talking about, is that we are very careful about our consultation practices, including the CAG but also exposure drafts, outreach and consultation around the world, because to us, especially, ethics and ethics standards, aside from the all the other public interest criteria that we might set, it must be capable of global applicability. That means applicability across cultures and legal institutions. This is very important for ethics, so I would recommend that as part of the discussions the Monitoring Group is having, like this wonderful idea of a roundtable, there should be a discussion organised with national standard setters around the world. They are the people who make decisions on adoption of the Code globally and are people with whom we have a lot of conversations about precisely the applicability of the Code around the globe. The Code, right now, is accepted by about 120 jurisdictions and it is very important that we do not destabilise this. That is my suggestion.

The central proposal that abolishes IESBA as we know it now, in our opinion, is misconceived. Merger with the IAASB on the so-called audit-related standards implies two things. First, the likelihood that you are going to have a very dysfunctional board given the huge technical volume of International Standards on Auditing (ISA) work and given differences in subject matter, namely technical versus behavioural, and these differences are not to be overlooked. They are not only a matter of different skillsets, they are also a matter of different mindsets. Secondly, if you have a split of the Code, you are going to create an inherent dysfunctionality, which is against the public interest. The public interest is tied to total quality of the reporting chain, not just audit, audit is the last stage. Therefore, this requires, and it seems to me that it very clearly requires, a holistic approach, including the conceptual framework and the fundamental principles. In our view – and I do not think you can

really call it defensive since we have arguments for it – IESBA must remain an integrated board and function on a standalone basis under whatever other arrangement is talked about.

Of course, I must say that we firmly believe we are independent in our work, but we realise – after all, it is an item in the Code itself – that there may be issues of independence in appearance. If such issues exist, we do agree that they should be tackled, but I fail to see, frankly, how the abolition of IESBA as we know it will improve that. In fact, it might lead to the opposite effect.

Fundamentally related to the perception of standard setting independence are issues of funding, and I echo many other people here, and of course the proposed public interest framework. These are fundamental things. None of this is included in the paper we are discussing now and, in my view, the correct sequencing of this reform under discussion would have tackled those first, before governance details and safeguards. Inevitably, if there is a second consultation that will include them, we will find out that we will start discussing the same things that we were talking about in the first consultation.

Two last comments. First, multi-stakeholder funding is a good principle, it sounds good, no one disagree with that provided it does not take too long to be implemented. If you have a long interim, essentially where you move from contracting with IFAC for funding to contracting with large firms for funding, I assure you the perception of independence will become much worse before it becomes better.

Secondly, and lastly, about the public interest framework. From our experience and our conversations with the PIOB, we think there is one thing that is required: specification of a process of transparent oversight. In other words, the articulations of the PIOB about public interest needs and objectives in overseeing standard setting should be very clear and transparent for all to see, for all to appreciate and for all to learn from.

Thank you very much.

### **Stephen Haddrill**

Thank you, Stavros. That is a very good basis for kicking off the second part of this discussion, thank you very much indeed. I just wanted to give a personal reflection on the idea that we are winding up one thing or pushing it into another. From my perspective, as an audit regulator as opposed to a standard setter, although we are the standard setter of the UK as well, over and over again, the concerns we have when we look at audit quality and when we are worried about the way an audit is conducted, it is not a technical failure, it is a behavioural matter. Ethics is at the heart and centre of this issue about audit quality. It is not, in any way, a Monitoring Group view that it is a second class citizen. The thinking around the Monitoring Group was it has to be integrated at the top table and at least as powerful, if not more powerful, in those debates as the technical debate. I do not know if that reassures you at all, but I hear very much what you say about the two.

### **Stavros Thomadakis**

[Inaudible]

### **Stephen Haddrill**

Yes, well, probably we have to take our own perception medicine on this point. Right, okay, good start. Who would like to come in now?

### **Sue Coffey, AICPA-CIMA**

[Inaudible]

**Stephen Haddrill**

Thank you very much.

