

Brasilia, Federal District, Brazil

February 1, 2018

To

The Monitoring Group

To the attention of Mr. Gerben Everts, Chair

[MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

[Sent by e-mail]

Response to the Public Consultation- Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest

We appreciate the opportunity to provide comments and specific responses to the consultation paper released by the Monitoring Group. We submit these comments to encourage the MG to consider other important issues related to the International Audit-related Standard-setting Boards with additional public consultation and extensive and open dialogue with multiple stakeholders before moving any reform is [mutually] decided to be implemented.

We, the *Conselho Federal de Contabilidade* (the Federal Council of Accountants) or CFC, are the professional accountant organization created by Federal law No. 1946 and together with our Regional Councils in all of our 27 states and one federal district, regulate all and more than 530,000 accountants in Brazil. An accountant in Brazil to provide any kind of service, for the public or private sector, including assurance services, must be licensed with us. We, by law, are also responsible to incorporate or not into the Brazilian laws and regulations any international ethics, auditing and accountants standards for the public and private sector, issued by any international organization(s). We also work with other security and prudential regulators, in order to assure the quality and the independence of any organization and its issued standards prior to incorporate such a standard in our jurisdiction. Since 2010, Brazil has incorporated into our system the standards issued the Independent Boards supported by the International Federation of Accountants, the IFAC, and the International Accounting Standards Board, the IASB.

We are an IFAC member organization since 1986. We work with the IFAC, together with another Brazilian accounting organization named Ibracon – *Instituto dos Auditores Independentes do Brasil* (Institute of Independent Auditors of Brazil) on the Statement of Membership Obligation Program through a Country Convergence Committee. Under this project, and through contact with us, IFAC leadership monitors our jurisdiction compliance with international accounting, education, ethics, auditing and public sector standards, together with other investigation and discipline initiatives on the accountancy profession. I believe that IFAC, together with our strong commitment to converge to international standards, helped us

implement most of the international standards for the private sector since 2010. We are firmly committed to adopt, together with government authorities, the International Public Sector Accounting Standards for the Federal Government, 28 units of our federation and in more than 5,500 municipalities. We strongly believe that IFAC delivered and can continue to deliver relevant services for the global and interconnected economies and organizations.

On this content, we believe that any reform, in order to assure a smooth and stable process, should:

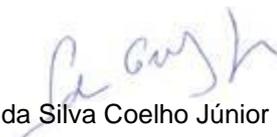
- Improve the current model allowing more participating of other stakeholders in the oversight process; however maintain the accounting profession and other knowledgeable participants to lead the technical debate on the development and issuance of standards. The oversight body should assure that the due process to develop standards is carried out in the public interest, however should not be able to veto or require adjustments to any standards. We believe that the professional, through the IFAC, should be able to indicate qualified individuals for any oversight board.
- Assure an effective participation of multiple stakeholders, including geographical representation, gender, and audit firms of small, medium and large sizes. IAASB and IESBA standards are implemented in more than 120 jurisdictions because national standard setters believe that they are represented in the respective boards or in the standard built process. If representation is not achieved there is a potential risk that countries return to the issuance of national GAAP or national auditing standards.
- Assure an ethical code would be applicable to all accounting professionals. Preparer of the financial statement and the auditor of that financial statement should comply with the same code of ethics.
- Clarify, through a consultation process, the mandate of the Monitoring Group and the Public Interest Oversight Board and that a Public Interest Framework is known by the public prior to any reform is implemented. Make sure that, when possible, the accountancy profession is well represented in the technical boards and in the governing and monitoring boards.
- Funding structure is properly set with equal participation of all stakeholders, including regulators. Funding should be resolved up front of any discussion not later on.

In the content of the above comments that we provide detailed comments or responses to the specific questions included on the MG consultation paper.

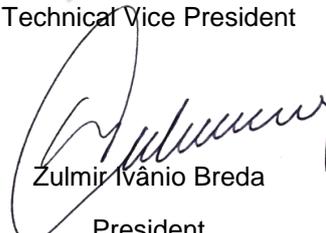
Thank you for the opportunity to submit our comments regarding this relevant global matter. Please note that we want this letter to be made available to the overall public and we argue you that in future consultation only letters that are available to the public be considered in public consultation, since we do believe this is in the public interest.

