



**ICGN**

International Corporate Governance Network

8 February 2018

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

## **Monitoring Group Consultation**

### **Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest**

#### **ICGN submission**

To the Monitoring Group:

The International Corporate Governance Network (ICGN) is a global investor-led body based in London, whose mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

ICGN was established in 1995, and today our network of governance professionals spans over 45 countries and includes investors representing assets under management in excess of US\$26 trillion. As such, ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. Our policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles, both of which have been developed in consultation with ICGN Members and as part of a wider peer review.<sup>1</sup>

We are pleased to respond to the Monitoring Group's Consultation on Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest. One of ICGN's five policy priorities relates to seeking transparency through robust reporting, audit and metrics. This policy priority is linked directly to ICGN's Disclosure and Transparency policy committee, which has a strong focus on audit quality standards, as well as the independence and integrity of the accounting and auditing professionals. This policy focus clearly relates to the concerns of the Monitoring Group and the scope of this consultation.

ICGN's response to this consultation is primarily in our capacity as a representative body of investors and users of financial statements. We support the initiative of the Monitoring Group to seek wide stakeholder representation in this important review in this consultation, and we believe in particular that an investor perspective is important for these deliberations—and for the future oversight of the Public Interest Oversight Board's (PIOB's) activities.

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<sup>1</sup> For access to ICGN's Global Governance Principles and Global Stewardship Principles, along with other policy statements, including ICGN's 2018 Policy Priorities, please visit: [www.icgn.org](http://www.icgn.org).

We note that the consultation contains a number of specific questions relating to the governance framework for the audit standard-setting process. The general scope of the changes suggested by the Monitoring Group appear sensible to us. However, while our own focus on governance of companies may be of use in some of the questions that are being considered, ICGN has not had direct interaction with the Monitoring Group, the IOB or the International Federation of Accountants (IFAC). As such, we are not well- positioned to comment in detail on each of the questions presented in the consultation, so we would like to focus our comments on the following points where we hope our input will be of greatest use.

- In our outreach to ICGN members, which include professional bodies and practitioners in the audit profession, we are aware of, and support, the view that there is opportunity for improvement in the governance framework. In particular, we note the feedback from the Global Public Policy Committee (GPPC) representing the 6 largest global accounting bodies that “status quo is not an option.” As a matter of independence we support the involvement of a relevant base of stakeholders in the standard setting process. While this should certainly involve members of the accounting and auditing profession, as well as regulatory bodies, we also believe that strong investor representation should be an important part of this mix in terms of oversight and governance of the standard setting process. As an international body, ICGN also recognises the importance of international diversity in the governance framework, both to assure buy-in of stakeholders and to ensure that specific requirements in differing countries are taken into consideration.
- We appreciate the arguments for and against establishing a single independent board bringing together both audit and assurance standards and ethical standards for auditors. While our lack of day to day involvement with either the IFAC or IOB makes us cautious about strongly advocating one outcome over the other, it would seem to us important that there is cohesiveness between technical and ethical standards, as well as education. A one board structure might better produce such benefits. This unified structure might also allow for greater efficiencies in funding, which is a separate topic addressed in the consultation. If a unified board were to result from this consultation, we would ask whether it might make sense to have technical, ethical and education subcommittees within this structure to address some of the potential pitfalls of diluting attention to specific areas. Such an approach might allow some board members to focus on areas of particular interest and expertise.
- As a matter of general governance, we support the premise that the oversight function should be separate from the operational aspects of standard setting. In this context, it may make sense to complement a unified, and possibly smaller, board with expanded technical staff, as is suggested in the consultation. As with typical corporate boards, the role of an independent board might focus on development of strategy, objectives and processes – and objectively scrutinising the outputs of the technical staff. The combination of some technical staff permanently employed by the board, together with secondments or short-term/temporary staff might offer both flexibility as well as some funding efficiencies. There may also be merit in establishing a multi-stakeholder advisory group, including investor representatives, to ensure that relevant stakeholder inputs are heard and understood by both the independent board and technical staff.

- Ensuring that the role of the standard setting board is fundamentally strategic, and not operational, might also allow for a smaller board than the current size of 18 members. At least with regard to our experience in assessing corporate boards, it is our view that 18 members can be a bit large for optimal communication and effectiveness, though we appreciate that the needs relating to oversight of auditing standards may differ from a typical corporate board. Related to this point, seeking consensus among all board members, whether it has 12 or 18 members, would appear to be challenging, and could potentially result in inefficiencies or a more cumbersome decision making process in the event there are one or two dissenting voices. While reverting to a simple majority might make sense, a middle ground for compromise might be a “supermajority,” of say 2/3 or 3/4 of the board.
- Regarding funding we recognise that this is a challenging, and inevitably sensitive, issue. We believe it is important to ensure in both substance and perception, that funding should not compromise independence of the board’s (or boards’) operations. It would therefore make sense to seek a sustainable funding base that would help to avoid potential conflicts. Having said that, we recognise the challenges that might come from seeking funding from regulators, and it is not clear to us if a way of raising substantial funding from investors – as users of financial information—is practical or tenable. It is also not clear if stock exchanges would have the appetite to provide funding. And while funding from listed entities could potentially be sought, that might also give rise to concerns relating to vested interests. The consultation refers to a levy mechanism as a possible funding vehicle but does not go into detail about how this might work. Therefore, we are cautious about advocating such a solution and are aware of IFAC’s concerns in this regard.

In conclusion, ICGN applauds the initiative of the Monitoring Group, and we hope that our feedback and comments are helpful in your deliberations. Should you wish to discuss our comments further, please contact me or George Dallas, ICGN’s Policy Director, by email at [george.dallas@icgn.org](mailto:george.dallas@icgn.org).

Yours faithfully,



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