Comment Letters to the "Review of the IFAC Reforms" Consultation Paper

Table of Contents

1. **Oversight Bodies for Auditors and Other Regulators (7 responses)**

   a. Auditors Public Oversight Committee, APOC, Hungary
   b. Capital Markets Board of Turkey
   c. Commission for Public Oversight of Statutory Auditors, CPOSA, Bulgaria
   d. Committee of European Banking Supervisors, CEBS
   e. Federal Audit Oversight Authority, FAOA, Switzerland
   f. Financial Reporting Council, FRC, UK
   g. Independent Regulatory Board for Auditors, IRBA, South Africa

2. **IFAC and the PIOB (4 responses)**

   a. International Accounting Education Standards Board Chair
   b. International Auditing and Assurance Standards Board Consultative Advisory Group Chairs
   c. International Federation of Accountants, IFAC
   d. Public Interest Oversight Board, PIOB

3. **International Audit networks (6 responses)**

   a. BDO
   b. Deloitte
   c. Ernst & Young
   d. Grant Thornton
   e. KPMG
   f. Pricewaterhouse Coopers, PwC

4. Users of Audited Financial Statements (2 responses)

a. Hermes Equity Ownership Services
b. Standard Life

5. Professional Organizations of Auditors/Accountants (16 responses)

a. ACCA, United Kingdom
b. Chamber of Hungarian Auditors, CHA
c. Chartered Institute of Management Accountants, CIMA
d. Chartered Institute of Public Finance & Accountancy, CIPFA
e. Compagnie Nationale des Commissaires aux Comptes, CNCC & Conseil Superieur de l'Orde des Experts-Comptables, CSOEC, France
f. Consiglio Nazionale Dei Dottori Commercialisti E Degli Esperti Contabili, CNDCEC, Italy
g. Federation of European Accountants, FEE
h. Global Accounting Alliance, GAA
i. Institut Der Wirtschaftsprufer, IDW, Germany
j. New Zealand Institute of Chartered Accountants
k. The American Institute of CPAs, AICPA
l. The Canadian Institute of Chartered Accountants, CICA
m. The Institute of Chartered Accountants in England and Wales, ICAEW
n. The Institute of Chartered Accountants of Scotland
o. The Japanese Institute of Certified Public Accountants, JICPA, Japan
p. The Slovenian Institute of Auditors

From: Balogh Mónika [mailto:monika.balogh@ngm.gov.hu] **On Behalf Of** Könyvvizsgálói Közfelügyeleti Bizottság (PM)
Sent: 13 August 2010 01:24 PM
To: Bernard Agulhas
Subject: RE: Request for Comments on Monitoring Group Effectiveness Assessment Consultation Paper - High Priority

Dear Mr Agulhas,

The Hungarian Auditors' Public Oversight Committee (APOC) is pleased to provide its responses to The Monitoring Groups' consultation paper on the review of the IFAC Reforms. The APOC supports the analysis and most of the recommendations contained in the consultation paper.
The APOC supports and suggests that the members of standard-setting boards should be chosen, as far as possible, from a wider scope and, besides experiences on auditing, further competences should obtain appropriate role, too. This particularly applies to the International Ethics Standards Board. In this regard APOC finds the Financial Reporting Council's second suggestion on further improvement (Further improvement 2) remarkable. It should be made clear for market participants that the standard-setting is not the privilege of big auditing companies. Providing stable funding resources is similarly an important step in the direction of independence and objectivity.

Yours sincerely,

Mr. László MIKLÓS
chairman
Auditors' Public Oversight Committee
Hungary, 1051 Budapest
József nádor tér 2-4.
Tel: (+36-1) 795 - 1570
Fax: (+36-1) 795 - 0294
E-mail: kkb@ngm.gov.hu

15 August 2010

The Monitoring Group Task Force on the IFAC Effectiveness Assessment

Dear Sir/Madam

Being a member of both International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR), the Capital Markets Board of Turkey (CMB), the regulatory and supervisory authority of publicly owned companies, issuers of public debts, financial institutions and their auditors participating in the Turkish capital markets, is pleased to provide comments on the International Federation of Accountants' (IFAC) Effectiveness Assessment in terms of the 2003 IFAC Reform Proposals.

The primary objective of CMB is to protect the public interest. Therefore, our comments below should be read in that context.

About the composition of boards

i. Mix of competence and objectivity

We agree that the boards should consist of practitioners and non-practitioners. However, in order to increase objectivity and to prevent the perception of self interest, we think that the total number of members from the auditing profession should not exceed the number of members who are not current or former auditors. Since auditors, who often have a direct interest in the standards, may have consensus on the issues that relate their interest more easily than the public interest members who have different backgrounds, and represent different parties; the voting power of the Board should not be at the hands of the members of the profession.

HEADQUARTER
Address : Eskişehir Yolu 8.Km No:156
06530 Ankara - TÜRKİYE
Tel : (+ 90.312) 292 90 90
Fax : (+90.312) 292 90 00

İSTANBUL OFFICE
Address : Harbiye Asker Ocağı Caddesi
No:1/15 Kat:3 80200
Şişli - İstanbul - TÜRKİYE
Tel : (+90.212) 334 55 00
Fax : (+90.212) 334 56 00

We believe that former auditors should not be regarded as pure public interest members. We cannot be sure whether a former auditor will become a practitioner again. Also, they may not vote against the professional society they probably have ongoing contacts.

Furthermore; to increase both competence and objectivity, we believe that oversight bodies should have more weight in the composition of the Boards. They are the ones who enforce the auditing standards through their inspections and controls, because of which they tend to have valuable information and experiences about the regulation needs of the auditing profession, and deficiencies and applicability of the standards. Therefore, their standpoint and expertise is crucial and should be utilized more effectively.

ii. Assignment of Board Seats

We agree with the Monitoring Group's recommendation that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for FoF nominees. By not allocating a fixed number of seats to a specific (interest) group, perceptions of self interest will be largely overcome.

iii. Ability to Attract Public Board Members

Financial support to public members might increase the chances of attracting competent members. Since public members contribute the objectivity and public interest side of the standards, their stipends can be financed in the same manner as of PIOB's. Alternatively, the public interest organizations nominating member candidates for the Boards may be asked to compensate their members. This will be public interest expenditure for the represented organization and such compensation will enhance the independence.

iv. Setting a Code of Ethics for Accountants

Those who are or have been auditors have experienced the conflict of interests more than the other parties. They will also be the ones to face the conflict of interests that will arise in the future. Hence, their expertise and perspectives are crucial in setting Code of Ethics. However, to achieve objectivity, self-interest parties should not be dominant in the process. Therefore, while benefiting from auditors as board members, more weight should be given to the members of public interest organizations and members with experience in the ethics environment in the Ethics Board.

About the operating procedures of boards

i. Role of Technical Advisors to Board Members

Technical advisors are usually auditors and their speaking rights increases the auditor influence at the meetings. Therefore, we recommend that technical advisors should advise the members, and not have speaking rights at board meetings002E

ii. Manner in which comments received are analysed

Since they have more direct interest in the standards, auditors provide more comment letters than non-auditors. We believe that it would be better for the boards to consider effective methods of obtaining comments from non-auditors, instead of expecting them to respond to exposure drafts issued to the general public.

Among the non-auditors, oversight and regulatory bodies should be given more consideration. Since most of them are affiliated to an international organization, these international organizations can be used to obtain inputs from these bodies.

Moreover, sufficient time should be spent on the analysis of comment letters at board meetings. Board members should have studied the analysis before meetings.

The last but not the least, the reasons for comments not taken up and which might impact on the public interest may be disclosed on the publicly available IFAC website.

iii. Direct feedback to MG members where members' inputs not accommodated in final standard

The requirement to provide feedback to the MG members should not be restricted to MG members but all public interest or non practitioner interest groups.

Yours Sincerely,

Mr. Bekir Sıtkı ŞAFAK
Vice Chairmen of the Capital Market Boards of Turkey

From: CPOSA [mailto:office@cposa.bg]
Sent: 12 August 2010 11:04 AM
To: Bernard Agulhas
Subject: RE: Request for Comments on Monitoring Group Effectiveness Assessment Consultation Paper - High Priority

Dear Mr. Agulhas,

I would like to inform you that the governing body of Commission for Public Oversight of Statutory Auditors (CPOSA) – Bulgaria on its meeting conducted a discussion concerning the Consultation Paper on the assessment of the effectiveness of IFAC governance reforms issued by the Monitoring Group. The Board of CPOSA come to the conclusion the proposed recommendations will further enhance the quality in the work of IFAC Standard-Setting Boards. The Board of CPOSA supports so made proposals and believes that this would be an improvement in IFAC governance.

Kind regards,

Mariya Ilieva
General Secretary
Commission for public oversight of statutory auditors
Bulgaria
tel. +359 2 4897244
fax. +359 9831385
mail: m.ilieva@cposa.bg

Committee of European Banking Supervisors
CEBS

Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom

t + 44 (0) 20 7382 1770
f + 44 (0) 20 7382 1771

www.c-ebs.org

30 July 2010

To the Chair of the IFAC Monitoring Group
Mr. Hans Hoogervoorst

MonitoringGroup@iosco.org

Dear Mr Hoogervoorst,

The Monitoring Group's Review of the IFAC Reforms – Consultation Paper

The Committee of European Banking Supervisors (CEBS) comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the Monitoring Group's Review of the IFAC Reforms – Consultation Paper.

The Monitoring Group's efforts are greatly appreciated in that they are considered an important contribution to restoring confidence of users in financial reporting and in the related audits. As banking supervisors we have a strong interest in ensuring that financial reporting and financial audits are of a high quality.

CEBS has reviewed the Monitoring Group's preliminary conclusions resulting from the assessment of the implementation of the set of 2003 IFAC Reforms and is in broad agreement with these. There is also agreement with the thrust of proposed recommendations set out in the consultation paper as these are improving the independence of the audit standard setting process in relation to the profession and the effectiveness of the Public Interest Oversight Board. This should further increase the quality of the standard setting process

If you have any questions regarding the above, please feel free to contact the chairman of CEBS's Expert Group on Financial Information (EGFI), Didier Elbaum of the French Autorité de Contrôle Prudentiel (+33 1 4292 5801) or Mr Marc Pickeur of the Belgian Commission bancaire, financière et des assurances (+32 2 220 5253).

Yours sincerely,

Giovanni Carosio

Federal Audit Oversight Authority FAOA
Bundesgasse 18
P.O. Box 6023
CH-3001 Berne
Switzerland

15 July 2010

The Monitoring Group Task Force on the IFAC Effectiveness Assessment

Dear Sir/Madam

COMMENTS ON IFAC EFFECTIVENESS ASSESSMENT

I Composition of Boards

1 Mix of competence and objectivity

We agree that the boards should consist of practitioners and non-practitioners. However, the non-practitioners should not necessarily have to be practitioners who have not practiced in the last 3 years. They should be members who will be more objective and therefore not be from the auditing profession to prevent the perception of self interest.

Particularly as regards IESBA, we believe it necessary to limit the number of Board members who are practitioners and former practitioners. The majority of the Board should consist of members with experience in the ethics environment. (see also recommendation no. 4).

Transparency could be increased if the IFAC website discloses whether Board members were practitioners or non-practitioners.

Although the composition refers to 'public members' and these members include academia, financial supervisory institutions and governmental bodies, we believe that these members should be described as 'public interest members'. It may appear that it is the same thing; however, while public interest could include shareholders, it would not necessarily include

academia. It appears as if ‘public members’, as currently described, are intended to refer to non-practitioners.

The recommendation goes back to including non practitioners who have been out of public practice for the last 3 years, to ensure that technical competence on boards is retained. However, the number of practitioners is still in the majority and hence there is no risk of losing confidence in the technical contributions from members.

The number of public members (three) between the three boards appears low and should be increased to provide larger representation of the public interest.

2 Assignment of Board Seats

The assignment of board seats should not give preference to specific groups, in this case, the Forum of Firms (FoF).

Members should be appointed according to their suitability, and seats should not be allocated because of affiliation to a particular (interest) group (FoF). Members of the FoF are appointed for a different purpose and may not necessarily be the most suitable candidates for the IFAC Boards.

We suggest discontinuing the practice of reserving a specific number of Board seats for those with a particular background (e.g. FOF nominees) or restricting the number of such reserved seats. Further, as the practitioners are not only nominated by the TAC but also partly by the IFAC Member Bodies, consideration should be given to limiting the number of practitioners, especially in the IESBA. There is a certain risk that boards, such as the Ethics Board, may lack objectivity if the majority of members are practitioners.

By not allocating a fixed number of seats to a specific (interest) group, perceptions of self interest will be largely overcome.

3 Explore further financial support to public members

Reimbursement for public members' time would not be seen to impair their independence as it is not the same as funding supplied to their public organizations.

Public organizations such as national standard setters and oversight bodies/regulators are likely to be funded by public monies and therefore will not have financial support for members on IFAC Boards.

Financial support to public members might increase the chances of attracting the best members.

Unlike practitioners supported by audit firms who have an interest in the standards, public members do not have the same interest and might be reluctant to give up time at no compensation for issues that do not benefit them or their organizations directly.

4 Monitoring Group's (MG) evaluation of whether composition of IESBA needs to be changed

Auditor ethics might require inputs from practitioners; however, ethics is a broader discipline which relates to principles such as morals, culture, etc and which is not peculiar to the auditing profession. We would therefore agree that the IESBA composition does not have to focus on practitioner involvement but rather include members with experience in the ethics environment.

The composition of the Board should be reconsidered as regards the proportion of non-practitioners to practitioners and former practitioners (those who have not practiced in the last three years). We believe it necessary to determine a fixed majority quota of non-practitioners.

II Operating Procedures of Boards

5 Manner in which technical expertise is made available to boards

Technical advisors are necessarily auditors. If they have speaking rights it multiplies the auditor input around the table.

Some technical advisors provide more inputs at board meetings and would not necessarily be driven by public interest as they would not possess the wider skills and experience to always be aware of the impact on public interest (they are largely focused on technical aspects).

We therefore recommend that technical advisors should advise the members, and not have speaking rights at board meetings.

6 Technical sessions to assist non task force board members

The standard setting process provides for the preparation of 'Issues Papers'/'Discussion Papers' or other documents which task forces have to present to board members, outlining contentious issues, explanations of technical matters and a request for direction from the broader membership. This process could be strengthened to provide all board members with the necessary background and understanding to be able to contribute to discussions at board meetings.

We also believe that the onus is on the board member to ensure that he or she familiarizes him/herself with materials and be properly prepared for board meetings. The secretariat is available to provide support in this regard, specifically around technical aspects. Our recommendation would therefore be to rather have proper evaluation processes in place to evaluate board members' contributions, which in turn should 'encourage' participation.

7 Revise TOR of CAGs to eliminate perception that they 'sign off' on standards and add credibility to standards

We agree with the recommendation from the Monitoring Group.

This would imply that CAG papers should be prepared in a manner for CAG members to easily discern any impact of proposed standards or changes to standards on their industry and the public. This may further require the secretariat supporting the CAG to have different skills and not only technical expertise.

8 Revise approach to CAG meeting content and CAG meeting process

We agree with the recommendation from the Monitoring Group.

The timing of the CAG meetings and the report back at board meetings are administrative and logistical issues that should be addressed.

It would be most useful if CAG Chairmen had auditing and wider public interest or industry specific experience.

In respect of report backs at board meetings, it would be useful if the chairman of a particular board task force could join the CAG meetings to answer questions or provide further explanations and clarifications to CAG members to assist them in their discussions and inform their inputs. Practically, this could be done by the task force chairman joining the CAG meeting via a conference call. These inputs should then be relayed first hand to the board at its next meeting and the CAG Chairman would be present to confirm the accuracy of the feedback.

9 Manner in which comments received are analysed

It would be useful if comments are analysed by concerns expressed and not by paragraph, as is the practice. The way in which it is currently done might dilutes the impact or gravity of a concern.

We also agree that the comments should be analysed by interest group as this will strengthen the gravity of a particular concern.

Unfortunately, it has always been the case that auditors provide more comment letters than non-auditors. We recommend that the boards consider more proactive methods of seeking and obtaining inputs from non-auditors, instead of expecting them to respond to exposure drafts issued to the general public. Most oversight, regulatory and public interest bodies are affiliated to an international body and these international bodies should be pressurized to obtain inputs from their member bodies.

Although this might prove difficult for boards to enforce, solid stakeholder relationships with these international bodies might go a long way.

The role of the public members at board meetings become important as they are also meant to understand those issues which might affect the public interest. Here it might also be useful if the secretariat gives, or some other form of support is given, to the public board members.

Unfortunately, it should be no excuse that too little time is spent at board meetings on the analysis of comment letters. Board members should have studied the analysis and specifically, public members should have reviewed the reasons for comments not taken up and which might impact on the public interest. The IFAC secretariat usually prepares detailed documentation in this regard.

The comment letter summaries should be disclosed on the publicly available IFAC website, thus ensuring that the Boards' standard-setting processes are transparent.

10 Direct feedback to MG members where members' inputs not accommodated in final standard

The requirement to provide feedback to the MG members should not be restricted to MG members but all public interest or non practitioner interest groups.

We do not understand why the relevant IFAC standard setting board should give stronger consideration to the comments given by members of the Monitoring Group than to comments from other groups (as of section 3.2 of the Reforms). We believe the focus of this group should be on continuous improvement of IFAC processes.

While we agree that the CAG meetings are not the best forum to provide the feedback, we recommend that the boards institute processes where the comments could be formally discussed with these groups and an opportunity allowed for the board to change their decisions based on new information or further clarification obtained from such interactions. Again, such processes

might have to draw on stakeholder relationships and would probably result in a change in the current consultation process. The boards would therefore have to give consideration as to whether it will still form part of a due process, which is critical to the governance of the boards.

11 Improve process of how final standard comes together

The ‘coming together’ of the standard should not be confused with the approval of the standard. The approval is done through a voting process which is adequately conducted and documented.

A summary by the chairman of the board might be the best possible way to pull discussions together. If this is so, clarity of the summation largely depends on the ability of the chairman, who will obviously have a full appreciation of the debates and motivation for the final decisions of the board.

Equally, board members who have not understood the rationale for reaching a decision, should be encouraged to ask questions before voting. Board members should therefore be held accountable for their vote and cannot plead ignorance should a wrong decision be taken by the board.

12 Remove proxy voting by boards

Board members agree to the time commitment when they accept appointment to boards. They should therefore be held accountable to their agreed commitment.

However, it is not unreasonable that circumstances might arise which necessitate a board member not being available to vote.

We agree that a process be in place for such voting but that voting by proxy is not allowed.

IV Oversight

13 MG will consult with PIOB and speak to IFAC to discern how the PIOB can best perform its oversight role

Identification of appropriate skills, competencies and experience will be crucial in the appointment of PIOB members.

14 MG will consult with PIOB on how to best use PIOB staff

Identification of appropriate skills, competencies and experience will be crucial in the appointment of PIOB staff.

15 MG will take a broader approach to identifying and appointing future PIOB members

No comment.

16 MG will consult with PIOB and IFAC to secure more independent funding for the PIOB

Neutral funding is important to secure the independence and perceived independence of the PIOB.

17 Future interaction between MG and PIOB

No comment.

18 MG to assess its future role

No comment.

Financial Reporting Council

Aldwych House, 71-91 Aldwych, London WC2B 4HN
Telephone: 020 7492 2341 Fax: 020 7492 2359
www.frc.org.uk/pob

The Monitoring Group
(MonitoringGoup@iosco.org)

27 July 2010

Dear Sirs

Review of the IFAC Reforms

The Financial Reporting Council ('FRC') is pleased to provide its response to The Monitoring Group's consultation paper: *Review of the IFAC Reforms.* The FRC broadly supports the analysis and a number of the recommendations contained within the consultation paper but believes there are opportunities for improvements beyond those recommended.

The 2003 reforms have assisted with both the reality and perception that IFAC operates in the public interest. Since these reforms, the independence of audit oversight and regulation from the profession has increased. This has increased the degree of expertise and evidence available to assist the development of standards independent to the profession and improve audit quality. This expertise needs to be utilised more effectively.

The FRC believes that there are five main drivers of audit quality:

- The culture within an audit firm
- The skills and personal qualities of audit partners and staff
- The effectiveness of the audit process
- The reliability and usefulness of audit reporting
- Factors outside the control of auditors affecting audit quality

Different parts of IFAC contribute to these drivers. The work of the IESBA contributes to both the culture within an audit firm and the personal qualities of the audit partners and staff. The IAASB contributes to the effectiveness of the audit process and the usefulness of audit reporting. The IAESB contributes to the skills and personal qualities of partners and staff. That said the FRC believes that more

needs to be done to co-ordinate the activities of these Boards to ensure that all aspects of audit quality are considered.

Annual financial reporting processes involve management, those charged with governance and auditors. The regulatory regimes for each of these different constituents are evolving but at different paces and in different ways. Often changes to these regimes do not adequately reflect the needs of the other participants. Although IAASB tracks IASB projects and provides comments, more needs to be done to be sure that different parts of the framework for financial reporting are co-ordinated. For example international accounting standards seem to be developed without explicit consideration of the extent to which they can be audited and auditing standards seem to assume a role for audit committees which may be unrealistic.

The governance arrangements for the setting of accounting and auditing standards are complex and, even though a number of the same institutions are involved, are independent from each other:

- The Trustees of the IFRS Foundation oversees the standard setting processes of the IASB and is publicly accountable to a Monitoring Board of public authorities.

- The PIOB oversees the standard setting processes of the IAASB, IAESB and IESBA and is accountable to a Monitoring Group of largely the same public authorities.

Based on this analysis the FRC believes consideration should be given to four further improvements beyond those set out in the consultation paper.

Further improvement 1
The expertise and objectivity of independent audit regulators needs to be utilised more effectively. This can be achieved through IFIAR becoming a full member of the Monitoring Group, through the standard setters proactively seeking input at an early stage from independent audit regulators and by the appointment of individuals with a background in audit regulation to both relevant Standard Setting Boards and Project Task Forces.

Further improvement 2
IFAC standard setting boards should have a clear majority of members who are neither practising auditors nor recently retired auditors. This can be achieved through greater involvement of independent audit regulators and audit committee chairs on each of the boards. It is recognised that it will be necessary to provide appropriate remuneration to attract the participation of experienced audit committee

chairs. A change in the nature of Board members is also likely to change working practices and this too could have cost effects. At the same time as making changes to Board membership careful consideration will need to be given to how the technical work of the Boards is undertaken and how to ensure that budgets are sufficient.

Further improvement 3
Consideration should be given to the creation of an independent entity either within IFAC, the PIOB, or elsewhere with an overarching responsibility for audit quality to oversee the work and coordination of the IFAC's three standard setting boards.

Further improvement 4
Consideration should be given to the feasibility of rationalising the governance arrangements of the auditing and accounting standard setting bodies under a single coordinating framework.

Yours sincerely

Paul George
Director of Auditing
DDI: 020 7492 2340
Email: p.george@frc-pob.org.uk

INDEPENDENT REGULATORY BOARD FOR AUDITORS

Physical address:
Building 2
Greenstone Hill Office Park
Emerald Boulevard, Modderfontein

Postal Address:
PO Box 751595
Garden View, 2047

Tel: +27 87 940 8800
Fax:
Legal: +27 87 940 8873
Practice Review: +27 87 940 8874
Education: +27 87 940 8875
Docex: 158, Johannesburg
E-mail: board@irba.co.za
Web: www.irba.co.za

15 August 2010

The Monitoring Group Task Force on the IFAC Effectiveness Assessment

Dear Sir/Madam

COMMENTS ON IFAC EFFECTIVENESS ASSESSMENT

The Independent Regulatory Board for Auditors (IRBA), the statutory regulator of auditors in South Africa, is pleased to provide inputs on the International Federation of Accountants' (IFAC) Effectiveness Assessment in terms of the 2003 IFAC Reform Proposals.

Our comments attempt to provide inputs in respect of possible lacunae in standard setting, as well as comments on where it is believed that processes to increase the public interest accountability could be improved. These comments are not only based on the past five years since the IFAC Reform Proposals were implemented, but should also be considered in going forward.

The primary objective of IRBA, as the standard setter and regulator of the auditing profession in South Africa, is to protect the public interest. Our comments should therefore be read in that context.

Our comments, which are set out under the same headings as in the Consultation Paper, address the following:

- Strengthening support to board members;
- Increasing the number of public members;
- Strengthening the process to consider and respond to comments received on exposure drafts;
- Strengthening stakeholder relationships; and
- Consideration of processes as well as behaviors.

I Composition of Boards

1 Mix of competence and objectivity

We agree that the boards should consist of practitioners and non-practitioners. However, the non-practitioners should not necessarily have to be practitioners who have not practiced in the last 3 years. They should be members who will be more objective and therefore not be from the auditing profession to prevent the perception of self interest.

The recommendation goes back to including non practitioners who have been out of public practice for the last 3 years, to ensure that technical competence on boards is retained. However, the number of practitioners is still in the majority and hence there is no risk of losing confidence in the technical contributions from members.

The number of public members (three) between the three boards appears low and should be increased to provide larger representation of the public interest. We were not sure whether public members necessarily represented public interest members and believe that this category should be properly defined to refer to members who will participate in the public interest.

2 Assignment of Board Seats

The assignment of board seats should not give preference to specific groups, in this case, the Forum of Firms (FoF).

Members should be appointed according to their suitability, and seats should not be allocated because of affiliation to a particular (interest) group (FoF). Members of the FoF are appointed for a different purpose and may not necessarily be the most suitable candidates for the IFAC Boards.

By not allocating a fixed number of seats to a specific (interest) group, perceptions of self interest will be largely overcome.

3 Explore further financial support to public members

Reimbursement for public members' time would not be seen to impair their independence as it is not the same as funding supplied to their public organizations. Public organizations such as national standard setters and oversight bodies/regulators are likely to be funded by public monies and therefore will not have financial support for members on IFAC Boards.

Financial support to public members might increase the chances of attracting the best members.

Unlike practitioners supported by audit firms who have an interest in the standards, public members do not have the same interest and might be reluctant to give up time at no compensation for issues that do not benefit them or their organizations directly.

We therefore recommend that options to provide financial support to public members be further explored.

4 Monitoring Group's (MG) evaluation of whether composition of IESBA needs to be changed

Auditor ethics might require inputs from practitioners; however, ethics is a broader discipline which relates to principles such as morals, culture, etc and which is not peculiar to the auditing profession. We would therefore agree that the IESBA composition does not have to focus on practitioner involvement but rather include members with experience in the ethics environment.

In SA, the Committee for Auditor Ethics consists of a majority of non-practitioners and is chaired by a non-financial person. This has brought objectivity and credibility to ethics standard setting in SA.

II Operating Procedures of Boards

5 Manner in which technical expertise is made available to boards

Technical advisors are necessarily auditors. If they have speaking rights it multiplies the auditor input around the table.

Some technical advisors provide more inputs at board meetings and would not necessarily be driven by public interest as they would not possess the wider skills and experience to always be aware of the impact on public interest (they are largely focused on technical aspects).

We therefore recommend that technical advisors should advise the members, and not have speaking rights at board meetings.

6 Technical sessions to assist non task force board members

The standard setting process provides for the preparation of 'Issues Papers'/'Discussion Papers' or other documents which task forces have to present to board members, outlining contentious issues, explanations of technical matters and a request for direction from the broader membership. This process could be strengthened to provide all board members with the necessary background and understanding to be able to contribute to discussions at board meetings.

We also believe that the onus is on the board member to ensure that he or she familiarizes him/herself with materials and be properly prepared for board meetings. The secretariat is available to provide support in this regard, specifically around technical aspects. Our recommendation would therefore be to rather have proper evaluation processes in place to evaluate board members' contributions, which in turn should 'encourage' participation.

7 Revise TOR of CAGs to eliminate perception that they 'sign off' on standards and add credibility to standards

The Observations, Implications and Recommendations refer to the CAG's 'technical advisory input' role. It is not our understanding that the members of the CAG's have, and was expected to have, technical expertise to provide relevant technical input.

From the public's perspective, it would be more beneficial if the CAG members would provide inputs as to how application of the proposed standards might impact on the protection of the public. Say, as an extreme example, the auditing standards propose to remove the requirement for the auditor to report on certain regulatory matters, then the banking regulator might object, as they will have no assurance that banks are

complying with the Banking Authority's requirements, thereby placing the public's monies at risk.

This would imply that CAG papers should be prepared in a manner for CAG members to easily discern any impact of proposed standards or changes to standards on their industry and the public. This may further require the secretariat supporting the CAG to have different skills and not only technical expertise.

8 Revise approach to CAG meeting content and CAG meeting process

The timing of the CAG meetings and the report back at board meetings are administrative and logistical issues that should be addressed.

As stated above, more attention should be given to CAG agenda papers to distill out of the technical mass only those issues on which CAG members are expected to provide inputs (provided the TOR is changed to indicate that CAG members do not play a technical advisory role but a public interest role). This will prove difficult given the focus on discussion of technical issues in the past, and might involve a different skills set of the secretariat supporting the CAG.

It would be most useful if CAG Chairmen had auditing and wider public interest or industry specific experience.

In respect of report backs at board meetings, it would be useful if the chairman of a particular board task force could join the CAG meetings to answer questions or provide further explanations and clarifications to CAG members to assist them in their discussions and inform their inputs. Practically, this could be done by the task force chairman joining the CAG meeting, e.g., via a conference call. These inputs should then be relayed first hand to the board at its next meeting and the CAG Chairman would be present to confirm the task force chairman's understanding of the CAG members' comments.

9 Manner in which comments received are analysed

It would be useful if comments are analysed by concerns expressed and not, e.g., by paragraph, otherwise it might dilute the impact or gravity of a concern.

We also agree that the comments should be analysed by interest group as this will strengthen the gravity of a particular concern.

Unfortunately, it has always been the case that auditors provide more comment letters than non-auditors. We recommend that the boards consider more proactive methods of seeking and obtaining inputs from non-auditors, instead of expecting them to respond to exposure drafts issued to the general public. Most oversight, regulatory and public interest bodies are affiliated to an international body and these international bodies should be encouraged to obtain inputs from their member bodies.

Although this might prove difficult for boards to enforce, solid stakeholder relationships with these international bodies might go a long way.

The role of the public members at board meetings become important as they are also meant to understand those issues which might affect the public interest. Here it might also be useful if the secretariat gives, or some other form of support is given, to the public board members.

Unfortunately, it should be no excuse that too little time is spent at board meetings on the analysis of comment letters. Board members should have studied the analysis and specifically, public members should have reviewed the reasons for comments not taken up and which might impact on the public interest. The IFAC secretariat usually prepares detailed documentation in this regard.

10 <u>Direct feedback to MG members where members' inputs not accommodated in final standard</u>

The requirement to provide feedback to the MG members should not be restricted to MG members but all public interest or non practitioner interest groups.