We are available to provide additional information on the comments or responses provided in this letter.

Very truly yours,



Idésio da Silva Coelho Júnior  
Technical Vice President



Zulmir Ivânio Breda  
President

[CFC response to the questions formulated in MG Consultation Paper]

**1. Do you agree with the key areas of concern identified with the current standard setting model? Are there additional concerns that the Monitoring Group should consider?**

CFC noted that the current standard-setting model is premised on the collaboration between private and public sectors, and has produced high-quality standards which are widely accepted around the world, including in our jurisdiction, Brazil. Such standards have been applied for all accountant services, for all professionals.

With respect to the key areas of concern included in the CP, IFAC notes:

- *Stakeholder Confidence in the Standards as a Result of the Level of Influence by the Accountancy Profession*

There is clear evidence that stakeholders have confidence in the standards being produced under current arrangements, and by implication, that the influence of the accountancy profession is closely monitored through a framework of clear and balanced independent public interest oversight. Over 120 jurisdictions, including Brazil, our jurisdiction, have either directly adopted, or use, IAASB standards, and have either directly adopted, or use, IESBA standards as the basis for their national standards with many incorporating them into legislation or adopting them directly as national standards. Essentially all member states of the European Union have adopted International Standards on Auditing<sup>®</sup> or apply national standards that are modeled on these standards.

- *The Public Interest Is Not Given Sufficient Weight*

The current model intends to recognize that the broader public interest is best protected when all stakeholders cooperate and exercise their public interest obligations. Consideration of the public interest is firmly embedded in the model; particularly in a stringent, highly transparent due process, that is overseen by an independent public interest oversight body. The current model works well because checks and balances are in place—with respect to SWPs, budgets, the nominations process, and so on—and are overseen by a separate and independent oversight body to ensure that no single stakeholder can exercise undue influence over the development of standards.

- *Relevance and Timeliness of Standards*

As noted previously, the high level of global adoption of international standards is testament to the relevance and quality of the standards developed by the current model. The legitimacy of standards comes from the representative composition of SSBs; the stringent, transparent due process; and the structure of the governance model that protects the public interest. While many argue that the speed of standard setting by the IAASB and IESBA is generally considered faster than comparable SSBs, improvements

in due process arrangements discussed and agreed between the SSBs and the PIOB, including additional flexibility for emerging issues, will further enhance speed. The current PIOB mandate allows for this; and logic suggests that utilizing means for enhancements available in the current model is more efficient and less disruptive than making wholesale structural changes to overcome shortcomings with one part of the model. Accordingly, we do not support creating a totally new structure rather we strongly support that different stakeholders work to improve that current model that has rebuttable evidence that has more strengths than weaknesses.

**2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?**

CFC, an active IFAC member organization, generally agrees with the supporting principles listed in the CP, although would articulate them in a different manner. It agrees that the public interest should be at the heart of any international standard-setting arrangements and in our view is present in the current model.

We believe that the current model serves the public interest and importantly ensures that no one stakeholder is able to exert undue influence over standard setting. Critically, checks and balances in place throughout the model ensure that neither the accountancy profession, nor regulators, nor any one stakeholder, can “set their own standards.” The current model is a shared public-private public interest model vis-à-vis a pure regulatory model that the MG is proposing. The current model has the oversight of the PIOB and consultation and advice of the Consultative Advisory Group. Such board and group have senior representatives from the international regulatory community or many other organizations that are interested in the development and adoption of high-quality international standards.

A regulatory model is premised on the assumption that only regulators act in the public interest and we tend not to agree with that and we, CFC, are a regulator. We recognize that we or other regulators usually have a mandate by law to issue regulations that are not alone a safe harbor, and that are only in a position to direct guidance that protect the public interest. In this regard, as said, while regulators are often given a public interest mandate in a given jurisdiction, this is not synonymous with the broader public interest perspective applicable to international standards, which are global public goods. In addition, this highly debatable presumption that only regulators act in the public interest fails to recognize and acknowledge the potential conflicts of interest to which regulators can be subject (in particular with respect to political pressures and funding—which the model proposed by the MG arguably exacerbates).

The current model has several aspects designed specifically to protect the public interest, including:

- a robust, stringent due process;
- transparency and openness of all meeting and meeting agenda papers; and
- oversight by a public interest oversight body.

