February 9, 2018

Gerben Everts
Chair of Monitoring Group

Stephen Haddrill
Chief Executive of FRC, U.K.

Sent by email: MG2017consultation@iosco.org

Dear Messrs. Everts and Hadrill,

**Monitoring Group Consultation: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest**

The Association of International Certified Professional Accountants (“the Association”) appreciates the opportunity to comment on the Monitoring Group’s proposal that seeks to change the process currently used by the International Auditing and Assurance Standards Board (“IAASB”) to set International Standards on Auditing (“ISAs”), and to change the process currently used by the International Ethics Standards Board for Accountants (“IESBA”) to set the ethics standards contained in the *Code of Ethics for Professional Accountants*.

The Association is the largest professional accountancy body in the world, representing 650,000 United States certified public accountants (“U.S. CPAs”), chartered global management accountants (“CGMA”), associates (“ACMA”) and fellows (“FCMA”) of the Chartered Institute of Management Accountants (“CIMA”), and accounting and finance professionals in more than 170 countries, supporting them from our offices and centers across the U.S., the U.K., and in 23 other countries around the world. We are dedicated to driving a dynamic accounting profession ready to meet the demands of a constantly changing world. We advance the quality of U.S. CPAs, CGMAs, ACMAs, FCMAs, and accounting and finance professionals globally. Our

---

1 In addition to multiple locations in the U.S. and the U.K., the Association has offices and centers in Australia, Bangladesh, Botswana, Canada, China, France, Ghana, Hong Kong, India, Indonesia, Ireland, Malawi, Malaysia, Nigeria, Pakistan, Poland, Russia, Singapore, South Africa, Sri Lanka, UAE, Zambia, and Zimbabwe.
members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The Association includes the American Institute of Certified Public Accountants ("AICPA") and CIMA.

The AICPA is a U.S.-based professional body that, in cooperation with stakeholders, including State and Federal regulators, financial statement users, academia, and representatives of the public, supports the U.S. Auditing Standards Board ("ASB") and U.S. Professional Ethics Executive Committee ("PEEC") which set ethical, independence, quality control, auditing and assurance standards that are followed by practitioners engaged, and preparers employed, by private companies, nonprofit organizations, employee benefit and pension plans, and federal, state and local governments, within the U.S. The independent boards and committees that set these standards utilize the work of the IAASB and IESBA as an integral part of their activities and their current strategic and work plans include harmonization with the standards issued by IAASB and IESBA. The AICPA also develops and grades the Uniform CPA Examination, and monitors and enforces compliance with the profession’s professional, technical and ethical standards through practice monitoring and enforcement programs.

CIMA is a U.K.-based professional body offering training and qualification in management accountancy and related subjects. It focuses on accountants working in business, and provides ongoing support and training for CGMAs, ACMAs, and FCMAs. It regulates the activities of its members by setting a code of practice, which is largely consistent with the IESBA Code of Ethics for Professional Accountants ("IESBA Code") and monitoring and enforcing its members’ compliance.

We are particularly interested in the Monitoring Group proposal because our members regularly rely on the IAASB standards and the IESBA Code and the national standards derived from them. For example, as indicated above, the ASB, which sets generally accepted auditing, attestation and quality control standards generally uses the standards issued by IAASB as the base for the standards it develops, modified for unique or U.S.-specific issues. Our members also understand that investment in organizations that utilize ISAs and the IESBA Code is significant (including U.S. foreign investment) and investors rely on the quality of the ISAs and the IESBA Code when making investment decisions; many of our members are based in the United States and the United Kingdom, and the extensive scope of U.S. and U.K. foreign direct investment underscores the importance of these issues to our members and to U.S. and U.K. companies operating abroad. We are therefore committed to ensuring that the international
standard-setting process produces standards that are high-quality, timely, and effective, and that serve the public interest.

Introduction & Summary

We appreciate the work done by the Monitoring Group as reflected in its most recent proposal. We recognize that auditing and ethics standards need to evolve in light of business and marketplace developments, new technology, and the changing needs of companies, investors, and other users. The Monitoring Group’s partnership with the profession, through IFAC, has yielded an effective standard-setting process that supports the key objectives identified in the Monitoring Group proposal: the Public Interest, Independence, Credibility, Cost Effectiveness, Relevance, Transparency, and Accountability.²

Although we share many of the same goals as the Monitoring Group, we have serious concerns about the Monitoring Group proposal. The Monitoring Group proposal would create a standard-setting structure that could very likely produce standards of lesser quality and that may not receive widespread adoption.

As we explain below, the Monitoring Group proposal: does not articulate clearly the reasons for changing the current structure;³ does not sufficiently recognize how well the current structure works;⁴ risks harming the quality of standards and fails to define the “public interest”;⁵ does not present any cost-benefit analysis about the suggested changes and underestimates the funding necessary to implement the proposal;⁶ and does not identify a plan for obtaining reliable funding.⁷ We suggest, as the Monitoring Group continues to solicit and consider comments on possible changes to the standard-setting process, it should ensure that the standard-setting process incorporates multi-stakeholder consensus. The Monitoring Group should take its time in considering potential changes to the standard-setting process, and we therefore support the Monitoring Group’s decision to undertake a second consultation before proceeding with any proposed changes.