While we agree that the CAG meetings are not the best forum to provide the feedback, we recommend that the boards institute processes where the comments could be formally discussed with these groups and an opportunity allowed for the board to reconsider their decisions based on new information or further clarification obtained from such interactions. Again, such processes might have to draw on stakeholder relationships and would probably result in a change in the current consultation process. The boards would therefore have to give consideration as to

whether it will still form part of a due process, which is critical to the governance of the boards.

11 Improve process of how final standard comes together

The ‘coming together’ of the standard should not be confused with the approval of the standard. The approval is done through a voting process which is adequately conducted and documented.

A summary by the chairman of the board might be the best possible way to pull discussions together. If this is so, clarity of the summation largely depends on the ability of the chairman, who will obviously have a full appreciation of the debates and motivation for the final decisions of the board.

Equally, board members who have not understood the rationale for reaching a decision, should be encouraged to ask questions before voting. Board members should therefore be held accountable for their vote and cannot plead ignorance should a wrong decision be taken by the board.

12 Remove proxy voting by boards

Board members agree to the time commitment when they accept appointment to boards. They should therefore be held accountable to their agreed commitment.
However, it is not unreasonable that circumstances might arise which necessitate a board member not being available to vote.

We agree that a process be in place for such voting but that voting by proxy is not allowed.

IV Oversight

13 MG will consult with PIOB and speak to IFAC to discern how the PIOB can best perform its oversight role

Identification of appropriate skills, competencies and experience will be crucial in the appointment of PIOB members.

14 MG will consult with PIOB on how to best use PIOB staff

Identification of appropriate skills, competencies and experience will be crucial in the appointment of PIOB staff.

15 MG will take a broader approach to identifying and appointing future PIOB members

No comment.

16 MG will consult with PIOB and IFAC to secure more independent funding for the PIOB

Neutral funding is important to secure the independence and perceived independence of the PIOB.

17 Future interaction between MG and PIOB

No comment.

18 MG to assess its future role

No comment.

Yours Faithfully

Bernard Peter Agulhas
Chief Executive Officer

International Federation of Accountants
545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

August 15, 2010

Mr. Hans Hoogervorst
Chairman of The Monitoring Group
Netherlands Authority for the Financial Markets
Vijzelgracht 50
P.O. Box 11723 • 1001 GS Amsterdam
The NETHERLANDS

Dear Mr. Hoogervorst,

The International Accounting Education Standards Board (IAESB or Education Board) appreciates the opportunity to comment on the document entitled, *Review of the IFAC Reforms - Consultation Paper*, issued by The Monitoring Group (MG).

The IAESB develops and issues, in the public interest and under its own authority, standards, practice statements, information papers and other information documents on pre-qualification education and training of professional accountants and on continuing professional education and development for members of the accountancy profession.

The IAESB also acts as a catalyst in bringing together the developed and developing nations, as well as nations in transition, and to assist in the advancement of accountancy education programs worldwide, particularly where this will assist economic development. The IAESB's role is focused on addressing the professional knowledge, skills and professional values, ethics and attitudes of the accountancy profession to serve the overall public interest.

The IAESB unreservedly supports the International Federation of Accountants (IFAC) response letter (August 13, 2010) to the MG proposals as they apply to Education standard setting.

The IAESB has chosen not to comment directly on the proposals because most of them are not addressed to the IAESB. Given the MG's acknowledgement of lesser involvement with the IAESB than with the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants, we appreciate that the MG did not make recommendations affecting our area of standard setting. We would, however, like to comment on two aspects of the report:

- The focus on financial statement audit
- Engagement and future reviews

Focus on High Quality Financial Statement Audits

The Education Board believes the development and assessment of competence for those becoming professional accountants is a fundamental pillar in undertaking high quality financial statement audits. This view is consistent with the recognition of the importance of education standards expressed in the 2003 reforms which were developed with full participation of the MG member organizations when it was mutually agreed that the education of professional accountants was an integral element of good financial reporting and auditing. The 2003 report stated:

> "the International Education Standards have a high level of significance for the long-term global development of the accounting profession. These standards are significant both for their implications for the competence of accountants as well as for the way they affect trade in accounting services. For these and other reasons the development of International Education Standards is a public interest activity, and will be subject to PIOB oversight"

This view represents a significant difference in focus to that expressed on page 3 of the MG's consultation paper which states,

> "Thus, the Monitoring Group members are again focused on the importance of high quality financial statement audits."

The IAESB encourages the MG to both acknowledge, and to consider, the wider impact of International Education Standards ("Education Standards") and the importance of this work in developing high quality financial statement reporting and auditing. The Education Standards set benchmarks for both aspiring professional accountants and qualified professional accountants. Indeed, the widespread application of one of the Board's Education Standards (IES 7), requiring mandatory Continuing Professional Development, has arguably had one of the most significant impacts on the profession, generally, in the last five years. The accountancy profession includes professional accountants performing roles as preparers, managers, controllers and users, as well as auditors of financial information, and we believe that the public interest is very much served

by Education Standards set by the Education Board to cover this wide group. It is, therefore, a matter of some disappointment that the MG has chosen not to consider public interest as wider than that directly related to high quality financial statement audit.

The Education Standards are aimed primarily at IFAC member bodies but have implications for universities, employers, and other stakeholders who play a part in the design, delivery, or assessment of education programs for accountants. The IAESB have set an objective to increase the adoption of its pronouncements globally and the recognition of the importance of this by the MG is seen by the Education Board as highly desirable. The processes put in place for public interest membership, interaction with a CAG, oversight by the PIOB and increased transparency generally, have all been faithfully applied with this wide audience and public interest in mind.

Engagement and Future Review

The IAESB encourages the MG member organizations to take a more active interest in the Education Board's work. The publications of the IAESB cover the development of competence of professional accountants and auditors. The Education Standards prescribe not only the knowledge and skills that preparers and auditors of financial statements need, but also the knowledge and skills required for the many roles of professional accountants in business and other economic sectors. This work of establishing high quality Education Standards is continuing through the IAESB's revision of its set of 8 IESs which will result in clarified and improved standards that should set the goals and objectives of education for accountants for both the next generation, and for those currently acting as professional accountants.

We would welcome a commitment from the MG to become more closely involved with the IAESB and its pronouncements. Member organizations of the MG are invited to participate in the Education Board CAG or sit as a permanent observer on the IAESB without voting rights. MG members may wish to consider other possibilities such as seeking out an independent representative who might be appointed by them to represent their views in the Board's deliberations or at the least to set up a mechanism to express their views through comment letters when the Education Board consults on its publications.

We believe that a greater level of engagement would help the work of the Education Board and inform the MG directly, ahead of any future effectiveness review.

We hope that the above is helpful and we look forward to the forthcoming final report.

Yours sincerely,

Professor Mark Allison
Chair, IAESB

Comment on the Monitoring Group Review of the

IFAC Reforms Consultation Paper

To: Mr. Hans Hoogervorst

Chairman – Monitoring Group

Email: MonitoringGroup@iosco.org

Date: 12 July 2010

This paper is prepared by David Damant (the outgoing Chair of the IAASB CAG, DCD) and Linda de Beer (the incoming Chair of the IAASB CAG, LdB), and on our own responsibility. We comment on those aspects of the Monitoring Group (MG) Consultation Paper, which are relevant to the CAGs, but refer only to the IAASB CAG (the CAG). The Chair will pass to LdB on 15th September 2010.

Role of the Audit and Ethics Boards' Consultative Advisory Groups

Observation/Implications/Recommendation 7

We are surprised to read that the role of the CAG has exceeded its original remit. Apart from the text of this section of the MG Review, we have heard or observed nothing to this effect. The CAG has indeed grown in size and, one might suppose, in influence, as membership has increased to include more stakeholders and certain procedures have been developed - but that was, one might assume, the intention within the IFAC Reforms of 2003. Discussions face to face in the CAG meetings, allowing a two way exchange, are much more likely to bring in the views of those stakeholders not close to IFAC and its processes than comment letters which in several cases would in any case not be written. The prominence of the CAG is a natural consequence of the fulfilment of the original concept.

It is not clear from the text leading to Recommendation 7 whether the MG claims that there is a perception that the CAG has exceeded its role, or that it has so exceeded. If it is a matter of perception we suggest that the role be clearly promulgated. If the claim is that the CAG has in fact exceeded its role we do not agree, and would welcome any evidence to that effect. We do not see the CAG as the "*guardian of the technical content in standards*" or that the CAG has a "*technical signoff or governance role*" and we cannot see how that can be the perception. We do as is stated, provide "technical *advisory input on standards issues*" and at times "*alert the Board[s] to additional matters that need attention*", and that is how the CAG agendas are constructed (see Recommendation 7 - for other points in Recommendation 7 see the comments regarding Recommendation 8 below.)

In addition to the technical guidance role of the CAG, it has another very important role, as stated in its terms of reference to advice on the broader objectives, timing and priority of the projects of the IAASB. This forms and important part of the CAG agenda.

One aspect of this matter might be that the requirement in the latest document on Due Process, issued by IFAC after approval by the PIOB, that the CAG as a whole advises the CAG Chair as to whether due process has been followed in the CAG discussions of IAASB proposals: hitherto, the CAG Chair alone has advised the PIOB on this point, without the input from the CAG. IOSCO, as a member of the CAG, has reserved its position on the matter and it may be that the question needs to be reconsidered, or a formal exclusion be arranged for IOSCO and any other CAG member which does not wish to be involved in this advice. Nevertheless, this is a separate matter, and can be discussed separately: and it is concerned only with due process within the CAG discussions, and certainly does not in itself justify any wider claim, about the role of the CAG outside the CAG's own meetings and processes. If this matter is separated we see nothing left to justify the claims that the CAG has exceeded its mandate.

These are our own views but we note that the CAG as a whole is an independent body and acts in ways that it judges appropriate. If there are external views as to its role in a wider context these can of course be considered by the CAG membership.

Meetings of the Audit and Ethics Boards' Consultative Advisory Groups

Observation/Implications/Recommendation 8

Volume of papers

When the CAG was developed in 2004/05 the so-called "CAG Papers" were devised, to present the CAG members with papers much shorter than the IAASB Board Papers, structured in an appropriate way and focussing on the essential points as seen by the IAASB Task Force and the staff. It was unlikely that many members of the CAG would read the full Board Papers as such because of their length and structure. However all CAG members have access (via computer links) to the full Board Papers should they wish to consult them, or to generate or confirm points they wish to raise in the CAG meeting relevant to the matter but not raised in the CAG Papers. Hence the papers available to a CAG meeting are by definition much more extensive than for the IAASB Board meeting, being the CAG Papers plus the Board Papers. But the CAG Papers themselves are the papers relevant to the CAG meeting itself and are constructed as such.

Passing CAG points to the IAASB

The main route by which the points raised in the discussion of a topic in the CAG are conveyed to the IAASB is by the presence in the CAG meeting of the relevant IAASB Task Force Chair (usually physically, less often by teleconference) - or another member of the Task Force, and in some cases the relevant staff member. Thus all the points made in the discussion, and its tone etc., are brought to the attention of the Task Force and through them to the documentation and the Board. In addition, the Task Force Chair is provided with the draft minutes of the CAG discussion (even if the delay before the board is only a few days). Additional comments in the Board may be made by the IAASB Chair or Deputy Chair, or by the CAG Chair, but that is not the comprehensive route.

Phrases in the CAG minutes

We note the question raised about the use of phrases in the CAG minutes such as "*the CAG members did not object*" etc. We can see that these phrases might give rise to the assumption that all CAG Member Organisations have agreed to all parts of an IAASB proposal whether discussed at the CAG or not. In particular many Member Organisations will not have considered all the detailed technical points raised in

a particular proposal. LdB will discuss with staff and others whether some other wording, or perhaps preferably some general disclaimer, could be arrived at. We should add that although some Representatives have commented that they cannot judge many of the technical points it has never been suggested to us that the discussions in the CAG or the CAG minutes give rise to the conclusion that all Member Organisations agree with all the points.

Timing of the CAG meetings

As regards the possibility that the CAG meetings should be held at a time for which very adequate lead time is possible for the relevant papers to be circulated within Member Organisations of the CAG, the disadvantage would be that the points raised for the CAG would be either too late (the matter having been decided) or too early (the Task Force having not yet drafted its proposals for the Board). The other disadvantage of moving the CAG meetings earlier and thus away from close proximity to the Board meetings, is that the CAG will not have for reference and possible discussion at the CAG meetings all the Board papers relevant to the topics discussed, as at the time of the CAG meetings, such Board papers might still need to be drafted. The present plan, whatever its disadvantages, enables the CAG to present its views at the crucial moments. The timing of CAG meetings could be reviewed should the MG so desire, but we believe that any change would point in the direction of the CAG becoming a talking shop and that its influence would be sharply reduced. In any case topics tend to come up to the CAG and the Board over several meetings so that any late papers usually cover familiar ground.

Response to MG comment letters

(See the "*second area*" under Preliminary Conclusions and the Observation section leading to Recommendation 10)

We agree with the MG comments that the CAG meetings are not satisfactory places for the full discussion of the points made in MG comment letters. We would however go further and give as our view that the CAG meetings should not as a matter of principle be used to repeat and argue for the points made in comment letters, whether from the MG or others. First, this would exhaust the time available (indeed the time available would be insufficient) and from the time that DCD became Chair of the CAG, the meetings have not been seen as an arena to repeat the comment letters - although the

making of certain points in the CAG meeting which have also been made in the comment letters is not only unavoidable but helpful to the quality of the debate. More important is the point that the purpose of the CAG is to draw views from many stakeholders, several of which will not be engaged in these topics in their normal life. It is vital to draw out their perspectives and this is impeded if those (not only the MG) who have detailed views dominate the discussion. It is one of the tasks of the CAG Chair to avoid this and to encourage the other members.

The question of a possible separate mechanism for the discussion of the points made in the MG comment letters is not a matter for us, but certainly the CAG meetings should not be seen as part in any solution of this matter.

International Federation of Accountants
545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

August 13, 2010

Mr. Hans Hoogervorst
Chairman
The Monitoring Group

By e-mail: MonitoringGroup@iosco.org

Dear Mr. Hoogervorst,

We thank the Monitoring Group (MG) for the opportunity to respond to its recommendations set out in the Consultation Paper (CP) dated June 10, 2010. As we indicated in our letter of June 4, 2010, IFAC stands willing to participate fully in working alongside the MG review group as you refine your draft report in the light of comments received and develop wording for the final recommendations that sets out in clear and concise terms the changes proposed as a result of this review.

This response will set out our reactions to the recommendations in the report to the extent those recommendations were addressed to IFAC. Comments resulting from discussions in recent meetings of the Public Interest Activity Committees (PIACs) have been incorporated. We have additional comments on issues not covered in the 18 listed recommendations which we address at the end of this response.

General Comments

We interpret many of the recommendations in the CP as opportunities for continuous process improvement, and appreciate that they stem from a goal that is common to both of our organizations, that is, the protection of the public interest. We recognize that the challenge in offering constructive recommendations is to do so in a way that reduces the risk that they will be interpreted as suggesting deeper issues than actually exist, e.g., that the matters that are the subject of the recommendations have resulted in a reduction in the quality of the boards' output when measured against the public interest.

Many of the views in the CP appear to be based on a perception of possible weakness in process rather than specific examples of failure. We fear that many, who are not directly associated with the processes for setting these independent high quality standards (but intending to adopt and implement them), will infer a fundamental flaw in the process by which all boards operate and under which the current standards have been developed. We do not believe this to be the case. Nor has the Public Interest Oversight Board (PIOB) expressed concerns in this regard. We recommend that the final report makes an explicit statement building on the positive support of the International Standards on Auditing (ISAs) and the processes used in their development received from a number of global organizations including a number of MG members. While the wording of the support differs in each case, we believe it is appropriate to recognize that groups

such as the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, the Financial Stability Board, The World Bank, the World Federation of Exchanges and the United Nations Conference on Trade and Development (UNCTAD) have all felt that completion of the ISA clarity project warranted some form of explicit and public recognition. We would therefore suggest that the final report emphasize that the recommendations are made as minor "course corrections" to processes that have been implemented in accordance with the principles set out in the 2003 Reforms.

The PIOB has gone to great lengths over the last five years to require all the PIACs to adopt common operating procedures. There is much merit in this and we support it. Accordingly, although your recommendations are focused on the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA), we have also considered their impact on the International Accounting Education Standards Board (IAESB) since we believe any changes should be introduced consistently across all PIACs and, unless there are reasons to the contrary, to the International Public Sector Accounting Standards Board (IPSASB). The 2003 Reforms were designed to separate matters of governance related to the PIACs from the technical agenda and output of the boards. Accordingly, issues related to board size, composition and resourcing are the responsibility of IFAC with appropriate oversight and approval of the PIOB as determined in the 2003 Reforms. Determination of technical agendas, consultation with stakeholders and development of the content of pronouncements are the responsibility of the individual standard-setting board and is carried out without consultation with IFAC. This response reflects matters on which IFAC will take action in connection with its governance role as well as matters which will be the direct responsibility of the PIACs. IFAC will ask the PIACs to consider how best to implement those recommendations that fall directly within their mandates.

IFAC continues to develop its operating procedures in the public interest and has gone beyond the commitments made in the 2003 Reforms. We will continue to seek improvements in those operating procedures. We would welcome recognition by the MG in its final report of IFAC's commitment to the spirit as well as the letter of the 2003 Reforms, as evidenced both by past actions and by the actions we propose in our self-assessment. The latter includes actions IFAC has declared it will take of its own volition and actions recommended to the MG for its consideration.

COMPOSITION OF THE STANDARD-SETTING BOARDS

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

Commentary

We agree that board members who have broad experiences that go beyond that of an auditor can be beneficial to the work of all PIACs. We believe the current composition of the boards already fulfills this recommendation.

In 2010, ten of the 18 members of the Audit and Education Boards and nine of the 18 members of the Ethics Board have backgrounds that contain extensive experience, measured in years,

beyond that of an audit practitioner in private practice. We support the principles of the recommendation for parity of board members with professional career experience that goes substantially beyond that of auditor. This is consistent with the intent of the 2003 Reforms and has now been achieved by a gradual rebalancing of the board membership in a manner that did not create a significant loss of institutional knowledge on any of the PIACs (and especially the Audit and Ethics Boards) during their ambitious timetables to issue a set of modified ISAs and a modified Code of Ethics for Professional Accountants (the Code).

The broad experience also enables the Audit and Ethics Boards to fulfill mandates that extend well beyond activities that relate to audits of publicly listed entities (PIEs). The current work program of the Audit Board includes major activities related to review and compilation engagements, XBRL and emissions assurance. The breadth of its mandate was agreed in 2003 and has been reviewed and approved through public exposure and the PIOB since that date. The Ethics Board, in addition to setting independence standards, sets standards covering ethical issues for all professional accountants including those working in business and government. Its current projects on the ethical dilemmas faced by professional accountants when conflicts of interest and fraud are encountered are examples. While not addressed in the recommendation, the Education Board has an equally diverse agenda. Its current project to clarify and update its set of eight standards should be of significant interest to the MG members as it will reaffirm the education expectation of professional accountants (including the competencies expected of an audit professional).

The first priority for the Nominating Committee is to recommend the appointment of competent individuals who have the required interest and expertise and can commit the necessary time.

In selecting members to fill non-practitioner seats, the Nominating Committee has met the intent of this recommendation by selecting candidates with broad experience as non-auditors. We would agree that the expectation of knowledge and experience of the non-practitioner group could be specified more clearly. Accordingly, in future calls for nominations, IFAC will work with the PIOB to expand the definition of non-practitioner to express a preference for career experience that reflects the expectations set out in the recommendation. IFAC believes that the call for nominations should continue to emphasize broad experience as a criterion in the search for members and that the Nominating Committee should be encouraged to continue its current practice of seeking the best individuals for the job while recognizing the importance of diversity of experience.

ASSIGNMENT OF BOARD SEATS

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

Commentary

Your report states “Board members from the FOF members bring helpful expertise to the respective Boards’ work, and as such are to be expected to continue to be interested in becoming and make desirable Board members, the practice of specific allocation of Board seats to a

particular group seems inconsistent with fostering credibility through an open process that secures the best mix of Board members from among all those available to serve."

The 2003 Reforms created boards with two membership characteristics – a division of seats between nominees from IFAC member bodies, nominees from the Forum of Firms (FOF) and Public Members and a requirement that the board should comprise an equal number of practitioners and non-practitioners. We believe the definition of non-practitioners that has been adopted is consistent with that used by the European Commission for members of oversight boards, which is significantly more restrictive than their criteria for membership of standard-setting boards.

As indicated in our commentary to Recommendation 1, the structure of the 2010 boards meets the 50:50 split between practitioners and non-practitioners. Further, many of the non-practitioners have significant non-auditor experience.

The CP recognizes that FOF members bring helpful expertise to the work of the respective boards. All our observations over the last five years strongly support this statement. At the current time, the group of 21 networks that constitute the FOF represent the largest block of audit firms who have committed to use ISAs in transnational engagements and follow the independence requirements of the Code. They are the leaders in adoption of the ISAs and the Code into their audit methodologies, internal policies and procedures and training programs. As such, they are also best placed to identify whether the standards contain any ambiguities or practical difficulties that the boards should address on a timely basis to encourage consistent application of the standards as they reach global acceptance. To date the FOF nominees have been drawn not only from the technical departments of firms which set audit and independence policy and respond to practice inquiries but also practice partners who have personal experience of applying the respective standards in real world situations.

The regular observation of board meetings by representatives of the PIOB provides a visible reminder that the FOF representatives (like all the other board members) express their views from a public interest perspective. PIOB members have been diligent in protecting the public interest during all debates. On rare occasions they have intervened either publicly or with the chairman of a board to observe when a view expressed by a board member might be perceived as taking a position that does not put the public interest first. They observe carefully how the public members of the boards respond to issues and are quick to challenge the boards to reconsider their thinking and to re-debate an issue where they see any divergence between the views of public members and other appointees. In closing comments to the boards at the end of meetings, the PIOB observer often addresses specifically his/her observations on the care with which the public interest has been protected. This close scrutiny of the PIAC's conduct along with the timely feedback is one reason why we find the attendance of PIOB members at meetings to be beneficial. The annual reports of PIOB also address this issue on a global basis and confirm that the board debates have fairly considered the broad public interest.

We believe that it is appropriate that the FOF continue to have the right to nominate representatives to fill a pre-determined number, but not a majority, of seats. This is no different to the right given to IFAC member bodies or indeed the general public to fill seats, as provided in the IFAC Constitution. The allocation of seats to the boards was a matter of agreement at the time of the 2003 Reforms and recognized the interests of the respective parties in high quality standards which are set in the public interest. We believe that the Nominating Committee (with

oversight from the PIOB) is well placed to consider all nominations to ensure the best mix of board members from among all those available to serve. We do not consider that that assigning five out of 18 seats to the FOF (which represents firms that audit the vast majority of all listed companies) leads to a perception of undue influence, given the context of the multiple protections of the public interest. On the contrary, we consider this assignment of seats is, and should be seen to be, a safeguard which ensures the necessary practical experience is represented on the standard-setting boards.

ABILITY TO ATTRACT PUBLIC BOARD MEMBERS

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Commentary

IFAC is willing to explore the possibility of reasonable stipends for public members. To enhance the work of the PIACs it is critical that IFAC continues to recruit high quality individuals who have the interest and competence to contribute to the board's debates. Over the last five years, the Nominating Committee has had some difficulty in filling public member vacancies on the PIACs. However, we feel this has more to do with the required time commitment than the non-availability of stipends. We will consider the need for stipends while recognizing the views of current public members from some organizations and jurisdictions who have declined to receive reimbursement of their out-of-pocket travel expenses from IFAC because of a belief that even that reimbursement impairs the appearance of their independence.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

Commentary

The setting of ethics and independence standards is clearly a matter of wide public interest. IFAC believes that audit practitioners bring a useful view of the practical implementation challenges in applying the Code – especially for audits of global entities where the requirements of superimposing international regulation on national environments can be complex. IFAC welcomes an ongoing collaborative discussion with the MG if a consideration of alternative structures for ethics and independence standards is being contemplated.

OPERATING PROCEDURES OF THE STANDARD-SETTING BOARDS

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Commentary

IFAC will consult with the boards and their chairs following the final MG report to consider whether alternative arrangements would benefit or hinder the boards' activities. This may require experimenting with different options before an alternative arrangement is put into place. We will welcome the PIOB's advice, as its members observe options being trialed, as to whether alternative arrangements work better for different boards or whether a common arrangement should be applied by all PIACs.

Since this issue was first raised by the PIOB (prior to the CP being developed), the chairs of all the PIACs have emphasized in their opening remarks the respective roles of members and technical advisors. The chairs have focused on receiving comments from the appointed members and sought comments from technical advisors generally to clarify issues raised earlier in the board's discussions. This seems to have worked well in reminding all participants of their respective roles.

The CP suggests that "often technical advisors are employed in the audit profession, most typically by the larger audit firms." In fact, there are only nine technical advisors supporting the Audit Board members, four supporting the Ethics Board members and five supporting the Education Board members who come from larger audit firms. It is likely that the term "audit profession" may be misunderstood by readers of the CP. If the intent of the statement was to refer to audit firms, we question whether the statement is valid for all boards. If the intent of the CP was to include staff of IFAC member bodies as members of the audit profession, we think clarification is needed. While some IFAC member bodies do indeed represent only auditors within their jurisdictions, others represent accountants in all areas of professional activity. Those member bodies (and IFAC) do not see themselves solely as representatives of the audit firms. Generally, audit practitioners represent less than 50% of their membership and, in some cases, a very small minority of the membership.

As a practical matter, board members **themselves** see an overwhelming benefit from the participation of technical advisors. While not active participants in the board debates, technical advisors provide great support to the non-practitioner members and those who have been specifically selected by the Nominating Committee to bring a broad and seasoned reaction to technical issues. The technical advisors are often well suited to review the strengths and weaknesses of proposed technical solutions and help their board members think through the issues and form well reasoned judgments.

Some have suggested that board members, who have been selected specifically for their technical competence and expertise in the board's agenda, do not need to have technical advisors. While this may be true at the level of board discussion, all of the standard setting boards function by means of working task forces of five to eight members. It has been the practice to staff those groups with a combination of board members and technical advisors. The task forces are chaired by a board member, who has responsibility to present the views of the task force to the board; but the addition of technical advisors to the pool of available talent and expertise allows for development of robust and high quality standards without adding to the already considerable time commitment expected of the board members. The fact that these technical advisors are familiar with the board processes and protocols means that they are often better placed than subject matter experts, brought in to support a specific project, to understand what information and options a board will expect to see when debating issues.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to conduct technical sessions for all Board members on key issues that are on the Board's agenda.

Commentary

IFAC and the PIACs agree with this recommendation. The Audit Board has already benefitted from this model and had invited speakers on Greenhouse Gas Emissions and in considering audit quality in its on-going work. In 2010, the Audit Board had a presentation on this latter issue from the Center of Audit Quality, and plans to invite others with an interest in this subject to address the board. The chairs have the right to invite speakers when they believe the speaker has views relevant to the boards' agendas.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

Commentary

The IFAC staff members supporting the work of the CAGs are, of course, willing to work with the respective CAG chairs. However the agendas and the manner of presentation of materials are already matters of much discussion with them. The reporting process to the PIOB is in response to the PIOB's own call for direct reports from the CAG chairs. The PIOB has asked for the CAG chair to report to the PIOB that he or she was satisfied that due process had been followed by the board with all issues raised at the CAG. This report is now an important element of the PIOB's deliberations and oversight process, and is required as part of the documentation to be provided to the PIOB when a standard is submitted for PIOB approval. This report does act as confirmation that the CAG discussions have followed due process.

The final words of the recommendation seem to suggest that the CAG has **only** a technical advisory role. In fact the terms of reference for each CAG call for it to provide:

a. Advice on the PIAC's agenda and project timetable (work program), including project priorities;

b. Technical advice on projects; and

c. Advice on other matters of relevance to the activities of the PIAC.

These terms of reference have been amended and approved by each CAG and the PIOB during the first five years of operations. However, IFAC will ask each PIAC to consult fully with its CAG following completion of this review to identify whether there are areas for clarification or improvement.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and the approach to CAG meeting timing to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

Commentary

The process for determining content and timing of CAG meetings has been one of continuous improvement. IFAC will encourage the PIACs to continue to seek improvements.

To ensure timely completion of standards, the CAGs are typically asked to provide input on matters that are coming before a PIAC for decision at the PIAC's next meeting. As such, agenda papers for that meeting are generally not available until two or three weeks before the meeting itself. As a result, CAG members receive these papers, together with summary papers to help focus the CAG members' attention on the issues that the CAG chair and task force chair believe are the critical matters on which the CAG should be consulted. We recognize that during the completion of the IAASB clarity project this timetable was condensed in some cases. This produced an unfortunate but unavoidable time stress on CAG members and one which we believe should be avoidable in the future.

Overall, we believe the CAG members recognize the importance of them being consulted on the same issues as the PIACs will be debating at their upcoming meeting. IFAC will recommend to the PIACs that they continue to explore ways to improve the gathering of views from the CAG members.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that it highlights the argument(s) made; the role in the capital markets of the submitter(s); the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

Commentary

The manner in which comment letter input has been summarized and provided to board members is a matter of continuous improvement which has benefitted from input over the last five years from the CAGs and the PIOB. The current comment analysis and feedback do provide much of what is suggested.

IFAC will recommend to the PIACs to explore ways to further improve the reporting of comment letter input. While the recommendation emphasizes the role in the capital market of the submitters, the PIACs have many constituencies to recognize and each may have a different level of importance depending on the subject matter of the consultation. IFAC will ask the PIACs to improve reporting of comment letters so that all submissions are appropriately addressed and PIACs are more clearly advised whether a task force has accepted or rejected the respondents' recommendations. The difficulty of addressing this should not be underestimated. In some cases, different respondents have legitimate views that are opposite. In others, respondents indicate they would "prefer" an alternative solution without making clear that they would, in fact, find the initial proposed solution unacceptable. Unclear responses to exposure drafts or other consultation

documents can make the work of the task force (and the PIAC) more difficult as a judgment must be made as to precise intent of the respondent.

The recommendation seems to suggest that the frequency of a comment in comment letters is relevant. IFAC and all its PIACS would strongly reject this premise. Analyzing the results of comments received is not a "numbers game." Comments are assessed on their individual merit. The comments of one respondent expressing an opposing view from that of five other respondents may well be accepted if the arguments supporting the lone dissenting position are well argued and seen by the board to better represent the public interest.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Commentary

IFAC and the PIACs will work with the MG members to address this issue. We understand that the MG organizations wish to ensure that the intent of their response to exposure drafts has been clearly and accurately understood by the relevant PIAC and that the reason for any decision by a PIAC to reject a significant proposal or recommendation from a MG organization is understood by both parties. As such, the MG is anxious to understand the PIAC's proposals before the PIAC finalizes the wording of a standard.