We do not believe that the proposals outlined by the MG are consistent with these principles. We also believe that the proposals heighten the perceptions of undue influence, especially by the regulatory community, and will be potentially far more costly than the current arrangements. It is also unclear to us, since we believe that this is not clearly articulated in the MG consultation paper, where from is coming the undue influence in the current model and the factual evidence of this improper influence providing examples where the quality of the standards has been jeopardized in this regard. We do believe that there is consistent evidence through the issuance of the standards and the adoption in more than 120 jurisdictions that the current model and related issued standards are designed and effectively working in the public interest. We recall the fact that the MG and PIOB, for more than a decade being part, within their mandate, of the current model.

**3. Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so, what are they?**

We believe that a framework for assessing whether a standard has been developed in the public interest should include points such as:

- key multi-stakeholder representation that reflects geographical, gender diversity and sizes of business;
- sufficient and appropriate technical input to ensure that standards can be practically implemented;
- a robust due process that includes arrangements for obtaining a broad range of stakeholder views and post-implementation reviews to ensure that standards are operating as intended;
- transparent processes for analyzing and reaching a conclusion on public consultations;
- high levels of transparency with respect to the public's access to meetings, agenda papers, and subsequent minutes and conclusion papers;
- independent oversight with a clear mandate;
- multi-stakeholder funding, with appropriate checks and balances to ensure that those funding standard-setting activities are not able to influence the outcomes; and
- reporting and monitoring to ensure that assigned responsibilities and obligations are effectively discharged.

4. **Do you support establishing a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.**

We believe that in the current model and in any intended future model, any board, combined or not, will only be able to issue standards (and not adopt), since they cannot enforce adoption in any jurisdiction, accordingly our response is provided assuming that the MG consultation paper intends to mean develop and issue rather than develop and adopt. Adoption of a standard is usually in the mandate of a national standard setter. We are a national standard setter.

Having said the above, we do not support the establishing of single SSB for developing auditing and ethics standards. Having two SSBs clearly delineates the work of each, ensures a clear focus on key topic areas, and means that sufficient, specifically assigned resources are properly and weighted devoted to these topics. For sure, we also believe two current SSBs should work together to make sure that ethics are timely and properly embedded in the auditing standards.

Additionally, we do not support the proposal to separate ethics standards developed for auditors than for other professional accountants. Professional accountants provide a vast range of services across the economy, supporting financial stability and growth. It is untenable to imagine that different professional accountants, for example, one who is preparing a set of financial statements, might be held to different standards of ethical behavior than the auditor of those financial statements.

Also, there would be significant resource implications in having one SSB. IFAC's experience with nominations is that there are only a limited number of people who would be equally knowledgeable and skilled in the areas of both auditing and ethics. Also, the two SSBs have 18 members each, highly credible in the technical areas of either audit or ethics, and each—except the Chair—with a technical advisor. Collapsing into a single 12-member board (or at the least less than 18) would shift the bulk of technical analysis and issue resolution to staff, undermining the perceived legitimacy and authoritativeness of the single SSB.

5. **Do you agree that responsibility for the development and adoption of educational standards should remain a responsibility of IFAC? If not, why not?**

Yes, we agree that the education board remains with the responsibility of IFAC. See our other comments and responses related to the other SSBs and our views of the IFAC service and value.

**6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not, why not?**

As noted earlier, we believe that it is contrary to the public interest to have separate ethics standards developed for auditors than for other professional accountants. While the current set of ethics standards is contained in one unified Code of Ethics for Professional Accountants (Code of Ethics), the MG proposals seek to bifurcate the Code of Ethics with ethics standards for auditors covered by the proposed new board, and ethics standards for other professional accountants in practice and professional accountants in business (for example, those responsible for preparing financial statements) being done by IFAC under separate standard-setting arrangements.

In the context of the financial reporting supply chain, where professional accountants are involved in all aspects—as preparers, as directors, as management, as regulators, as internal auditors, and so on—it is reasonable – in our view - to suggest that professional accountants in some parts of that chain should be subject to different ethics standards than others. It is also illogical to assume that two different sets of standards will remain in tandem, for that essentially undermines any reason for splitting the board into two separate boards since we are talking about the same profession.