**Mike Santay, Grant Thornton**

I am Chair of the US Auditing Standards Board (ASB) and a Partner at Grant Thornton. Sue just touched on some of the things I was about to jump in on. By way of background, the Auditing Standards Board has gone through two significant clarity and convergence projects with the international standards; we completed the audit standards in 2012 and the attestation standards. I know there is a lot of focus on audit, but there is a bunch of other standards out there, assurance standards that we also converged with. This was a significant effort and there was a lot of pain and suffering in that convergence, but it was important and the Board recognises the importance of our mandate to converge. That is something that we have benefited from in the US, from a standard setting perspective. What we benefit from, from the current process, is the stakeholder engagement that the IAASB and the IESBA go through with respect to inputs from the CAG. It is a difficult thing, when you think about the differences between accounting standard setting and engagement and auditing standard setting. The auditing is a bit of a black box for a number of stakeholders and it is difficult sometimes to get good engagement; it is something we talk about at the Auditing Standards Board quite a bit. We have relied on the IAASB, with their outreach, their consultation papers, their CAG input, to inform our process. It has been very important for us to have that.

We had just started talking about updating our strategic plan and decided to see where this consultation plays out, because obviously it is a critical one and very important to what we decide to do, from a strategic planning perspective, depending on how much change might come through the system for the international standard setting.

We talk about the case for change and are we trying to solve problems. I like to think about this as opportunities for improvement; that we can look for areas to help define what the public interest framework might be, which we hope will be a principles based one as opposed to a compliance type framework. It would be challenging to try to think we could write a public interest framework for some of the reasons that Sue just mentioned and referring back to Jim Dalkin's first comments about how many people use our standards. We have a project right now on benefit plan auditing. We are trying to improve the quality of benefit plan auditing and it is not just limited to the standards. Writing the standards is hard enough, monitoring why they do not always work is harder and trying to get input and make determinations. We talk about root cause and firms doing root cause to figure out where an audit failure occurred or where there was substandard engagement. All the elements that go into what is the case for changing a standard, adopting a new standard and how to write that standard is a hard process. As Wes' letter said, it takes a lot of people and it does, and the Marquis of Queensberry does not always apply in those situations in some of our meetings, so it is difficult.

To sum up, we have a lot of interaction currently with the IAASB and IESBA. We rely on their processes; they have been very important to inform what we are doing. We enhance those with other jurisdictional opportunities; like I mentioned, improving the quality of benefit plan audits in the US is what we are working on right now. It is the underpinning and then we build on that and having this notion of what is our public interest framework would be helpful, how we can enhance stakeholder engagement would be great, if this process can help us and help other jurisdictions look to enhance that. To use a phrase I have used a little bit lately, we could go in and change the standards tomorrow. We could say, okay, if people want to adopt data analytics, let us eliminate the need to require substantive testing, let us laser focus changes in the standards to open this up quickly. We could do that, but should we do that? That is where the phrase 'boldly cautious' comes in that I have

been using. Yes, we need to be bold in these areas, but we need to also be cautious. I have heard that theme come through a little bit, so it is important for us to balance that.

### **Stephen Haddrill**

Thank you very much. You bring us back to something Wes said in his remarks, about change, whether it is in the standards or in the governance or the rest of it, resting on a building of consensus. You have that on one side versus the timing issue on the other and how you form the right balance between those two things.

### **Ken Charbonneau, Auditing and Assurance Standards Board (AASB) Canada**

We are one of the 120 countries that have relied on the International Accounting Standards (IASs) and adopted the IASs with very few amendments in 2006. To give you a context of the stakeholder group that we have in Canada, it includes a large number of stakeholders other than listed entities. In fact, in Canada, our stakeholder group that is represented by listed entities is less than 1%, so we are very concerned that the consultation paper and much of the discussion that I have heard today are not addressing that stakeholder group. Indeed, it sounds like it is pretty much being driven by regulators and public capital markets. That is a huge concern to us, in Canada, where we have one set of auditing standards that apply to all of the entities that receive audits in the country. This has already been expressed, but we would encourage the Monitoring Group to carefully consider and define the public interest and, as well, who are the stakeholders that you mean to address? I know in your opening comments you suggested that this applies to all entities. We have not seen that in any of the material or any of the discussion so far.