² See Monitoring Group Proposal at 4.
³ See Section 1.1.
⁴ See Sections 1.2-1.7.
⁵ See Sections 1.8-1.9.
⁶ See Sections 2.1-2.4.
⁷ See Sections 3.1-3.2.

1.1) Broad Recognition Of The Effectiveness Of The Current Model

The Monitoring Group proposal asserts, but presents no evidence or reasons to conclude, that the current model fails to meet the objectives set out in the proposal.\(^8\) The Monitoring Group proposal assumes that regulators’ perceptions of the public interest automatically trump other stakeholders’ perceptions of the public interest. And, while regulators’ perspectives are critical to that definition, and bring valuable input to the standard-setting process, regulators do not necessarily have insights into all of the concerns that legitimately fall within the public interest. As designed, the current process incorporates the views of all stakeholders, including regulators, into the standard-setting process. And, while improvements to gain a broader base of stakeholder input can certainly be made, to discount the current process completely, would be counterproductive.

Contrary to the Monitoring Group’s assumption, we believe that, with improvements in both the current standards-setting process and its oversight, all of the key objectives identified in the proposal are well-served under the current structure, including the Public Interest, Independence, Credibility, Cost Effectiveness, Relevance, Transparency, and Accountability.\(^9\) The Public Interest Oversight Board (“PIOB”), which currently provides oversight of the international standard-setting process, has recognized the effectiveness of the current model, and in particular the focus on the “public interest,” which is the main stated purpose of the Monitoring Group proposal.\(^10\) The PIOB has stated that it is “reassured that the structures, process and arrangements under its oversight have evolved into a system responsive to the public interest.”\(^11\)

Further, while the Monitoring Group proposal justifies its changes as serving the “public interest,” the proposal fails to define that term.\(^12\)

---

\(^8\) See Monitoring Group Proposal at 4.

\(^9\) See Monitoring Group Proposal at 4.

\(^10\) Id.


\(^12\) See Monitoring Group Proposal at 9 (“The public interest is not a defined term. It evolves as public expectations change.”); see also Wesley Bricker, Securities and Exchange Commission Chief Accountant, Letter to Monitoring Group Re: Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards
Any proposal for reform must start from the premise that the current standard-setting model provides significant public-interest benefits, and enhancements can be suggested from there.

Indeed, the current chairman of the PIOB has specifically recognized the effectiveness of the current standard-setting structure and the importance of professionals’ expertise in setting standards, explaining that “[t]he standard setting system … created by the 2003 Agreement is based on a subtle balance of professional and public interest considerations. The presence of experienced professionals in the standard setting board has been a driving force in developing this considerable body of standards, and other normative instruments.”13 Investors similarly recognize the key role auditors play in protecting the public interest. The Center for Audit Quality, a nonpartisan and nonprofit public policy organization, performs annual Main Street Investor Surveys14 that poll U.S. retail investors, and these surveys consistently indicate that, in addition to regulators, investors have confidence in the effectiveness of independent auditors. Regulators undoubtedly have a critical role to play, but survey evidence underscores the essential role played by the audit profession under the current structure, which should not be discounted.

1.2) Widespread Adoption Of Current Standards

Another factor counseling against a substantial change to the current model proposed by the Monitoring Group is the widespread acceptance of the standards. The Monitoring Group proposal correctly recognizes that “the auditing and accountancy professions have invested considerable funding and effort in the development of standards,” which have “commanded international respect and have been widely adopted.”15 Notably, more than 120 independent jurisdictions have either adopted the current IAASB standards and IESBA Code entirely or use the current IAASB standards and IESBA Code as the foundation for their own national standards.

13 Eddy Wymeersch, Standard Setting for Accountants and the Role of the Public Interest Oversight Board, at 10 (ECGI 2015).
15 Monitoring Group Proposal at 8.
The current widespread adoption of international standards serves the public interest in several respects. International standards “set out expectations covering many aspects of the drivers of audit quality,” and IAASB standards have been specifically noted as having “wide international application” with “ever more countries around the world … looking to apply IAASB standards.”16 “[C]onvergence to a single set of globally accepted high quality standards,” as under the current model, is viewed by some as “ultimately in the best interests of the public, contributing to efficient capital flows within countries and across borders.”17

Widespread adoption of the ISAs promulgated by IAASB, as well as the IESBA Code, shows that jurisdictions around the world have confidence that IAASB and IESBA are independent, objective, transparent, and accountable. Widespread adoption also indicates that jurisdictions believe that the standards IAASB and IESBA produce are in the public interest, high-quality, objective, credible, cost-effective, and relevant.18

The integration between ISAs and U.S. generally accepted auditing standards (“GAAS”) is notable evidence of the confidence that stakeholders have in the ISAs; and is a strong reason to avoid significantly altering the standard-setting process. For example, the ASB has recognized “the increasingly widespread acceptance of ISAs” and has “aligned its agenda with that of the IAASB and [has developed] its standards [GAAS] based on the ISAs.”19 The U.S. Government Accountability Office’s Generally Accepted Government Auditing Standards (“GAGAS”) also explicitly incorporate the ISAs, further highlighting their acceptability, credibility, and quality.20