Finally, the CP is not clear whether the current proposal is just the independence requirements which would be the focus of the combined board, or whether it encompasses ethics principles more generally (of which independence requirements are a subset) which are critical to the attainment of a successful, high-quality audit.

See our other comments related to the other SSBs and our views of the IFAC service and value.

**7. Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard setting boards? If so please set these out in your response along with your rationale.**

We strongly believe that the MG should explore alternatives to improve the current model instead of creating a totally new one, since there is a high risk of adverse consequences that cannot be anticipated on this “proposed new model”. We believe that our additional comments or responses to your questions will further provide our concerns about the proposals included in this CP. We also provided in the cover letter to the specific responses additional comments and suggestions on other matters not included in the CP that – in our view – should be considered prior to any reform be implemented. Please refer to this cover letter to understand our complete view on the Consultation Paper and any reform.

**8. Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?**

We are unsure if a change in the nature of the board will benefit the process or not. We do not know if a board working with a “more strategic approach” will improve the entire process, since such boards will need to be technically qualified to review and approve standards rather than “only” writing them. In principle, we do not oppose to the remuneration for the board members since this may attract non-practitioner and public members to the role. However, we do not support the proposal of having three full time board members and the remaining part time. This proposal runs the risk of having only three individuals exercising undue influence on the entire standards setting process. We are on the views that the proposal should treat members equally, being all full time or all part time since this would allow them to equally participate in the draft, review or approve process.

**9. Do you agree that the board should adopt standards on the basis of a majority?**

We are not in favor having standards approved on the basis of a majority vote by a SSB that intends to have its standards being adopted in many jurisdictions. The current process requires a super majority—that is, 12 out of 18—to approve pronouncements. This means no one group (practitioners, non-practitioners, or public members) can approve a pronouncement without at least some support from other groups.

Moving from a super majority to a simple majority for decisions related to the issuance of standards and exposure drafts, especially if this coincides with a reduction in the number of SSB members, is potentially problematic. Such a change works contrary to the notion of international standard setters having to work over time to gain consensus; that is, to persuade national jurisdictions through technical credibility, representativeness, and thoroughness of due process. Indeed, the success of the current model in having standards adopted across the world is in a large part due to this consensus approach.

**10. Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members, allowing both full time (one quarter?) and part time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?**

We support the multi-stakeholder composition of SSBs. We do support the current model of the IAASB and IESBA. We however may accept that the current model appears to create a perception that the accountancy profession dominates the technical discussions of the SSBs. Therefore, it is appropriate to recast the SSB composition to more explicitly reflect the various stakeholder groups—investors, those responsible for preparing financial statements, regulators,

those charged with governance, and the accountancy profession, including auditors of small, medium and large networks—in a true multi-stakeholder model. We however stress the fact that standard issue should be technically supportable and workable otherwise they will lose credibility globally and this is not in the public interest.

**11. What skills or attributes should the Monitoring Group require of board members?**

We do not see the need to change the skills and attributes from those currently sought for SSB members, who on the whole are competent, highly skilled professionals in their respective fields and bring a broad range of important skills to the role. A multi-stakeholder SSB composition would implicitly promote a diverse skills mix. However, it is imperative for a number of members to have strong technical skills and for the standard-setting SSBs as a whole to have a sufficient number of members with thorough and up-to-date auditing knowledge, to ensure that any standards promulgated are able to be practicably and readily implemented to achieve the stated objectives. Other relevant specialist skills and expertise (for example, audit committee experience) are also important to have on SSBs.

**12. Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?**

CAGs are an integral part of SSBs' formal process of consultation on agendas, priorities, and technical projects. They are geographically diverse, multi-stakeholder groups representing 31 organizations for the IAASB CAG, and 26 for the IESBA CAG. The multi-stakeholder membership of the CAGs means that a significant cross-section of views are provided by members of a diverse array of stakeholder organizations which have a keen interest in ensuring the best level of corporate reporting and information, and auditing is supported by the globally accepted, high-quality international standards.

We believe there is a strong argument for the ongoing existence and role of CAGs to provide insights into issues relevant to standards development from a broad range of perspectives.

