Mr. Gerben Everts and Stephen Haddrill
Monitoring Group
C/- International Organization of Securities Commissions
Oquendo 12
28006 Madrid
SPAIN

By e-mail: MG2017consultation@iosco.org

February 7th, 2018

Dear Mr. Everts and Haddrill,

Re: CICPA Response to Monitoring Group Consultation Paper on Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest

CICPA welcomes the opportunity to contribute to this Monitoring Group consultation. By now, our institute has nearly 240 thousand members, among which over 100 thousand are practicing members.

The Chinese Auditing Standards, as well as Code of Ethics for Chinese CPAs, have achieved substantive and ongoing convergence with International Standards since the year 2006 and 2009 respectively, so we are paying great attention to the reform on the governance structure of International Standard Setting Boards.

According to our experience, although the current International Standards Setting Model has much room for improvement, it is widely recognized that the International Standards developed under this Model are of high quality, and that’s why these Standards have been recognized and adopted in over 120 jurisdictions. Therefore, in our opinion, the most important thing for the reform is the direction we are trying to move to and by what way.

As our key message, we believe that the reform should be able to enhance public interest, and we think this has become the consensus for all of us. However, enhancing the public interest is more than just a principle. The following issues must be resolved:

First of all, a commonly recognized Public Interest Framework must be established, as the precondition and the most important issue of this reform. What is public interest? Who represents and how to act for the public interest? How to embody the public interest in international standards-setting? Consensus on those questions must be formed within a wider range of stakeholders, including key stakeholders. Without a well-recognized
Public Interest Framework, any reform of the governance structure of standard setting would lack the frame of reference.

In our opinion, it is not right that only the regulators can represent public interest, instead, all participants of the capital market are responsible to act for the public interest. Their self-discipline is at all times an indispensable element to maintain public interest.

On international governance, we think either the complete self-regulation or the complete external regulation will help. Good governance, including international governance, should be an organic combination of self-regulation and external regulation. We believe that the current model well reflects this principle, so we believe the current model should be improved, rather than totally abandoned.

Second, a comprehensive assessment of the current Standard Setting Model against the above-mentioned Public Interest Framework is needed. If the current model is completely in conflict with the framework so that we need to establish a new model, or otherwise the current model can be adapted to meet the need of public interest. The most important thing is to do a root cause analysis to find out where the real problem lies, whether the problem is caused by the failure of the Governance Structure in the current model itself, or the failure of the implementation of the current model (the intended oversight failed to serve its full potential).

Third, after the deep analysis, if it is proved that the problem cannot be resolved by the adaptation of the current model, thus a new model is needed, then a complete package of proposals should be designed and presented. However, the MG proposal didn’t articulate the reform of MG and the PIOB, while both of them are key parts of the governance structure. Besides this, funds collected via a contractual levy on audit firms, instead of collected by IFAC, still cannot solve the problem of independence, if there are no workable solutions to secure other sources of funding. If both MG and PIOB are mainly comprised of members from the regulators, this governance structure still cannot ensure that the Standard Setting Boards are independent of the regulators.

Fourth, we must attach great importance to the assessment on how the reform would impact capital market. Since the current ISAs and IESBA Code have been well recognized and adopted, we must attach great importance to how to maintain the confidence of the capital market, as well as how to avoid potential shock and instability during the transition period.

We are concerned that if we simply deny the current standard setting model without identify its defects clearly and accurately, the public confidence in the current financial reporting system might be seriously damaged, thus the recovery of international finance and world economy will be undermined.

Based on the above understanding, we believe that MG needs to consider a methodical approach to move forward orderly. They should not rush to decisions before the above work has been done and consensus has been reached. Otherwise, the reform may not achieve its stated objectives, and may create unnecessary risks due to the lack of a careful planning.

Accordingly, we have the following suggestions:
First, we recommend that MG should strengthen cooperation with IFAC and other stakeholders, in a more inclusive way, to study the problem and consult with each other to establish an enhanced International Standard Setting Model which is conducive to improve the public interest.

Second, it is important to widen the multi-stakeholder representation to solve the concern of independence. We suggest that on the aspect of the composition of Standard Setting Boards, representatives from different cultures, speaking different languages, from economies at different levels of development, including emerging economies, should be represented. Accordingly, the current Nominating Committee should be composed of representatives from multi-stakeholders.

Third, independence and technical competence should be treated equally, both of them are important. If technical competence is lost, independence will become meaningless, and is likely to damage public interest. Therefore, we believe that in Standard Setting Boards, the professionals should reach a certain proportion and the voting approval criterion should also be set at a high proportion.

We are delighted to see that MG has declared that the new model will not be dominated by regulators. If International Standards are developed purely from a regulatory perspective, they are likely to be more rule-based and prescriptive, and abandon professional judgment, which is essential to audit quality. In order to effectively prevent the above from happening, we suggest keeping the IFAC representative within PIOB, and also, adding representatives from National Standard Setters to both MG and PIOB.

Fourth, we suggest that we should speed up the improvement regarding obvious but can be quickly acted on problems under the current model. For example, all members of the IAASB and IESBA should become full-time, and the team of technical staff should be expanded.

We would be happy to discuss our comments further with representatives of the Monitoring Group.

Sincerely,

Yugui Chen
Vice President and Secretary General
The Chinese Institute of Certified Public Accountants