The convergence of U.S. GAAS with the ISAs developed by IAASB is particularly important given the enormous size of U.S. outward foreign direct investment (“FDI”) and the vast volume of foreign assets held by U.S. investors. U.S. FDI was $6.4 trillion in 2016, more

---

17 Peter Wong, Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs at 25 (IFAC, Sept. 2004).
18 See 2013 Monitoring Group Statement On Governance (“2013 MG Statement”) at 3 (“[I]f the standards promulagated by a [standard-setting board (SSB)] are not viewed as independently developed, objective and of high quality, investors and other users of the standards will discount them and their value will diminish or disappear.”); cf. Monitoring Group Proposal at 4 (listing similar objectives for reform).
20 See Generally Accepted Government Auditing Standards (2011 Revision) at 2.20(b) (“Auditors may elect to use the IAASB standards and the related International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE) in conjunction with GAGAS.”).
than any other country, according to the Congressional Research Service. U.S. investors held nearly $10 trillion of foreign equities and debt at the end of 2016. And as of the end of 2016, 19 of the world’s top 25 asset managers were based entirely or partly in the United States, comprising €28.3 trillion ($29.8 trillion at year-end 2016 exchange rates) in assets under management. We believe that many U.S. investors direct these tremendous capital flows abroad in reliance on audits that are performed under standards set by IAASB and with the expectation that auditing standards overseas are similar to those in the United States.

In the United States, the acceptance of IAASB standards is also demonstrated by the coordination of IAASB with the United States Public Company Accounting Oversight Board (“PCAOB”) in developing standards. The “IAASB and PCAOB have taken a relatively similar approach to enhancing the auditor’s report, in particular by providing greater transparency to investors and others about audit-related matters and building on the two-way communications throughout the audit with those charged with governance.” Indeed, the SEC Chief Accountant Letter to the Monitoring Group notes that “the PCAOB’s standard-setting activities are informed by the work of the IAASB.” Moreover, many specific ISAs are analogous to PCAOB standards. Although the Monitoring Group proposal implicitly criticizes the current ISAs, it does not explain how the current standards are flawed, much less how the proposed new standard-setting process will generate standards of higher quality.

We believe the summation of all these facts point to a system currently in place that has the confidence of the respective national systems and the public interest in a far more compelling fashion than the assertions of the Monitoring Group proposal which is not supported by facts to

---

25 SEC Chief Accountant Letter to the Monitoring Group at 3.
the contrary. Absent those facts, we can only conclude it is the opinion of some; a dangerous basis for such a wholesale proposed change.

1.3) Broad Stakeholder Involvement In Current Model

As the Monitoring Group has previously recognized, the current model protects the public interest by including a variety of stakeholders in the standard-setting process.27 Under the current structure, practitioners and non-practitioners serve on the IAASB and the IESBA. The IAASB and the IESBA are overseen by the PIOB and the Monitoring Group, itself, which is committed to advancing the public interest in areas related to international audit and ethical standard setting and audit quality and is made up of a group of international financial institutions and regulatory bodies. Any changes to this structure must be undertaken with a recognition of the importance of multi-stakeholder consensus throughout the three-tiered governance structure used for setting international standards (i.e. at the Monitoring Group, the PIOB, and the standard-setting boards).

The SEC Chief Accountant Letter to the Monitoring Group appropriately emphasizes the importance of ensuring the standard-setting process incorporates input from all stakeholders, highlighting that “[a]n effective approach must reflect broad, multi-stakeholder representation and participation, recognizing that national authorities have legal authority to impose incremental rules, as needed.”28

Further, robust checks and balances are in place to help ensure that no single stakeholder can exercise undue influence over the development of the standards. For example, the IAASB Consultative Advisory Group (“CAG”), which is comprised of representatives from the 28 CAG member organizations29 is an integral and important part of the IAASB’s formal process of consultation. The CAG provides advice on numerous areas, including: the IAASB’s agenda and project timetable (work program), including project priorities; technical projects; and other matters of relevance to the activities of the IAASB. Further, draft standards are submitted for public comment, and standards must be approved by a vote of at least two-thirds of the IAASB members. This balance of stakeholder input, with an emphasis on practitioner involvement, has

27 See 2013 MG Statement at 5 (explaining that the existing “three-tiered governance structure used for setting international audit-related standards is built around these independence and accountability objectives”).
28 SEC Chief Accountant Letter to the Monitoring Group at 8.
29 See http://www.iaasb.org/cag/members for a complete list of IAASB CAG member organizations.
been a key feature of the success under the current system.\(^{30}\) This broad stakeholder involvement in the overall standard-setting process increases confidence in the ISAs and helps encourage their adoption by national jurisdictions.