### **Stephen Haddrill**

Thank you. Can you just give me a minute before I come to you, because Paul Thompson was making a similar point to me over coffee? Do you want to build on what we have just heard?

### **Paul Thompson, European Federation of Accountants and Auditors for SMEs (EFAA)**

Yes. I could not agree more with what Ken has just said. When one reads through the consultation paper, it is easy to come to the conclusion that there is a huge raft of the global economy – public sector, small and medium sized business sector, private entity sector – that appears to be missed. As Ken rightly said, in many jurisdictions around the world the IASs are being used for the audit of the very largest, global, international entities right the way down to some very small, unlisted entities, so the interpretation of the public interest needs to embrace and reflect that in some shape or form. That also extends to we are talking about audit but there are other assurance services, which are arguably more relevant to the SME and the unlisted sector.

Thanks, Stephen, for giving me the opportunity to speak.

### **Megan Zietsman, Deloitte**

I am Deputy Chair of the IAASB. I wanted to say thank you for the opportunity to be here today, to listen to the debate and have the opportunity to offer a couple of views from the perspective of an IAASB board member. I have been sitting here listening very carefully to the debate and all the views and comments and I was able to listen to the webcast of the London session, which was also very informative, so thanks for that opportunity as well. From the perspective of the IAASB and to echo a lot of what Stavros has said from the IESBA perspective, our board is very supportive of the need to look at the way in which the model needs to be improved; it is a function of continuous improvement and the importance of always looking for how things could be better. We are very

supportive of this activity to look at the model and think about how improvements can be made. We also believe that it is very important for all stakeholders to comment and be engaged, so we are very thankful for people to show up and contribute to roundtables like this and provide their comments. Like others, we are struggling with some of the questions of how to respond and how to think through the impact of the proposals, because of some of the missing pieces.

We understand the idea to try to do this in a phased process, but as others have commented today, we struggle with how to do that without seeing the whole piece of it. We would also underscore the comments that others have made about the importance of the public interest framework being the driver and you need to understand exactly what that is and how it is going to work to think through how these proposals might play out.

Again, we also have some of the concerns and questions around the proposals addressing what are the problems and some of us on the board are struggling with how that would play out. Maybe we are biased because we are board members, but we also try to think about ourselves and the way that we operate and if I went to any of my board members and asked them to talk about how they see their role on the IAASB, first off, they would say, 'We think about it from a public interest perspective'. We are not trying to be self-serving. The boards follow very robust processes. We have a lot of very healthy debate in our plenary sessions. We have, as Jim pointed out, very constructive conversations with our CAG. We do extensive outreach to lots of different types of stakeholders. Echoing the points made by some of the most recent speakers, we have a broad range of people we have to be thinking about, so we do think about the challenges for applying our standards to smaller entities, but also to the largest most significant listed companies, what have you. All of that process underpins our desire to have standards that are capable of being globally adopted and implemented to drive quality. I will not repeat some of the comments Bill made about the importance of having standards that can be globally adopted and the benefits to audit quality that come from that.

I will make one or two comments on the questions around the timeliness and speed. There are, potentially, some people who would criticise the speed and argue that things take too long to get done. From the board's perspective, we would say that sometimes a little bit of extra time taken in cooking the meal results in a more satisfactory meal at the end. I do not think any of us want to be short order cooks, and sometimes take a little bit longer to really think about the views. It is wrapped up also in maybe some of the criticism that because the board drives for a two-thirds majority vote that sometimes causes things to carry on for too long. My personal experience, and I am entering my fifth year on the board, is that sometimes the extra time that we have taken on some of our more complicated projects has helped us in understanding some of the issues that might have a unique jurisdictional flavour or something that is especially relevant to a particular group of stakeholders. It has helped us think through those issues and it has resulted in a better standard at the end and one that is capable of broader acceptance, which is a large factor that drives to the global acceptability and take up of our standards. I do not think it is fair to say that we keep going until we get 100%, even though maybe a lot of our standards and consultations do get 100%, but I really do think that sometimes that extra time taken results in a better outcome.