IFAC will recommend to the PIACs to establish a working procedure with the MG organizations to achieve this consultation without unduly delaying a board's program to complete and issue a standard. We look forward to hearing that each MG organization has identified a process that will permit it to consider and discuss comments with the relevant PIAC in a timely manner that will achieve a mutually acceptable feedback process.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

Commentary

We have not had comments from users of the standards or Code seeking additional material beyond the Basis of Conclusions currently issued. It would help if the constituent group referred to in the recommendation can be more explicitly identified. We assume that the reference to feedback statements is based on documents recently issued by the International Accounting Standards Board (IASB) with that name. We are not clear how feedback statements (whether issued by IASB or others) allow for participants to anticipate the content of a standard. It is our understanding that such feedback statements (like the PIAC Basis of Conclusions) are issued at the completion of a project. The development of additional detailed documents will also be the subject of a cost/benefit analysis and recognize the respective roles of full time staff and volunteer board members. The PIACs work with limited full time resources that need to be employed in the most effective manner possible to meet the overall agenda of the boards.

As part of the continuous improvement efforts, IFAC will request that the PIACs consider whether the Basis of Conclusions can be efficiently and economically expanded to meet a real deficiency.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

Commentary

IFAC will review the proxy voting provisions currently in place. While the current terms of reference allow for an absent member to appoint anyone as a proxy, the PIAC chairs have been encouraging board members to grant their proxy only to another board member (preferably non-practitioner to non-practitioner and public member to public member), and usually with specific instructions on how such a proxy is to be exercised.

IFAC will consult with the PIACs and their chairs on the advisability of removing proxy voting completely and, based on all considerations, may propose changes to the terms of reference for consideration by the PIOB, which is the final authority for approving these documents.

IFAC will also consult with the PIAC chairs on the timing and manner in which board members vote on documents. Over the last five years, the vast majority of votes have taken place in person at a face-to-face board meeting. Occasionally, voting has taken place on amended drafts by ballot vote following a meeting and, on rare occasion, by telephone conference call of a duly constituted public meeting.

We are not aware of any problems that have arisen in formal approval of documents.

OVERSIGHT

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon the talents of the PIOB members in carrying out the PIOB's oversight work.

Commentary

We would be happy to participate in such a discussion in conjunction with the PIOB. As stated earlier in this response, we have found the PIOB participation throughout all meetings to be beneficial to the boards and CAP. It also enables PIOB to assure itself that the public interest has been considered during all facets of a project development. We would be happy to discuss whether the MG or PIOB have a different view.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions and then providing feedback.

Commentary

IFAC has no comment on this recommendation.

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

Commentary

We support this action. We are concerned that much of the institutional knowledge resting within the individual members of the PIOB will be lost on the completion of the current terms of PIOB members. It was for a similar reason, and with full approval of the PIOB, that the change of balance of membership of the PIACs to increase non-practitioner involvement was introduced on a progressive basis over a number of years.

As the membership of the PIACs was changed to provide for a greater number of non-practitioners, the PIOB was concerned to ensure that the changeover of membership was not so drastic as to negatively impact the ability of the PIACs to retain the accumulated technical knowledge of the issues under review and maintain the pace of their agendas. We would urge the MG to seek an interim solution to ensure that the PIOB similarly undergoes a gradual rotation of appointees.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, assess the feasibility of various longer term funding approaches that might be available for the PIOB.

Commentary

IFAC has expressed from the outset of the 2003 Reforms our view that the PIOB should be funded in a manner that would ensure its operations were guaranteed by long term funding commitments from MG members and others outside the accounting and auditing profession. The Reform Agreement identified that in principle no more than 50% of the funding should come from the accounting profession. We continue to believe this is appropriate. We support the European Commission commitment of 2009 to provide substantial funding for a future period, but note that it is conditional on significant additional funding from MG members and other independent bodies. IFAC would consider transferring some of the monies it now provides unconditionally to fund the activities of the PIOB to more directly support increased activity within the PIACs themselves.

MONITORING

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its own activities and to its interactions with the PIOB on matters such as governance of the PIOB Foundation, mutual expectations between the Monitoring Group and the PIOB, and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it will meet with the PIOB by having the appropriate mixture of individuals from Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

Commentary

We understand that some of the members of the MG review group are also involved in the Monitoring Board review of the IASCF. We support the exchange of learning that might come from both exercises, but would be opposed to any proposal that the two groups should be merged or that the broad range of member organizations of the MG should be reduced in any way. The work of the PIACs, including the Compliance Advisory Panel, addresses a much wider group of constituents than the IASB. As such, IFAC believes the broader range of interests represented by the current MG organizations (perhaps expanded if responsibility for IPSASB is to be assumed in the future) is highly appropriate.

Additional Observations

THE EDUCATION BOARD (IAESB)

As indicated on page 7 of the CP, the MG has had less day-to-day involvement with the Education Board than with the Audit and Ethics Boards. Given the lack of involvement, we appreciate that the MG did not make recommendations affecting this area of standard setting. However, the 2003 Reforms were developed with full participation of the MG organizations and it was mutually agreed that education of professional accountants was an integral element of good financial reporting and auditing. The 2003 report stated:

> "…the International Education Standards have a high level of significance for the long-term global development of the accounting profession. These standards are significant both for their implications for the competence of accountants as well as for the way they affect trade in accounting services. For these and other reasons the development of International Education Standards is a public interest activity, and will be subject to PIOB oversight."

We would encourage the MG organizations to take a more active interest in this key element of high quality financial reporting. The IFAC Regulatory Liaison Group (IRLG) made a presentation to the MG in October 2009, expressing our concern that a fundamental step in the development of sound financial reporting is the need for preparers of financial information to have a sound grounding in the principles of accounting and the standards being used to produce financial reports. We still believe this. The work of the Education Board addresses this issue as well as the competencies expected of an audit professional.

MG organizations have been invited to participate in the Education Board CAG, and we would reiterate this invitation. Perhaps, if MG members feel they do not have sufficient expertise or resource from within their own organizations to provide a meaningful contribution, they might consider innovative solutions like seeking out an independent representative who might be appointed by them to represent their views and concerns.

As indicated earlier in this paper, the Education Board is in the middle of a critical redraft of its set of eight standards that will result in clarified and improved standards that should set the goals and objectives of education for accountants for the next generation. The need for timely participation cannot be overemphasized.

THE COMPLIANCE ADVISORY PANEL

In the CP's section on Implementation of Standards, the MG acknowledges the benefits of the IFAC Member Body Compliance Program (the Program). It states, however, that "at least at this stage of development, [the IFAC Member Body Compliance Program is], largely oriented toward serving IFAC as a member organization."

We agree the Program is a valuable tool for a membership organization like IFAC; however, its focus on facilitating adoption and encouraging implementation of international standards makes it a significant public interest activity. Since its inception in 2005, the Program impacted not only IFAC member bodies but also governments, regulators and other stakeholders, both at the national and international levels. Therefore, we would like to emphasize the important outcomes that the Program has achieved in the public interest.

Through the member body commitments contained in the Statements of Membership Obligations (SMOs), the Program has made a substantial contribution to transforming IFAC into a professional organization that is demonstrating its commitment to strengthen the accountancy profession around the world. The SMOs have become recognized as the international benchmarks for professional accountancy organizations. In particular, the World Bank ROSC A&A reports specifically refer to the SMOs as part of their Policy Recommendations to governments and professional accountancy organizations.

Recognizing the public dimension of the CAP work, since April 2007, the PIOB has observed substantially all CAP meetings. In its 5th Public Report, the PIOB acknowledges "rapidly growing importance" of the CAP. It also notes that the Program "has become, and will continue to be, an important platform for encouraging and facilitating … adoption and effective implementation of international standards" (see page 25 of the 5th PIOB Public Report).

The Program serves as an engine to drive behavior to achieve the successful adoption and implementation of international standards and best practices, either through the direct actions of IFAC members and associates or through their encouragement and advocacy to other stakeholders with the authority to initiate change in their jurisdictions.

Action Plans developed as part of the Program serve as transparent strategy documents where organizations describe their commitment towards adoption and implementation. The Action Plan, however, is just the beginning of the process. The goal is actual change reflected by the completion of the steps identified in the plan. To ensure that progress is being made, the CAP has implemented a Progress Monitoring Process for annual updates of the published plans. It needs to be noted that it will take a considerable period of time before member bodies complete all required action steps. Nevertheless, the Program has already significantly impacted the agendas of professional accountancy organizations around the world, focusing more and more attention and resource on improving the quality of financial reporting and auditing, which in turn serves the public interest.

The required actions are not easy. The further the Program moves into the Action Plan phase the more obvious it becomes that developing member bodies will need significant assistance – both financial and technical – to achieve meaningful progress. Ultimately, the ability of developing accountancy bodies to meaningfully execute their Action Plans will significantly depend on 1) their ability to clearly communicate their challenges, required actions and need for assistance including resources, and 2) the willingness of governments, donor agencies and developed professional bodies to provide assistance whenever possible. As a result, building relationships with regulators, governments, the donor community and other stakeholders of the profession will be crucial to the success of adoption and implementation efforts.

As the Program is committed to transparency, all compliance responses, including the country's regulatory framework overview, SMO self-assessment and Action Plan are published on the IFAC website. This information is accessed regularly by the member bodies and others interested in the development of the profession, including key international stakeholders like IOSCO, International Forum of Independent Audit Regulators (IFIAR), the World Bank and development agencies as well as national governments and regulators. Over the five years, the compliance responses have been downloaded over 1.1 million times.

IFAC believes that the Program has had a meaningful and significant effect in both supporting and advancing the public interest as well serving IFAC as a member organization. This was the goal envisaged by the signatories to the 2003 Reforms. We believe the work accomplished should be recognized in the final report of the MG along with some indication of an increased MG interest in this activity in future periods.

THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Both IFAC and the IPSASB are disappointed that the issue of public interest oversight of the IPSASB was not addressed in the CP. This was a proposal contained in both the IFAC and PIOB self assessments. We consider that there is an urgent need for oversight of IPSASB operations, particularly as the momentum for adoption of International Public Sector Accounting Standards (IPSASs) is increasing. We also believe that the PIOB could be a cost effective and credible organization to undertake this oversight.

We believe the sovereign debt crisis in many countries is indicative of the need for governments around the world to improve the quality of their own financial reporting and the market in government bonds on many exchanges around the world far exceeds the trading value of shares in private corporations.

While we recognize that the proposals in the self assessment did not contain detailed recommendations on how oversight of IPSASB might be achieved, or what might be the cost of such an exercise, we would have hoped that the CP might have called for IFAC and the PIOB to jointly set out suggestions on the form and cost that oversight of IPSASB might take. We would be willing to undertake this assessment if others see it as leading to an acceptable solution.

The Next Review

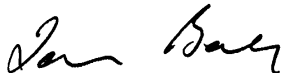
Page 4 of the CP indicates that the MG will initiate a future effectiveness review approximately three years after its completion of this one, unless circumstances indicate that an earlier review is considered necessary.

We support the need for independent review of our activities and processes. However, changes to critical elements of the global financial reporting supply chain must be made gradually if the integral process is not to be weakened. This is the case especially because the process of introducing the changes, and the results of transparent standard setting, cannot be assessed until one or two years after new or improved standards have been applied.

The timing of the current MG review, as mandated in the original 2003 Reforms agreement, comes on the heels of the Audit and Ethics Boards recently issuing their revised, clarified and updated standards. We consider that it is too soon to assess the effectiveness or appropriateness of the new standards. A review in five years time will permit a balanced assessment of the application of the standards and this assessment would provide much greater evidence of the effectiveness of the combined procedures of the boards and the PIOB in representing the public interest and producing high quality standards.

We believe that performing another review within the next three years is too soon. We strongly recommend that the review should be planned for five years after the completion of this current one, with the provision that the MG can call for an earlier review if circumstances warrant it.

Yours sincerely,



Ian Ball
Chief Executive Officer

PIOB COMMENT LETTER TO THE MONITORING GROUP CONSULTATION PAPER REVIEWING IFAC REFORM

The Public Interest Oversight Board (PIOB) welcomes the Monitoring Group (MG) assessment of the implementation of The IFAC Reforms. The 2003 Reform Agreement (the 2003 Agreement) required this assessment. The formation of the PIOB was a major element of the 2003 agreement; it was charged with implementing and has implemented the 2003 Agreement over the last five years.

This review is especially useful since contact between the PIOB and the MG has not been as closely collaborative and strategic as envisaged in the original reforms. The assessment enables the MG and the PIOB to agree and converge on the parameters of the public interest in the current circumstances. Not only has the general environment of international standard setting changed over the last five years; the standard setting architecture and process have also greatly evolved and significant new outputs in the areas of audit, ethics and education have been released to the public.

In response to the MG request, the PIOB prepared a self-assessment report on IFAC reform and submitted it to the MG on February 4, 2010.

General Comment on Content and Process

The IFAC reforms sought to place the public interest at the core of the international standard setting and implementation processes conducted under the aegis of IFAC. Four Public Interest Activity Committees (PIACs) and three Consultative Advisory Groups (CAGs) were placed within the PIOB's mandate, encompassing a broadly defined area where the public interest should be protected. Yet the consultation paper focuses only on two of the four: The International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). We note the particular emphasis on the input of MG members to standard setting by these two boards. The current interests of MG members are undoubtedly an important element of the public interest and must be respected. However, it is very important that the broader public interest remain at the core of oversight, and that no perception is created that public interest activities other than the two Boards analysed in the consultation paper are of inferior or no importance.

The International Accounting Education Standards Board (IAESB) produces standards for professional education that are indispensable for professional development and contribute to the quality of audit. The Compliance Advisory Panel (CAP) is an implementation program for IFAC member bodies which contributes to the development of the profession, the adoption of standards, and encourages their use by professional organisations around the world. The contribution that the CAP can make to further the general adoption and correct implementation of international standards must not be underestimated. Both these bodies have been closely overseen by the PIOB and have produced significant outputs over the last five years.

The architecture of standard setting includes ongoing input from the CAGs, which have become independent entities with more substantial agendas than when the IFAC reform was instituted. Several MG members participate in CAGs along with representatives of a variety of other stakeholders. The PIOB has found that the CAG process - interactive discussion and exchange of information and opinion reflecting a variety of viewpoints - has enriched the process of standard setting and has proven to be a valuable component of public interest oversight. It would be useful for the consultation paper to

acknowledge this fact and to offer support to the renewed CAG process**. Of course,** we recognise that the CAG process cannot and should not be seen as a substitute for the broader consultation undertaken by the standard setting Boards. Comment letters, especially those coming from MG members who represent public interest viewpoints, must be very carefully considered by the standard setters.

Outputs produced over the last five years, especially the clarified ISAs, have received public support from several quarters including some MG members. It is disappointing that the consultation paper does not acknowledge the success of the Clarity Project performance and does not draw examples for the further improvement of the other standard setting activities from this experience. Furthermore, we are concerned that the silence of the consultation document may create a negative perception on the quality of the clarified ISAs and the considerable efforts that the PIOB devoted to ensure that due process was strictly followed.

The PIOB believes that the International Public Sector Accounting Standards Board (IPSASB) is an increasingly important body from a public interest perspective and that it should be subject to public interest oversight. We look forward to working with the MG and IFAC to lay out the ground for such oversight.

The consultation paper makes reference to some perceived weaknesses in the decision making processes of the PIACs. Some of these views apparently come from informal discussions with various individuals. It is a little difficult, therefore, to assess what weight to give to the comments in the consultation paper in this area. The PIOB has worked hard over its first five years to require the PIACs operate in a fully transparent and reportable way, and has discouraged them from operating based on assumptions or perceptions unless those are fully debated or supported by documentary evidence. Thus, we think that the consultation paper should have offered clear documentary evidence of these perceived problems. The PIOB would welcome further discussion on the extent to which there is validity to the concerns expressed.

The consultation paper refers to the issue of MG input to the standard setting process. The PIOB is very ready to work with the MG to ensure that the processes by which MG members inputs are taken into account in the standard setting process are fully satisfactory to both parties. It would be helpful, as all standard setting processes need to be formal, if all MG member input could always be a recorded and transparent part of the process. Interaction outside the formal process is difficult to track - everything should take place within clear terms of reference. We believe that it should be possible to allay rapidly any residual concerns MG members may have about how their inputs are handled and how they are responded to with proper explanation of the decisions.

2. Comments on Recommendations 13–18.

2.1. Recommendation 13: Role of the PIOB members in the PIOB's oversight work.

The PIOB conducts oversight not only through direct observation but also, since 2008, through the Extended Review Framework (ERF) analysis conducted by staff, as well as through staff-written technical memos in support of each observation conducted.

ERFs include verification that any significant issue raised in comment letters submitted to exposure drafts, or in PIAC and CAG meetings, is dealt with adequately from a due process point of view. Additionally, PIOB members, when conducting direct observations at PIAC and CAG meetings, benefit from staff memos supporting their observations. Therefore, it is inaccurate to characterize the oversight activity of the PIOB as limited to the direct observations of members and to suggest that oversight is not

sufficient to ensure that due process is followed in dealing with technical issues raised by MG members. What the PIOB does not do is assess the inherent merits of these technical issues nor the substance of the resolutions adopted. The reason for this is clear: if the PIOB were to opine on technical issues, it would override the independent character of the standard setting boards (thus failing to maximize the potential of the current model to benefit from professional expertise) as well as supplant the role of CAG members.

2.2. Recommendation 14: Role of PIOB staff members in the PIOB´s oversight work.

The current PIOB oversight model has evolved over time. Staff resources directed at technical analysis of due process and public interest aspects have increased as oversight processes have been extended. The current model combines analysis conducted by staff with direct observation of standard setting boards conducted by board members. This mixed model of oversight balances well and in a cost-effective manner the respective roles of staff and board members.

The present role of PIOB oversight staff in direct observations of standard setting boards is generally one of technical support. PIOB's direct observation strategy rests on the qualitative difference of a PIOB member carrying out the observation, but always with the support of a staff-written briefing memo highlighting the main issues. In this way, observations are both qualitatively optimum and technically sound. A model in which PIOB technical oversight staff are themselves observers would lose the qualitative excellence of the oversight presently exercised, carry significant costs, and not gain any additional technical depth.

2.3. Recommendation 15: Diversity among the PIOB members.

The PIOB agrees with this recommendation.

2.4. Recommendation 16: Funding of the PIOB.

Point 2.6 of the MG Charter, dated 2007, reads: "As a general principle, both IFAC and the MG consider it to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB. IFAC will seek contributions to cover 50% or more of the PIOB costs. Given the public interest nature of the oversight activities of the PIOB, the MG members may provide contributions to support the PIOB's activities. The PIOB may also be involved in seeking contributions to cover its costs".

Similarly, the 2007 IFAC letter on assured funding to the PIOB reads: "IFAC and the MG would encourage and solicit contributions from other sources to diversify funding for the PIOB. A subgroup of the MG would work with the PIOB, IFAC, and others as needed to identify potential sources of funding and coordinate the transmission of fundraising letters."

This is one aspect of the reform that has not evolved as expected and merits deeper dialogue with a view towards diversification of the PIOB budget.

2.5. Recommendation 17: **Interaction between the MG and the PIOB.**

The PIOB agrees with this recommendation.

2.6. Recommendation 18: Longer-term operation of the MG.

The MG is an essential element in the oversight architecture that was put in place in 2005. The PIOB recommends that the MG assesses itself as part of the present process, especially regarding its composition and its relationship with the PIOB. Whereas the existing architecture was born out of the

need for reform, the need now is for a long-term stable structure. Given the challenges ahead, the PIOB recommends that the Monitoring Group should be improved by acquiring greater seniority, a stronger global reach, broader legitimacy and accountability, and a more formal structure; it should be subject to agreed due process. We recognise the difficulty the MG has in carrying out its role when it does not have a secretariat. This lack of a secretariat is particularly evident when the MG has to carry out a review such as the present one. We suggest that the MG should examine how it can invest sufficient resources to allow its own operation to become more formalised and effective.

The PIOB recommends that the respective roles and responsibilities of the Monitoring Group and the PIOB should be set out in an expanded charter. In this charter, the terms of the relationship between the Monitoring Group and the PIOB should be drafted jointly by the MG and PIOB in consultation with IFAC and incorporate agreed due process; the draft should be publicly exposed and adopted by mutual agreement, and the Charter should undergo a joint public review every five years.

3. Other Comments.

The consultation paper twice refers to the PIOB's responsibility to evaluate the adequacy of funding provided to support the three standard-setting boards and the CAP, and acknowledges that this is a matter of significant judgment. The PIOB would appreciate further elaboration of this idea. The resources devoted to standard-setting work by IFAC have increased considerably. The appointment of a full-time compensated IAASB chair is a case in point. The provision of travel subsidy to members coming from developing countries is another. The members' performance evaluation program also requires effort and resources. These were not explicitly contemplated in the reform; rather, they came about as a result of the interaction between the PIOB and IFAC.

September 12, 2010

Tel: +32 2 778 01 30
Fax: +32 2 778 01 43
@: bws@bwsbrussels.com
www.bdointernational.com

Brussels Worldwide Services BVBA
Boulevard de la Woluwe 60
1200 Brussels
Belgium

The Monitoring Group
c/o IOSCO
C/ Oquendo 12
28006, Madrid
Spain

12 August 2010
BWS 2010. 183

By email to: MonitoringGroup@iosco.org

The Monitoring Group *Review of the IFAC Reforms-Consultation Paper*

Dear Sirs,

On behalf of the international BDO network of independent member firms, we appreciate the opportunity to comment on the Monitoring Group's recently issued Consultation Paper on its review of the IFAC Reforms.

We welcome the Monitoring Group's preliminary conclusion that virtually all of the Reform provisions have been implemented and we have considered those areas where the Group views the Reforms as not yet fully implemented.

We support further efforts to enhance the effectiveness and credibility of the standard setting process across the three IFAC Standard Setting Boards and the promulgation of high quality standards capable of being implemented by practitioners.

It is not our intention to comment on all of the observations, implications or Recommendations made by the Group but we make the following general comments:

1. It would be preferable if each of the Recommendations highlighted what particular enhancement of the quality or credibility of the standards/standard setting process would ensue in each case. In our view many of the Recommendations are quite granular without necessarily identifying what the problem is currently or why implementing the recommendation would result in higher quality audit, educational or ethical standards.

2. We are concerned that the aggregate effect of Recommendations 1-18 might be to impair the ability of the three Boards to bring forward high quality standards given the very specific issue being addressed in many of the Recommendations. This would best be addressed by an overall assessment of the Recommendations being made and their combined impact on the credibility of the standard setting process and quality of standards produced. It is not evident to us that this overview approach has been carried out.

3. The Review indicates on page 6 that the scope of the assessment does not involve revisiting the overall standard-setting governance, structure and arrangements as set out in the IFAC Reforms, but seems to set out Recommendations which could affect some or all of these areas. We would prefer to see any proposals that affect these areas brought forward as part of a more comprehensive review at an appropriate future date. We would not envisage such a review being necessary in the near to medium term given the effective implementation of the 2003 Reforms.

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4. We are concerned about the implications of Recommendation no. 2 for discontinuing the practice of reserving an allocation of seats on the Audit and Ethics Boards for members of the Forum of Forms. In our view, this practice has proven a practical and effective mechanism for ensuring expert professional participation by practitioners in the standard setting process.

   We would be concerned that this process might result in reduced practitioner involvement, thus impairing the Audit and Ethics Boards' ability to ensure that standards of the highest quality are brought forward that take account of practical implementation issues.

   The Review does not offer any particular evidence that having designated seats for Forum nominees has impaired the credibility of the standard setting process or resulted in lower quality standards than might have otherwise been the case. Given the various safeguards in place otherwise, it should not be implied that Forum nominees to the Boards would not always act in the public interest.

   Accordingly, we would be opposed to such a Recommendation without alternative measures to ensure adequate and relevant practitioner involvement. Such measures would be best determined as part of a wider review of the structures, nomination process, procedural safeguards and funding arrangements for the three Boards.

We would be happy to discuss the comments above with Monitoring Group personnel or provide further detailed comments if the Group should so desire.

Yours sincerely,

Noel Clehane
BDO Global Head of Regulatory & Public Policy Affairs

Deloitte Touche Tohmatsu Limited
1633 Broadway
New York, NY 10019

Tel: +1 212 492 3958
Fax: +1 212 492 3508
www.deloitte.com

11 August 2010

Mr. Hans Hoogervorst, Chair
Monitoring Group

By E-mail: MonitoringGroup@iosco.org

Re: Monitoring Group Review of the IFAC Reforms – Consultation Paper 10 June 2010

Dear Mr. Hoogervorst:

This letter is submitted on behalf of Deloitte Touche Tohmatsu Limited and member firms of Deloitte Touche Tohmatsu Limited (collectively "Deloitte"). We appreciate the opportunity to comment on the Monitoring Group's Consultation Paper on the Review of the IFAC Reforms (the "Consultation Paper").

The changes that were put in place to create the new global standard-setting regime outlined in the IFAC Reforms were monumental and took a significant amount of time and effort. Overall, we are pleased that the Consultation Paper indicates that the Monitoring Group generally believes that the IFAC Reforms of 2003 have been effectively implemented; however, the Monitoring Group points out that the implementation the IFAC Reforms as it relates to each of the standard-setting Boards and every one of its meetings over the last seven years has not been perfect.

The Consultation Paper suggests that some implementation issues will require continued attention and improvement to fully achieve the objectives set forth in the IFAC Reforms. We respectfully request that your recommendations in these areas be based on whether they will enhance the quality and credibility of the global standards set by the IAASB and IESBA, (the Audit and Ethics Boards, respectively, or "Boards" collectively) and the processes adopted to set those standards, including common operating procedures and oversight mechanisms. As you noted in the Consultation Paper, members of the Monitoring Group have not yet been able to fully engage with and observe the workings of the IAESB. As a result, we believe it would be helpful at this stage to exclude the IAESB from your recommendations until a later date when you have been able to complete your work in this area. Consequently, we have not made specific reference to the IAESB in the specific comments below.

In the final analysis, the purpose of the Boards and of any review of their performance should be to contribute to improving the effectiveness of audits. Many of the recommendations seem to have little or nothing to do with that ultimate objective.

Moreover, based on our experience in working with the Boards, we believe the Consultation Paper may indicate some possible misunderstandings, misperceptions, or isolated examples of situations that are not reflective, in our view, of systemic issues or problems. In that regard, we believe it may be helpful for your final report to be more specific on some of the points. In particular, if one or more of

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your concerns relate to one of the Boards, it would be useful to mention that and avoid generalizations to all of the Boards when the real focus of the concern is with only one of the Boards. We are also concerned that some of the recommendations are focused too much on perceptions and not enough on substance, which may not directly lead to an increase in the quality of financial statement audits.

We would like to emphasize our concerns regarding your second recommendation – to discontinue the practice of specifically allocating five of the eighteen seats on each of the Boards for Forum of Firms ("FOF") nominees. We believe this practice, which was an important element of practical compromise in agreeing to the IFAC Reforms, represents the right balance of ensuring the active participation of practitioners who can assist in the setting of high-quality auditing and independence standards that can be effectively and reasonably implemented, with the appropriate level of safeguards to ensure the standards are set in the public interest. Having at least five representatives from the FOF networks is critical because they are often in the best position to assess the reasonableness of proposed auditing and independence standards by global companies and global accounting networks. Such standards can be quite complex and the expertise and experience of those in these networks is essential to the standard-setting process. Any moves that could reduce the involvement of these networks in the standard setting process would, in our view, have a very detrimental impact on the quality of the Boards' standards and the ease with which they can be implemented.

Our specific comments on the eighteen recommendations in your report are covered in the following pages. We would be happy to discuss our views with you or to provide more detailed comments on any points where our views are not clear or where we may have misunderstood any of your recommendations.

* * * *

Should you have any questions on the above, please feel free to contact Chuck Horstmann at +1 212 492-3958.

Sincerely,

Deloitte Touche Tohmatsu Limited

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Specific Comments on Recommendations

➢ Composition of the Standard-Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

Deloitte Response

We agree that the composition of the Board members should reflect an appropriate balance between those who are "practitioners" and those who are "non-practitioners." Appointing Board members with the necessary technical knowledge and experience in the subject matter dealt with by the Boards is absolutely essential, in our view, to ensure the Boards promulgate high-quality standards. Moreover, these technical experts are vital to the staffing of Task Forces. We therefore believe the current mix of members on the Audit Board and the Ethics Board is the appropriate mix, and it is not necessary or prudent to change the mix of practitioners and non-practitioners or to redefine who would qualify as a non-practitioner.

Objectivity is not precluded simply because of prior experience or employment related to an audit firm or audit professional organization; moreover, the most critical element is the quality of the member (i.e., "best person for the job"). The necessary levels of objectivity and competence already exist with the current mix and the Boards have many members who lack prior association with an audit firm or auditor professional organization. Maintaining the current levels of experience and knowledge are critically necessary, in our view, to continue to develop robust and meaningful standards that can be reasonably and effectively implemented in practice. Thus, we believe the "best person for the job" (the primary criterion used for the selection process) is the appropriate focus and has less to do with the organization the individual is associated with and more to do with his or her subject-matter expertise, experience, judgment and objectivity,

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

Deloitte Response

It is critical that auditors in current practice at firms from networks that are members of the FOF participate actively and directly in the standard-setting process. We believe the current approach of allocating five of eighteen Board seats to FOF nominees is the most prudent way to achieve the desired level of participation of representatives from networks that audit a very large percentage of public-interest entities and are committed to complying with the auditing and independence standards adopted by the Boards. We believe the quality of such standards would suffer without the involvement of practitioners from those networks that are best able to anticipate during the standard-setting process

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the technical and practical difficulties of a proposed standard. Such involvement is, in our view, in the public interest because it helps to ensure that the standards adopted by the Boards are of the highest quality and can be effectively and reasonably implemented.

We believe the Nominating Committee has done and will continue to do an excellent job in ensuring appropriate diversity and balance in the composition of the Boards even with the five FOF allocated seats.

With or without a defined number of allocated seats, we believe the risks of FOF nominated members not acting in the public interest are remote and are adequately mitigated by all of the procedural and structural safeguards built into the 2003 IFAC Reforms. In our judgment, those safeguards are very significant and are working effectively.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Deloitte Response

We have not seen evidence that there has been a problem finding qualified public members to serve on the Boards as a result of a lack of financial support. Unless and until the Monitoring Group is able to help support more sustainable funding for the PIOB, as was originally contemplated, we do not believe it is prudent for IFAC to invest additional funding to provide stipends to public members or pay additional costs related to their membership. In our judgment, the cost/benefit of such a change does not seem warranted based on our assessment of the efficacy of the standard-setting processes of the Boards.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

Deloitte Response

It has been our observation that in setting independence standards for audits, there is a wide divergence of views and lively debate among individuals that have audit backgrounds, as well as those that don't. The views have not been consistent views based on one's background or experience. Moreover, we have observed that the vast majority of the standards were approved on the basis of unanimous votes, indicating a lack of contentious or contrary views on the new standards.