1.4) Some Unique Challenges Posed By International Standards

The Monitoring Group proposal does not sufficiently recognize the unique challenges in international standard setting, which further counsels against the sorts of wholesale changes suggested in the proposal. Under the current model, IFAC, as the body that supports the standard setting boards (like a board of trustees) has decades of experience navigating these challenges. Perhaps most significantly, scholars have recognized that international standards are not legally binding of their own force but instead require independent jurisdictions to adopt them: “There is indeed a difference in degree or scale of operations but also a difference in kind [between national and international standard setting], the main reason being that an international standard setter has to deal with jurisdictions as its constituents as well as with the more traditional ‘functional’ constituencies such as preparers, users and auditors.”\(^{31}\)

Addressing the challenge of multiple jurisdictions and constituencies requires generating support across all stakeholder groups. As the current chairman of the PIOB has explained, the current system has been “exceptionally successful” in large part because it “is based on the unique conjunction of the needs of the accountancy profession, the expectations of the markets and business firms for reliable and internationally comparable accounting and auditing guidelines and finally the seal of acceptance by the bodies with authority in the field of finance.”\(^{32}\) The current standard-setting process successfully addresses the challenge of obtaining international support for standards, and any proposed changes to this process must be carefully tailored to not risk disturbing this success.

1.5) Importance Of Practitioner Expertise

We are concerned that the Monitoring Group proposal does not sufficiently take into account the importance of practitioner expertise and involvement in the standard-setting process.

\(^{30}\) See Wymeersch at 10.


\(^{32}\) Wymeersch at 5.
The current standard-setting system was created “based on a subtle balance of professional and public interest considerations.”33 “The presence of experienced professionals in the standard setting board has been a driving force in developing this considerable body of standards, and other normative instruments.”34

The benefits of practitioner expertise and experience should not be overlooked. Scholars have explained that “economic resources and technical expertise are prerequisites for effective participation in non-market private standardization, at least as much as in public standardization.”35 And “[w]here standards are highly technical, it is almost inevitable that the greatest source of this technical expertise will come from the profession itself.”36 The SEC Chief Accountant Letter to the Monitoring Group notes the importance of practitioner expertise as well, explaining that “audit-related standards in many cases involve technical performance requirements and judgments that have over time needed (and benefitted from) technical expertise from the audit profession.”37

1.6) Other Causes Of Audit Quality Issues

In suggesting that the current standards are not responsive to the public interest, the Monitoring Group proposal incorrectly assumes that the audit quality issues observed today are caused by defects in the auditing standards. The Monitoring Group proposal notes that auditing standards serve the public interest by “driv[ing] the auditor to consider external factors and wider implications of events in markets and financial systems with the aim of preventing failures,” and, in claiming that the current standard-setting process is not responsive to the public interest, suggests that the current standard-setting process may not prevent audit failures.38

The fact is, however, that the audit quality issues observed today generally can be traced to failures to apply properly the applicable standard; in other words, these issues are not caused by problems with the standards themselves or the standard-setting process. The International

33 Wymeersch at 10.
34 Id.
35 Tim Büthe & Walter Mattli, International Standards and Standard-Setting Bodies, in The Oxford Handbook of Business and Government at 461 (2010); see also Wong at 25 (stating that international standard setters must “continue to listen to the concerns and needs of those who will have to implement the standards”).
36 2013 MG Statement at 4.
37 SEC Chief Accountant Letter to the Monitoring Group at 6.
38 Monitoring Group Proposal at 3-4.
Forum of Independent Audit Regulators ("IFIAR"), a group of 52 independent audit regulators from around the world, recently reached precisely this conclusion: IFIAR regularly surveys audit regulators in order to evaluate the causes of audit quality issues and in its most recent report concluded that the audit failures observed by regulators “generally relate to auditors’ failures to comply with applicable standards or requirements. The fact that some auditors have failed to comply with applicable standards in a particular audit area does not in itself indicate a problem with those standards.”  The quantitative data in the IFIAR survey supports the conclusion that to the extent there are problems, they lie with the application of the standards, not the standards themselves.

1.7) Relevance Of The Concern For Timely Standards

The Monitoring Group is correct to observe the importance of ensuring “that the standards are relevant and up to date in order to underpin audit quality and user confidence.” But this concern for timely standards does not support adopting the Monitoring Group proposal. The Monitoring Group proposal is not likely to speed up the standard-setting process and may even slow it down. For example, the Monitoring Group proposes to combine responsibility for both audit standard-setting and ethics in a single board. Rather than hastening standards development, combining these two responsibilities could instead divide the board’s attention and delay the publication of standards. Instead of the sweeping changes proposed by the Monitoring Group, the speed of standard setting can be addressed more effectively with other, targeted alterations, such as modifying the composition of the standard-setting board or employing a greater number of qualified staff. The standard-setting process is necessarily a deliberative, multi-stakeholder, consultative procedure; a desire to accelerate slightly the pace of standard-setting does not support substantially restructuring the standard-setting process.

1.8) Risks Of Departing From The Current Standard-Setting Process

The Monitoring Group proposal says that the “main purpose of the options for reform is to ensure that standard-setting serves the public interest.” This is a goal that all standard-setting bodies share, of course, but changing the current standard-setting process solely on the

---

40 Monitoring Group Proposal at 8.
41 Monitoring Group Proposal at 4.
basis of the Monitoring Group’s assumptions regarding which reforms would serve the public interest could in practice run counter to the public interest.