The other point is that the majority of the projects that both the IESBA and the IAASB have had on their agendas in recent years are large, complicated and transformative; I am thinking about auditor reporting, Stavros mentioned the restructure of the Code, I could talk about non-compliance with laws and regulations (NOCLAR). I look at the current things that are on the IAASB's agenda in terms of the estimate standard, risk assessment standard and quality control, they are huge and we really are trying to think very innovatively about how we make those standards I do not like the word 'future-proof', but maybe capable of being adapted and applied as the environment changes. People have made the point about how complex the environment is that we operate in today and, long story short, that takes some time. Moreover, the process along the way, because of the broad consultative



nature of it, enables stakeholders to understand where we are going and gets them to the point that, by the time we get to the end, they are more ready to start thinking through implications.

One comment around the strategic board. We would welcome the concept of a strategic board, but I will be honest, we scratch our heads a little bit over how you could have a board that would approve the output without, at some point, turning the pages. Of course we agree that there is no way the board should sit there and argue about the placement of commas and small technical points, but at the end of the day, the board members should read the papers and, as others have said, have the technical background, expertise and experience to be able to do that in a meaningful way.

The last point I am going to make – and, Stephen, I am going to cheat on you, I am going to pass to James once I am done and he is going to add a couple of points – I will just underscore, and it is acknowledged in the paper, the offer of the boards to pilot aspects. I recognise we cannot pilot the whole thing, but pieces of things. Certainly from the IAASB's perspective, we have started to think about things and are trying different approaches to doing our projects that might speed some things up and also think about ways of making sure we do not get too bogged down in the details, but we stand to assist in whatever way we can.

Let me pass to James.

### **Stephen Haddrill**

Perhaps I can just comment on the piloting. We did appreciate Arnold's offer to do some of that and it has merit. The reason we did not immediately take it up is because this is a consultation, so I thought it would be a bit premature to say, 'Pilot this' when we are not sure that 'this' is the answer yet. James.

### **James Gunn, IFAC**

I will be brief. This is around two dimensions that I just wanted to bring us back to. In your opening remarks, Stephen, you made a number of conditional references: 'if we are confident the public interest is being pursued', 'if we are confident that the details are being examined', 'if we are confident that we have the right people around'. Those are big ifs and we are in a bit of a wait and see programme to see how these translate. My own experience of almost 17 years of dealing with boards, strategies and technical details is that that confidence, in whatever spectrum, will quickly disappear when a stakeholder group is not getting the answer that they want. That is particularly at the highest levels of the stakeholder communities. I think tensions are good, but it is not only a disagreement between major stakeholder groups – practitioners, firms, regulators – but even within the international regulatory communities there is not a consensus and a harmonised view of what is the right answer.

Therefore, what I would suggest is that the dimension we think about is the tension at the higher level, which is: what is the board going to focus on and what is largely the expected answer? What is the shape of the expected answer to help solve a problem? What is being offered is the belief that recomposing the boards, recomposing staff, tweaking around the fringes is going to produce a better answer than what the high quality system today is producing, and I think that is doubtful. What I propose to consider as a dimension is, when you are looking at your governance and monitoring tier, whether it is tier one or tier two, there is a multi-stakeholder trustee body that should not only be considering due process for structural reasons but bottoming out the question of what is the systemic needs of the system, where can we get some degree of consensus? Then you can weigh in on the priorities and the strategic direction that the operating board has to deliver on. Until you resolve the tension at that level, through robust debate, any technical board is going to suffer the criticisms and pangs of today. I am wholly looking towards a sustainable model where all stakeholder satisfaction

is optimised. As we talk about the top level, I encourage that element to feature, which is a little bit more productive than what we have in setting expectations for the board itself to deal with strategy subject to layers of public interest review, whatever that may be.

Thank you very much.

**Stephen Haddrill**

Thank you, James.