The Consultation Paper observes that a distinction can be drawn between the need and desirability of having the same degree of practitioner involvement in the setting of auditor ethics and independence standards as in the setting of audit practice standards. We believe the need for practitioner involvement in the setting of independence standards, in particular, is quite significant, and arguably, just as

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essential as in the case of auditing standards. Part B of the IESBA Code is about 106 pages long, with 88 of those pages being devoted to independence standards. Understanding the implications of any proposed independence standard is quite important if the standard is going to be implemented and applied consistently by IFAC member bodies and accounting firms.

Independence standards, particularly those applicable to public interest entities, are very technical and often challenging to apply by global networks to the global organizations of the clients they serve. Practitioners who devote significant time to independence matters within their networks (and the most likely candidates for the FOF nominated seats on the Boards) are able to provide a perspective and level of knowledge that other practitioners and non-practitioners simply do not, and cannot be expected to, have. Changing the mix of members by either reducing the 50% of seats allocated to practitioners or eliminating the five seats allocated to the FOF nominees would, in our view, be just as detrimental to the quality of the independence standards as it would be if the same actions were taken in respect of the Audit Board.

- **Operating Procedures of the Standard-Setting Boards**

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Deloitte Response

We concur that the Board members, and not their Technical Advisors, should be the principals in the Board's discussions, deliberations and decision making. We understand that the Boards' Chairs have recently clarified the Technical Advisor's role to help alleviate any misunderstandings of such roles and to help ensure that it is the Board members who are the principals in the Board's discussions and decision-making.

In our view, the Technical Advisors should actively participate when necessary to contribute valuable insight to the discussion at hand, but this should not be a regular occurrence. Moreover, we believe there should be no doubt at Board meetings that the voting members are in charge of the decision making and that comments provided by Technical Advisors (either directly through speaking at the meetings or by supporting the members in finding references or other material relevant to the discussions) are intended to increase the value of the entire process without unduly influencing it. Finally, we believe there would be a loss in the quality of the standards drafted if Technical Advisors were not allowed to continue to participate as members of Task Forces. Technical Advisors typically have experience and technical knowledge that results in their being valuable contributors to the standard-setting process.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

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Deloitte Response

We agree with the recommendation to conduct technical sessions on key issues and note that the IAASB has already conducted such sessions on several topics. We believe, however, that consideration will need to be given to the time allotted to these technical sessions, as agendas for Board meetings are generally very full. We also suggest that consideration be given to conducting a survey of Board members to see if they believe they have been at "an informational disadvantage" because of not having been as involved in studying an issue and, if so, how they believe the problem should be remedied. We have observed that Board members who have not been directly involved in an issue are not reluctant to independently seek additional information to assist them in making informed decisions. Nevertheless, the proposed approach may be more efficient in some cases and should certainly be explored.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

Deloitte Response

We do not fully understand this recommendation. The recommendation and the problem that it is designed to fix are not clear. We believe the CAGs have played a significant and effective role in the standard-setting process and their processes have evolved in response to PIOB input. They have, in our view, provided valuable technical advisory input to the Boards as proposed new standards have been deliberated. Nonetheless, if the role of the CAGs, as designed and documented in their terms of reference, can be enhanced, we would be supportive. Therefore, we look forward to better understanding the views of the CAGs in responding to this recommendation and the concerns that gave rise to it.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

Deloitte Response

The Consultation Paper sites the following difficulties related to participation of the CAG members to the CAG meetings:

- Materials are voluminous
- Materials sometimes arrive only days or one or two weeks before a CAG meeting
- Meetings are timed so that CAG members cannot approve final minutes prior to the Board meeting to discuss the same issues

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Possible solutions to the above difficulties include:

- Provide CAG members with an abbreviated version of the meeting materials that are provided to the Boards (the material for each Board meeting is quite voluminous.)
- Change the timing of meetings in order to allow for time to send materials to CAG members three or four weeks in advance, allow the CAG to meet and prepare and approve CAG minutes, and send materials to the Boards three to four weeks in advance.

Both of these possible solutions have significant drawbacks. The first suggestion could negatively impact the amount of influence the CAG has in the standard-setting process and could also be seen to significantly reduce the transparency of the Boards' standard-setting processes. The second suggestion could reduce the ability of the Boards to make effective and timely progress on their standard-setting agendas, which is a particular concern given the tight timetables the Boards have been working under in recent years.

Accordingly, we suggest balancing the involvement of the CAG with the practicality of the required pace of the standard-setting process. This may include interviewing CAG members for additional solutions, asking CAG members to document and submit their most significant concerns for presentation at the Board meetings, suggesting that the CAG members attend more of the Board meetings, or requesting that the CAG Chair raise significant issues on behalf of the CAG members at the Board meetings, instead of relying upon the Board staff to do so.

In summary, we are supportive of the Boards' exploring practical means to deal with the expressed concerns without unduly slowing the standard-setting process.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

Deloitte Response

Our experience is that the way the comment letters have been summarized has evolved over the last few years and there have been many improvements, often in response to input from the CAGs and PIOB. We support continued progress on this objective.

We suggest that the views of members of the Monitoring Group be expressed more clearly and be provided on a more timely basis – both of which would make responding to their concerns in a more deliberate and expansive manner much easier.
The Consultation Paper implies that comments from members of the audit profession may be given more weight than those of users and regulators because they are outnumbered by those from the audit profession. We have not found this to be the case, so it would be useful to have more clarity about such situations or more details to support these views.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members

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regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Deloitte Response

We have observed that the Boards have given strong consideration to the comments provided by members of the Monitoring Group. However, often their comments have been provided long after the comment period has expired and the Task Forces have met to discuss the comments. If the comments from members of the Monitoring Group can be provided to the Board by the deadline of the comment letter period, it will be easier for Task Forces to arrange for a conference call with members of the Monitoring Group, or perhaps a designated representative, to explain the rational for its conclusions on the points raised by the Monitoring Group member. However, care needs to be exercised that such discussions are not seen as overriding the significant due process required in public meetings for setting standards.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

Deloitte Response

We would be pleased to learn more about the circumstances that gave rise to this recommendation as we don't understand the basis for it. The Consultation Paper suggests that the discussions of the Board may not be clear in all cases and that the decisions made may be ambiguous. Based on our experience, we have generally not found this to be the case, although we appreciate that some observers may believe the final decisions taken may not be as clear as they could be, particularly in those instances where there has been a lively and fulsome debate on an issue. We support efforts to refine the standard-setting process provided undue burdens and costs are not incurred.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

Deloitte Response

While voting by proxy is not ideal, it recognizes the practicalities of the world we live in. Work-related commitments and emergencies, as well as medical and family emergencies, have resulted in members having little choice regarding attendance at Board meetings. While we agree that consideration should be given to limits on who a proxy can be given to, we have not observed any decisions of the Boards that we believe would have been different had proxy voting not been allowed, and we believe practicalities need to be considered in arriving at a proper balance. If users would find it informative, we would support having the minutes reflect the details of those voting by proxy.

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- **Oversight**

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

Deloitte Response

We are supportive of further efforts to enhance the effectiveness and efficiency of the PIOB members in carrying out their important responsibilities.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

Deloitte Response

We are supportive of further efforts to enhance the effectiveness and efficiency of the PIOB members in carrying out their important responsibilities.

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

Deloitte Response

We are supportive of any efforts to help ensure continuity of high quality membership and diversity of the PIOB on a going forward basis.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

Deloitte Response

We are supportive of further efforts by the Monitoring Group, as agreed as part of the IFAC Reforms, to determine longer term neutral funding arrangements for the PIOB.

- **Monitoring**

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as

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governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

Deloitte Response

We are supportive of the proposed further consultation and any means that can be found to achieve the stated objectives.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

Deloitte Response

We are supportive of efforts to help align and enhance the effectiveness and the synergies of the Monitoring Group and the Monitoring Board.

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ERNST & YOUNG

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

12 August 2010

Hans Hoogervorst
Chair
The Monitoring Group

By e-mail: Monitoring Group@iosco.org

Review of the IFAC Reforms - Consultation Paper

Dear Mr. Hoogervorst

Ernst & Young Global Limited, the central entity of the global Ernst & Young organization, welcomes the opportunity to offer its views on the consultation paper on the review of the IFAC reforms (the "Reforms") issued by the Monitoring Group in June 2010 (the "Consultation Paper").

The Reforms undertaken in 2003 were aimed at restoring confidence in the standard setting process and the resultant impact on the financial statements and financial statement audits. We believe the international standard setting functions which resulted from those Reforms, supported by effective monitoring and oversight, have positively impacted the quality of the standards issued by the IFAC Boards. The changes needed to create the new standard setting functions required time and effort and we believe IFAC and the IFAC Boards have worked tirelessly to this end. We also are pleased to note that the Monitoring Group generally believes that the Reforms have been effectively implemented.

The Monitoring Group has indicated its current review, as contemplated in Section 13 of the Reforms, is timely in light of the present financial and credit crisis. The current economic environment has, along with other matters, reinforced the continuing importance of the standard setting process in producing meaningful, relevant and robust standards which are an essential element of high quality financial statements and financial statement audits. The Monitoring Group's eighteen (18) recommendations, as contained in the Consultation Paper, are focused on enhancing the manner in which some of the Reform provisions were implemented to achieve their aim more effectively, and to add features or elements to the IFAC Boards' international standard setting processes which may, under some views, provide further credibility.

We support on-going improvements in the standard setting process and have been a vocal and consistent proponent of a single set of global high quality standards, including auditing and independence standards. Our support is evidenced in many ways, importantly including the dedication of talented, highly skilled and knowledgeable professionals working on the IFAC Boards and in various related activities including task forces and other projects. In that spirit, we offer the following comments on some of the Monitoring Group's recommendations, based on our experience with the Boards.

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- **Composition of the Standard Setting Boards**

Mix of Board member backgrounds

The Monitoring Group is recommending that there should be parity – or perhaps even a majority – of Board members with professional career experience that substantively goes beyond that of an auditor. We agree that the Boards should be made up of members with diverse backgrounds, such as, for example, audit regulators, audit committee chairs and investors, in order to bring different perspectives to the table. However, while diverse perspectives are important, expertise should remain the primary consideration as it is a fundamental building block of high quality standards.

Assignment of Board seats

The Monitoring Group is recommending that IFAC discontinue the practice of reserving a specific allocation of Board seats for Forum of Firms ("FoF") nominees. This recommendation appears to be based on the premise that such a practice may not have secured the best mix of Board members from among all those available to serve. In our view, this recommendation, if implemented, would have negative consequences on the quality of the standards. The FoF members make a positive contribution to the standard setting process by actively participating in task forces, by bringing expertise and practical experience to the Boards' deliberations and assisting in the evaluation of the reasonableness of the proposed standards as well as the potential implementation issues.

Ability to attract public Board members

The Monitoring Group is recommending that IFAC explore financial measures to accompany travel cost reimbursement for Board members who are public members of the non practitioner group, who are not otherwise employed and often must forego other economic opportunities in order to devote a significant amount of time in a volunteer effort. We do not believe that a change in the remuneration policy would necessarily increase the number of highly-qualified people for those positions. We believe that the role of those public members should be re-examined so that the expectations of the position are realistically aligned with the time commitment those individuals can contribute to the respective Boards.

- **Operating procedures of the Standard-Setting Boards**

  Role of technical advisors to Board members

  The Monitoring Group is recommending that IFAC change the manner in which expert technical information and support is made available to the Boards. We agree with the Monitoring Group's comment that the Board members themselves, and not the Technical Advisors, should be the principals in the Boards' discussions, deliberations and decision making. However, Technical Advisors bring practical knowledge and experience and their contributions to the standard setting process should not be overlooked. For example, Technical Advisors play an important role in Task Forces and in providing technical and editorial reviews of agenda papers and documents.

As indicated above, we chose to comment on a few of the more salient recommendations. We are not commenting, positively or negatively, on all of the recommendations because we believe that, rather than incremental enhancements to the standard setting process, it would be preferable, in light of the current environment, to undertake a broader review to address governance and operational arrangements that are critical for the long term sustainability of standard setting boards operating under IFAC. An engaged broad public dialogue would provide the opportunity to fully explore the matters and discuss alternatives to meet financial statement user and other stakeholder needs and to do so in a way that promotes audit quality and furthers the public interest in a cost effective manner. In addition, the governance review taking place for the IASB may highlight matters that also are relevant and useful to the IFAC standard setting boards. In our view, important issues that need to be addressed include:

- The **structure and operations** of the standard setting function, including targeted Board composition, oversight mechanisms and establishment of agenda and timeliness and responsiveness of the standard setting process.

- The **funding** of the standard setting function and its oversight, including the independence of such funding from the profession and the long-term sustainability of that funding.

- The **credibility** of the standard setting function so as to increase user confidence in the function and the resulting standards issued by the Boards.

- The **communication** of the standard setting function and activities to increase participation and engagement by all relevant stakeholders.

The review should be guided by the overall principle that the standard setting function must operate in the public interest and encourage legitimacy through independence, transparency, performance and accountability.

We would be pleased to discuss our comments with the Monitoring Group or its representatives at your convenience and we appreciate the opportunity to engage on these matters of importance. Please address any correspondence regarding this letter to the attention of Karen M. Golz, Global Vice Chair, Professional Practice at karen.golz@ey.com.

Yours sincerely,

Ernst & Young Global Limited

Grant Thornton

The Monitoring Group

By email to:
MonitoringGroup@iosco.org

Grant Thornton International Ltd
Regent's Place, 7th Floor
338 Euston Road
London NW1 3BG
United Kingdom

T +44 (0)20 7391 9500
F +44 (0)20 7391 9501
www.gti.org

13 August 2010

Dear Sir or Madam

Review of IFAC Reforms - Consultation Paper

On behalf of the member firms of Grant Thornton International (Grant Thornton) we welcome the opportunity to comment on the Monitoring Group's Review of the IFAC Reforms – Consultation Paper June 2010 (the Consultation Paper).

We recognise that the Review has been conducted at a time of uncertainty in the global capital markets and we share the desire of all parties to learn appropriate lessons from the global financial crisis; to build upon existing strengths and address weaknesses in the system.

IFAC's arrangements enjoy the support of stakeholders

We hope that any final report of the Monitoring Group will explicitly emphasise the high regard in which the IFAC governance and standard setting model is held, and reflect with due prominence on the success of the 2003 reforms. The final report could usefully explain that any recommendations for change represent only a series of fine tuning improvements in support of the governance arrangements for IFAC's ongoing role in international standard setting.

The objective of the 2003 reforms was to "increase confidence that standard setting activities of IFAC were properly responsive to the public interest and would lead to the establishment of high quality standards and practices in auditing and assurance". In our opinion the objective has been met and the Consultation Paper indicates that the 2003 reforms, which represented fundamental improvements, have been implemented effectively.

While we do not support all of the Consultation Paper's recommendations, it is fair to say that the nature of the recommendations in the Consultation Paper, when considered individually and collectively, represent relatively minor changes when compared to the 2003 reforms. This provides independent comfort to IFAC's stakeholders that the generic attributes of high quality standard setting, which are due process, expert input from independent board members and outreach to stakeholders, are all substantially present and functioning well. However we recognise that improvement over time should be sought on a

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cost/benefit basis. We believe that changes have already been made which reflect the spirit of the reforms but go beyond the reform agreement, for example in the work undertaken by IFAC on impact analysis, but we would expect the search for improvement to continue.

Education standards and compliance panel

The Public Interest Oversight Board (PIOB) has an oversight function which, in addition to audit and ethics, includes the International Accounting Education Standards Board and the Compliance Advisory Panel. We were disappointed that the Monitoring Group did not pay the same attention to these public interest activities of IFAC as it did to audit and ethics. In our opinion education standards enhance confidence in the profession because an appropriately trained accounting profession is critical to market confidence in the reporting and auditing process. High quality education standards are also a critical contribution to a sustainable global accounting profession. Audit and ethical standards will fail in their purpose if they are not implemented by appropriately educated and trained individuals.

We were surprised that the Monitoring Group would conclude that "[while the] efforts associated with IFAC member compliance have a public interest connection they are, at least at this stage of their development, largely oriented toward serving IFAC as a membership organization". We believe that with the standard setting processes held in high regard the emphasis should be placed on adoption and implementation of international standards. In our opinion the focus on member bodies meeting the membership obligations goes to the core of IFAC's public interest obligations by attempting to ensure that there is a vibrant high performing accounting profession around the world. Such efforts deserve greater recognition by the Monitoring Group.

Future roles of the Monitoring Group and the PIOB

Communication with stakeholders is key, especially in areas such as standard setting where the public interest is involved. We observe that the standard setting boards have committed considerable resource to meet with stakeholders, to understand their concerns, to seek their input and to ensure that they remain fully informed. We support efforts to continue and enhance all forms of outreach and communication; recognising that no one stakeholder is to be favoured over another; but that every attempt should be made to effectively engage all stakeholder groups.

On behalf of six international accounting networks Grant Thornton co-chairs an international investor-auditor dialogue group. On a July 2010 conference call of this group we invited IFAC to provide comments on the IAASB's governance and due process. Investors welcomed IFAC's participation in the conference call and welcomed the opportunity to interface with them. However, it was apparent that investors on the call were not well aware that the Monitoring Group and the PIOB are in place to represent investor interests.

Stakeholder confidence in the PIAC's due process and governance is primarily influenced by the independent views of the PIOB and the Monitoring Group. We

are aware that there has been some communication with stakeholders by the PIOB and the Monitoring Group, but we would encourage these groups and individual members to seek additional opportunities to promote the quality of IFAC Public Interest Advisory Committee's (PIAC) governance, due process, and ultimately of the PIAC standards.

We respond to the Monitoring group's specific recommendations in an appendix to this letter. If you have any questions on this letter, please contact David Maxwell (phone: +44 207 865 2109; email: David.Maxwell@gtuk.com; or Nick Jeffrey (phone: +44 207 728 2787; email: Nick.Jeffrey@gtuk.com).

Yours faithfully

Edward Nusbaum
Chief Executive Officer
Grant Thornton International Ltd
Direct T: +44 207 383 5100
E: Edward.Nusbaum@gt.com

Appendix: Recommendations in the Consultation Paper

Composition of the Standard-Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity - or perhaps even a majority - of Board members with professional career experience that substantively goes beyond that of an auditor.

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background - in this case for Forum of Firms (FOF) nominees - and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

Grant Thornton response (to recommendations 1 and 2): From experience we find the IFAC nomination process for standard setting Boards' to be thorough. IFAC specifies a detailed statement of requirements for each board, seeking to balance board membership between practitioners and non-practitioners; regional coverage; balance across different categories of practitioner; and appropriate gender representation. We believe that IFAC has been successful in progressively improving each factor over time recognising that the preferred board structure may not be achieved in one rotation. We believe that at this stage Recommendation 1 has been substantively achieved.

There may be other methods for constructing the standard setting boards other than by establishing categories of membership, but they might not be so effective. We believe the transparency that the IFAC Nominating Committee brings to the process through its substantive call for nominations process and documentation is to be commended. We encourage the Nomination Committee to seek ways to make the process even more transparent, while paying due respect to confidentiality concerns.

Serving on a PIAC is a significant public interest responsibility and it requires a substantial time commitment. We know from our own experience that this time commitment places limits on the pool of individuals that we would wish to nominate.

Recommendation 1 infers that there could be a conflict between technical competency and objectivity. We would assert that all board members should, and we believe do, bring expertise and objectivity to the discussions.

The nominating process with PIOB oversight appears to be functioning well. We acknowledge that the nominating process for FoF nominees could be more transparent to third parties and could seek nominees from a broader range of networks within the FoF membership. It has been our observation that in recent

years the nominees from the FoF members have come from a broader range of geographies, and this is to be encouraged.

Quality of board members is the key issue. It is the skills, knowledge and independence of mind that the board member brings to discussions that matters, and a broadly defined board structure can help to ensure the board has the appropriate mix of skills and knowledge. Stakeholders need the board structure/mix to be clearly articulated, which it is for example in the IFAC call for nominations paper.

We believe that the PIAC's should continue to have equal numbers of practitioners and non-practitioners. The three year cooling off period to qualify as a non-practitioner seems appropriate. It is important to recognise also that the practitioners around the table bring a wide range of experience – from partners in the field, to leaders managing relationships with oversight bodies and partners assigned to technical roles. Each brings a different perspective on how to develop high quality implementable standards that serve the public interest.

We do not support Recommendation 2, that IFAC discontinue the practice of reserving a specific allocation of PIAC seats for a particular type of background. With 18 seat boards it is important that IFAC signal the explicit requirement for five FoF nominees to reflect the importance of technical competence, two public members to reflect the importance of added public interest focus and a specified number of seats nominated by member bodies to reflect a broader base of experience.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Grant Thornton response: A reasonable stipend could be sensible for all board members. However we are not aware that financial support is a problem which has impaired the quality of public member candidates or currently impairs the quality of the standards. Indeed some public members may be drawn from organisations where it would be inappropriate for them to accept any stipend. The Monitoring Group and its observers could utilise their contacts within and without their own organisations and so prove to be an important source for recruiting independent public members for the PIACs.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting - or at least for the composition of the Ethics Board - to be utilized.

Grant Thornton response: The test of the appropriateness of structures and processes for setting ethical and independence standards is the quality and acceptance of the product of the PIACs. In our opinion ethical and independence standard setting requires practitioner input to inform discussions about the ethical dilemmas that face auditors. We are not aware that current arrangements have led to fundamental flaws in ethics standards or in ethics standard setting due process.

We acknowledge that there are specific challenges to setting international standards in the field of ethics and independence due to the cultural and legal infrastructure differences around the world. However, if an evaluation of the expertise and perspectives of those who are or who have been auditors in the composition of the ethics board is to take place, in our view such evaluation of the most desirable structure for ethics and independence standard setting falls appropriately within the remit of the PIOB.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Grant Thornton response: We agree that every effort should be taken to ensure that it is the Board members and not the Technical Advisers who are the principals in the Board's decisions. We have observed that board chairs have recently reinforced this aspect of the Board's terms of reference.

Where a Technical Adviser is an expert in a particular topic, we support the current practice where the relevant board member seeks permission from the chair to invite technical adviser input in an appropriate manner. Should there be a problem with appropriate participation in board discussions then Chairs and Board members could consider other mechanisms for emphasising the role of the Board member.

We would emphasise that we consider the role of the Technical Adviser to be critical. They are able to make a valuable contribution to task forces and other project work so that additional work need not fall by default to board members.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers - who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts - to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

Grant Thornton response: We agree in principle that technical sessions could help those board members who are less well informed. However, our understanding is that board members are in general already well informed, so perhaps this is a course of action that is best left to the board chairs as a tool to use as and when they deem appropriate.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

Grant Thornton response: We are not aware that the CAGs are having operational difficulties, or that CAG members are concerned with how the CAGs are operating. Similarly we are not aware that the boards have received input from the CAGs which has been unwelcome or inappropriate.

We understand that the CAGs role is to provide input related to:
(a) Advice on the IAASB's agenda and project timetable (work program), including project priorities;
(b) Technical advice on projects; and
(c) Advice on other matters of relevance to the activities of the IAASB.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

Grant Thornton response: We agree in principle that it would be desirable for final CAG minutes to be available to board members prior to the relevant board meeting. This may well entail a change to planned meeting schedules which will also need to minimise the risk that topics might jump meetings (if CAG and board meetings are too close), and the risk that the issue has moved on between discussions (if meetings are too far apart).

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

Grant Thornton response: We agree in principle that detailed analysis of responses is desirable. We acknowledge that there has been a steady improvement in the way that responses are summarised, discussed and dealt with.

IFAC could also work with the CAGs to identify whether there is any other information that they need.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Grant Thornton response: We have observed that boards give due consideration to comments from Monitoring Group members. We believe that an appropriate and sufficient mode of feedback is where the Monitoring Group is an observer of Board discussions. Monitoring Group members should then take responsibility for highlighting to the board chair as a standard gets close to finalisation if the Monitoring Group member has had insufficient feedback. If boards were to implement a process of direct feedback to Monitoring Group members then care would be needed to ensure that it did not override due process required in public meetings for setting standards. The risk that the Monitoring Group members were viewed as favoured constituents with undue influence over the standard setting process must be avoided.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together - for example, by utilizing feedback statements - so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

Grant Thornton response: We agree in principle with this recommendation insofar as it relates to major discussion points, provided that it is supported by a favourable cost/benefit analysis. One solution might be to post on the IFAC website a near final draft of the standard as is the practice of the IASB.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members vote on a final document - either in or outside of Board meetings - and how the Board reports the results.

Grant Thornton response: We agree that proxy voting could be viewed as inappropriate when there is a vote in a meeting where there is also debate and/or changes to the text. IFAC and its PIACs might consider whether the process adopted by the IASB of voting by ballot would be workable. We understand IASB members may suggest late editorial improvements to the text. Depending on the number of such changes, the staff report to the IASB after the ballot or prepare and circulate to the IASB a post-ballot draft showing the final changes (source: IASB Due Process Handbook, paragraph 79).

Oversight

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

Grant Thornton response: We assume that the Monitoring Group is not advocating that the PIOB should be more involved in technical issues. We would support measures that enable the PIOB to carry out its responsibilities more effectively, which should be focused on ensuring that due process is followed by the standard setting boards. Due process should be resolving the technical issues, and the PIOB should not be a decision maker on technical solutions.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

Grant Thornton response: We agree that PIOB oversight of due process should commence as early as possible within the life cycle of a project, and continue throughout the project to ensure that due process is followed. We do not believe it is the role of PIOB members to tell a board that they have the wrong answer, and PIOB staff should not be revisiting the technical work or decisions of a board.

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

Grant Thornton response: We support this recommendation.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

Grant Thornton response: We support this recommendation. We encourage the Monitoring Group to consult others in addition to the PIOB and IFAC about long term funding arrangements for the PIOB. The Monitoring Group might also consider whether it is appropriate to consider the source and amount of funds for standards Boards and the CAGs.

Monitoring

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mixture of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

Grant Thornton response: We support this recommendation.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences: specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

Grant Thornton response: While we understand the desire for a future review we believe that such a review should be sufficiently in the future to encourage confidence, stability and certainty in standard setting structures and processes. By way of contrast we observe that the constant incremental review and change at the IASB has proven to undermine the IASB's governance review process. We recommend that a clear period be set for IFAC review of say five years noting that a fixed review period does not prohibit any of the Monitoring Group, PIOB, IFAC or its PIACs from making improvements to structures and processes as the environment demands over time.

International Headquarters
KPMG International
KPMG Building
Burg.Rijnderslaan 20
1185 MC Amstelveen
The Netherlands
Telephone 31 (20) 656 6858
Fax +31 (20) 656 6777

Correspondance Address
KPMG AG
Klingelhöferstraße 18
Vorstand
Berlin/W 10785
Germany
Telephone +49 30 2068-1480
Fax +49 1802 11991-1480

Mr Hans Hoogervoorst
Chair
The Monitoring Group
c/o The International Organisation of
Securities Commissions
C/ Oquendo 12
28006 Madrid
SPAIN

Our ref mbt

by email: MonitoringGroup@iosco.org

13 August 2010

Dear Mr Hoogervoorst

Monitoring Group Consultation paper -- Review of the IFAC reforms

KPMG International Cooperative[1] (KPMG International) is pleased to respond to the Monitoring Group's *Review of the IFAC Reforms – Consultation Paper* published on 10 June 2010 (the Consultation Paper). This response is submitted on behalf of the international network of KPMG member firms. We set out below our comments on the Consultation Paper as a whole. Our comments on the detailed recommendations are in the Appendix to this letter.

We support the Monitoring Group's (MG) objective of enhancing the quality of, and hence confidence in, financial reporting and audits of financial statements. In our view, the reforms introduced since 2003, by introducing non-practitioners to the three standard-setting Boards supported operationally by IFAC (the Boards) and establishing two layers of oversight, have been successful in balancing the participation of the profession, auditor oversight bodies and public interest stakeholders. We therefore are pleased and concur with the MG's overall positive preliminary conclusions. We believe that the overall aim of the reforms – to increase confidence in the Boards and in the quality of the standards promulgated – substantially has been achieved.

The MG's preliminary conclusion that the implementation of the 2003 reforms largely has been successful and that the current structure of the Boards supports high quality audits of financial statements is important context for its recommendations for further change. Therefore, it is in

[1] KPMG is a global network of professional services firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organisations. KPMG International is a Swiss cooperative, a legal entity formed under Swiss law, with which all the member firms of the KPMG network are affiliated. KPMG International does not provide professional services to clients; audits of public companies together with other services are all provided by member firms.

this context that we are concerned that the current proposed changes, combined with the MG's plans to (a) consider further changes (eg Recommendation 4); (b) immediately commence a further assessment of the MG's role (Recommendation 18) and (c) conduct a further review in three years, signals a level of ongoing change to the structure and oversight of these bodies that could undercut confidence of key stakeholders.

While we share the MG's desire to support and strengthen the Boards to allow them to best fulfil their public interest role, as well as many of the objectives of some of the individual recommendations, we do not support pursuing certain proposed changes to the composition of the Boards, namely Recommendation 1 and especially Recommendation 2. In our view, the current process for nominating Board members, which ensures that each Board comprises practitioner and non-practitioner members, with two layers of oversight (PIOB and MG) and with administrative support from IFAC, provides a well-balanced structure.

Further, some of the matters that the MG is seeking to address appear to deal more with enhancements in efficiency and effectiveness (eg MG Recommendations 5-15) and we question whether such recommendations require changes in operating structures and procedures. Therefore, rather than seeking to impose specific procedural changes, we encourage the MG to consider further dialogue with the relevant Boards and their advisory bodies with the objective of developing a clearer understanding of the MG's concerns and how best to respond to those concerns.

Recommendations 1, 2, 4 and 16 suggest that the MG may have more fundamental concerns with the appointment, composition and funding of the Boards. Again, we believe that the 2003 reforms have proven effective and have not seen evidence to support changing them. However if the MG members do have more fundamental concerns, then we suggest that instead a more holistic assessment, in consultation with all of the Boards' stakeholders, be conducted, and that piecemeal changes not be pursued in the interim. If the MG nevertheless pursues changes within the scope of the current consultation then we suggest allowing ample time to observe their effect before commencing the next review.

We believe that in order to set standards that are relevant and operational, the Boards require appropriate participation by individuals with substantial and recent experience in the subject matter of the standards. The current system of requiring a minimum number of Forum of Firms members to be appointed to the Boards has served well in realising this objective and the MG has not noted evidence that the current system results in standards that are not appropriate or not in the public interest. For example, the IAASB's completion of its clarity project is a major achievement in strengthening the quality of International Standards on Auditing (ISAs), thereby facilitating consistent global adoption of ISAs.