It is not clear that the Monitoring Group would have the authority to implement its proposal successfully. The proposal may go beyond the scope of the Monitoring Group’s authority described in its charter: The Monitoring Group’s charter gives the Monitoring Group responsibility for nominating members to the PIOB, but it does not appear to give the Monitoring Group responsibility for making substantive nominations to standard-setting boards. The IFAC Board also would have to authorize the changes the proposal contemplates, and the Monitoring Group may not be able to obtain IFAC’s agreement. Proceeding with the Monitoring Group proposal while there are still questions regarding the Monitoring Group’s capacity to implement it would risk producing a standard-setting process that is unable effectively to draft and publish standards: Such an outcome would run counter to the public interest.

The Monitoring Group appropriately recognizes that its proposal poses significant risks to the global adoption of standards: The Monitoring Group proposal states that it “is aware of the need to manage any risk of options for changes undermining the quality of future standard-setting, and the global adoption of international standards.” But the proposal does not address these risks. The proposal could fragment what has been achieved to date under the current system. Indeed, the Monitoring Group proposal could increase the cost of capital worldwide if audits have to be performed under varying and/or lower quality standards. As explained above, the current standard-setting structure is recognized as effective and the standards it produces are widely adopted. This success is due in part to the way the current model facilitates contributions from stakeholders around the world, including practitioners. Members of the profession have practical experience with cutting-edge auditing issues and help create a standard-setting board that is equipped to set standards that evolve as needed. Standards must be future-focused, and members of the profession have on-the-ground knowledge and an interest in effective, relevant standards that equip them to provide the insights necessary to help ensure standards effectively address new issues as they arise. This competence in a standard-setting board’s membership improves the quality of the standards, instills confidence in the standard-setting board itself and fosters global adoption of the standards the board generates. Reducing the role of the profession

---


43 Monitoring Group Proposal at 5.
in the standard-setting process, as the Monitoring Group proposal does, could thus lead to a
decline in the quality of the standards or a decline in widespread adoption of the standards.

We note that the CAGs also contribute by providing input on the standard-setting boards’
agenda, work program, project priorities, and technical projects. In addition, the standard-setting
boards receive broad public contributions to their work through their outreach and public
consultations on their strategies, work plans and exposure drafts. By underestimating the
importance of the expertise obtained from these contributions to crafting timely standards that
respond to new issues, the Monitoring Group proposal risks producing a standard-setting process
that results in standards of diminished quality. The SEC Chief Accountant Letter to the
Monitoring Group notes this concern as well, observing that the “case for change … does not
sufficiently consider the effects that changes in commerce and technology have on the standard-
setting process needed to serve the public interest for a robust and relevant audit profession.”

In sum, the Monitoring Group proposal: has not shown how it will avoid or mitigate these
risks to the public interest; fails to identify all the risks, a requirement of any good plan,
especially one of this magnitude of change; and, has not explained how it will more effectively
facilitate the development of timely, high-quality standards in the public interest.

1.9) Absence Of A Definition Of The Public Interest

The risks of the Monitoring Group proposal are exacerbated by the proposal’s omission
of a definition of the “public interest.” The Monitoring Group proposal states that its primary
purpose is to “ensure that standard-setting serves the public interest,” but the proposal does not
explain what it means by that term. We agree that the international standard-setting process
should serve the public interest, but it is difficult to discuss whether the changes the Monitoring
Group proposes serve the public interest without a clear, agreed-upon definition of that term.

As the SEC Chief Accountant Letter to the Monitoring Group explains, “[m]any
stakeholder groups—such as management, shareholders, board members, bankers, suppliers,
customers, employees, regulators, and auditors themselves—have an interest in the auditor’s
report, though the nature of their interest may vary.” The “public interest” properly
encompasses the interests of all of these stakeholders, and proposed changes to the standard-

44 SEC Chief Accountant Letter to the Monitoring Group at 6.
45 Monitoring Group Proposal at 4.
setting process should be evaluated in terms of whether they serve these interests. Because the Monitoring Group proposal does not explain what it means by “public interest,” it is unclear whether the proposed changes were crafted with all stakeholders’ interests in mind.

Changing the existing standard-setting model without a clear idea of what is included in the “public interest” risks making changes that could harm stakeholders whose interests were not considered during the process of drafting and evaluating the proposal. For this reason, as the Monitoring Group continues its consultation process it should first clearly define the “public interest” that its proposals are meant to serve; and that definition development should include a deliberative and open consultative process that includes participation of all stakeholders. Then it should explain how each of the proposals will accomplish that end. At that point, and that point only, stakeholders will be able to provide effective and meaningful comment on any changes the Monitoring Group proposes.


2.1) Importance Of Cost-Benefit Analysis

A careful cost-benefit analysis must be performed prior to deciding on any changes to the existing model. The Monitoring Group proposal recognizes “the need to manage any risk of options for changes undermining the quality of future standard-setting, and the global adoption of international standards or the progress of the important projects that the current boards are working on,” in addition to the need to secure funding. Although the Monitoring Group proposal recognizes these significant risks and open questions, the proposal does not perform any cost-benefit analysis, which is a routine, accepted, and in some cases mandatory activity used by regulatory and standard-setting bodies around the globe.