**13. Do you agree that task forces used to undertake detailed development work should adhere to the Public Interest Framework?**

As the Public Interest Framework (PIF) being proposed by the PIOB still has to be developed, consulted on, and published, the extent of its applicability to task force work cannot be assessed, however we support the fact that all participants of any task force should be a broad representation of different participants, agree not be improperly influenced by any group, one single stakeholder, politicians or employer. All participants should agree to work in the public interest. We stress the fact that the PIF should be built through public consultation and extensive dialogue before any reform is made.

**14. Do you agree with the changes proposed to the nomination process?**

We support changes to the composition of the NC, such that for appointments to SSBs, it has:

- an independent Chair of the NC, subject to clear agreement on what constitutes “independent,” and a selection process that ensures someone of the highest quality and integrity; and
- three NC members nominated by the accountancy profession, and three members nominated by the MG and representing other stakeholder groups.

We believe this view would address stated concerns relating to the perception of a lack of independence. The PIOB currently oversees all aspects of the nominations process. It has access to all papers and observes all meetings and discussions of the NC. Concerns about perceptions of independence would be allayed by increased transparency of the PIOB, which could issue a positively worded public statement about its oversight of the NC and its adherence to due process.

We are not supportive of the MG proposals for the nominations process and strongly disagree with having the PIOB participating directly in the nominations process. This is in conflict with the fundamental foundational concept underpinning independent public interest oversight of standard setting—that is, of separating “oversight” and “participation”—and gives free rein for undue influence to be exerted by one stakeholder.

The current nominations process for appointment to an SSB already includes an open call for nominations for all SSB positions with a robust principle that is an overall goal that is to find the best person for any position.

**15. Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?**

We have learned that the PIOB has been asked by the MG to prepare and issue a proposal for a Public Interest Framework for future public consultation. Subject to a review of this proposal, we do not agree with the proposed roles and responsibilities of the PIOB as set out in the CP. In particular, we disagree to the envisaged role for the PIOB with respect to the nominations process, the ability to veto a proposed standard, challenging the technical judgments of SSBs, and funding.

The proposals for the PIOB to veto a standard or challenge the technical judgments of a SSB are contrary to the foundations of robust and independent international standard setting, and the critical distinction between participation in, and oversight of, standards development. They are

indicative of the view that the MG is proposing a regulatory model for standard setting, which would be unacceptable to many parts of the world.

The MG proposals with respect to the role of the PIOB do not address key stakeholders' current observations about the operations and activities of the PIOB and appear to confirm the MG's aim to create a purely regulatory model where undue influence can be exerted by one key stakeholder.

There is a significant body of opinion that believes that in recent years the PIOB has overreached its mandate. Indeed, in its 2016 Annual Report, the PIOB notes that "the PIOB will strengthen its mandate," although it is not for the PIOB to unilaterally decide on such matters. Rather than focusing on overseeing that the standard-setting due process is operating effectively, the PIOB has aimed to broaden the scope of its activities. This creates confusion about the role of the PIOB when it aims to "participate" in standards development, as well as being responsible for overseeing due process, creating an unmitigated conflict of interest. The mandate of the PIOB is very clear that the PIOB must not provide direct input into the technical development of standards.

We make the following recommendations with respect to the PIOB:

- The PIOB must operate within its mandate and focus only on the design and operation of the due process arrangements, including oversight of the nominations arrangements. It has assumed a broad and unspecified role of protecting the public interest (and to date it has not sought to define what that entails), which is not a role that has been assigned to it and which—in any case—is not the sole responsibility of any one stakeholder.
- Recreate the PIOB into a true multi-stakeholder board—with representatives from investors, preparers, those charged with governance, regulators, academics, and the audit profession—premised on transparency, accountability, and geographic diversity. The PIOB be equally funded by all of the stakeholders and not by the IFAC that provides the majority of its funding, since its inception.
- Clearly articulate the skills requirements and nomination and selection processes to the PIOB so that it is more rigorous and less informal than the current arrangements.
- As is required for all SSBs, open all meetings, agenda papers, and minutes of the PIOB to the public to provide transparency into deliberations and decision-making.

#### **16. Do you agree with the option to remove IFAC representation from the PIOB?**

This question reflects an important misunderstanding by some stakeholders of the role of the PIOB.