Within the KPMG network we have implemented fully the clarified ISAs in our global audit methodology and introduced significant changes to the content of our global audit training programme to focus on ISAs in the context of our methodology. These changes impact over 60,000 audit professionals in our network of member firms; this illustrates the significance of

the Boards' work to our network and the scale of its impact on our member firms, and why we consider this consultation to be a matter of significant interest not only to KPMG professionals, but also to all stakeholders in global capital markets.

The KPMG network is committed to continuous enhancements of audit quality and reinforcement of professional integrity, recognising that these are key to continuing our commitment to the public interest and hence to the standing of our profession globally. We believe that it is important to continue to make progress with adoption of ISAs and the other international standards referred to in this consultation paper as part of the global financial architecture. We agree that strong, well-resourced and credible Boards whose commitment to the public interest is unquestioned are important aspects for achieving this goal. It is in this spirit that we have supported and will continue to support the work of the Boards by providing input, funding and highly qualified and experienced partners of member firms to act as Board members.

We would be happy to discuss any of these points further; if you have any questions then please contact Dr Wienand Schruff, Head of the KPMG Global Regulatory Group, at +49 30 2068 1480.

Yours sincerely

pp P Reeling

KPMG International

Appendix A: Comments on Recommendations set out in the draft report

Composition of the Standard-Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

KPMG response: as explained in our cover letter, while we share the MG's desire to support and strengthen the Boards to allow them to best fulfil their public interest role, as well as many of the objectives of some of the individual recommendations, we do not support pursuing certain proposed changes to the composition of the Boards, particularly Recommendation 2. In our view, the current process for nominating Board members, which ensures that each Board comprises practitioner and non-practitioner members, with two layers of oversight (PIOB and MG) and with administrative support from IFAC, provides a well-balanced structure. We believe that in order to set standards that are relevant and operational, the Boards require appropriate participation by individuals with substantial and recent experience in the subject matter of the standards.

The current system of requiring a minimum number of Forum of Firms members to be appointed to the Boards has served well in realising this objective and the MG has not noted evidence that the current system results in standards that are not appropriate or not in the public interest. For example, the IAASB's completion of its clarity project is a major achievement in strengthening the quality of ISAs thereby facilitating their consistent global adoption. Within

the KPMG network we have fully implemented the clarified ISAs in our global audit methodology. We also introduced significant changes to the content of our global audit training programme to focus on ISAs in the context of our methodology. These changes impact over 60,000 audit professionals in our network of member firms; this illustrates the significance of the Boards' work to our network and the scale of its impact on our member firms, and why we consider this consultation to be a matter of significant interest not only to KPMG professionals but also to all stakeholders in global capital markets.

We also are concerned that Recommendation 4 implies making further changes outside of the consultation process. We wish to understand better the concerns of MG members and work to address those concerns but believe that this is accomplished best within the context of a public consultation involving all stakeholders interested in financial reporting and auditing.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

KPMG response: as noted in our cover letter, some of the issues that the MG are seeking to address appear to deal more with enhancements in efficiency and effectiveness and we question whether they require changes in operating structures and procedures. Therefore, we encourage the MG to consider discussion with the Boards and their advisory bodies to help those bodies better understand the concerns of the MG and how best to achieve improvements, rather than the MG seeking to impose specific procedural changes.

Regarding Recommendation 10, we acknowledge the importance and value of input from MG members as part of the Boards' due process, particularly in response to exposure drafts. We note that the MG has observer status at the Boards, which provides the MG with an opportunity for "real time" feedback by the Boards and their staff not only on MG input but also comments from other stakeholders. We question whether it is an appropriate use of the Boards' resources to provide separate formal feedback to the MG on each comment received from MG members in addition to the detailed analysis and feedback that the Boards prepare on all comments received. If the MG as a whole believes that there are fatal flaws after a Board's redeliberations of its proposals, in light of comments received, then this concern should be raised formally with the relevant Board and we agree that the Board should provide feedback on that concern before finalising the standard. However, we believe and expect that this would be a rare exception, as a Board's process should be expected to give adequate consideration to the comments of MG members and other stakeholders.

Oversight

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

KPMG response: We agree that consultations with the PIOB and IFAC are appropriate as a next step to enhancement of the effectiveness of both bodies.

We appreciate the MG's efforts to enhance the funding arrangements for the Boards' oversight body, but note that it may be difficult to consider this in isolation from a review of the funding arrangements of the Boards. We suggest that this might be considered more effectively as part of a holistic review, as discussed in our cover letter.

Monitoring

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

KPMG response: as noted in our cover letter, we have some concerns about repeated rounds of changes to the Boards' structure, operations and oversight undercutting stakeholder confidence in both the process and product. Therefore we encourage the MG to consider whether these further assessments would be addressed more effectively in a holistic assessment of the Boards.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
Telephone +44 (0) 20 7583 5000
Facsimile +44 (0) 20 7822 4652
pwc.com/uk

Mr Hans Hoogervorst
Chairman, The Monitoring Group

By e-mail:
MonitoringGroup@iosco.org

12 August 2010

Dear Mr Hoogervorst,

Review of the IFAC Reforms – Consultation Paper

We appreciate the opportunity to comment on this consultation paper from the Monitoring Group ('MG') of regulatory and international public interest organisations on its assessment of the implementation of the IFAC Reforms of 2003. As a network, we are committed to promoting the consistent application of high quality audit practices worldwide in the public interest, and welcome the Monitoring Group's review.

This response summarises the views of member firms of the PricewaterhouseCoopers network who commented on this consultation document. "PricewaterhouseCoopers" refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

We have considered all 18 of the recommendations in the consultation paper and where we have specific views to contribute, these are included in the Annex to this letter. In this covering letter we provide some overall observations on what we believe to be the more important issues raised by this review.

Attributes of high quality standard setting

As a network, we believe the most important attributes of high quality standard setting are:

- *Stakeholder engagement*. Standard setters frequently describe their primary objective as setting standards in the public interest (indeed the IFAC Reforms of 2003 were designed to give particular weight to the public interest). The "public interest" is difficult to define. However, processes that are designed to engage stakeholders – investors, preparers, auditors, monitoring bodies, regulators – and ensure that all views are heard and cost/benefit is weighed are important safeguards in achieving that aim.
- *Transparent process, including widespread consultation*. Transparency throughout the standard setting process engenders both confidence and participation. Reviewing comments received and providing feedback that explains how those comments have been taken into account helps to reassure participants that their

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voices have been heard and given due consideration, and also builds commitment by giving credibility to the validity of the final positions.

- *Appropriate expertise brought to bear*. The quality of the standards depends on having the right people and best minds at the table. Auditing and ethical standards are different from, for example, accounting standards – focussed more on behaviour and grounded in practice. Standards setting that strays too far into theoretical or political domains risks losing effectiveness. The increased involvement of non-practitioner stakeholders in standard setting bodies is positive. But it remains essential that the experience of those in practice be brought to bear throughout the process as well.
- *Principles based standards*. Quality auditing depends on the application of sound professional judgement. Auditing standards should aim to guide the exercise of sound judgement, not supplant it with rules. Standards setters need to guard against introducing greater prescription and reducing the scope for professional judgement. Doing so will inevitably drive behaviour towards a preoccupation with compliance with the rules rather than the 'bigger picture' of performing a quality audit.

We have applied these attributes in approaching the recommendations in the Monitoring Group's consultation paper.

The quality of the standards is sound

We believe this is an opportune time to review the implementation of the IFAC Reforms of 2003, particularly since the Audit and Ethics Boards have recently completed significant projects (the Clarity ISAs and the revised Code of Ethics respectively). In our view, those projects have produced high quality standards.

The consultation paper states that the MG's assessment does not judge outcomes in terms of the quality of the standards produced. That said, the paper does not highlight any major flaws in the output of standards and acknowledges that virtually all of the Reforms provisions have been implemented. Many jurisdictions are currently in the process of considering whether to adopt the IFAC standards, and we believe it would help facilitate endorsement of those standards if the MG could provide in its final report positive recognition of the quality of the output of the IFAC standards setting boards. We would not wish the MG's report to be inadvertently perceived as providing reasons to discourage wider adoption, as that would not be in the interests of the capital markets.

Ensuring experienced practitioner involvement

As stated above, we believe the quality of the standards produced relies on having the right people and best minds at the table. Auditing is a technical activity and we therefore consider it valuable that practitioners with current experience of auditing in the field are involved in standard setting. Auditing professionals are trained in disciplines such as objectivity and therefore are able to examine proposals with the appropriate degree of balance and rigour. We are not aware of other professions where technical operational standards for those professions are designed without the benefit of sufficient experienced practitioner input.

We believe the current system of Forum of Firms nominees has served well the objective of setting high quality standards in the public interest. For this reason we believe it would be better if these arrangements were to be continued, but we understand that there could

be public perceptions regarding "reserved seats" at the table. We are not wedded to any particular formula mechanism whereby seats are reserved for specific groups. However, we believe that any review of the appropriateness of specific allocations of positions on the Boards should look at whether reserved allocations for *any* groups are necessary – be they the large accounting networks, the professional bodies, or public interest members. The single yardstick that should be applied is – will the involvement of a particular candidate enhance the quality of discussion at the Boards and the quality of the resulting standards?

Cumulative impact of recommendations

We believe the potential cumulative impact of the MG's current recommendations should be considered carefully, as well as the individual merits of each recommendation. While particular recommendations may seem reasonable in isolation, we are concerned that the cumulative impact, if implemented, will result in a diminution in quality of the standard setting process and of the resulting standards.

For example, the combined effect of recommendations 1, 2, 4 and 5 may serve to reduce the involvement of experienced practitioners in Board discussions, in task forces, and in the development of standards generally. One consequence of decreasing the numbers of experienced practitioner members and technical advisors may be that valuable insights regarding the operability in the current environment of proposed standards are lost. In addition, the permanent staffing complement and resources of the Boards would need to be increased significantly if the Boards' level of activity is to be maintained.

In addition, we consider that if recommendations 4-11 inclusive were all adopted, there would likely be a significant increase in the time required of Board members and others to develop and approve standards and in the staff resources needed to support the process. The timeliness of standards is one element of serving the public interest. In addition, significant increases in the cost of standard setting need to be justified in terms of an expected significant improvement in the quality of standards. We believe it is important to give thought to the aggregate impact of these aspects in evaluating the recommendations.

A broader review?

The MG has made a number of recommendations which it portrays as "fine-tuning" of the current arrangements. The MG's paper also indicates there will be a further review – potentially wider in scope – approximately three years after the completion of the present review, unless circumstances indicate that the MG should initiate such a review sooner. Rather than introduce recommendations from the current review that could inadvertently detract from quality, the MG could consider deferring any such changes and evaluating them as part of a wider review.

Alternatively, if the MG believes changes are needed now, we believe there are good reasons for the MG to advance a more fundamental review of the governance arrangements for standard setting.

The IFAC Reforms of 2003 were a necessary response to the environment at that time, and were implemented quickly and, as the MG's report demonstrates, relatively successfully. They have however resulted in a complex structure involving multiple players (the standards setting boards, the CAGs, IFAC, the Forum of Firms, the PIOB and the Monitoring Group), a network of roles and responsibilities, and multiple layers of review and oversight. In deciding whether to adopt IFAC's standards, stakeholders need

to have trust in the arrangements for governance of standard setting, and a simpler and easier to understand structure might help to engender greater trust.

Our starting point for a broader review would be that the three standards setting activities – the IAASB, IAESB and IESBA – should continue. But there should be a fresh look at matters such as: the governance structure around the standards setting boards; the setting of strategy; the advocacy role for the resulting output; and, not least, the funding of standards setting activities. We also note the MG's comment in Recommendation 18 that any future review will be informed by the concurrent review of the governance framework around the IFRS Foundation being undertaken by the Monitoring Board.

We believe that thinking on a broader review should start now, and we would be keen to play a full part in those deliberations. We have no pre-conception as to what the optimal resulting structure should look like, but we do believe that the attributes of high quality standards setting outlined at the beginning of this letter should be paramount in any such review.

As noted above, we would value the opportunity for an early debate with Monitoring Group members, once they have been able to review the comments received. If you have any questions in the meantime regarding this letter, please contact Ian Dilks (+44 20 7212 4658), or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP

ANNEX

Detailed comments on recommendations in Monitoring Group consultation paper 'Review of the IFAC Reforms' (June 2010)

Composition of the Standard Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity — or perhaps even a majority — of Board members with professional career experience that substantively goes beyond that of an auditor.

- In our view, the objective of this recommendation has already been achieved.
- On both the Audit and Ethics Boards a 50/50 split of practitioners and non-practitioners has been attained. This is appropriate and, for the reasons explained in our covering letter, there should be no further reduction in practitioner representation and input.
- In considering the composition of IAASB in particular, it is important to recognise the fact that the Board's output is not simply directed at audits of listed or public interest entities – it must also cover for example audits of SMEs and assurance in new areas such as carbon emissions. A range of practitioner experience is therefore required.

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

- As noted in our covering letter, we would emphasise the importance of having practitioners with current experience of auditing involved in standard setting.
- We also believe that the arrangements for standard setting should be such that the best candidates want to be involved in it. To make a full contribution as a board member requires a significant investment in time and our experience is that the support of a major organisation (for example a national standards setter, professional body or large accounting network) is invaluable.
- We believe the current system of Forum of Firms nominees has served well the objective of setting high quality standards in the public interest. For this reason we believe it would be better if these arrangements were to be continued, but understand the perceptions regarding "reserved seats". We are not wedded to any particular formula allocation of seats but we believe any review should consider whether reserved allocations for *any* groups are necessary – be they large accounting networks, the professional bodies, or public interest members. The criterion that should be applied is whether a particular candidate will enhance the quality of discussion at the boards.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

No specific comments, but please also refer to our response on Recommendations 13-16 in relation to funding.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor

independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

- This recommendation seems mainly aimed at the Ethics Board, and we believe it is important that the profession does take responsibility for operating to high quality ethical and independence standards and participates prominently in the setting of those standards.
- There are a number of ways to design a standard setting process to achieve the aim of obtaining high quality output. It is not simply a matter of composition of board members – there are consequences in terms of the staffing complement needed, number of meetings required, and how to organise the activity on a global basis.

Operating Procedures of the Standard Setting Boards

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

- In our view, this recommendation has already been adequately addressed. It is no longer an issue at IAASB or IESBA – Technical Advisors have not, at the request of successive chairmen, taken a prominent role at meetings for some time.
- One perhaps unintended – and unwelcome – consequence of this proposed action is that the most able Technical Advisors may be less willing to take up those roles at the boards. Their experience and insights would therefore be lost to the standard setting process.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

- In practice the IAASB has received presentations from external speakers in recent years.
- We agree that these presentations can be helpful in providing context for the Boards' work and for 'environmental awareness', particularly for some specialised topics such as assurance in relation to carbon emissions.
- While such presentations can help Board members better appreciate differing stakeholder perspectives, much of the Boards' work is technical in nature and proposing that non-practitioners give more presentations will not of itself improve the technical quality of the standards.
- Allowing specific stakeholders or groups of stakeholders to give presentations may be perceived as allowing certain groups to lobby the Boards to orient standards in a particular way. Unless similar opportunities are made available for all stakeholders, there is a risk that the process will be open to criticism.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

- We agree that the CAGs' remit with respect to the Boards' due process should be consistent with their role as technical advisory groups. The CAGs are not the sole forum for stakeholder engagement – high quality technical input also comes via comment letters and through other outreach initiatives by the Boards. We believe the Boards should engage

directly with stakeholders in various forums, including with the regulatory community and MG members.

- If the time between CAG and Board meetings is limited and if papers are presented at relatively short notice, CAG members' ability to input may be limited to providing quick reactions to issues presented to them. Constructing more process around the CAGs may become cumbersome – and there is a risk that bottlenecks in standards development will occur if more process is channelled via the CAGs.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

Please refer to our comments on Recommendation 7.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

- Methodically and diligently prepared summaries are already prepared for some of the Boards, and we would be wary of measures that might increase the (already large) volume of meeting material.
- Board members already tend to rely on the Task Force members to identify the key issues from comments received.
- No doubt the summarisation process can be further improved, but there is no failure in transparency because all board members and public have access to all the comment letters and to those summaries that are already prepared.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

- We agree with this recommendation for direct feedback to MG members, which is linked to measures agreed as part of the 2003 IFAC Reforms package.
- However, as noted in our covering letter, it is important that there should be a fully transparent due process - a general feedback statement provided to all stakeholders should be sufficient.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

- As discussed in our response to recommendation 10, we support the general notion of using feedback statements to aid transparency of due process for all stakeholders.
- However, we are unsure of what the MG is proposing in this recommendation. If the MG is suggesting that such feedback statements be prepared while the development of the final standard is still 'live', we are unsure of the practicality of doing so and the resource implications. The Basis for Conclusions issued with standards relates to the disposition of comments on the Exposure Draft.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members vote on a final document — either in or outside of Board meetings — and how the Board reports the results.

No comments.

Oversight

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

We agree that all of the matters mentioned under Recommendations 13-16 should be considered as part of a broader review of governance arrangements, when conducted, which we suggest in our covering letter. In particular, we would welcome a review of funding arrangements, with a view to establishing a stable long-term funding mechanism that, with other enhancements, will maintain stakeholder confidence in standard setting that is free from undue political or other influences.

Monitoring

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mixture of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences: specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

We agree that the matters mentioned under Recommendations 17-18 should be considered and should form a part of a broader review of governance arrangements, when conducted, which we suggest in our covering letter.

Hermes Equity Ownership Services

Hermes Equity
Ownership Services Limited
1 Portsoken Street
London E1 8HZ
United Kingdom

Tel: +44 (0)20 7702 0888
Fax: +44 (0)20 7702 9452

www.hermes.co.uk

Monitoring Group for IFAC
c/o IOSCO

SENT BY EMAIL: MonitoringGroup@iosco.org

20 September 2010

Dear Sir/Madam,

IFAC Governance Reforms – Monitoring Group Consultation

We welcome the opportunity to comment on the Monitoring Group's consultation. In particular we are grateful for the extension to the deadline for responses.

By way of background, Hermes is one of the largest asset managers in the City of London. As part of our Equity Ownership Service, we also respond to consultations on behalf of many clients from around Europe and the world, all of them long-term owners of companies who therefore are keen to ensure that regulation works effectively in the interests of long-term investment and prosperity. In aggregate we have some £90 billion assets under advice.

We support the review carried out by the Monitoring Board into the 2003 IFAC Reforms. We believe that such periodic reviews are necessary to assess whether reforms are effective and appropriate. We do firmly believe, however, that any such review must not simply restrict itself to considering the specific reforms proposed and carried out; rather, the review needs to consider the extent to which those reforms have addressed the underlying policy driver for the reforms being enacted.

In the case of the IFAC reforms that underlying policy driver was the lack of independent public interest body oversight of a body which was attempting to develop regulatory standards for a business which is central to public confidence in the capital markets. While all the reforms were positive, and we firmly agree with most of the recommendations in the current document, we do not think that the underlying concern has gone away. Until such time as the international audit standard-setting process is taken out of IFAC (as the consultation itself puts it "a private sector organization whose stated mission involves other activities, for example, strengthening the worldwide accountancy profession"), questions will remain, no matter how effective the PIOB, or the Monitoring Board, or the other protections prove to be. Far better to address the problem at source rather than continue to develop structures which are palliatives but not cures. We therefore firmly welcome Recommendation 18, provided that it extends to considering this big picture of more fundamental change; we would note that Recommendation 16 is welcome but will not answer the underlying issues.

We are content to support the other Recommendations in the context of our view that they are positive steps in themselves but more fundamental reform may be needed. We have the following specific comments on other individual Recommendations:

Recommendation 1 - we believe the Monitoring Group should reach a decided view as to whether the Boards need parity for, or a majority of, members from a non-audit background. The uncertainty of the 'perhaps' in the Recommendation is unfortunate. To our minds we believe that confidence and effectiveness would best be balanced were the Audit Board to have parity of membership and the Ethics Board a majority of non-audit members (to use a short-hand description).

Recommendation 4 - we would suggest that our above proposal in relation to Recommendation 1 would go some way to addressing the needs identified here.

Recommendation 15 - we do not believe that geographical background should be a significant factor in identifying members of PIOB. Rather, we believe that competence and personal qualities must be the determining factors for membership. Focusing on geography risks lowering the effectiveness of the PIOB and the respect in which it is held.

Recommendation 17 - though this sounds a reasonable and appropriate proposal, we do not feel we have sufficient insight into the two bodies and their interactions with each other even to comment supportively on it.

Yours sincerely,

Paul Lee
Director

Van: Guy Jubb [mailto:guy_jubb@standardlife.com]
Verzonden: Sunday, September 26, 2010 12:13 AM
Aan: Luiting, Gert
Onderwerp: Monitoring Group Public Consulatation

Dear Gert,

I refer to my email of 6 Sept and your kind invitation to provide input 'on the merit of the preliminary conclusions as well as practical suggestions as to how to implement them'.

As mentioned in the aforementioned email, the views in this note are intended as informal feedback but I nevertheless hope they will help to inform your own as time goes by.

By way of preface, I should note that I come to the debate rather late - I was unaware of the Reforms in 2003 (though I was no doubt aware of some of the consequences) and the Consultation that has just ended. As a consequence, on the one hand, my views may miss the point but, on the other hand, they have been arrived at with a sense of objectivity that is not biased by too many prejudices of the past.

Let me therefore start with a 'big picture' view.

The Reforms were published in 2003. The world has changed a great deal since then - for example, developments in technology, the economic crisis and an on-going re-evaluation of corporate reporting and the role of audit and, importantly, assurance. Therefore, whilst the assessment of the implementation of the Reforms is welcome, the Monitoring Group has missed the opportunity to consider what additional reforms should be considered in the light of the world today. In my view, it should have addressed in an enlightened way the cost and complexity of the processes within its scope. It should have championed a 'lean and mean' approach, which could have got to the heart of many of the issues and, if properly structured, strengthened the quality of audits. There is, to my knowledge, no positive correlation between IFAC costs and audit quality.

That said, I strive to be a realist - we are where we are! Hence, to my mind, one of the most important aspects of the Paper is the Monitoring Group's conclusion that it will 'initiate a further effectiveness review approximately three years after completion of this one'. This does not go far enough. It will have been ten years by then since the Reforms were published - and by then there will have been even more developments. Hence, I believe it is very important that the Monitoring Group should be going much further. It should be commiting to defining the scope of a further Review in 2013 that have the objectives of streamlining relevant processes, reducing process costs and strengthening the relevance and quality of the pronouncements generated by the processes it oversees. There must be no 'holy cows'. I believe that such a commitment would be warmly welcomed by the users of audited financial statements and those other stakeholders who would not feel threatened by it. As a practical first step, the Monitoring Group should commit to confer with interested parties with a view to publishing for comment '2013 Review Scope Proposals' by, say, the end of 2011.

Turning to the detailed recommendations let me comment by exception, as follows:

• Rec 1 - should the Chairmen be 'non-practitioners'? This would serve to re-inforce the objective (which I support).

• Rec 3 - should the Monitoring Group also recommend more use of video-conferencing etc? This would capture carbon as well as cost considerations.

• Rec 5 - it should be unnecessary for each Board member to have a Technical Advisor. Rather, each Board should have a Technical Advisor.

• Rec 6 - I have no problem in principle with this recommendation but I suggest it should stipulate that IFAC/each Board should have budgets for the technical sessions that are scrutinised by the Monitoring Group.

• Rec 9 - I suggest the recommendation should go further by giving IFAC / the Boards explicit encouragement (and thereby empowerment) to engage those who submit comments that have particular aspects of merit or require clarification. Depending on the circumstances, such engagement could take the form of 1:1 interviews or invitation only roundtable meetings (or web-conferences).

• Rec 15 - does this apply to any other Boards as well? If nothing else, they should all manage themselves to the same standards of diversity.

• Rec 18 - this is warmly welcomed (and is aligned with the thrust of my 'big picture' views). Many users, including Standard Life Investments, questioned the effectiveness of co-operation between the Monitoring Groups when commenting on the IASCF consitutional proposals . Indeed, many of us suggested there may be benefit in combining the two Groups into one. In my view, this suggestion still has merit and could have profound and positive implications for corporate reporting and standard setting.

I trust I have not abused the spirit of your invitation to submit my views and that they will, in some small way, make a enhance your own ones.

My kind regards,

Guy

From the Chief Executive **Helen Brand**

ACCA

Mr Gert Luiting
Manager Public & International Affairs
Netherlands Authority for the Financial Markets
Singel 542
1017 AZ Amsterdam

13 August 2010

Dear Mr Luiting

ACCA COMMENT ON THE MONITORING GROUP'S ASSESSMENT OF THE EFFECTIVENESS OF IFAC GOVERNANCE REFORMS

I write with reference to your request for comments on the proposals in the public consultation paper dated 10 June 2010.

We believe that for this review to be fully successful it is important for this consultation exercise to obtain views outside the accountancy profession, particularly from those who rely on the work of accountants and auditors – for example, investors and businesses. This will enhance confidence in business through the work of auditors. It is in users' interests to satisfy themselves that IFAC and the wider profession has in place the highest practices in governance around the development of standards in auditing, including practice, education and ethics. We therefore expect the monitoring group to pay particular attention to the responses and concerns from this group.

Nevertheless, as a global body, with many members in audit roles around the world, and as a recognised statutory body for audit qualification and supervision, we believe it is appropriate to comment on the overall paper prepared by the monitoring group.

Overall, we agree with the direction and tone of the paper, in terms of recognising the need for continuous review and improvement to processes to enhance confidence in standard setting.

Continued

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com

ACCA notes the positive impact of the 2003 reforms and believes that PIOB oversight plays a crucial role in supporting public confidence in IFAC's PIACs. ACCA would therefore encourage IFAC to welcome the additional enhancements proposed in the Monitoring Group's consultation paper as a way of further enhancing existing confidence in its standard setting activities.

In expressing our overall support, we also recommend that the preparers of the report should ensure that the analysis and conclusions drawn from the review are fully supported by evidence in practice, recognising that past reforms have led to a number of process enhancements which, we trust, have strengthened confidence in audit standards and their development in the public interest.

ACCA would also like to draw the Monitoring Group's attention to IFAC's recent consultation on its constitution and bylaws, in which it is proposed that PIOB oversight is extended to the IFAC Nominating Committee. Such a move would be supported by ACCA and we recommend that the Monitoring Group considers this carefully in its current review.

ACCA has not commented on the detailed recommendations in depth as we believe others will have covered the substantive points (for example, ACCA has been party to the response made by the European Federation of Accountants FEE). However, we make some general points which we trust will be helpful by way of principle.

- We believe the issue of funding is an important one as it is clearly important that long-term financial arrangements for any oversight mechanism are seen to be independent and free from any potential undue influence. This principle might also apply to the boards themselves.

- The recommendations should link to the oversight role of PIOB and make it clear that the process of monitoring does not relate to the decisions in relation to standards themselves, but to the application of due processes to the highest quality.

- On a point of presentation, we believe the recommendations should demonstrate how the quality of the output will be enhanced in terms of enhancing confidence in standards and their applicability to markets.

Continued

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

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ACCA

- Board representation should include audit practitioners with substantial experience in international audit client work and the application of standards in the auditing process. Given the benefits of the involvement of experienced practitioners in auditing in the global environment, we do not believe that there is an overriding need for any particular group to have a defined number of places on any board structure, although we are happy with a principle of quotas to ensure appropriate diversity of representation on the various boards. We also believe that 'right skills, and expertise to perform the role effectively, and sufficient available time' is a core need for any board appointments. We believe this is essential to ensure the creation of standards of the highest quality.

I should like to take this opportunity to reaffirm ACCA's commitment to the work of IFAC and its oversight arrangements. ACCA believes that independent public oversight is the appropriate model for the accountancy profession. We also reiterate our belief in the value global standards in accountancy and audit bring in today's internationally-connected economy, and our desire to see these high-quality standards adopted in jurisdictions all round the world.

Should you require any further information or clarification on the above please do not hesitate to contact me.

Yours sincerely

Helen Brand

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com

From: Molnár Bernadett (Magyar Könyvvizsgálói Kamara) [mbernadett@mkvk.hu]
Sent: Monday, August 09, 2010 6:12 AM
To: Monitoring Group
Subject: HU answer_Consultation paper_IFAC Reforms

Dear All,

On behalf of Mr Ferenc Eperjesi, Vice-President for International Affairs (DNC representative) the Chamber of Hungarian Auditors welcomes the MG conclusions on IFAC 2003 Reforms.

The Chamber fully agrees with the content and findings of the paper, we do not propose further modifications. The paper is comprehensive and covers all the sensitive areas that are of importance nowadays. The Chamber welcomes also the composition of the Group and supports its aims which are fully in line with the challenges made by loss of confidence in financial reporting and auditing.

best regards,

Bernadett Molnár
International Department

Chamber of Hungarian Auditors
1063 Budapest, Szinyei Merse u. 8.
phone: +36-1-473-4521
fax: +36-1-473-4510
e-mail: mbernadett@mkvk.hu, international@mkvk.hu
Web: www.mkvk.hu

Review of the IFAC Reforms – Consultation Paper
The Monitoring Group: 10 June 2010
Comments from the Chartered Institute of Management Accountants

CIMA welcomes the invitation from the Monitoring Group to provide input to the Group's preliminary conclusions and practical suggestions on how to implement the proposed recommendations; our principal comments at this stage are as follows:

- IFAC is the global organisation for the accountancy profession and as such its efforts and resources should address the needs and responsibilities of accountants worldwide in serving the public interest and upholding confidence in the profession. As an IFAC member body with 172,000 management accounting members and students in 168 countries predominantly engaged in non-audit business activities, CIMA would endorse the Monitoring Group's preliminary recommendations towards ensuring the involvement of individuals with career experience beyond that of an auditor in the work of the standard setting boards, as well as any structural review that may be required to ensure the full dynamics of the accountancy profession can be appropriately addressed now and in the future.

- The proposed optimal mix of Board members based upon all the relevant dimensions of balance and diversity would be preferable to the current practice of reserving specific allocations of seats for particular types of background, providing any such change would be accompanied by a commensurate shift in the balance of issues addressed by the Boards. From our standpoint, the current and prevailing focus and influence appears to be audit and process driven and we would welcome a more varied approach to consideration of factors, both of ongoing and immediate concern to the profession, the public and other stakeholders.

- We would support any actions proposed to enhance transparency and timeliness of process as well as to facilitate wider participation in IFAC's work in a more practical and accessible manner; we agree that less voluminous documentation provided with longer lead in times would permit more informed external participation; likewise, posting summaries of actions arising from meetings on the website as soon as possible after the event would facilitate prompt and ongoing engagement with the issues under consideration.

- CIMA remains very appreciative of the work carried out by IFAC, particularly in the area of ethics and the endeavours of IESBA. We note the observations included in the report regarding the need for a possible change in the way stakeholder comment letter input is summarised and disseminated, and would support a positive shift towards addressing how ethics issues and outputs in particular might also be made more directly relevant to individual accountants as well as firms and businesses, with a clearer agenda relating to ethics advice and support.