The regulatory structure in the United States provides an instructive example. For decades, regulatory bodies in the United States have been required by Executive Orders signed by the President of the United States to conduct a thorough cost-benefit analysis prior to enacting significant regulatory changes. These concerns have also been recognized by the legislature.

47 Monitoring Group Proposal at 5.
48 See Executive Order 12,291 (1981); Executive Order 12,866 (1993) (“Each agency shall assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its
For example, the U.S. Congress has required that the SEC, whenever it is engaged in rulemaking, consider “whether the action will promote efficiency, competition, and capital formation.”

The importance of cost-benefit analysis has also been recognized in the specific context of auditing and accounting standards. The PCAOB’s internal guidance states that “[e]conomic analysis can and should inform each stage of the Board’s standard-setting process.” Consistent with the PCAOB’s approach, the Financial Accounting Standards Board (“FASB”) and other standard setters integrate cost-benefit analysis throughout the standard-setting process.

As the practice in the United States illustrates, cost-benefit analysis is essential to reasoned policymaking. The costs and benefits of the Monitoring Group proposal should be carefully considered before adopting the proposed changes.

2.2) Logistical Challenges In Creating New Standard-Setting Board

The Monitoring Group proposal suggests creating an entirely new standard-setting board with members chosen by a nominations process administered by the PIOB. Doing so would create a variety of logistical challenges, which could slow down or prevent altogether the implementation of the Monitoring Group proposal. This risk, and the costs of solving these challenges, must be factored into any cost-benefit analysis.

Creating a new standard-setting board without the IFAC infrastructure support would be akin to establishing a new business or regulatory structure and inevitably would be costly and complicated. As the Monitoring Group proposal notes, IFAC owns the intellectual property in the current standards and Code of Ethics. Transferring this intellectual property—as well as
the business that creates and maintains that intellectual property—to a new standard-setting board (assuming IFAC agrees such a transfer is appropriate) could impose significant costs.

Beyond securing the necessary intellectual property rights, the new board also would have many other start-up tasks. For example, the new board would need to: identify and assemble board members; assign roles among board members (e.g., identify full-time and part-time board members and designate separate committees); draft bylaws; secure office space and equipment; hire technical standard-drafting staff; hire human resources and IT personnel; obtain legal support; develop a web presence and other public-facing materials explaining the new structure; complete the relevant tax paperwork establishing organizational status in the board’s home country; consider the relevant tax issues; and register with the relevant local authorities. Completing these tasks will incur significant additional costs that have not been considered or weighed in relation to the ostensible benefits of the proposal.

2.3) Direct Costs Of Operating The Monitoring Group Proposal

The Monitoring Group proposal not only omits consideration of start-up costs, but also does not consider the direct, day-to-day financial costs of implementing the proposed model. Instead, the proposal notes the costs involved in running the current standard-setting process and simply states its recognition of “the need to develop a detailed budget for the new Board(s) and the PIOB.”

In order to perform an adequate cost-benefit analysis, we believe the Monitoring Group must produce a reasonable cost estimate with at least a five-year window for its analysis; a five-year time span is necessary because of the time it would take to implement the proposal. A reasonable cost estimate should be based on the costs incurred by similar standard-setting bodies. For example, according to an analysis, to the extent possible, of PCAOB budget documents, the PCAOB spent approximately $27.4 million on standard setting in 2017, which seems to be far more than the amount the Monitoring Group proposal envisions. And the PCAOB’s standard-setting budget, narrowly defined, expanded rapidly—from approximately $11.7 million in 2005 to $27.4 million in 2017 (growth of over 10% per year)—and it is possible that the Monitoring Group’s cost estimates would be vulnerable to similar increases. Other standard-setting organizations have similar expenditures: The IFRS Foundation, under which the International

54 Monitoring Group Proposal at 25.
Accounting Standards Board (“IASB”) operates, budgeted £18.5 million (then-$24 million) for IASB and related expenses in 2016.\(^{55}\)

An optimistic cost scenario under the Monitoring Group proposal would approximate the costs the PCAOB incurs in performing its standard-setting function. These costs, the start-up and other logistical costs discussed above, and the year-over-year growth of costs for at least a five-year projected window should be included in a rigorous cost-benefit analysis of the Monitoring Group proposal.

### 2.4) Risks To Global Adoption Of Standards

The Monitoring Group proposal would impose a serious risk of reducing adoption of the ISAs and the IESBA Code.\(^{56}\) The proposal raises a number of open questions regarding the quality of the standards to be developed, the structure and competence of the standard-setting boards, and securing financial support for the new structure. Faced with these uncertainties, countries may decide not to adopt standards that are subject to change in the near future, or promulgated under a structure that may not be financially sustainable. This is especially true for the many countries that adopt international standards into their own national laws and regulations, because those laws must “be revised every time the international standards are revised.”\(^{57}\)

For example, the ASB currently bases its standards on the ISAs, partly because it is able to participate in the process that sets the ISAs, which results in confidence and quality. But if national standard-setters such as the ASB were no longer involved in the standard-setting process, those national standard-setters would have less assurance that the ISAs protect the public interest. As a result, national standard-setters would likely be less inclined to base their standards on the ISAs, resulting in reduced rates of adoption of the ISAs.