**Jeff Mahoney, Council of Institutional Investors (CII)**

I want to commend the Monitoring Group for a thoughtful paper. Having spent some years involved in accounting standard setting and, more recently, on the other side, commenting on standard setting proposals, from my experience, it is much easier to be on this side critiquing proposals than it is to draft proposals, so I commend you for a thoughtful paper.

CII generally supports the principles in your paper, but we do share a number of concerns that have been expressed here. One is on this notion of public interest that the Chief Accountant and others have commented on. Not surprisingly, we believe that public interest should focus on investor needs and investor protection. Reading footnote three, I was a little confused about what that description entailed, so I would like to see some clarification there.

Second, it is critically important that there be investor participation in the standard setting process. I understand the difficulties of that and they are many, but given that investors are the primary customer of audited financial reports, it is critically important that their voice be heard as part of the process. Again, I understand the difficulty of getting investors involved, but if you look at the US Public Company Accounting Oversight Board (PCAOB), for example, they have had an investor representative on the board, which was, I thought, very effective. If you look at the Financial Accounting Standards Board (FASB), the IASB, they have had a number of full-time board members from the investor community, highly qualified, who have been very effective and have added a lot to those standard setting processes. It is important to focus on that concern as well, enhancing or increasing investor participation in the process.

Thank you.

**Stephen Haddrill**

Thank you very much.

**Robert Herz**

[Inaudible]

**Stephen Haddrill**

That is a good warning. The objective of the Monitoring Group is to have strong international standards. We certainly would not want that as an outcome.

**Sam Burke, PwC**

I am the Chair of the American Institute of Certified Public Accountants' (AICPA) Professional Ethics Division. A couple of thoughts. I want to add to what I would describe as the growing consensus around the process. It is important to step back and make sure we are evaluating this in a thoughtful and reasonable manner and that the right outcome is achieved. Wes' comments in his letter succinctly garner all that and I would encourage you to think thoughtfully about his

observations. Michele's comment about what problem are we trying to solve is important to step back and look at also.

On a process point, I do want to echo Stavros' observations. I chair the Ethics Division for the AICPA and we have a different board from the ASB. Our committee is comprised of public members as well as members from NASBA and there is a belief that that does reflect some of that broader public input in the standard setting process. It does strike me, as I read the commentary in the consultation paper, that there has not been due consideration to what works in the existing national environments today and whether or not there is a means that would deal with this as an incremental approach to improving, which we have heard around the room, as opposed to pulling out a blank sheet of paper and redoing. There are things that can be improved upon and it is appropriate for all of us to continue to look to improve upon the existing process. That does not necessarily mean there needs to be a redo and I am concerned about the redo aspects that are described here.

### **Stephen Haddrill**

Thank you very much. This point about being open to improvement is very important and it goes hand in hand also with considering the balance of striving for consensus and striving for change. Certainly, as a regulator ourselves at the FRC, we have found that when an issue emerges the consensus tends often to be either very fragmented about how to address something or there is a very strong view that 'Well, it is kind of alright, this will blow over'. One has to work that consensus and push it forward otherwise, as regulators or standard setters, we are not doing our job. I do not think this concept of consensus is an obvious one, that everyone will agree. Not everyone will agree on things and, at some point, someone has to call the shots and move things on and we have to have a structure that will do that as well as make sure that everyone has their chance to have a say.

### **Participant**

I am with Bob. I do not have a clear answer as to whether there should be one board or two boards and you made some very good points about the benefits of having a merged board, my only concern is, as you see amongst all the comments that have been made this morning, most of them are focused on audit. That is a very natural thing to happen, so will a merged board lead to a dilution of the ethics aspect of it and the focus on that? That is a concern we certainly have.

### **Stephen Haddrill**

If it did, we would have got it wrong. If we feel that is a risk and we go down that track, we certainly have to be able to answer the question what are the safeguards around that?