PIOB members are appointed in their individual capacity and are not representatives of the organizations that nominate them. This misunderstanding is at the root of many stakeholders' concerns about the PIOB's recent activities, as it is evident that a number of PIOB members

see themselves as performing a regulatory oversight function—in line with their nominating organization mandates—rather than playing a public interest oversight role. This occurs notwithstanding the formal obligation placed on PIOB members to act in their personal capacity in the public interest.

Therefore, CFC chooses not to directly answer the question asked, but presents its views on whether IFAC should be able to continue to nominate people for approval by the MG, for appointment to the PIOB and we believe it should continue to appoint. As noted above, we believe that the PIOB should be a true multi-stakeholder body, in line with proposals for the SSBs. A broad range of skills, experience, and geographical regions, including having members with strong auditing and accounting knowledge and expertise must be represented on the PIOB. Therefore, in an open call for nominations for appointment to the PIOB, IFAC should be able to continue to put forth nominations, alongside other nominating organizations and individuals who meet the relevant skills and expertise criteria. Finally, IFAC has just appoint one nominee that, working on his own capacity, cannot provide undue influence in the entire board.

**17. Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?**

We support a multi-stakeholder approach to encompass nominees from investors, those who prepare financial statements, those charged with governance, regulators, academics, and the accountancy profession. A multi-stakeholder composition and members with appropriate skills will ensure that the PIOB has appropriate technical understanding of audit matters.

**18. Do you believe that PIOB members should continue to be appointed through individual MG members, or should PIOB members be identified through an open call for nominations from within Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?**

We do not agree with appointments through MG members, or limiting nominations to being “from within MG organizations,” as this does not constitute an “open call.” We support a process whereby the MG issues an open call for any organization or individual to nominate for the PIOB. Approval of appointments would be made by the MG based on a predetermined skills matrix, and bringing multi-stakeholder perspectives. We support a robust selection process.

- 19. Should PIOB oversight just focus on the independent standard setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard setting boards (e.g., issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?**

We do not support a structural, long-term PIOB oversight arrangement for an accounting education standards board that is moved to IFAC. The entire focus of global support for accounting education is currently being assessed by IFAC, and potentially the most fit-for-purpose arrangements may not necessarily include public interest oversight.

As noted previously, we do not support bifurcating ethics standards development between separate SSBs, where one board sets standards for auditors, and another sets standards for all other professional accountants.

- 20. Do you agree that the Monitoring Group should retain its current oversight role for the whole standard setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its (*sic*) work, promoting high-quality standards, and supporting public accountability?**

Given that the future roles and responsibilities of the MG and PIOB have been deferred to a future time and are not included as part of this CP, it is premature to answer this question. The CP indicates that the MG believes that no changes to its role and remit are required “in the medium term.”

As a general rule, we believe that the MG composition and its method of operations should be more formally detailed with respect to the role of members, the frequency of meetings, transparency of work plans and proceedings, and related issues and this entire process should be made through an extensive public consultation and dialogue. Additionally, we believe that consideration should be given to the seniority and experience of representatives of the organizations on the MG to ensure they have the capacity to truly represent these organizations. They should also be appointed for a set period of time, as the MG has suffered in recent years from substantial turnover in those attending meetings, especially during the more than 30 months it has taken to publish this CP. Together, these points are critical to ensuring that the relationship between the MG and PIOB is appropriately managed.

**21. Do you agree with the option to support the work of the standard setting board with an expanded professional technical staff? Are there specific skills that a new standard setting board should look to acquire?**

Technical staff play a key role in the development of international standards; and it is important for staff to be sufficient in number, be appropriately expert and skilled, and represent broad geographical diversity. Expanding and uplifting the technical staff—as and when advised by the SSB Chairs and the head of professional standards staff—seems appropriate, but it is a matter that needs careful consideration.

This matter is not simple, and the CP does not fully explain the relevant challenges and complexities. In particular, the proposals for a smaller, single SSB for auditing and ethics for auditors implies a significant shift in the technical work of standards development away from the SSB to staff. This creates significant risks and vulnerabilities related to:

- recruiting technical resources of the nature required, both in relation to the required sufficiency and diversity of staff. Put simply, such resources are not easily found, particularly when adding in the crucial factor of geographical diversity; and
- the sourcing of staff resources, which most likely would be from audit firms. This, and the use of secondment as proposed in the CP—which implies drawing on audit firm resources—alongside a smaller, less technical strategic board, has the potential to heighten the perception of undue influence by the accountancy profession and does nothing to diminish concerns with respect to perceptions of independence.