If this were to occur and national standard-setters no longer adopted ISAs or used them as the base for their standards, U.S. firms, for example, could face significantly increased costs and significantly increased complications to their audit methodologies as the incongruity of the various frameworks would result in the need to address compliance with various standards for multinational audits, which could include: one for U.S. listed entities (standards set by the

---

\(^{55}\) See 2016 IFRS Foundation Annual Report at 52.

\(^{56}\) See Section 1.8.

\(^{57}\) Wong at 14.
PCAOB); one for non-listed U.S. entities (GAAS), one for U.S. subsidiaries of foreign entities that follow ISAs, and other methodologies for U.S. subsidiaries of foreign entities that do not follow ISAs and instead follow standards developed by other national standard-setters. This complexity would harm the public interest by increasing the risks that audits will not fully comply with the relevant auditing standard.

By introducing a new untested process, the Monitoring Group proposal risks weakening investor confidence, adding complexity for auditors, and creating unnecessary concerns on the part of national standard setters. And, in so doing, also risks increasing the costs of audits, which in turn will increase the cost of capital and, ultimately as those costs are passed through the supply chain, the costs of products and services to consumers.


3.1) No Identification Of Funding Sources

The Monitoring Group proposal’s discussion of funding fails to recognize the difficulty in starting a new model and recreating IFAC’s infrastructure; which supports the independent standards setting process. The Monitoring Group proposal “recognises the need … to agree with stakeholders how this will be funded,” but does not provide details as to how to fund its proposal.58 Not identifying funding sources raises two significant concerns: First, the proposal fails, as discussed above, to appreciate the scope of the costs involved, and second, one of the proposal’s central justifications for changing the standard-setting board structure is to make the standard-setting board more independent by making it less reliant on funding from the profession.59

The Monitoring Group proposal suggests “mov[ing] to a situation whereby the Board and PIOB are less reliant on funding from the accountancy and auditing professions to fund their work,” but it does not explain how to replace this funding.60 Indeed, the proposal calls for “a significant and ongoing contribution” by audit firms.61 But if the Monitoring Group model takes

58 Id. at 25.
59 Id. at 9-10 (“The current standard-setting model … has led to the concerns noted above, in particular relating to its independence because it is wholly reliant on the auditing and accounting professions for its funding.”).
60 Id. at 24.
61 Id. at 25.
the standard-setting board outside of IFAC and seeks funding directly from the profession, the perceived independence issue raised is, in fact, exacerbated.

In 2016, IFAC incurred approximately $18.4 million in “Standards Development” expenses, including IFAC’s costs in partially funding the PIOB—IFAC funded approximately two-thirds of the PIOB’s 2016 budget. In addition to this considerable sum, the Monitoring Group should also consider the additional costs of forming a new board which, as described above, could be substantial.

The Monitoring Group should have committed and sustainable funding arrangements in place prior to launching or formally endorsing any new model. Secure financing is a key element in achieving the stability of any enterprise. And if the Monitoring Group proposal is adopted, the funding arrangements should address the ostensible purpose of the changes in the first place—to create independence from the profession—by securing funding for, at least, the next 5 years from sources outside the profession. Yet, the Monitoring Group proposal fails to provide any suggestion regarding what these improved funding arrangements might look like, is unclear where the funding for the new model would be obtained, and instead promises to resolve this difficult question later.

In fact, if the profession were to undertake a project designed to make changes to a critical system to the world's capital markets without addressing a substantive funding matter, we predict that the overseers themselves would be critical of that omission. Therefore, we believe the overseers of the Monitoring Group should view this omission as such a fatal flaw that they should instruct the Monitoring Group to redirect its attention to instead make improvements to the current system.

63 See SEC Chief Accountant Letter to the Monitoring Group at 10 (“[A] secure, stable source of funds should be resolved prior to changes being implemented.”).
64 See Monitoring Group Proposal at 24-25.
3.2) Importance Of Secure Funding For Standard-Setting Bodies

The challenge of developing secure funding sources for standard setters is a widespread problem. Examples from other bodies suggest caution regarding this aspect of the Monitoring Group proposal as well.

The FASB’s efforts, for example, to obtain secure funding over several decades provide a useful point of comparison. As with all standard-setting bodies, a secure source of funding has always been central to FASB’s effectiveness. When FASB was established, the SEC viewed the secure “commitment of resources” as “[e]qually important” to the experience of its members to accomplish its mission.66 During the 1990s, the FASB’s funding was put into jeopardy over a number of issues, which threatened its effectiveness. These issues were largely resolved following the passage of the Sarbanes-Oxley Act in 2002. As a result, FASB’s funding today comes from a number of sources, including sales and licensing of its copyrighted materials; support fees assessed and collected from publicly traded companies based on market capitalization (put in place under Sarbanes-Oxley); and investment income.