August 2010

CIPFA The Chartered Institute of Public Finance & Accountancy

CIPFA Observations on the Monitoring Group Consultation Paper on the Effectiveness of IFAC Governance Reforms

CIPFA welcomes the Monitoring Group's public consultation paper. In general we interpret it as a positive endorsement of the progress made by IFAC to implement the governance reforms agreed in 2003. Certainly in our view IFAC has made very substantial progress since that date and has implemented reforms in a manner which has significantly strengthened the rigour of its standard setting activities.

We believe that many of the Monitoring Group's recommendations will help to refine IFAC's practices further. In that sense they contribute to an ongoing process of continuous improvement which is critically important to the maintenance of highest standards.

Our only significant disappointment concerns the Monitoring Group's decision not to recommend any change in relation to the public oversight of international public sector accounting standards setting. In our view this is one of IFAC's most important functions which would be strengthened significantly if the work of the International Public Sector Accounting Standards Board (IPSASB) was made subject to PIOB oversight. We believe that such a recommendation would be particularly timely given the high levels of interest in the financial position of Governments around the world post the global crisis.

We recognise that this proposal could not be implemented without making a number of adjustments within PIOB as it is currently configured. Nevertheless we think that these changes could be implemented at relatively modest cost and without adversely impacting on PIOB's current responsibilities.

Overridingly CIPFA believes that placing IPSASB under PIOB oversight would be demonstrably in the public interest.

Steve Freer
Chief Executive, CIPFA

Délégation Internationale pour l'Audit et la Comptabilité (DIPAC)

M. Hans Hoogervoost
Chairman of the Monitoring Group
c/o Mr. Gert Luiting
Netherlands Authority for the Financial Markets
Vijzelgracht 50
1017 AMSTERDAM
Pays-Bas

1325

Paris, le 20 JUIL. 2010

Dear Mr. Chairman,

We, representing the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) of France, are pleased to send to the Monitoring Group our comments on the Consultation Paper issued on the assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants.

Our two Institutes are IFAC member bodies, representing the French practitioners active in accounting and auditing. Our two responses to the Monitoring Group Consultation have been coordinated so they can be read in a single document attached to this letter. We hope this will bring some input to the preliminary conclusions and on the suggestions made by the Monitoring Group.

With our best regards,

Joseph ZORGNIOTTI
Président du Conseil Supérieur
de l'Ordre des Experts-Comptables

Claude CAZES
Président de la Compagnie Nationale
des Commissaires aux Comptes

CSOEC **CNCC**

French Comments to the Monitoring Group's Consultation Paper on IFAC Reforms.

CSOEC and CNCC are two member bodies of IFAC taking an active part in the undertakings and works carried on by the International Federation of Accountants.

They have been closely involved in the set of changes introduced in 2003 in the processes associated with producing International Standards. Since there are three members of the French profession presently seating as Board members in IAASB, IESBA and IAESB (and one representative in IPSASB, which is not covered by this Paper) when another French professional seats in the IFAC Board itself, the French Institutes are still directly concerned with the conclusions of the assessment made by the Monitoring Group, as they are indirectly as all IFAC member bodies should be.

I- Overall comments on the consultation.

The Effectiveness Review has apparently been conducted as a purely "internal" assessment, by collecting opinions from IFAC and the PIOB, from some members of the CAGs, some members of the Monitoring Group and the Chairs of the standard setting Boards. The way the process is described in page 7 of the Paper gives no clue on the respective weight given to these various opinions. Considering the objectives mentioned in the 2003 Reform Proposals document, one could regret that no views were taken from some "external" stakeholders, whatever their role in the Financial reporting supply chain or as users of the financial statements audits.

The French Institutes share the views expressed by the Monitoring group about the almost complete implementation of the Reforms provisions and their effect in improving greatly the transparency of the standard setting activities and the broadening of the external participation in the work of the Boards.

We take note of the fact that the Monitoring Group has not taken onto its agenda the matter of the oversight of the IPSASBoard. This is nevertheless an important issue which will require reconsidering the rules of governance and the due processes of this Board, more or less along the same lines as what was implemented in the IFAC Reforms for the PIACs.
Setting accounting rules for the public sector is a mission which is highly relevant to the public interest and will become more and more sensitive for the public opinion. The institution of an independent oversight would avoid possible questioning about IFAC work in this area.

Similarly, we find regretful that the Monitoring Group has not developed its assessment on the IAESB or on the work done for the past six years by the Compliance Advisory panel, which is, for IFAC member bodies, one of the central elements of the Reforms, allowing for steps towards convergence through action plans prepared by all member bodies.

Being national professional accountants' Institutes, CNCC and CSOEC have no direct experience which would validate their opinion on recommendations 13 to 18 of the Paper.
As members of IFAC, contributing to the annual budget of the Federation, we are however in favour of funding arrangements which could reduce the overall cost of the oversight and supervision by the PIOB (Recommendation 16). We also expect that any further review of the respective roles of PIOB, Monitoring Group or their respective members will not result in slowing down the work processes of the Public Interest Activity Committees (PIACs) or in additional complexity of the procedures.

Our detailed comments will address section I and II of the Paper.

II – Composition of the standard setting Boards.

The Monitoring Group's assessment recognises that the measures described in the Reforms have been implemented almost entirely. We share this opinion.
In addition, the Paper states four other recommendations for further improvements in the composition of the Boards.
Although they may seem to be valid suggestions (particularly recommendation 2, requesting more transparency about the admission of FOF nominees) one must make sure that additional refinements in the nomination process do not hamper the selection of the "best persons for the job", which is the ultimate goal of this process. We agree that a balanced composition of the standard-setting Boards can contribute to the independence and objectivity of the Boards, among many other elements. But it should not be considered as an objective such that the requirement for mixity of origins and experience would reduce the global qualification, work and efficiency of the Boards. Besides, the annual rotation of about one third of the members of each Board allows for rapid correction of possible mismatching or unbalances.

As for the financial measures mentioned in recommendation 3 in order to attract more public members, we are afraid it might soon become a new benchmark for some constituencies which face difficulties for the nomination of well qualified candidates with sufficient availability of their time. The effect on IFAC budget would not be acceptable. Besides, such stipends would greatly affect the volunteer base principle underlying all the work of the Boards and Committees and would introduce differences between their members. We would not give our approval to this recommendation.

III – Operating procedures of the standard setting Boards.

We can agree with the comments in page 16 of the Paper, without sharing the Monitoring Group's view that "the original aims of the Reforms have not yet been fully met".

As for Recommendations 5 to 12, presented as refinements for further improvements, we would strongly encourage IFAC and the PIOB to work closely together and to consider possible changes in practices with a very pragmatic and realistic approach, avoiding that form might prevail over substance.

Some improvements are certainly possible in the practice of each of the PIACs relating to transparent and comprehensive reporting to the Board about comment letters received (Recommendation 9) or about preparatory works done by Task Forces (Recommendation 6) and in the progressive finalisation of standards and pronouncements (Recommendation 11). We are not sure all this should require setting up new and precise rules, when it may result more simply from an open discussion about methods and procedures at the level of each Board.
Similarly, efficient and transparent relations established between the Boards and their Consultative Advisory Group should benefit from an open discussion between their respective Chairs, once or twice a year, without changes in the due processes as they have been established and approved. Besides, it is the normal role of the PIOB to make sure the works progress in conformity with public interest and we think the PIOB performs this mission with great dedication and efficiently.

We see no real point in changing the role of technical advisors as mentioned in Recommendation 5, since T.As. are obviously not members of the Board and not taking part in the final decisions and votes by Board members. Their input in the technical work is absolutely necessary to the outcome of the standard setting activity, whatever may be their professional background and experience; many of them are members of the staff of the national Institutes, Member bodies of IFAC, and help maintaining a link between the standard-setting Board and their professional organization.
Board members, who submit annually a public interest declaration, are supposed to be sufficiently accountable and conscious of the public interest to avoid undue or excessive influence from TAs participating in their work. In addition, there are many checks and balances already introduced by the Reforms: the Chairs of the CAGs, the Chairs of the PIACs, the PIOB members and the management of IFAC could certainly detect any wrong behaviour from a Technical Advisor and talk to him, if necessary.

To conclude these comments, the French professional organizations, involved in the work of the standard setting Boards, have a more positive view than the Monitoring Group on the overall results of IFAC Reforms. Their implementation has increased the transparency, the

openness and the quality of the processes implemented The monitoring and oversight by the PIOB, constituted by the Monitoring Group who designates its members, is efficient as a sort of internal control system for IFAC and seems to provide a satisfactory protection of public interest in the preparation and setting of International standards. We have seen no signs of concerns about this, among the various stakeholders.

Fine tuning adjustments may perhaps bring some additional improvements. The Board of IFAC should, of course, be consulted on any significant change affecting the terms of reference or the operating procedures of the standard setting Boards.

CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI

MINISTERO DELLA GIUSTIZIA

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Rome, 27 July 2010

GA/nds

Mr. Hans Hoogervorst
Chair
Monitoring Group
IOSCO
Calle Oquendo 12
28006 Madrid
Spain

MonitoringGroup@iosco.org

Re: CNDCEC Comments on the Monitoring Group Consultation Paper on the Review of the IFAC Reforms

Dear Mr. Hoogervorst,

The *Consiglio Nazionale dei Dottori commercialisti e degli Esperti contabili* (CNDCEC), the professional organisation representing the accountancy profession in Italy and counting over 106.000 registered members, is pleased to provide you with its comments on the Consultation Paper on the Review of the IFAC Reforms.

General comments

- IFAC governance, due process, monitoring and oversight are to be recognised as highly developed and, in our view, the reforms launched in 2003 are thoroughly embedded in the present working model; such ongoing questioning on the effectiveness of these reforms is also appreciable.

- We noticed that the MG considers that, in general, the reforms have been effectively implemented and that some fine tuning is still needed. Some of the recommendations are very detailed and specific and some are rather broad and need to be further developed.

Piazza della Repubblica, 59 – 00185 Roma – Tel. +39 06478631 – Fax +39 0647863349

- CNDCEC and the 106.000 professional accountants it represents are highly involved, at national, European and international level in the standard setting activity in the areas of Audit, Ethics and Education. CNDCEC is also active in other standard setting areas, like financial reporting, non for profit, sustainability, XBRL, which are managed with different governance and operational models and for which the IFAC model is surely an important example.

- We understand that the reforms proposed in 2003 were drawn as an answer to increase the credibility of the standard setting activity and of the auditing activity in particular, after Enron and other international collapses. The analysis of the MG, in 2010 and on the basis of 7 years of monitoring, is understandably based on the international scenario of that past. Today, in light of the recent financial and economic crisis and with a view to the future, we believe that more work, based on collaborative efforts of all interested stakeholders, should be done in this respect. We understand much more deeply the meaning and fragility of financial markets and the great relevance of the SME sector. In our view, fine tuning is required but a greater attention and probably a new understanding of the concept of public interest" is needed too.

- We believe that the concept of "public interest" should be considered in a wider sense. Currently the concept embedded in IFAC activities and PIACs reflects the attention on dynamics and stakeholders of regulated markets. Yet, especially in light of the financial crisis, this concept should rather embrace the entire economic and financial trade relationships, including SMEs and SMPs sectors which count for over 90% of the transactions, both in highly developed and in developing countries. Use of, and reliance on, financial information and the related supporting standards, as well as consideration of governance arrangements should be measured in light of this broader concept of public interest.

- One of the key aspects which is not addressed In the Consultation Paper is the consideration, in the standard setting activities of the IFAC independent Boards, of issues relating to Small and Medium–Sized Entities (SMEs) and Small and Medium–Sized Practitioners (SMPs). Although the interests of the Monitoring Group and its members might be focused on PIEs, the output of the IFAC independent Boards is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account, to the greatest extent possible, a broad scope, different cultures, various levels of development, and especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

- We note that most of the recommendations are more selectively referred to the Audit and Ethics Boards, while less attention is given to the Education Board. In our view this is a very delicate area, constantly crossed by different models that member bodies adopt at national level, for the qualification or the continuing education of their members. It is an area where public interest, internationally, should be more considered also under the light of competition law as well as international MOU and arrangements under WTO. Free movement or the requirements for the recognition of professional qualifications gained in other jurisdictions should not be a concern only for the European legislator, but a fundamental aspect, of an international market that IFAC should duly take on board.

We have considered with great interest your preliminary recommendations put forward in the Consultations and, in addition to our main comments above, you will find hereunder some more detailed observations.

Yours sincerely,

Giancarlo Attolini
(Council member in charge of International Affairs)

Comments on preliminary recommendations

Section I. Composition of the Standard Setting Boards

Mix of Board Member Backgrounds

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

In order to properly represent the public interest and produce high quality output, Board members need to demonstrate both objectivity and competence in the relevant subject matters. Ideally, each individual board member should be totally objective, highly competent and experienced. Altogether the composition of the Board should aim at ensuring the credibility and quality of the process and the standard itself. The principle of the "best person for the job" as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards is of key importance and should be highly regarded but also combined with the criteria of a balanced representativeness of all the stakeholders, including SMEs and SMPs. Competency and experience in the audit of different sized entities should be duly considered.

There is also need to consider that each Board is related to a different area and its output (the standard/code) is addressed to different direct users and this should coherently be reflected in the composition and structure of the Boards. The code of Ethics, in our view, should not be only a code for the auditors but for consideration in all professional activities which vary from advisory services, to financial reporting and, insolvency and audit and assurance. Same consideration for the Education standards, which should refer to competencies in the different professional fields. If the composition of the Boards is focused on auditing competencies, inevitably the standard and code will be a sectoral derivative rather than a global standard.

Assignment of Board Seats

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

CNDCEC supports this recommendation and considers this as a crucial aspect for the external credibility of the standard setting process.
The quota reserved to FOF is today a significant one (5/18) and such significance, in terms of independence risk, is quite considerable.

It should be underlined that the composition of the PIACs is an element that concurs, together with others, to reach high quality and value for the users of standards, set in the public interest. Any a priori determination of quota to FOF members, or any other private grouping of commercial

entities, risks to mitigate the credibility of the process and the quality standards, in the public eyes.

We also repeat our main comment on the involvement of SMEs and SMPs in the IFAC independent Boards in respect of the assignment of board seats.

Ability to Attract Public Board Members

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Given the centrality of the inclusion of public members in the 2003 reforms, further clarification on characteristics and appointments of public members is welcomed.

In our view independence of public members is a crucial aspect and should be safeguarded at best. Further debate is then required.

Setting a Code of Ethics for Accountants

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

CNDCEC appreciates the attention of the MG to this issue. In our view the ultimate evidence of the value of any standard setting activity lays in the general acceptance of its output.

As mentioned for Recommendation 1, we deem fundamental that the code of ethics is perceived as a code for professional accountants, not only in the title but also in the substance. Therefore, the focus should not be placed only on the audit expertise but on a mix of professional and non-professional experience and expertise.

The code is an international reference to principles in ethics for activities of professional accountants, among which audit is surely a significant one.

It is important that the acceptance of, or compliance with, the code is correctly measured, because, in some jurisdictions, parts of the international code are already embedded in the national legislation and consequently the endorsement of the code is not necessary since, as a matter of fact, the same principle already applies. Changes to the composition/structure should aim at balancing membership in order to achieve credible standards, therefore the linkage with the adoption of the code by member bodies should be carefully considered.

Section II. Operating Procedures of the Standard-Setting Boards

Role of Technical Advisors to Board Members

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

CNDCEC broadly supports this recommendation and understands its background. Indeed the participation of representatives of the audit firms as TA might add, directly or indirectly, a certain flavor to the works.
Yet, as to the case of SMPs members, we need to consider that, given the time and the financial resources required in order to actively contribute as member of a Board, they would usually rely on the member body to provide them with the support of a technical advisor, and they are not chosen (or should not be) on the basis of a relation with a firm or a network.

Participation of Audit and Ethics Board Members in Board Meetings

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

CNDCEC is supportive of this recommendation. It is important to ensure also representation and participation of SMEs/SMPs members and experts.

Role of the Audit and Ethics Board's Consultative Advisory Groups

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

CNDCEC is overall supportive of this recommendation. We consider the role of CAGs as a central one. It is indeed important that CAGs effectively act in their advisory role, focusing on the real central issues that need to be safeguarded in a public interest perspective, rather than expressing technical views on very specific matters.
The current Terms of Reference of the Audit and Ethics CAGs clearly outline, in paragraph 1, that their role is purely advisory.

Meetings of the Audit and Ethics Boards' Consultative Advisory Groups

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

CNDCEC supports this recommendation. Further consideration, on the basis of hearings of CAGs participants and PIACs, is also welcomed.

Analysis of Comment Letters

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

CNDCEC is supportive of the recommendation to summarize the comments received upon exposure or consultation, by detailing the frequency of all comments, the role of all submitters and how the comment was dealt with.

Feedback on the Monitoring Group Member's Input to the Boards

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

CNDCEC believes that, as a general rule, all comments should be treated in the same way; a direct feedback shall be given to all individual submitters of comments not taken up or to none of them. It is crucial to perform a thorough cost – benefit analysis before embarking on such enhancement of IFAC and its independent Boards.
It is anyhow of fundamental importance that comments of significant stakeholders, like the SMP/SME community are taken into consideration and given a written feedback, including, in the case these comments were not taken up, a specific explanation of the reasons why this was not possible; this is needed in consideration of the wide impact on the SMP/SME community that the standard setting activity has, and the huge economic impact that an increase in costs might have on those entities that make up the biggest share of the world's GNP, but still are, when considered individually, in a weaker financial position.

Finalisation of Standards

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

CNDCEC is generally supportive of this recommendation.

Voting by Board Members

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

CNDCEC is supportive of this recommendation.

Section III. Implementation of the Standards

We notice that no recommendations were put forward on this subject.

Section IV. Oversight

Role of the PIOB Members in the PIOB's Oversight Work

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

CNDCEC is supportive of this recommendation.

Role of the PIOB Staff Members in the PIOB's Oversight Work

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

CNDCEC is supportive of this recommendation.

Diversity among the PIOB Members

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

CNDCEC is supportive of this recommendation. As mentioned in the main comments, due consideration should be given to the needs of the SMEs/SMPs sector.

Funding of the PIOB

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

CNDCEC is supportive of this recommendation. We deem as most important the consideration of additional funding sources for PIOB, as it would clearly provide a coherent answer to the need of independent judgment and credibility of PIOB oversight on IFAC nominations and activities.

Section V. Monitoring

Interaction between the Monitoring Group and the PIOB

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

CNDCEC is supportive of this recommendation. Both the MG and the PIOB should include representatives of SMEs/SMPs sector.

Longer Term Operation of the Monitoring Group

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

CNDCEC is supportive of this recommendation. MG composition should also be revised to include the voice of SMEs and SMPs sectors. Due consideration should be given to scope, methods and costs associated with any extension of the MG remit.

Federation of European Accountants
Fédération des Experts comptables Européens

Monitoring Group
IOSCO
Calle Oquendo 12
28006 Madrid
Spain

MonitoringGroup@iosco.org

13 August 2010

Ref.: AUD/HvD/HB/LA/SH

Dear Sir or Madam,

Re: FEE Comments on the Monitoring Group Consultation Paper on the Review of the IFAC Reforms

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Monitoring Group Consultation Paper on the Review of the IFAC Reforms.

Main comments

FEE, its members and their professionals are active in all areas in which the IFAC PIACs or independent Audit, Education and Ethics Boards are involved as international standard setters. We also work in other areas like accounting, financial reporting, sustainability, XBRL, etc. which draw on other international standard setting boards for which the current, highly advanced IFAC governance, due process, monitoring and oversight is often put forward as a model. This in itself should be recognised.

In our opinion, IFAC governance, due process, monitoring and oversight are already highly developed and, as stated in your Monitoring Group Consultation Paper, the recommendations made in 2003 have, in almost all cases, been fully implemented. We understand the reasons why the current review has gone further than originally envisaged but the Consultation Paper should make it more explicit that the original objectives have been met and that the majority of the recommendations made are a consequence of the increased scope of the review rather than a lack of willingness to change by IFAC in the period 2003 – 2009/2010.

The establishment of high quality standards and practices in auditing and assurance, ethics and education has until now been achieved by the work of IFAC independent Boards as accommodated by the IFAC governance, funding and other mechanisms, thus balancing public interest considerations with the necessary technical expertise. We strongly believe this continues to be a successful formula for auditing, assurance, ethics and education standard setting for the future. For instance, the adoption of the Clarified International Standards on Auditing of March 2009 by over 100 legislators, regulators, supervisors and others around the globe is the ultimate confirmation that the objective of setting high quality standards is achieved.

To enhance this work, however, we support bringing more public interest considerations into the work of the IFAC independent Boards by, for instance, commissioning independent research studies on specific topics with high public interest relevance and/or involving third parties with specific expertise not already involved in the Boards and in relevant Task Forces.

SMEs and SMPs

One of the key priorities of FEE which is not addressed In the Consultation Paper is the consideration in the standard setting activities of the IFAC independent Boards of issues relating to, and the involvement of, Small and Medium–Sized Entities (SMEs), including listed SMEs, and Small and Medium–Sized Practitioners (SMPs). Although the interests of the Monitoring Group and its members might, in the majority of cases, be focused on listed, regulated or public interest entities, the output of the IFAC independent Boards is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

Enhanced focus on monitoring and oversight

Within the context of monitoring and oversight, we are supportive of the performance of an assessment of the effectiveness of the 2003 IFAC governance reforms by the Monitoring Group as FEE is open-minded to further enhancements, especially in the monitoring and oversight of the activities of IFAC and its independent Boards. This could include further enhancements of the role of the PIOB and in leading the discussions on further IFAC Reforms.

Funding implications of further enhancements

The Monitoring Group should take into account the fact that improvements usually have a one-off and/or recurring financial and/or resource implications. The budget of IFAC for its independent Boards, the Consultative Advisory Groups and the PIOB is limited and while some re-allocations and further efficiencies might be possible, there appears to be little opportunity for further increases if the sources of funding remain the same. Therefore, it is crucial to perform a thorough research of alternative funding sources and a cost/benefit analysis before embarking on any further enhancements of IFAC and its independent Boards. Any recommendations the Monitoring Group may have in this respect would be highly welcomed.

We have considered your preliminary recommendations put forward in the Consultation Paper with great interest and in addition to our main comments above, provide you below with our detailed comments on your preliminary recommendations.

Detailed comments on preliminary recommendations

Section I. Composition of the Standard Setting Boards

Mix of Board Member Backgrounds

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

In order to properly represent the public interest and produce high quality output, Board members indeed need to demonstrate both objectivity and competence in the relevant subject matters. Ideally, each individual board member should be or be seen as totally objective, a quality more commonly associated with members from outside of the profession, and highly competent and experienced, a quality more commonly found within the profession. Therefore, balancing both objectivity and competence is oftentimes difficult in practice.

Reaching such parity in membership as recommended is applauded but often difficult or impossible to execute in practice, taking into account the time and financial commitment required to be a board member. The principle of the "best person for the job" as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards is of key importance and should not be disregarded either.

The ultimate objective continues to be the establishment of high quality standards and practices in auditing and assurance, ethics and education by the IFAC independent Boards which in our view can only be achieved *by balancing* between Board members who have the necessary technical expertise and Board members who have other professional experiences and backgrounds. Therefore, the IFAC independent Boards are and should continue to be composed of an equal number of practitioners and non-practitioners.

As noted already in our main comments, other possibilities for embedding the public interest should be considered, like, for instance:

- Developing standards based on independent research studies commissioned on specific topics with higher public interest relevance and requiring less technical expertise, as done for instance for the further development of ISA 700 on auditor reports by the IAASB to respond to the needs of users; and
- Involving outside experts not being Board members in Task Forces on specific subject matters with a high public interest character, for example, involving representatives from the Basel Committee for Banking Supervision and other relevant organisations in the development of ISA 540 on auditing accounting estimates including fair value accounting.

Additionally, as also noted in our main comments, the involvement of SME representatives and SMPs in the IFAC independent Boards should be given greater and due consideration, as competence and experience in auditing of different sizes of entities should be duly considered.

Assignment of Board Seats

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

The current Terms of Reference of the Audit and Ethics Boards stipulate that the members will comprise ten members from IFAC member bodies, five representatives from the Forum of Firms and three public members. The latter can be put forward by any individual or organisation. We would contend that practitioners provide the expertise *necessary* for the Audit and Ethics Boards to set high quality auditing and ethical standards.

The members of IFAC are professional accountancy organisations recognised by law or general consensus within their countries as substantial national organisations. The Forum of Firms is an association of international networks of accounting firms.

The involvement of IFAC members and Forum of Firm members in IFAC and its independent Boards has developed historically. Modifying the multifaceted balance developed over time requires taking stock of the views expressed on the matter and holding a specific debate on possible approaches and their impact with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, IFAC members, the Forum of Firms, independent IFAC Boards, IFAC SMP Committee, Nominating Committees, CAGs, etc.

We also repeat our main comment on the involvement of SMEs and SMPs in the IFAC independent Boards in respect of the assignment of board seats as well as our comment in Recommendation 1 that the principle of the "best person for the job" as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards remain of key importance.

Ability to Attract Public Board Members

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Creating funding for public members of Boards, it would appear appropriate to have a wider debate with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, IFAC members, the Forum of Firms, independent IFAC Boards, Nominating Committees, CAGs, etc.

Setting a Code of Ethics for Accountants

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

The ultimate proof of whether the structure, including the composition, of the underlying Board for any standard setting activity is appropriate, lays in the acceptance of its output.

When comparing the application of the output of the Audit Board (the Clarified International Standards on Auditing of March 2009) with the acceptance of the output of the Ethics Board (the IESBA Code of Ethics for Professional Accountants of July 2009), the former appears to be significantly more frequently adopted by legislators, regulators, the accountancy profession and others around the globe than the latter.

However, the Terms of Reference including the structure, composition, etc. of the underlying Audit and Ethics Boards is very similar if not the same. Therefore, the reserve towards the adoption of the IESBA Code of Ethics for Professional Accountants by regulators and the accountancy profession alike cannot only be explained by matters like Board structure, composition, etc.

FEE recommends to have a wider debate with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, the Ethics Board, its members, its Nominating Committee, the accountancy profession, SMPs, etc. to come to an acceptable solution for all parties concerned in relation to setting a code of ethics for accountants, including independence standards.

Section II. Operating Procedures of the Standard-Setting Boards

Role of Technical Advisors to Board Members

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

It should be noted that the current Terms of Reference of the Audit and Ethics Boards stipulate the following in relation to Technical Advisors:

"[Board] members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the [Board] member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in [Board] debates and attend [Board] meetings regularly to maintain an understanding of current issues relevant to their role."

This appears to appropriately reflect the role one would expect Technical Advisors to fulfil. The application, and if necessary 'enforcement', of these Terms of Reference in Board meetings is a task of the Chair of the respective Board.

The current Terms of Reference of the Audit and Ethics Boards stipulate the following in relation to [Board] members:

"[Board] members are required to sign an annual statement declaring they will act in the public interest and with integrity in discharging their roles within IFAC".

This appears to appropriately reflect the responsibility [Board] members have in managing the involvement of their Technical Advisor in the Board as well as their relationship with their Technical Advisor which should be in the broader public interest.

Finally, FEE notes that, currently, the background of Technical Advisors is more diversified than suggested in the Monitoring Group Consultation Paper. Many technical advisors are not from larger audit firms but from national standard setting bodies, thereby bringing the needed technical expertise and standard setting skills to the Boards. It could be considered to extend the annual statement required for the Board members also to the Technical Advisers.

Participation of Audit and Ethics Board Members in Board Meetings

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

FEE is supportive of this recommendation.

Role of the Audit and Ethics Board's Consultative Advisory Groups

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

The current Terms of Reference of the Audit and Ethics CAGs make it very clear in paragraph 1 that their role is purely advisory. FEE's involvement with the CAGs does not make us believe it is perceived otherwise. However, if it is believed to be an issue, it appears indeed to be an issue of communication and presentation rather than an issue of substance which can be addressed as proposed in the recommendation.

Meetings of the Audit and Ethics Boards' Consultative Advisory Groups

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

FEE is supportive of this recommendation.

Analysis of Comment Letters

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

FEE is supportive of the recommendation to summarise the comments received upon exposure or consultation by detailing the frequency of all comment, the role of all submitters and how the comment was dealt with.

Feedback on the Monitoring Group Member's Input to the Boards

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Although this recommendation already formed part of the 2003 IFAC Reforms, FEE believes that all comments should be treated equally: either direct feedback is given to all individual submitters of comments not taken up or to none of them. In case of the former, it is crucial to perform a thorough cost – benefit analysis before embarking on such enhancement of IFAC and its independent Boards.

Finalisation of Standards

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

FEE is generally supportive of this recommendation but advises to be mindful of the additional costs that such enhancement of IFAC and its independent Boards may entail.

Voting by Board Members

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

FEE is supportive of this recommendation.

Section III. Implementation of the Standards

No recommendations were put forward.

Section IV. Oversight

Role of the PIOB Members in the PIOB's Oversight Work

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

FEE is supportive of this recommendation and believes that, for instance, recommendations 9 and 11 might be helpful in this respect.

Role of the PIOB Staff Members in the PIOB's Oversight Work

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

FEE is supportive of this recommendation and believes that, for instance, recommendations 9 and 11 might be helpful in this respect.

Diversity among the PIOB Members

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

FEE is supportive of this recommendation. As mentioned in our main comments, due consideration should also be given to SME and SMP representation.

Funding of the PIOB

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

FEE is supportive of this recommendation.

Section V. Monitoring

Interaction between the Monitoring Group and the PIOB

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

FEE is supportive of this recommendation.

Longer Term Operation of the Monitoring Group

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

FEE is supportive of this recommendation and hopes this would result in possible synergies and enhanced cost effectiveness.

For further information on this FEE letter[1], please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be from the FEE Secretariat.

Yours sincerely,

Hans van Damme
President

[1] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

From: Stephen Harrison [mailto:stephen.harrison@charteredaccountants.com.au]
Sent: 12 August 2010 13:33
To: Monitoring Group
Cc: Kevin.Dancey@cica.ca
Subject: Comment on review of progress with IFAC reforms, from the Global Accounting Alliance.