We draw attention to the key skills and attributes of the staff currently employed. These include:

- outstanding technical skills that are complemented by firsthand experience across all parts of the financial reporting value chain, including the practical application of standards;
- excellent organizational skills, and strong computer literacy;
- motivated and confident in dealing with others on complex technical matters with the flexibility to meet internal and external demands;
- ability to work in a collaborative and team environment;
- strong project management skills, in particular those necessary for the timely delivery of outputs including interpretation of what is needed for the success of a project;
- strong interpersonal skills and the ability to work in a multicultural setting;
- excellent communication skills including written, verbal, listening, and presentation;
- keen interest in public interest and practical auditing or assurance issues; and
- ability to liaise with senior members of the accountancy profession and regulatory community, as well as with senior officials from other external organizations.

- ability to maintain all these staff updated on current matter staff affecting an evolving business world extensively impacted by changes in technology.

We also draw attention to the geographical diversity of the current staff who originate from 10 different jurisdictions and speak at least eight different languages. Their range of skills and experience include international and national standard setting, practice experience, regulation and inspection experience, policy setting, and legal experience.

Finally, we note that risks associated with staff recruitment and retention are amplified during times of uncertainty. The current MG review process has been underway for well over 30 months and has created growing unease among existing technical staff. It has made it considerably more difficult to attract high-quality staff to vacant positions, especially where relocation of standard-setting technical staff to another country has been floated in the discussion. This highlights a key point that seems to have been misunderstood by the MG throughout the process, with respect to differences between international and national standard setting where the effectiveness of the former relies on the ability to attract and retain talent from across the globe.

**22. Do you agree that the permanent staff should be directly employed by the board?**

The SSBs have no separate legal status and so are unable to employ staff. IFAC is of the view that the costs and challenges of having technical staff employed directly by the SSBs, or another organization, need to be thoroughly analyzed and assessed, recognizing the significant implementation and ongoing costs associated with establishing and maintaining a separate legal entity with the full range of corporate support services.

We, CFC, as an IFAC member organization know that IFAC provides administrative support to four SSBs in accordance with a service-level agreement. The benefits of IFAC's expertise and knowledge, and the synergies of supporting four boards, must be recognized.

**23. Are there other areas in which the board could make process improvements—if so what are they?**

The SSBs, in liaison with the PIOB, have the ability to make process improvements. We recommend that they be given an opportunity to consult and determine improvements that can be introduced to address some of the perceived weaknesses of the current model. This is a more prudent and less disruptive approach than a fundamental restructuring of the entire standard-setting model.

Specifically, IFAC proposes that, as permitted under the current arrangements:

- improvements in due process arrangements should be discussed and agreed between the SSBs and the PIOB, including that additional flexibility will enhance speed; and

- these process improvements should include having different due process arrangements for different streams of work, for example, new standards, revised standards, and minor updates.

The MG notes in its CP that the Chairs of the IAASB and IESBA have offered to test, on a pilot basis, proposals with respect to enhancing process efficiencies with the aim of improving the speed of standards development. We support the approach that aim to strive for continuous process improvements; and these pilot tests appear to be one means for doing so. We believe there is merit in ensuring that these pilot tests are carefully monitored over a two-year period to determine whether they lead to enhanced efficiencies. Where it is determined that they have achieved the outcomes desired, they can potentially be incorporated into the current, enhanced model.

**24. Do you agree with the Monitoring Group that appropriate checks and balances can be put into place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB who would distribute the funds)?**

We agree that checks and balances can be put into place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession. In fact, appropriate checks and balances are already in place in the current mode. However, the MG has not acknowledged, described, or explained in its CP why it considers these checks and balances to be insufficient.

Essential elements of a sustainable, robust funding model for standard setting for auditing standards include:

- multi-stakeholder funding contributions;
- contributions made with the knowledge that the model has checks and balances in place that prevent them, or other contributors, from influencing the standards;
- contributions from the auditing profession—those who use the standards developed—not being directly provided to the SSBs, but through an intermediary without influence over the process;
- SSBs determining their own funding needs based on the achievement of their SWPs, approved by an independent public interest oversight body;
- those funding needs being communicated to the funders and contributions being made to fulfill those needs on an unencumbered basis; and
- a mechanism of reporting and monitoring that ensures that SSBs are discharging their accountability to their funders.