As another example, the International Integrated Reporting Council (IIRC), a group that deals with improving corporate reporting, recently raised concerns regarding the need to have a more diversified and stable funding model. The IIRC’s 2016 report noted “declining Network contributions” and explained that “[e]xploring new funding sources remains a high priority for our CEO and Board.”67

As a further example, a majority of the IFRS Foundation’s funding is based on contributions from jurisdictions that have put in place national financing regimes. Contribution levels are targeted for each jurisdiction at amounts proportional to their Gross Domestic Product (GDP). While funding mechanisms differ from country to country, most jurisdictions have established either a levy on companies, or an element of publicly supported financing. In addition, the other main sources of income are from publications, licensing, and contributions from international accounting firms. Prior to these more stable arrangements, the IFRS Foundation found it very challenging for many years to rely on a year-to-year voluntary

---

contribution model as its prime source of funding. An appropriate financing regime is vital for ensuring the independence of the organization and its standard-setting.

These examples, and many others, reinforce the need to have secure funding in place prior to any substantial changes to the current structure.

Conclusion: Continuing The Discussion

We recognize that there is always room for improvement in any standard-setting model. The Monitoring Group proposal, however, does not provide a convincing case to justify the extent of its proposed modifications to the existing standard-setting process.

While we do not believe that the Monitoring Group’s proposals should be adopted, several of the concerns raised by the Monitoring Group are very valid and can be addressed with targeted adjustments to the current standard-setting process that minimize the risks we have identified above, including worldwide adoption of standards and other salutary aspects of the current structure.

For example, the Monitoring Group proposal recognizes the importance of independence and multi-stakeholder consensus; it states that “no individual stakeholder should be able to exert undue influence over the standard-setting process.”68 We agree and suggest that any proposed changes to the current standard-setting process should include multi-stakeholder membership throughout the three-tiered governance structure used for setting international standards (i.e. at the Monitoring Group, the PIOB, and the standard-setting boards).69

With respect to the PIOB’s function, its role should be properly limited to its current responsibility—ensuring fair and equitable process is used to set the standards. Delineating the PIOB’s responsibility to oversight of the standard-setting process helps to establish the PIOB’s independence from the substance of the standards. Independence is crucial to the integrity and reliability of oversight, and for this reason carefully defining the PIOB’s role thereby secures its ability to provide effective and reliable oversight. As stated above, however, the PIOB’s current composition could more effectively reflect the importance of multi-stakeholder input.

Because it is essential that the PIOB remain independent from the substance of standard-setting, responsibility for nominating members to the standard-setting board could be vested in a

68 Monitoring Group Proposal at 9.
69 See Section 1.3.
separate nominating committee that is fully independent from the PIOB. To help ensure independence, this nominating committee should not include members of the PIOB or the standard-setting board. And to help ensure that the process of nominating members of the standard-setting board reflects multi-stakeholder consensus, this nominating committee should use a two-thirds voting rule—which would require any decisions to have widespread support across stakeholders—and should have a membership that balances different stakeholders and represents a diversity of geographic areas and groups.

For example, the nominating committee could be composed of seven members: three practitioners and four non-practitioners. Selection of these members could take place by having the Monitoring Group select an independent chair separate from the current Monitoring Group board, with six additional members selected by the Monitoring Group and IFAC. One option would be for the Monitoring Group to nominate six non-practitioners, from which IFAC selects three, and for IFAC to nominate six practitioners, from which the Monitoring Group would select three. This arrangement would establish independence from the PIOB, IFAC, and the Monitoring Group, and would facilitate the inclusion of the perspectives of all stakeholders.

Additional targeted reforms could address modifications to the standard-setting board composition, selection, and processes to promote innovation, quality and timeliness. More advisory groups or task forces could be created as needed by the standard-setting boards to focus on specific issues or projects.

These are just some examples of constructive proposals for reform that would address many of the Monitoring Group’s concerns about the current structure, but with substantially less risk and disruption to the current standard-setting process than the Monitoring Group proposal.

We are happy to have the opportunity to participate in the continuing process of reviewing the international audit standard-setting process. We support the Monitoring Group’s decision to undertake a second consultation before proceeding with any proposed changes. We believe this second consultation should take place after a multi-stakeholder process has been completed to develop a definition of “public interest” and that the consultation should recognize the success of the current model; carefully weigh the costs and benefits of the proposals, including any risks they might pose to the quality and adoption of standards; identify a secure

---

70 See Section 1.7.
71 See SEC Chief Accountant Letter to the Monitoring Group at 2.
source of funding; and incorporate the principles of independent oversight and multi-stakeholder consensus.

We are eager to work together with the Monitoring Group and other stakeholders to ensure the international standard-setting process remains robust and reliable. We look forward to sharing our ideas further so that auditors, investors, regulators, and the public at large continue to enjoy the benefits of high-quality, cost-effective, and relevant international audit standards.

Sincerely yours,

Barry C. Melancon, CPA, CGMA
CEO, Association of International Certified Professional Accountants
President and CEO, American Institute of CPAs