The Global Accounting Alliance (GAA) is pleased to comment on the *Review of the IFAC Reforms* consultation paper.
The GAA was formed in November 2005 and is an alliance of leading professional accountancy bodies in significant capital markets. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration where possible with other international bodies, especially the International Federation of Accountants (IFAC). The GAA represents over 775,000 professional accountants in 165 countries through 11 full member bodies of IFAC, namely:

- The American Institute of Certified Public Accountants (AICPA)
- Canadian Institute of Chartered Accountants (CICA)
- Hong Kong Institute of Certified Public Accountants (HKICPA)
- Institute of Chartered Accountants in Australia (ICAA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Chartered Accountants Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS)
- The Japanese Institute of Certified Public Accountants (JICPA)
- New Zealand Institute of Chartered Accountants (NZICA)
- South African Institute of Chartered Accountants (SAICA)
- Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

Many of the GAA member bodies will also respond individually to the 18 Recommendations contained in the *Review*.
As outlined above, the GAA member bodies are long standing supporters of IFAC and make a significant contribution to its work through membership subscriptions, nominations to its boards and committees, funding travel costs of those appointed, and providing relevant technical expertise and support. In this regard, GAA member bodies have been fully supportive of IFAC' successful efforts in accomplishing the vast majority of the reforms promised.

Within our national jurisdictions, we work to encourage the adoption and effective implementation of high quality global standards which are practicable and acceptable to a wide range of stakeholders. Such standards must be technically robust and workable. Equally they must be seen to be in the public interest. We recognize that such a balance can at times be hard to achieve.

In this context we are concerned that the recommendations relating to the places on standards boards reserved for nominees of the Forum of Firms (FoF) and the role of Technical Advisors (TAs) may lead to a reduction in the level of technical expertise available to the standard-setting boards. In our view this could compromise quality for the sake of appearance. Standard setting is technically complex and requires considerable expertise and resources. We do not see it as being in the public interest to reduce the quality and quantity of technical support currently available to the standard-setting boards, much of which is provided gratis by the profession and its firms. Nor do we think it realistic to argue that such expertise can be provided in other ways, for example, through ad hoc presentations to the boards on specific issues. We believe that current safeguards and policies are adequate covering the roles of FoF's members and TAs.

As representatives of the profession in major capital markets, GAA member bodies are fully aware that investor confidence is key to the value of financial information. We believe, however, that concerns about public perception must not be permitted to outweigh the importance and value of technical expertise in achieving the end goal of high quality financial statement audits.

We believe the public interest will be served by a further review and support this suggestion. We suggest however that such a review in three years time is too soon. We recommend it be carried out in five years time.

The GAA is happy to discuss our views further with the Monitoring Group.

Stephen Harrison AO FCA FAICD
Chief Executive Officer
Global Accounting Alliance
33 Erskine Street
Sydney. 2000.
Australia.
Ph. Work +61 2 92905592
Ph. Home + 61 2 99531089
Mobile. + 61 412678247
email Stephen.Harrison@charteredaccountants.com.au

The Global Accounting Alliance is a company limited by guarantee registered in England and Wales (Company Number: 6754644).

Its registered office is at Chartered Accountants' Hall, Moorgate Place, London EC2P 2BJ.

WIRTSCHAFTSPRÜFERKAMMER
Körperschaft des öffentlichen Rechts

IDW
INSTITUT DER WIRTSCHAFTSPRÜFER

August 13, 2010

Mr. Hans Hoogervorst, Chair
Monitoring Group

By E-mail: MonitoringGroup@iosco.org

Dear Mr. Hoogervorst:

Monitoring Group Review of the IFAC Reforms – Consultation Paper 10 June 2010

We would like to thank you for the opportunity to provide the Monitoring Group (MG) with our comments on its Consultation Paper of 10 June 2010 on the Review of the IFAC Reforms. Hereinafter, we will refer to the Consultation Paper as "the Paper".

The Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW) represents the Wirtschaftsprüfer [German public auditors] (WP) profession in Germany and is responsible for the issuance of IDW Auditing Standards, which transpose the International Standards on Auditing (ISAs), and other technical professional standards in Germany for the WP profession. The Wirtschaftsprüferkammer [Chamber of Public Accountants, Corporation under Public Law] (WPK) with its mandatory membership for the German audit profession operates under the public oversight of the Independent Auditor Oversight Commission (AOC) and the Federal Ministry of Economics and Technology (BMWI) and is, inter alia, in charge of the disciplinary oversight that encompasses the review of the compliance of WP with the aforementioned IDW Auditing Standards as well as with ethical and other professional standards. The IDW and the WPK are full and founding members of the International Federation of Accountants (IFAC). The IDW is also a full and founding member of the Fédération des Experts Comptables Européens (FEE). The WPK and the IDW have been joint sponsoring organizations of members of the International Auditing and Assurance Standards Board (IAASB) and its predecessor, the International Auditing Practices Committee (IAPC), and of the International Ethics Board for Professional Accountants (IESBA), since their inception.

Wirtschaftsprüferkammer
Körperschaft des öffentlichen Rechts
Rauchstr. 26
10787 Berlin

Institut der Wirtschaftsprüfer
in Deutschland e.V.
Tersteegenstr. 14
40474 Düsseldorf

We believe that the IDW and the WPK are recognized by relevant Ministries of the German government and German regulatory authorities, and by the European Commission, as technically competent participants in discussions with them about auditing and auditors in both the long term interests of the profession and the overall public interest, which we believe to be in consonance in the long run. We believe that this is so because, ultimately, auditors as a profession must provide services that deliver real added value to users in the public interest as a prerequisite for the long term success of the profession. We have written our comments on the Paper from this perspective.

While the Paper focuses on the IAASB and the IESBA, we recognize that the recommendations in the Paper will have an impact on other Public Interest Activity Committees (PIACs) of IFAC, and on the Consultative Advisory Groups (CAGs) and the Public Interest Oversight Board (PIOB). However, in our comments we will focus on the impact of the recommendations of the Paper on the IAASB, since this is the PIAC that concerns us most. Nevertheless, our comments may also apply to the other PIACs.

Before addressing some of the individual recommendations in the Paper, we will provide some general comments on the Paper.

General Comments

The nature of IAASB standards setting

At the end of page three, the MG makes the comment that its members are focused on the importance of high quality financial statement audits. While this is an appropriate focus, the MG should not lose sight of the fact that the IAASB is responsible for promulgating standards on assurance and related services in relation to subject matters beyond just auditing standards for audits of financial statements. The reasons for this are that there are subject matters beyond financial statements for which users in the market place seek assurance or other services, and that in some circumstances audits or reasonable assurance engagements do not represent the right cost-benefit balance for users.

As part of the standards setting process, users must advocate the nature and extent of assurance desired, if any, whereas, based upon its expertise, the profession must circumscribe the nature and extent of assurance technically deliverable in the context of user desires and the costs that would be incurred. Ultimately successful standards setting in this area involves an understanding between the profession and other stakeholders about whether the engagements designed by the standards meet user needs in terms of costs and benefits <u>and whether, based upon its expertise, the profession is of the opinion that such services are technically deliverable</u>. In this sense, the IAASB is a "technical board" in the first instance, rather than a "political board", but it does have the political responsibility to ensure that the public interest is met by the standards it promulgates.

Consequently, without the <u>decisive influence of both the profession</u> and other stakeholders in IAASB standards setting, the quality and acceptability of the standards, and hence, whether they would meet the public interest, would be questionable.

Monitoring Group Approach to Conducting Effectiveness Review

We have a number of serious concerns about the approach taken by the MG to conducting the effectiveness review. The MG mentions drawing on the self-assessments from IFAC and from the PIOB, the discussions with them, the minutes of the PIOB, as well as the informal collection of thoughts from members of the CAGs and IFIAR. The MG then mentions the observations and experiences of its own members through membership in the CAGs, participation in roundtables and task forces, periodic attendance at board meetings and submission of comment letters. However, the fact that IFAC, the PIOB, the standards setting boards, and the CAGs were surprised by the content of the Paper suggests that the sources stated in the former sentence above were given less weight than that in the latter. It is hard to understand why the MG did not consult on early drafts of its Paper with IFAC, the PIOB, the CAGs and the standards setting boards to improve the evidential basis for its observations. In particular, the MG did not consult at all in a formal manner with the members and other participants (official observers and TAs) of the standards setting boards – and, in particular, not with the public members, who have a special role in safeguarding the public interest. The result was that in a number of instances, the observations in the report were based on rather thin evidence, and in a few cases, the assertions made are not borne out by the evidence.

For example, in the second sentence of the second paragraph on the fifth page the assertion is made that "...enhancements could be made to IFAC's standards setting structures and processes ... to counteract some of the effects of the fact .. of auditor self-interest in setting such standards." A similar assertion is made in the second paragraph of page twelve. No evidence demonstrating that standards had been issued with the effect of furthering auditor self interest is provided. Other examples of inaccuracies or a lack of evidence are provided in our comments to individual recommendations.

The first sentence of the first paragraph on the seventh page notes that "The Monitoring Group's assessment does not judge the outcomes in terms of either the quality of the standards produced by the boards during the assessment period...". In other words, in its assessment, the MG explicitly ignores the actual quality of the standards produced (i.e., the outcome of the standards setting process). Many of the views in the Paper appear to be based on the MG's perception of potential weaknesses in standards setting governance and processes rather than upon specific examples pointing to inadequate standards. We are therefore concerned that by focusing only on perceptions in relation to the process, the approach of the review is too narrow and can be challenged as not dealing with the actual facts or the impact of the recommendations on standards setting outcomes. In particular, the impact on the quality of standards of the nature and extent of expertise involved in the standards setting process appears to be underestimated.

In this context, the recommendations in relation to the issue of expertise do intimate a discomfort with the participation of the profession in the standards setting process. It is not clear from the Paper what the ultimate objectives underlying the recommendations are, i.e., what is the endgame? Is the ultimate objective to obtain the highest quality standards possible set in the public interest, or is the actual quality of the standards of secon-

dary importance compared to addressing the supposed perceptions of some stakeholders that ample auditor involvement in setting auditing and ethics standards is per se undesirable?

We believe that no one would dream about setting standards for medical surgery, engineering processes, or legal proceedings without a preponderance of surgeons, engineers or lawyers, respectively, in bodies promulgating such standards because such standards, while having public interest objectives, are "technical standards" in the first instance – not "political standards". Auditing is also a highly technical, complex service requiring years of education, training and experience. Having stakeholders beyond those applying the standards substantially participate in technical standards setting is critical to ensuring that standards are set in the public interest rather than in the sole interest of those that are applying them, but further increasing the proportion of such stakeholders such that they actually constitute a greater preponderance of members in standards setting boards may lead to the degeneration of technical standards setting boards into political bodies that know very little about the details of what they are regulating. The key question that the MG needs to consider is what its objectives actually are, to state these clearly, and to fashion its recommendations to meet those objectives based on the facts and in cognizance of the impact of those recommendations on the quality of the standards set.

In relation to the approach of the MG, item (iii) on page seven (and item (iii) on page eight), includes a comparison of the original reforms with "features that the Monitoring Group believe have today come to be associated with credible international standard-setting processes". It is unclear to us what the benchmark for such features are and from where the MG would draw examples of credible *international* standard setting processes superior to those currently in effect for PIACs at IFAC. Furthermore, item (iv) thereafter (and item (iv) on page eight) encompasses in the assessment new factors in the global capital markets that may warrant a future review of the overall standards setting governance, structure, and arrangements. The Paper does not appear to identify any such factors and therefore it is unclear to us why on this basis a future review of standards setting governance etc. is needed.

From our point of view, the MG's assertion in item (ii) on page eight of the Paper that its recommendations represent "fine tuning and adjustment" underestimates the potential impact of its recommendations on the quality of the standards set and on the structure of standards setting boards of IFAC under the IFAC Constitution.

Assessment of the Implementation of the Reforms

We are pleased that the MG has come to the conclusion, with which we concur, that IFAC has implemented virtually all of the reforms set forth in 2003. However, we are concerned about the conclusion in this respect made in the last paragraph of page nine that "... the manner of implementation of some of the Reforms has not completely achieved their aim."

The claim that the implementation of the reforms has not completely achieved their aim suggests that there is a clear aim or objective that the reforms were seeking to achieve. It

is not clear from the Paper what this objective might be. Without having clearly described the objective and providing evidence of the basis for the assertion that such objective has not been completely achieved, it is difficult for readers to understand the basis for the observations and recommendations that follow. As noted above, there does seem to be an implicit "objective" underlying the observations and recommendations in relation to the further reduction of the influence of the profession and its expertise in standards setting. However, the appropriateness of this objective in relation to the objective of high quality standards is not explored.

Comments on Selected Recommendations

Composition of the Standard-Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity — or perhaps even a majority — of Board members with professional career experience that substantively goes beyond that of an auditor.

As we note above, there are important issues in relation to the overall objectives of standards setting that mitigate against increasing the preponderance of non-practitioners on the standards setting boards. In practice, however, the number of those with backgrounds outside of audit is already substantial, and in some cases represents a majority. The MG needs to recognize that increased "objectivity" may be purchased at the price of "technical competency", without which high quality technical standards cannot be written.

For these reasons, we would not support a general requirement that causes a further decline in the number of practitioners on the board.

Assignment of Board Seats

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

The Paper states that board members from the FOF members bring "helpful" expertise to the respective boards' work, and as such are to be expected to continue to be interested in becoming and make desirable board members. We would contend that the practitioners in general, and from the FOF in particular, provide the expertise necessary for the IAASB and the IESBA to set high quality auditing and ethics standards at all. The tone and substance of the recommendation indicates that the MG may be underestimating the importance of technical expertise in standards setting. For these reasons, we would not support changing the current allocation of seats for the FOF.

Ability to Attract Public Board Members

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

The question of "reasonable stipends" for public members needs to be addressed from the financing angle. It appears that the underlying problem is the unwillingness of other stakeholder organizations (associations of preparers such as industry associations, and associations of analysts, etc.) to bear the cost of sponsoring a member on the boards. The fact that such groups are prepared to take part in the CAG meetings, but not bear the cost of having a member attend IAASB meetings, is indicative of the fact that these groups have little technical interest in auditing standards setting, but do have great political interest in the overall outcome of auditing standards setting. Having IFAC pay stipends for public members would encourage a "free rider" syndrome among these other stakeholder bodies that would need to be borne by the profession, which would be unfair in principle. Rather, IFAC and the MG need to encourage these other groups to recognize the importance of audit standards setting by having them bear the cost of members that they sponsor. If, despite the endeavors by IFAC, the PIOB and the MG, stakeholder organizations other than from the profession are not prepared to bear the cost of sponsoring members, then the MG will need to draw the conclusion that these other stakeholders must believe that, irrespective of any assertions on their part to the contrary, the technical details of auditing standards setting is not of enough interest to them.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Since this issue was first raised by MG members in the development of this Paper, the Chairs of all the PIACs have emphasized in their opening remarks the respective roles of members and technical advisors. Technical advisors are held to not knowingly express views at board meetings that are at variance with those of their member and may speak only with the permission of their member and when recognized by the chair of the board. This seems to have worked well in reminding all participants of their respective roles.

The Paper suggests that "often technical advisors are employed in the audit profession, most typically by the larger audit firms". In fact there are only nine technical advisors supporting the Audit Board members, four supporting the Ethics Board members and five supporting the Education Board members who come from larger audit firms. Many technical advisors not from the firms are from national standards setting bodies and are profes-

sional standards setters who bring needed technical expertise and standards setting skills to the boards. We therefore find the assumption stated in the paper to be inappropriate.

Board members themselves see an overwhelming benefit from the participation of technical advisors. On occasion when permitted by their member and the chair, technical advisors point out technical issues or inconsistencies in wording that board members may have overlooked in debating the content of a standard.

We believe that in the context of technical standards setting boards, the current role for technical advisors is appropriate to help ensure the issuance of high quality standards. To clarify that role, we would agree to a requirement that the Nominating Committee vet the qualifications of proposed technical advisors.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

It would impair the independence of standards setting boards in both appearance and fact and hence detract from the credibility of the standards setting process if some stakeholders were given special treatment in the responses of those boards to comments. The fact that the MG is making such a recommendation in a Paper that it has written itself could be interpreted by some as unseemly in that the MG is using its position, in relation to its public interest role to assess the effectiveness with which IFAC has implemented its reforms, to garner special advantages over other stakeholders.

Other Issues

Page four of the Consultation Paper indicates that the MG will initiate a future effectiveness review approximately three years after its completion of this one unless circumstances indicate that an earlier review is considered necessary.

We support the need for all organizations to undergo independent review of their activities and processes. However, changes to critical elements of the global financial reporting supply chain must be made gradually if the integral process is not to be weakened in the process of introducing the changes, and the results of transparent standard setting cannot be assessed until one or two years of application of new or improved standards.

We believe that a commitment to perform another review within three years is too soon. We strongly recommend that the review should be planned for five years after the completion of this current one, but always with the provision that the MG can call for an earlier review if circumstances warrant it.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Reiner Veidt
Executive Director
Wirtschaftsprüferkammer

Klaus-Peter Feld
Executive Director
Institut der Wirtschaftsprüfer e.V.

541/584

NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

5 August 2010

Mr Hans Hoogervorst
Chair, The Monitoring Group
International Organization of Securities Commissions (IOSCO)
C/ Oquendo 12
28006 Madrid
SPAIN

By email: MonitoringGroup@IOSCO.org

Dear Mr Hoogervorst

Review of the IFAC Reforms – Consultation Paper

I am pleased to submit comments on behalf of the New Zealand Institute of Chartered Accountants (NZICA). NZICA is a member of the International Federation of Accountants (IFAC) and of the Global Accounting Alliance (GAA). In addition, NZICA is the standard setter for New Zealand in respect of financial reporting standards and auditing and assurance, ethics and other professional standards (although this is under review by the government).

New Zealand has a long history of standard setting and carefully observes its obligations as a member of IFAC. We incorporate the Education Standards into relevant processes. The NZICA Professional Standards Board has incorporated standards issued by the IAASB and IESBA into its suite of professional standards. The NZICA Financial Reporting Standards Board sets, to the extent possible, sector neutral standards based on International Financial Reporting Standards and incorporating specific provisions for private sector not-for-profit entities and public sector entities. As a result, NZICA is concerned not only with the Monitoring Group's approach to matters affecting the IAESB, IAASB and IESBA but also the IPSASB.

We have limited our specific comments to Section 1 – Composition of the Standard-Setting Boards as that is where our major concerns lie. These comments are attached to this letter. We remain concerned that there are no robust proposals to provide monitoring and oversight of the IPSASB. In our view, this continues to constitute an impediment to the broad adoption of International Public Sector Accounting Standards.

Please do not hesitate to contact me if you have any questions relating to this submission.

Yours sincerely

Terry McLaughlin FCA
Chief Executive

P: +64 4 474 7848
E: terry.mclaughlin@nzica.com
PO Box 11342, Wellington 6142
Level 7 Tower Building
50 Customhouse Quay
Wellington 6011

NZICA Comments on Review of the IFAC Reforms – Consultation Paper

Recommendation 1 – membership of IAASB and IESBA
Recommendation 4 – setting a Code of Ethics for Accountants

While supporting a diverse range membership of IAASB and IESBA, NZICA does not support the suggestion that there should be "parity – or perhaps even a majority – of Board members with career experience that substantively goes beyond that of an auditor".

For the IAASB, we consider that it is essential that the majority of members have current or recent experience as auditors, among other attributes. Without strong representation from auditors, it would be tempting to impose requirements on auditors that are neither practical nor cost-effective. There would be the temptation to impose requirements that address concerns about the purpose of an audit without consideration of the practicality of what is proposed.

In respect of the IESBA, we are concerned at the emphasis on auditors. The Code of Ethics applies to all members of the accountancy profession. As a result, membership of the IESBA should be sufficiently diverse to address ethical concerns in all areas where accountants work. We acknowledge that audit and assurance is a key area of practice (and already the Code of Ethics is weighted to that area) and we are concerned at the potential for neglect of growing areas of practice such as financial advisory work, and the different needs of accountants in business.

Recommendation 2 – assignment of Board seats

Together with Recommendation 1, this recommendation appears to discount the great contributions to IFAC from the Forum of Firms. We cannot support this recommendation without substantial analysis of its impact. For example, we are well aware that the major resources for these Boards come from the larger firms. In our view, the reality is that the IESBA and IAASB will not be able to obtain sufficient suitably qualified and resourced members from other sources, given the heavy workload of these Boards.

Recommendation 3 – ability to attract Public Board Members

Our support of Board seats assigned to the Forum of Firms is predicated on a continuing strong representation on the Boards from public members. Therefore, we support the provision of financial support to public board members where appropriate to compensate for their contribution to the setting of international standards. Membership of a standard setting Board is a major commitment, and all impediments to recruiting the best members should be removed.

NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

30 August 2010

Mr. Hans Hoogervoorst
Monitoring Group Chairman
IOSCO
C/ Oquendo 12
28006 Madrid
SPAIN

Submitted to: MonitoringGroup@iosco.org

Dear Mr Hoogervoorst

Review of the IFAC Reforms—Consultation Paper

We are pleased to comment on the Monitoring Group's recent Consultation Paper on its assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants (IFAC) (*Review of the IFAC Reforms—Consultation Paper*, June 2010).

We have been following the development of this Consultation Paper with some interest, as we note that, in its self assessment on this review, IFAC suggested revisiting the issue of whether the Public Interest Oversight Board (PIOB) should assume an oversight role for the International Public Sector Accounting Standards Board (IPSASB).

We are disappointed that the Monitoring Group has declined to consider this issue as part of the review. We acknowledge that when the Monitoring Group was established the view was that its primary concern should be with IFAC's auditing and assurance activities and its charter reflects this. However, we consider that the scope of the review was broad enough that this matter should have been considered. We note that one of the objectives of the review was to consider whether the 2003 reforms still remain appropriate in light of changing circumstances since they were established. One of the changes since the 2003 reforms is the increasing number of countries that have adopted, or are considering adopting IPSASs and the fact that these countries are making assessments as to whether the IPSASB is a credible international standard setting body.

Appropriate oversight is a critical issue for countries that are considering adopting IPSASs. PIOB oversight of IPSASB represents one way in which this issue could be addressed. We acknowledge that PIOB oversight is not the only possible solution, but consider that there should be an opportunity for public debate on this option. Such a debate is critical given the importance of sovereign paper to the capital markets and the increasingly apparent need for transparent and accurate information on the financial performance and position of sovereigns.

New Zealand is currently in the process of formally evaluating a proposal to adopt IPSASs for public sector entities. This evaluation will not be based solely on the technical merits of standards. Before adopting a body of standards, regulatory bodies need to be convinced that those standards are set by a credible and independent standard setter that operates under a reliable due process in a transparent manner and with appropriate levels of oversight. The ability of IPSASB to sustain its current activities and respond to future challenges is also important.

Issues that we consider should be addressed in a review of oversight and governance include:

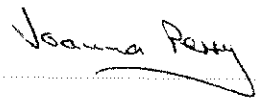
- the establishment of an oversight body with appropriate representation to oversee the due process procedures;
- the appointment processes – who may nominate members, the composition of members, the appointment process for members;
- oversight of the agenda process;
- the long term level of funding required, responsibility for obtaining funding and mechanisms to maintain independence from funders; and
- operational matters, including the issue of a full time Chair with authority to direct staff activities.

We are aware that some of these issues are under consideration by the IPSASB but consider it critical that there be formal public acknowledgement of these issues and IFAC's proposals to address them. We are also writing to the IFAC Board requesting that it address these issues.

Given the importance of appropriate oversight of the IPSASB we urge the Monitoring Group to reconsider its preliminary conclusion on this issue and request that it liaise with the IFAC Board to develop proposals for public consultation.

We would be delighted to be consulted on proposals relating to the governance and oversight of IPSASB and to discuss our comments with you. If you have any questions regarding this letter, please contact me.

Yours sincerely



Joanna Perry
Chairman – Financial Reporting Standards Board

E: joannaperry@xtra.co.nz
Tower Building
50 Customhouse Quay
PO Box 11342
Wellington 6142
New Zealand

Sent by e-mail to Monitoring Group and copied to 8 other recipients

13 August 2010

Mr. Hans Hoogervorst, Chair
Monitoring Group

Dear Mr. Hoogervorst:

The American Institute of CPAs (AICPA) offers the following comments on the *Review of the IFAC Reforms* Consultation Paper.

As IFAC's largest member body with 360,000 members, the AICPA has been fully supportive of IFAC' efforts in accomplishing the vast majority of the reforms promised. These IFAC reforms, through an innovative oversight structure and implementation of independence policies, should serve as a model on how our profession can effectively support important international standard-setting functions. IFAC's efforts to meet the 2003 reform objectives are commendable.

The AICPA encourages the adoption and effective implementation of high quality global standards which are technically robust and workable to a wide range of stakeholders. We recognize the challenge in achieving this goal, while continuing to serve the public interest.

Regarding the Consultation Paper, we are concerned that the recommendations relating to the places on standard-setting boards reserved for nominees of the Forum of Firms (FoF) and the role of Technical Advisors (TAs) may lead to a reduction in the level of technical expertise available to these boards. In our view this could compromise quality for the sake of appearance. Standard-setting is technically complex and requires considerable expertise and resources. We do not agree that serving the public interest requires a reduction in the quality and quantity of technical support currently available to the standard-setting boards, much of which is provided gratis by the profession and its firms. Nor do we think it realistic to argue that such expertise can be provided in other ways, such as through ad hoc presentations. We believe standard-setting boards should retain the current level of input from FoF's members and TAs, recognizing that current safeguards and policies are adequate to manage these roles.

We believe that concerns about public perception must be prudent and not outweigh the relevant value of necessary technical expertise in achieving the end goal of high quality financial statement audits.

As a practical matter, we support a continued review in five years by the Monitoring Group of the progress by IFAC in improving reforms.

The AICPA appreciates this opportunity to offer our comments and is pleased to discuss our thoughts further with the Monitoring Group.

Barry C. Melancon, CPA
President and CEO

Sent by email to Monitoring Group on 10 August 2010

On behalf of the Canadian Institute of Chartered Accountants,we are writing to comment on the June 10,2010 Consultation Paper(CP) issued by the Monitoring Group(MG) on the Review of the IFAC Reforms.

We have had the opportunity to review the responses to the CP to be issued by both IFAC and the Global Accounting Alliance(GAA).We are supportive of the comments made in both of these responses.We believe IFAC should be commended for how it has implemented the 2003 Reforms and how it has worked with all stakeholders to produce high quality standards that are relevant,practicable and set in the public interest.IFAC's track record over the past five years is quite enviable.

While we have indicated our overall support for the two responses noted above ,we would like to emphasize the following:

- developing high quality standards that are workable requires considerable expertise.Accordingly,we strongly believe that it is necessary to engage representatives of the Forum of Firms in the standard setting process.We suggest that the MG take this fact into account as it evaluates its final position on Recommendations 2 and 4 in the CP.
- while we appreciate that the process through which international standards are set will always be under scrutiny and will be subject to continuous improvement,there is a need for stability in the process as well.Accordingly we strongly suggest that the MG defer its next review until 5 years have passed,not 3 as noted in the CP.

We would be pleased to discuss any of these comments with the MG should they so wish.

Sincerely,

Kevin Dancey

Kevin J. Dancey, FCA
President & CEO / Président-directeur général
The Canadian Institute of Chartered Accountants / L'Institut Canadien des Comptables Agréés
Tel / Tél. : 416 204.3333 Fax / Téléc. : 416 204.3405
e-mail / courriel : kevin.dancey@cica.ca

The Canadian Institute of Chartered Accountants
L'Institut Canadien des Comptables Agréés
277 Wellington St. West, Toronto ON M5V 3H2
277, rue Wellington Ouest, Toronto (Ontario) Canada M5V 3H2
Tel: 416 977.3222 Fax: 416 977.8585
Tél. : 416 977.3222 Téléc. : 416 977.8585
www.cica.ca
www.icca.ca

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30 July 2010

Our ref: ICAEW Rep 71/10

Your ref:

Sent by email only to MonitoringGroup@iosco.org

ICAEW response to the Monitoring Group Consultation Paper *Review of the IFAC Reforms*

ICAEW is pleased to respond to your request for comments on your Consultation Paper on the Monitoring Group's assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants (IFAC) which were agreed upon in 2003 (the Reforms). We welcome this review and agree that the Monitoring Group has identified a number of issues that are worthy of full consideration with a view to further improvements being made to the governance of IFAC standard setting.

Ultimately we consider that the focus should be on outcomes rather than processes and the key measurement for determining the success of the structure is whether it results in the issue of workable, high quality standards that are generally accepted as such by all stakeholders with an interest in them, and which meet the public interest.

We also consider that there should be a full appraisal of the cost-effectiveness of the recommendations and clear proposals regarding the funding arrangements where this process identifies additional costs that will be incurred in making proposed improvements.

In our response we have made some general points in addition to comments on each of the Monitoring Group's eighteen recommendations.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Chris Cantwell
Manager, Practice Regulation

T +44 (0) 207 920 8742
F +44 (0) 207 920 8780
E **chris.cantwell@icaew.com**

ICAEW REPRESENTATION

ICAEW response to the Monitoring Group Consultation Paper *Review of the IFAC Reforms*

Memorandum of comment submitted in July 2010 by The Institute of Chartered Accountants in England and Wales (ICAEW), in response to the Consultation Paper published in June 2010 on the Monitoring Group's assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants (IFAC) which were agreed upon in 2003 (the Reforms)

Contents **Paragraph**

Introduction	1
Who we are	2 - 3
General points	4 - 15
Comments on the Monitoring Group's eighteen recommendations	16 40

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the Monitoring Group Consultation Paper issued in June 2010 *Review of the IFAC Reforms*.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK's Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

GENERAL POINTS

Implementation of the Reforms and measurement of their success

4. We note the Monitoring Group's conclusion that virtually all of the Reform provisions have been implemented. ICAEW considers that the focus should be on outcomes rather than processes and the key measurement for determining the success of the IFAC structure and the Reforms is whether they have resulted in the issue of workable, high quality standards that are generally accepted as such by all stakeholders with an interest in them, and which meet the public interest.

5. In the period since 2003 the Boards (IAASB, IESBA and IAESB) have been very active, in accordance with the new arrangements, in developing and issuing new international standards. The IAASB embarked on a major project to enhance the clarity of the International Standards on Auditing (ISAs) and this included the significant revision of a number of the key standards. The project was completed in February 2009 with the issue of a complete set of updated and clarified ISAs and a clarified International Standard on Quality Control (ISQC) 1. The IESBA has considered key auditor independence issues and issued a revised *Code of Ethics for Professional Accountants* (Code of Ethics) that becomes effective on 1 January 2011. The IAESB has issued International Education Standards (IESs) for IFAC member bodies regarding the preparation and continual development of professional accountants, and recently announced a work programme designed to enhance the IESs. All of these developments have taken place in accordance with the measures included in the Reforms, including input from the Consultative Advisory Groups (CAGs) and oversight from the Public Interest Oversight Board (PIOB).

6. We consider that the technical input from practitioners during the development of these standards has been vital to achieving the workable, high quality standards that have now been issued by the Boards. There is always a balance to be struck between two objectives that are equally necessary: avoiding any perception that the profession has too much influence over the content of standards at the expense of the needs of other stakeholders and the public interest; and ensuring the technical quality of the standards and the practicability of their application. In our view the standards would have been poorer without the technical and practical input from the profession that was provided to the Boards and we are concerned that an unintended consequence of some of the Monitoring Group's recommendations might be that the level of technical expertise available to the Boards might be reduced.