### **Paul Beswick, EY**

I just wanted to reiterate a couple of points. Earlier, we talked about process, so I will not go into that, but as I think about the public interest and some of the aspects that are in the paper, one of the things that was important, to us at least, is the idea that there is not one body that can protect the public interest. This idea of multi-stakeholder at all levels is critically important. I think about the work that my firm does, that Bill's firm and Trent's firm does. We approach things from a public interest. My regulator over here reminds me constantly about the need to put other people's interests ahead of our own. I think about the work of Bob and Michele, as audit committee chairs, and they have stepped into roles where they have put the public interest in front of their own. The idea that one body or one class of people can protect the public interest is a little misguided and the answers get better when you have multi-stakeholders involved at all levels.

I will comment on a couple of other points that were made. We have this debate about speed or consensus. I am always going to go with consensus, because I have seen when speed was put over consensus and it generally does not work very well. Sometimes it is frustrating for people, but when you build consensus – and there are ways to build consensus and I understand that, at times, people feel like they get to loggerheads, but building consensus does generally drive a better answer.

Finally, we often talk about the benefits of doing this in this paper, but there are real risks. There are risks to the fragmentation of auditing standards across the globe and it feels like there is a tone that this is about public entities, but as a number of people here have reiterated, there are an awful lot of private entities and we would hate to run into a situation where we have competing standards globally for public versus private. That just creates risk in the system and it is risk that is not good for anybody and so driving to a consensus that allows for global standards for all entities is something that we think is really important.

### **Stephen Haddrill**

Wes, I know you will say one or two things at the end, but maybe you could pick up on this ‘other entities’ point when you do so, or now if you wish. I understand why you focused very much on the capital markets, but what about the rest?

### **Wes Bricker**

[Inaudible]

### **Stephen Haddrill**

I will just pick up on the consensus multi-stakeholder thing. Sometimes around these public issues you get a lot of representative statements and, as a regulator, it does not work just to say, ‘Right, we have heard that from them, that from them and that from somebody else’. You have to become a focal point for getting beyond representative statements and managing a debate around that. For that to be successful, the representatives have to play by that as well and I would accept that the board, and Stavros as well as Arnold and Megan, have sought to manage the debate in that way and that is what we have to make sure happens as well going forward.

### **Tom Quaadman**

We believe that standard setting should be independent, inclusive and informed. I agree with the statements in terms of having a multi-stakeholder approach and I take that in two separate ways. One is with the constitution of the board, that there is a multi-stakeholder representation there with people with appropriate audit experience, who are able to properly inform the development of audit standards. Similarly, with due process, if there is a broad-based approach for dialogue and input from a broad base of different stakeholders, that will also inform that process. Likewise, oversight is an important part of that and we believe that a trustee-based system provides for that oversight. We also recognise, too, that while a multi-stakeholder approach is going to sacrifice maybe some speed, the due process will allow for that consensus to form. I agree with Wes that then you have standards that are going to stand the test of time.

One concern that we have with the consultation paper is that there is a possibility of having a very strong staff-led process, which takes a little bit away from that due process and from what the appropriate powers or the appropriate role of the standard setting body members should be. We think that there needs to be an appropriate balance there; that if you have a full-time set of standard setting members, there is an appropriate balance between the board and the staff so that one does not necessarily overpower the other.

**James Dalkin**

I am with the CAG, but in another role I direct US governmental auditing standards and we also have a board and, ironically, it is one board for both ethics and for auditing. We have a larger board, much larger than 12 and what we find is that there are different skillsets involved and, ultimately, what happens is it becomes bifurcated in terms of the discussion, because there is not 100% overlap. The government auditing standards require a lot of discussion and a lot of skillsets, which can be different. There is some intersection but, by and large, you end up almost having to break the board into two discussion groups. In developing this paper, is there any empirical data that would indicate one board would be better or more effective? Have you benchmarked other boards where they have treated it as one? I do not see how you have reached that conclusion and I would encourage you to look at some joint boards to see if that would support your conclusion.

**Stephen Haddrill**

I am not sure I can give you any kind of massively researched objective data to underpin it, but I can give you the fact that the members of the International Forum of Independent Audit Regulators (IFIAR) are, probably in the majority of cases, standard setters as well as regulators and, as standard setters, they will take responsibility in their countries for ethical standards as well as the technical standards. That is certainly the case in the UK. As a board, in the UK, we have found it quite beneficial to be able to look at those two things at the same time. That is a body of experience.