Except for the first element—multi-stakeholder contributions—the current funding arrangements reflect these elements.

As noted earlier, the CP does not explain the current funding arrangements, and hence does not outline the various checks and balances that currently exist. It offers no explanation why it now considers these arrangements to be inadequate. It is important for current funding arrangements to be clearly explained, before any reform is made, in particular, to highlight these checks and balances.

- IFAC levies dues on its 175 member bodies from 135 countries, and receives contributions from international audit networks which are members of the Forum of Firms. These funds are not “earmarked” or linked specifically to standard setting, and are used to fund both standard setting and IFAC’s other programs and public interest activities.
- SSBs operate independently in terms of establishing their own SWPs, and in standards development, under direct PIOB oversight and observation.
- Funding requirements to deliver the approved SWPs are developed by the SSBs’ Chairs and the Managing Director, Professional Standards (MD, PS). The requested funding is allocated unencumbered and unconditionally by IFAC, based on the SSBs’ budget requests.
- SSBs confirm to the PIOB that sufficient funding has been attained to accomplish their SWPs, which are approved by the PIOB.
- IFAC provides administrative support to SSBs in accordance with service-level agreements.

In this way, no individual entity or grouping of accountancy profession interests can be perceived as funding the standard-setting model, in sharp contrast to what the MG is proposing.

We believe that a true multi-stakeholder model requires multi-stakeholder funding. Diversification of funding should be seen as a priority. However, the experience over the past 13 years with the funding of the current standard-setting model—especially the funding of the PIOB where diversified funding was identified as a major priority—suggests that this is no easy task. As noted before in our comments, IFAC continues to be the majority funder of the PIOB, given the inability of the MG and PIOB to achieve a more diversified, sustainable funding base.

Logic suggests that the MG, and the international regulatory community, would need to ensure that it has committed long-term diversified funding in place before embarking on any new, significantly more costly standard-setting model. Any transition costs would need to be funded exclusively by stakeholders other than IFAC, which would be continuing to fund the current model.

In the meantime, the checks and balances of the current funding arrangements can be further strengthened and clarified through a process whereby the MG Chair, PIOB Chair, and senior SSB representative play a role in the process of assessing the funding requirements and confirming the unfettered allocation of funds to standard setting to achieve the SSBs’ SWPs.

**25. Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those proposed in the paper, and if so what are they?**

CFC believes that a true multi-stakeholder model requires multi-stakeholder funding. Diversification of funding should be seen as a priority. It does not support the imposition of a contractual levy on audit firms for reasons of both principle and practicality. As well as heightening—rather than mitigating—the perception of undue influence by the audit profession in standard setting through funding, it raises several questions:

- Is it possible to enact and enforce a levy at a global level? If not, it then becomes a voluntary contribution and concerns about undue influence are heightened.
- How would the levy be calculated to ensure it is applied in an equitable and proportionate manner, taking into account jurisdictional differences and differences in capacity to pay?
- Would the levy aim to be imposed on all audit firms around the globe, or just a small number of major networks? If the latter, then it reinforces the view that the proposed model is being developed with a very narrow definition of the public interest in mind.

Additionally, if a contractual levy could be imposed, there is a real chance that many audit firms would leave the market, leading to greater audit market concentration. This would reinforce the view that the MG proposals are focused on audits of listed companies and large multinationals by large audit firms.

**26. In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.**

This consultation seeks the input and views of stakeholders on potential enhancements to standard-setting arrangements, the outcome of which will not be known for several months. Furthermore, it defers until a later time many fundamental elements of the potential reforms, that is, the roles and responsibilities of the MG and PIOB; the finalization of the Public Interest Framework; and funding. Therefore, we are unable to anticipate any matter that the MG should consider in the implementation on any reform. These responses should be read in the content of the additional comments made in our cover letter.

**27. Do you have any further comments or suggestions to make that the Monitoring Group should consider?**

CFC has no further comments. See our additional comments made in our cover letter.