7. IFAC has issued *Statements of Membership Obligations* (SMOs) which require member bodies to use their best endeavours to meet the obligations. These obligations include best endeavours regarding the adoption of ISAs, ISQC 1, the Code of Ethics and IESs. IFAC has embarked on a programme of assessing the compliance of member bodies with the SMOs.

8. In addition members of the Forum of Firms, comprising of twenty-one international networks of audit firms, are committed to promoting the consistent application of high quality practices worldwide, including the use of ISAs. Achieving this commitment is a vital part of the move towards generally accepted global standards. It is also important to ensure that small and medium-sized firms are engaged in the process and are confident that the standards produced by the Boards meet their needs and can be tailored to do this as appropriate.

9. As noted in last year's European Commission consultation document on possible adoption of ISAs in the EU, there is already widespread acceptance internationally from public authorities, regulators, investors and the profession that ISAs represent the best quality standards available to meet the public interest. The IFAC data on ISA adoption (http://web.ifac.org/isa-adoption/chart) shows that in 12 countries ISAs are required by law or regulation, they are adopted by the national standard-setter in a further 32 countries, and in 29 countries they are generally adopted as the local standards and modifications are in line with the IAASB Modifications Policy. We believe the reason so many countries have already adopted the ISAs is because they recognise that the clarified ISAs are high quality standards that have been developed in the public interest under a rigorous and transparent due process. We support that view.

Opportunity for further improvements to the Reform provisions

10. The Monitoring Group has identified a number of issues in the review that we agree are worthy of full consideration with a view to further improvements being made to the governance of IFAC. We consider that there should be a full appraisal of the cost-effectiveness of the recommendations and clear proposals regarding the funding arrangements where this process identifies additional costs that will be incurred in making proposed improvements. The standards issued by the Boards should meet the market requirements for workable and cost-effective standards, so a clear understanding of these requirements, across the full range of market participants, needs to be established. As referred to in paragraph 15 below, understanding the needs of small and medium-sized entities and practices will be an important part of this process. The issue of the IFRS for SMEs by the IASB is an example of a standard-setter responding to the needs at that end of the market.

11. We comment on each of the recommendations made by the Monitoring Group below. In practice there is some overlap in the recommendations and so it will be important to extract key matters for further consideration from the recommendations taken as a whole. We consider that the main focus in seeking further improvements regarding the governance and oversight of the Boards should not be on looking to improve the micro-management of the Boards' processes as we consider that the Boards should be in a position to do this themselves.

12. We note the Monitoring Group's recommendations regarding the PIOB and issues to do with the relationship between the Monitoring Group and the PIOB. We agree that this is an important and fundamental issue and there needs to be clarity regarding the PIOB's role, e.g. how realistic is it for the PIOB to be involved in detailed technical matters and if this role is to be enhanced, how will it be funded? We would question whether it is appropriate or realistic for the PIOB staff to acquire this type of technical knowledge and expertise given the complexity of the standard-setting process. There also needs to be clarity regarding how the Monitoring Group as a whole, individual Monitoring Group members, and other relevant stakeholders, are engaged in the public oversight process and the detailed work of the Boards.

We would not be in favour of de facto additional layers of oversight where this can not be justified on cost-benefit grounds.

Matters to be considered in due course

13. The review notes that the Monitoring Group has not revisited the overall standard-setting governance, structure and arrangements set out by the Reforms. We agree that developments in the global capital markets and issues arising from the financial crisis are relevant to any such consideration of these matters in the future. Our view is that Monitoring Group members and all other stakeholders that have been involved should promote the adoption of the Boards' standards as an important part of the response to the financial crisis.

14. We support the Monitoring Group's plan to initiate a future effectiveness review approximately three years after the completion of this one. We believe it is unlikely that circumstances will indicate the need for an earlier review. In fact there might be a need for a longer-term assessment after the three year period given the number of changes that are likely to occur in the next few years in response to the financial crisis and possible changes to the Monitoring Group itself (see paragraph 15 below). These changes need to be properly considered at the appropriate time. We also consider that the Boards and the PIOB should themselves carry out annual reviews of the Boards' effectiveness.

15. We also note that the last five year period has seen major developments in restructuring of the regulatory framework and this period of change is likely to continue in the forthcoming period. We therefore consider that there should be a reassessment of the Monitoring Group's role and membership to ensure that it is fully representative of all the relevant stakeholders worldwide that ought to be engaged with its activities. It is worth emphasising that the standards are applied by the full range of firms, including small and medium-sized practices, and reviews of the arrangements should therefore consider the effectiveness of the Boards' outputs across the full range of relevant organisations and interests, not just those related to public interest entities. The comments at paragraph 12 above and 32 below might be relevant to the appraisal of the Monitoring Group's role that we are suggesting.

COMMENTS ON THE MONITORING GROUP'S EIGHTEEN RECOMMENDATIONS

Composition of the Standard-Setting Boards

Recommendation 1: *The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.*

16. We agree with the Monitoring Group's view that that there is a need for an appropriate mix of Board members and that having non-practitioners members with a broad experience beyond auditing is helpful. Of course it is important to ensure that all members (including practitioners) are required to be objective in fulfilling their role as members and we consider that having sufficient knowledge and experience of the detailed technical issues, and a practical understanding of the application of standards, is vital to the Boards producing workable, high quality technical standards.

Recommendation 2: *The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.*

17. We agree with the principle that particular groups should not receive more favourable treatment than others, and therefore understand why the Monitoring Group regards the specific allocation of Board seats to the Forum of Firms as problematic. Clearly the Forum of Firms represents a very important grouping of firms (see paragraph 7 above) that can provide nominees with expertise that is vital to the effective functioning of the Boards and successful adoption of the standards. We therefore consider that the optimal mix for the Board is likely to include a sufficient number of representatives from the firms that are part of the Forum of Firms. It is important that there is a transparent nomination process relating to both practitioners and non-practitioners.

18. It is also important to emphasise that smaller firms from outside the Forum of Firms are properly engaged with the Boards' work. As stated in paragraph 15 above, the standards produced by the Boards are designed for the needs of the full range of firms and entities, and therefore it is important not to give undue attention solely at the public interest entity end. For example, the IAASB is currently carrying out important work regarding compilations and reviews, and as stated in paragraph 22 below, the scope of the Code of Ethics is much broader than audit. IFAC therefore needs to have a structure that encourages nominations from the complete range of firms and those bodies that are in a position to represent these interests. It should be noted in this context that a 'smaller firm' might be a firm that is part of a bigger international network of firms.

Recommendation 3: *The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.*

19. We agree with the Monitoring Group that it might be worthwhile to explore this possibility and consideration could also be given to attracting other non-practitioners with relevant expertise and experience not currently employed by organisations as described in the paper. If public members do receive a fee then there should be robust and transparent measures to ensure independence both at appointment and on an ongoing basis.

20. However, before doing this, we consider that it is important to establish what support public members currently have. We also believe that there needs to be clear evidence that these payments are necessary before making any commitment to introducing them. Part of the assessment of whether the payments are necessary is determining the skill sets this would bring that are not currently available. It will also be important to establish clear funding proposals for any recommendations that are made.

Recommendation 4: *The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.*

21. We acknowledge the Monitoring Group's points about the perception, particularly relating to the IESBA, that the Boards' composition should be seen to support the Boards operating in the public interest. However, we also consider that the appropriate input from practitioners or former practitioners with direct experience and understanding of the issues, is vital to the aim of achieving high quality, workable standards that are of economic and public interest benefit.

22. We note that the Monitoring Group's focus is mainly on public interest audits. We note that the relevant stakeholders will be different for the independence requirements for other audits and indeed the whole range of circumstances and activities covered by the rest of the Code of Ethics. The scope of the Code of Ethics is much broader than audit and much broader than

the remit of most regulators. It might therefore be a challenge to achieve a 'one size fits all' solution.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: *The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.*

23. We agree with the Monitoring Group's point about the need for good processes to ensure that Board members have the necessary technical information and support. In addition to the ideas raised in the paper, we consider that part of this is likely to involve the use of appropriate communication by electronic means as is done in the commercial sector.

24. The points raised by the Monitoring Group do highlight the detailed technical nature of the Boards' discussions and the challenge to ensure that Board members have the appropriate understanding of the issues so as to fulfil their roles effectively. Our view is that debates at Board meetings are enriched by technical advisors being able to actively contribute to them.

25. We would also emphasise the need to distinguish between the usefulness of informed input from all available resources and ensuring decisions are made by those properly appointed to make them. It should be clear that it is Board members themselves that take decisions.

Recommendation 6: *The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.*

26. We agree with the sentiment of this recommendation but see our comments on recommendation 5 above as we believe the current system of technical advisors at Board meetings works well. We also consider that it should be a matter for the Chairs and Secretaries of the Boards to determine what additional technical support is needed, including specific technical sessions.

Recommendation 7: *The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.*

27. We have no direct involvement in the activity of the CAGs but agree with the Monitoring Group that the role of the CAGs needs to be clear to all parties involved. We consider that the detailed review and input from the CAGs is a key part of producing quality outputs. There should be a robust and transparent procedure for Boards in situations where there is clear disagreement with the views put forward by CAGs.

Recommendation 8: *The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.*

28. We agree with the sentiment of this recommendation and agree that there should be protocols regarding these matters. However, we can see that there are practical challenges to meeting what the Monitoring Group is seeking whilst at the same time ensuring timely resolution at the

Boards of the matters involved. We can see there will be occasions when the need for timely decisions outweighs the need, e.g. for full final minutes, as long as the issues are clearly identified prior to decisions being taken.

Recommendation 9: *The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.*

29. We agree that it would be helpful for summaries of responses to contain this type of information if it helps the quality of the decision-taking process. An absolute assessment of numbers of responses can give a misleading impression if a particular grouping has responded en-masse. However, an absolute focus by type of respondent can also be misleading as a small number of response can be interpreted as meaning those views would apply to everyone in that group, e.g. 'regulators consider' or 'investors consider'. It is of course important to find ways of ensuring that all stakeholder groups are engaged in the process and that a greater number are encouraged to respond from specific groupings.

Recommendation 10: *The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.*

30. We agree that it is important that detailed feedback is provided to those commenting on outputs to the Boards, and that detailed analyses are produced in a timely manner to facilitate this. We believe this applies to feedback from Monitoring Group members and others that contribute to the work of the Boards.

31. Monitoring Group members are significant stakeholders and therefore we would support active dialogue between the Boards and Monitoring Group members. There are likely to be important issues where a Monitoring Group has a particular interest and, if this is the case, it would make sense for the Boards to meet directly with the Monitoring Group member to discuss the issue.

32. We also consider that there are now many other important stakeholders, regulators and standard-setters that are not currently members of the Monitoring Group. It is important for this wider grouping to be engaged and for IFAC's activities to not be skewed too much towards the needs of one particular group of stakeholders. As stated in paragraph 15 above, it is worth emphasising that the standards are applied by the full range of firms, including small and medium-sized practices, and reviews of the arrangements should therefore consider the effectiveness of the Boards' outputs across the full range of organisations and interests, not just those related to public interest entities.

Recommendation 11: *The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.*

33. We agree with the sentiment of this recommendation which highlights the importance of a clear audit trail when standards are developed. However, the mechanisms that are used need to be demonstrated to being cost-effective in producing better standards and to allow for speedy resolution of the issues that arise, if at all possible.

Recommendation 12: *The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.*

34. We appreciate the point being made but the proxy voting system should mean that the member only gives the proxy if he/she feels comfortable to do so and we consider that it can play a helpful role in ensuring members are able to exercise their right to vote. It is important to be clear that it is Board members themselves that have this right to vote. Whatever system is established, we consider that it needs to be sufficiently flexible to deal with exceptional circumstances, e.g. serious illness of the Board member or unavailability of flights.

Oversight

Recommendation 13: *The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.*

35. We agree that it is vital for PIOB members to carry out the PIOB's oversight work in an effective manner. The Monitoring Group's analysis suggests a view that there are currently shortcomings regarding the PIOB's work on the detailed processes relating to the technical work of the Boards. It would therefore be helpful for the proposed discussions with the PIOB and IFAC to take place to discuss the Monitoring Group's concerns. As stated at paragraph 12 above, we would question whether it is appropriate or realistic for the PIOB staff to acquire this type of technical knowledge and expertise given the complexity of the standard-setting process.

Recommendation 14: *The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.*

36. We agree that it would be helpful for these discussions to take place between the Monitoring Group and the PIOB. It is important that the PIOB has sufficient resources so that PIOB staff have the necessary time and competency to fulfil their tasks, including those relating to the technical issues being considered by the Boards. However, we consider that it is likely to be unrealistic for the PIOB staff to engage with all detailed technical issues considered by the Boards (see paragraph 35 above).

Recommendation 15: *The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.*

37. We agree that the factors mentioned by the Monitoring Group should be taken into account in identifying and appointing PIOB members. Ensuring an appropriate level of diversity is important in establishing the credibility of the PIOB to stakeholders worldwide.

Recommendation 16: *The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.*

38. We support moves that are likely to result in long term adequate funding being established for the PIOB. We agree that establishing a sound financial base is vital to the PIOB achieving its goals. The point that the Monitoring Group makes about the independence of the sources is an important one. The arrangements that are decided will need to be made and put in place once the various matters covered by this paper have been resolved, e.g. with respect to this recommendation, the review of the PIOB's role and purpose, and the future membership and role of the Monitoring Group itself (see paragraphs 12 and 15 above).

Monitoring

Recommendation 17: *The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.*

39. We support these consultations taking place as establishing an effective working relationship between the PIOB and the Monitoring Group is of great importance to the success of the PIOB. However, we also emphasise our view that there needs to be a broader discussion regarding the role and purpose of the PIOB and how various important stakeholders worldwide, not currently part of the Monitoring Group, are engaged in the public oversight process (see paragraphs 12 and 15 above).

Recommendation 18: *Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.*

40. It seems appropriate that the Monitoring Group carries out the assessment outlined in this recommendation. As noted in paragraph 15 above, the last five year period has seen major developments in restructuring of the regulatory framework and this period of change is likely to continue in the forthcoming period. We therefore consider that there should be a reassessment of the Monitoring Group's role and membership to ensure that it is fully representative of all the relevant stakeholders worldwide that ought to be engaged with its activities. The comments at paragraphs 12 and 32 above might be relevant to the appraisal of the Monitoring Group's role that we are suggesting.

E chris.cantwell@icaew.com

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THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND

DAW/IFAC-SUB/mb

The Monitoring Group on the Review of the IFAC Reforms
MonitoringGroup@iosco.org

12 August 2010

Dear Sir or Madam

REVIEW OF THE IFAC REFORMS – MONITORING GROUP CONSULTATION PAPER

I am pleased to set out my initial comments on the Monitoring Group's consultation on the implementation of IFAC's 2003 reforms.

(i) Assessment of the implementation of the Reforms

In general, we would support the Monitoring Group's assessment of the implementation of the IFAC 2003 reforms.

We are disappointed, however, that the public interest oversight of the IPSASB has not warranted further consideration by the Monitoring Group. The IPSASB has become a well respected issuer of financial reporting standards for Government, and many Governments around the world have chosen to adopt IPSASB standards. We believe that the credibility and reputation of the IPSASB would be enhanced by establishing some form of public interest oversight over it. This could be through extending the current public interest oversight arrangements currently in place for the other IFAC standard setting boards, with suitable relevant additions to the PIOB.

(ii) Recommendations for further improvements

We believe that it is vitally important to maintain an appropriate balance and diversity on the standard setting boards, and to appoint board members on the basis of them being the "best person for the job". However, given the technical nature of the auditing and ethical standards, it is vital that the boards contain a significant degree of experience and expertise from the audit firms themselves – both large firms and small firms. (Recommendations 1 & 2)

In the context of broader consultation on matters which are to be the subject of auditing or ethical standards, we do not believe that Monitoring Group members should be treated any differently from other consultees. The standard setting boards need to make decisions based on the public interest and the correct principles relating to the matter in question and on the views of the whole cross section of respondents. This is often likely to be based on compromises between the expressed views received. It would be prohibitively burdensome for the Boards to have to report to respondents on the extent to which their specific comments have been reflected in the final standards, and we do not believe that any respondent or group of respondents should be singled out for any more favourable treatment in this regard. (Recommendation 10)

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

Please refer to our detailed comments attached at Appendix A.

(iii) Future effectiveness reviews

We note the proposal to undertake a future effectiveness review after a period of three years from the completion of this review – unless circumstances indicate that an earlier review is required.

In our view, a longer period should be allowed for the Monitoring Group's current recommendations to be fully implemented and to bed down properly, and to provide a period of stable operation during which the effectiveness of those reforms can be assessed. We believe that a period of five years should be allowed – subject again to the proviso that the Monitoring Group should assess whether circumstances would seem to require an earlier review.

We hope that our comments are of assistance. If you should wish to discuss these further, please do not hesitate to contact me.

Yours faithfully

DAVID A WOOD
Executive Director, Technical Policy

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

APPENDIX A

ICAS COMMENTS ON MONITORING GROUP'S RECOMMENDATIONS

Composition of the Standard Setting Boards

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

We agree there is a need to ensure that the composition of both the IAASB and IESBA includes appropriate representation from persons with professional career experience that substantively goes beyond that of an auditor. However, given the technical nature of the auditing and ethical standards, it is vital that the boards contain a significant degree of experience and expertise from the audit firms themselves. We believe that it is also therefore essential to ensure that the audit profession (large and smaller firms) is adequately represented. On balance we believe that both boards should comprise both of the above skill sets plus appropriate representation from the investor and regulatory communities.

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

We believe that it is vitally important to maintain an appropriate balance and diversity on the standard setting boards, and to appoint board members on the basis of them being the "best person for the job". However, given the technical nature of the auditing and ethical standards, it is vital that the boards contain a significant degree of experience and expertise from the audit firms themselves – both large firms and small firms. Therefore, whether there are specific places reserved for firms' representatives or not, it will be necessary to obtain significant representation from this constituency.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Whilst we are not aware of any difficulties in securing the services of public members, we agree with the sentiment of this proposal. However, there are associated practicalities with making this work in practice. In reality a "reasonable stipend" is likely to be well below the average remuneration paid to such persons and therefore it may have no impact on the likelihood of such persons offering to provide their services. A stipend which is more commensurate with the remuneration such individuals might expect to earn, could become prohibitively expensive for IFAC. However, this is a matter which might usefully be explored further.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting - or at least for the composition of the Ethics Board—to be utilized.

As noted above, there is a need for a balanced board. In the context of the IAASB and IESBA there is a need to ensure that the major stakeholders are all adequately represented on the board. This should be the primary objective. If this can be achieved there should be no need to look at alternative structures for the IAASB and IESBA.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

Whilst in theory we agree with the substance of this proposal, consideration has to be given to its practical implications.

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers - who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts - to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.

This seems a reasonable proposal.

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.

This sounds fine in principle but will be more difficult to ensure in practice.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

This appears reasonable.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

This recommendation seems reasonable.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

In the context of broader consultation on matters which are to be the subject of auditing or ethical standards, we do not believe that Monitoring Group members should be treated any differently from other consultees. The standard setting boards need to make decisions based on the public interest and the correct principles relating to the matter in question and on the views of the whole cross section of respondents. This is often likely to be based on compromises between the expressed views received. It would be prohibitively burdensome for the Boards to have to report to respondents on the extent to which their specific comments have been reflected in the final standards, and we do not believe that any respondent or group of respondents should be singled out for any more favourable treatment in this regard.

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

We agree that the publication of feedback statements might be helpful in demonstrating the means by which the standards are finalised.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

We do not see this as being a major issue in practice and would tend to reject the recommendation. Instead, we believe that proxy voting is actually helpful in allowing a Board member to express a view when they are unable to attend the whole of a meeting.

Oversight

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

This seems reasonable.

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

This seems reasonable but care will be needed not to add significantly to the work burden of the PIOB staff.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

We would support a review in relation to the appointment of the next PIOB members, which considers all necessary aspects of diversity. It must be remembered, however, that the calibre of candidates and "best person for the job" must be key factors.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

We would support this recommendation.

Monitoring

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

This sounds reasonable.

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

This sounds reasonable.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0114
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0233 • EMAIL: dwood@icas.org.uk

The Japanese Institute of Certified Public Accountants
4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: 81-3-3515-1130 Fax: 81-3-5226-3355
Email: international@sec.jicpa.or.jp

By E-mail: MonitoringGroup@iosco.org

August 18, 2010

Mr. Hans Hoogervorst
Chairman
The Monitoring Group

JICPA Comments on the Consultation Paper, *Review of the IFAC Reforms*

The Japanese Institute of Certified Public Accountants ("we", "our" and "JICPA") is grateful for the opportunity to comment on the Consultation Paper, *Review of the IFAC Reforms*.

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

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

In the context of meeting the objective to serve the public interest, achieving an appropriate balance in the composition of the Audit and Ethics Board members is very important to counteract the effects of the fact and appearance of auditor self-interest.

Although some actions in this regard have already been taken, we agree that ongoing consideration is necessary.

On the other hand, it is very difficult to determine what the "appropriate" balance should be. In recent years, the entity's environment relating to financial reporting, including the applicable financial reporting framework, is significantly changing, and becoming more complex. The same is equally true for auditing practice. In order to deal with this situation, and maintain high quality and relevant standard setting process, it is essential to involve, and have exhaustive discussions with, the people who are experts in the latest auditing practice. For example, although a lawyer with extensive experience in litigation of cases regarding auditor independence issues would be able to deal with the matter at the IESBA meeting, it is not possible to sufficiently discuss such matters only by lawyers without any audit experience.

Therefore, if the proportion of the Board members with professional career experience that substantively goes beyond that of an auditor is significantly increased, as stated in Recommendation 1, we are very concerned that the Boards will not be able to have sufficiently high quality discussions necessary to serve the public interest. This would have adverse consequences on the quality and relevance of the auditing standards as well as ethics standards, especially in the area of independence and, consequently, it would not result in protecting the public interest.

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

We understand the recommendation to revise the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background, especially from the perspective of seeking to avoid the effects of the appearance of auditor self-interest. However, the Forum of Firms is an association of international networks of accounting firms and, while allocated as specific number of seats on the Boards, as detailed in the FOF Constitution, its membership is required to meet certain criteria for eligibility as well as certain obligations, which include having policies and methodologies that are based on ISAs and conform to the IFAC Code of Ethics for Professional Accountants.

We believe it is appropriate that FOF professionals, as representatives of the practitioners, participate in the discussions of the IAASB and the IESBA, not only in the context of the objective to serve the public interest by setting high quality standards, but also to promote the implementation of the standards, and to receive feedback from constituencies who use the standards in practice.

Especially, as stated above, since the environment surrounding the auditors is significantly changing and becoming more complex, in order to maintain high quality and relevant standard setting process, it is vital to receive inputs on, for example, challenges in implementing the standards and evolving issues in audit that need consideration from those who have sufficient understanding of most recent audit practice. Therefore, even if the IFAC discontinues the practice of specific allocation of Boards' seats to the FOF candidates based on Recommendation 2, we believe that, from a practical point of view, the Board members selected through the nomination process will have to be substantially similar to the current composition.

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support for their participation as a Board member.

To attract competent public members, we agree that some measures are necessary and one of the possibilities is the provision of reasonable stipends. However, we believe that difficulty in attracting public members is due to the necessity of significant time commitments rather than non-availability of financial support, and therefore, we have doubts as to the effectiveness of simply providing reasonable stipends. In addition, if the public member receives compensation, this may threaten the appearance of the independence of such a member. We believe these matters require further consideration.

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

The recommendation raises the concern that the standard setting of ethics and auditor independence is done by those who are or have been auditors. Given the nature of ethics and independence issues, it is true that such a concern generally exists. In some jurisdictions, those who have no audit experience may play a central role in standards setting process.

However, as stated above, since the audit environment is significantly changing and becoming more complex, in order to identify issues which need to be considered by the auditors in their audit practice while maintaining independence, and develop standards that are relevant, we believe that it is essential that the Board members have sufficient understanding of most recent audit practice based on their actual experience and knowledge. Especially, in setting international standards, we believe it is very important that the matters are discussed beyond the subject of considering the existing national laws and regulations. Without considering these views, it is impossible to develop standards which are relevant as well as effective.

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

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

If Technical Advisors are very active, they effectively multiply the number of Board members and, as a result, the Boards' deliberations become complex and this may affect the balance between "practitioners" and "non-practitioners". Therefore, we agree that it is important to clarify the fact "… the Board members themselves, and not the Technical Advisors, are principals in the Board's discussions, deliberations and decision making."

On the other hand, recently, it has been re-acknowledged at both the IAASB and the IESBA that the role of Technical Advisor is to provide assistance for individual member

of the Board. Therefore, the influence of Technical Advisors on Board's decisions is already limited. In addition, in order to serve the public interest through leveraging their own experience and knowledge, it is necessary particularly for non-practitioner members to receive input from Technical Advisors who have sufficient knowledge of the discussions at the Board table (in some cases, the matter which is not in the agenda is discussed at the meeting). Therefore, even though Technical Advisors may not express their views at the meeting, we believe it is necessary to retain the current system that allows them to sit with Board members.

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

We fully understand the concern of the Monitoring Group. For the Board members, it is also very important that sufficient time is provided before the Board meeting. At the same time, it is certainly true that the IFAC staff and Boards have been expending maximum effort, given the limited resources and time frame. This observation is based on our anecdotal evidence until now and we always have had great respect for their diligent work. Although we acknowledge that it is meaningful to consider the approach to improve the current process, practical aspects should be sufficiently taken into account.

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

We believe that sufficient importance should be placed so that each comment is sufficiently analyzed for its rationale and merit from the context of serving the public

interest, rather than only for its frequency. At the same time, as stated in our comment on Recommendation 8 above, practical aspects should be sufficiently taken into account.

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

We agree it is important that IFAC Standard Setting Boards and Committees give sufficient consideration to the comments from the Monitoring Group, and, if the comment is not to be taken up in the final standard, explain the reasons for that decision as stated in Section 3.2 of the Reforms. We believe that ongoing consideration in this regard is necessary.

At the same time, in order to ensure that the public interest is served by setting high quality standards, it is necessary that not only the Monitoring Group, but also wide range of stakeholders, including other regulators, are given the opportunity to comment, and appropriate feedback is provided to them through transparent due process. Currently, we understand that the Board decisions on comments received are explained through various methods, including indirect explanation by describing them in the agenda and minutes, as well as direct explanation at the CAG meeting in which Monitoring Group members participate. We believe it is desirable that implementation of Section 3.2 be achieved by utilizing such transparent process in a more effective manner.

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

We agree that the use of proxy voting is not appropriate when substantial revisions have been made during discussions. If such practice exists, we believe that some measures to avoid this are necessary. However, if the provision for proxy voting is

completely removed, there may be some cases where the Board fails to meet the quorum at a meeting. In such cases, the voting would take place by a ballot vote, through e-mail or by telephone conference at a later date, which process may weaken the transparency of the discussions. Proxy voting should be allowed when certain conditions are met thereby, in principle, retaining the current process, and enabling the Boards to conduct the vote at open face-to-face meetings.

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

Regarding the funding of the PIOB stated in Recommendation 16, to enhance the oversight function of the due process, and thereby to serve the public interest, we believe that further consideration is necessary, as stated in Section 2.6 of the Reforms.

Regarding other Recommendations relevant to the PIOB, based on our experience of the PIOB activities at Board and Committee meetings, we believe that the oversight of the due process is adequately conducted through the current system.

We wish to express, again, our appreciation for this opportunity to comment on this Consultation Paper.

Sincerely,

Shozo Yamazaki
Chairman and President
The Japanese Institute of Certified Public Accountants

SLOVENSKI INŠTITUT za REVIZIJO

The Slovenian Institute of Auditors

Dunajska cesta 106
1000 Ljubljana, SLOVENIJA
Telefon: (01) 568 55 54, 568 56 36
Telefaks: (01) 568 63 32
Spletna stran: www.si-revizija.si
Elektronska pošta: info@si-revizija.si
ID številka za DDV: SI27055264

The Monitoring Group

Vaš znak:
Naš znak:
Ljubljana, August 4th, 2010

Subject matter: Review of the IFAC Reforms – Consultation Paper

Dear Sir,

Thank you very much for giving us a chance to prepare some comments regarding the proposed IFAC Reforms. We estimate the proposals are very important input for further development of the standard setting process especially for the general recognition of the highly professional international standards developed by IFAC.

Although we agree completely with the arguments quoted in the Consultation Paper we would like to present the viewpoint of a small audit profession inside the emerging market economy, especially with regard to the *Composition of the Standard-Setting Boards* in connection to the *Ability to Attract Public Board Members.*

The Consultation Paper states (under the subheading *Ability to Attract Public Board Members*) that most of the practitioner Board members are paid and made available by their audit firms to devote considerable time to the development of auditing and ethical standards at the Audit Board and Ethics Board. It would be worthwhile to stress that these audit firms are mainly big international firms which can afford to finance their employees for this purpose. Small domestic audit firms and small professional institutions in small countries cannot afford to finance for example one of the five certified auditors to cooperate in the development of international standards. These means that

- Forum of Firms (FOF) is represented – taking into account direct and indirect representation together – even stronger as it looks like, and
- The circumstances of small emerging market economies are not properly taken into account when developing international standards. (The phenomenon can be observed also in the field of IFRSs but this is not the problem of IFAC.)

At this point we would like to stress that we are aware of the fact that a huge amount of knowledge is concentrated inside of the big audit firms and they are prepared to listen to the problems of the others. But nobody is there who would present the problems because the small emerging market's audit firms and institutes or chambers are not capable to finance their

representatives in the international bodies. For this reason your recommendation for reasonable stipends to accompany travel cost reimbursement for Board members that are employed by an organization that cannot provide financial support for their participation as a Board member is very welcome. The problem is that you are talking about public members in this case and public members are in many (especially former socialistic and communistic countries) understood exclusively as governmental representatives. That is why we suggest that you add to the words "*public members*" the words "*and the members coming from the institutions with public authority in small countries and small audit firms in emerging market economies*" (or something similar). We namely believe that small countries and countries with less developed markets should have their place in the process of developing international standards if we want these standards to be useful all over the world.

For more information about our viewpoint we are available on the telephone +386 1 568 55 54 (Marjan Odar, Ph. D, Director (marjan.odar@si-revizija.si) or Meta Duhovnik, Ph. D., Senior Technical Adviser (meta.duhovnik@si-revizija.si)).

Yours faithfully,

Meta Duhovnik, Ph. D.

Senior Technical Adviser

Marjan Odar, Ph. D.

Director of the Slovenian Institute of Auditors

SLOVENSKI INŠTITUT ZA REVIZIJO
Ljubljana, Dunajska cesta 106