**James Dalkin**

Let me just say one follow up. I do think there is a body of related, and so joint meetings and joint discussions would be very effective and are very important, so the two boards would not be operating in a vacuum. The whole concept needs to be looked at just beyond maybe what you have experienced at IFIAR.

**Colleen Conrad**

You will find in our response letter, when we send it in, that we will also encourage retaining two boards. We think that both are important enough and different enough – one technical and one ethic-related – that they both do warrant separate and continued attention. You will find that recommendation from us. We do agree, though, that the joint consultation is vital and appreciate that we are hearing that that is being done between IAASB and IESBA recently, so we would also encourage the continuation of that.

On the ethics board side of the equation, we think that a combined board is vital, not to separate audit standards from standards for those in business, because we think it would be confusing, one layers on the other. In the United States, a CPA is a CPA no matter where they are and the Code of Conduct applies to them wherever they are. If they are doing work that requires independence, then those standards are in the same place, so we think that the baseline ethics for all is important.

We would also agree that multi-stakeholder involvement is important, but what will also be conveyed in our letter is that the technical expertise is most important. In the United States, with some of the boards we have, like FASB and elsewhere, we have found that there are ways to find people with expertise even if they have a diverse stakeholder background. We think that is important too.

**Michele Wood-Tweel**

I want to reiterate and confirm the thoughts that Colleen has just expressed. In Canada, we have a similar makeup to the United States, with multi-jurisdictions that all have statutory authority for the establishment of the regulation of the accounting profession, including the setting of ethics. We

believe, as she has just stated, exactly the same; that the carrying on of two boards delineated between audit and assurance and ethics is fundamentally important to the amount of attention that will be paid to ethics and to not allow ethics to somehow be side-lined into something less important than the standards of audit and assurance. Fundamentally, when you look at the definition of a profession, the technical substance of the profession and the code of ethics is what defines it. They need equal attention, in our view, and that means equal boards.

In addition to that, we 100% support that there should not be a differentiation between the setting of ethics for professional accountants in business (PAIBs) and PAPs. In the Canadian marketplace, about 80% of our membership is involved in services outside of public practice and we believe the public relies on the ethics for all CPAs in Canada and, therefore, should be set seamlessly and integrated in exactly the way that Colleen has just explained. We fully support that.

Thank you.

### **Stephen Haddrill**

Thank you very much. Before I wrap up, if there is anyone on the phone or is listening in who wants to make a comment, you should be able to do so. We will just give a moment in case anyone does. Okay, right, in that case, are there any final points in the room?

### **Participant**

[Inaudible]

### **Stephen Haddrill**

Thank you very much for that and thank you, everyone, for the contributions. I have taken a number of really quite strong points out of the room. On the positive side, in terms of assessing the consultation, there is a view that it is absolutely right to be committed to continuous improvement and to be asking questions at this time, so I have heard that. Secondly, there is a broad-ish consensus around the room that the multi-stakeholder model is a good one, but most people have said that it has to be reflected throughout the oversight structure and the organisations need to be committed to consensus for that to be an effective process of developing the discussion. I have heard a lot, understandably, about we have to make sure that the public interest framework is developed as something of a matter of urgency, probably, for people to understand that. The roles of the PIOB and the Monitoring Group itself also need to be properly understood. I have heard a lot of people say that we need to make sure that we do not jump until we have reached some greater level of understanding around those issues. I would like to thank you very much for those contributions, we will reflect on them over the coming weeks.

Wes, did you want to say anything finally?

### **Wes Bricker**

Sure. [Inaudible]

### **Stephen Haddrill**

Thank you very much. I am delighted that so many of you in the room have contributed to this discussion. I can assure you that everything you have said has been recorded, noted and will be reflected on properly.

Finally, can I just add my thanks to David and the World Bank for hosting this and for coming forward to do that, it is very much appreciated.

I look forward to seeing those letters.

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