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By email: MG2017consultation@iosco.org
Monitoring Group

Dear Sirs

Re: Monitoring Group consultation – Strengthening the Governance and Oversight of International Audit-Related Standard-Setting

The Investment Association (the IA) represents the UK's asset management industry and has over 220 members that manage more than £6.9 trillion for clients internationally. In managing assets for both retail and institutional clients, our members are major investors in companies whose securities are traded on regulated markets. These companies' accounts provide investors with the information they need for the purposes of making investment decisions and holding management to account. High quality audits are pivotal to this and for ensuring that markets value and investors have confidence in the information reported. Thus our members' have an interest in the requirements governing the audit, and the governance and oversight of the international audit standard setting boards.

We welcome the consultation and the model for the audit standard setting boards and the governance framework that that oversees them being revisited. It is important that the boards and the governance framework are recognised as free from undue influence from any one stakeholder and deliver standards in the public interest. It is also clear that there is much to be done to gather input, define "public interest", and, of course, determine funding. It may be helpful to establish a multi-stakeholder advisory group to study these questions and others and to recommend a path forward. We set out below our main observations on the consultation paper and in the attached Annex our answers to the specific questions.

One board for audit and ethical standards. There should be a single independent board for setting both auditing and ethical standards. As stated in the consultation paper, this would help ensure better coordination of ethical and auditing standards and drive consistent auditor behaviour. Ethical behaviours should be embedded into everything an auditor does – and thus into the operational standards for audit. This could also help reduce duplication of effort and deliver economies of scale (question 4).

Representation of investors. Given the importance of audit to the investor community, it

is vital that there is better representation of investors, asset managers and analysts, in the current standard setting process, both on the CAGs and the board (question 3).



Remuneration. Under the current arrangements the boards' members are not remunerated (except for the IAASB and IESBA Chairs). Thus candidates either have to be financially independent or have sponsorship of some kind such that their time commitment and travel expenses are funded. To facilitate wider and more international representation it would be helpful if, at a minimum, travel expenses were reimbursed. Our preference, however, is for the introduction of a remuneration scheme, as suggested in the consultation paper, as this would further enhance the ability to attract members (question 8).

Nominations process. It is vital that the nominations process is independent of the profession - currently board members are appointed by IFAC on the recommendation of its Nominating Committee and with the approval of the PIOB. The Nominating Committee is chaired by IFAC's President and comprises the President and Deputy President ex-officio, and at least four additional members appointed by the IFAC Council as recommended by the IFAC Board. The Committee sources, selects and nominates all candidates for the boards. In the future the nominations process should be administered solely by the PIOB and IFAC representation should be removed from the PIOB (questions 14 and 16).

Consider bringing the governance structures for accounting and auditing together. There is a three tier governance framework under which audit and ethical standards are set: the standard setting boards; an independent oversight body, the PIOB; and the Monitoring Group that monitors this structure and to which the PIOB is accountable. The governance framework for international accounting standards similarly has three tiers: the International Accounting Standards Board (IASB) that sets the standards; the trustees, the IFRS Foundation, which ensures that there are appropriate governance arrangements; and the Monitoring Board which acts to "provide a formal link between the trustees and the public authorities". The latter ensures the trustees discharge their duties and approves their appointment.

Given that accounting and auditing are complementary to each other, we believe consideration should be given to bringing these governance structures together so that both the audit standards boards and the IASB operate under the same framework. Ultimately this should help achieve economies of scale. In the event the structure stays as proposed, the PIOB's role should be akin to the IFRS Foundation's trustees in that it should be responsible for overseeing due process, and nominating and approving appointments to the board. It should not be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards (question 15).

Funding. Under the current model funding comes directly from, and costs are allocated by, IFAC such that the boards' costs and staff salaries are paid by the profession. It is important that the board and the PIOB have a sustainable funding mechanism that does not undermine their independence. The IFRS Foundation in general is financed either by a levy on companies or through publicly supported financing. We recognise that this may be difficult to put in place for the audit framework and agree that a contractual levy, as opposed to a voluntary contribution, levied by the PIOB rather than the board, on the profession is the most appropriate way to ensure independence and provide sufficient initial funding (questions 24 and 25).

I trust that the above is self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours faithfully

Liz Murrall, Director, Stewardship & Reporting

THE INVESTMENT ASSOCIATION'S ANSWERS TO THE SPECIFIC QUESTIONS

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?



We believe that the audit standard setting boards' standards have in the main been developed in the public interest and that the issue of independence is more one of perception. Nevertheless, this perception matters in that there is a risk that future decisions may benefit the profession as opposed to the public interest in that:

- IFAC which represents the international accounting firms manages the nominations process for the standard-setting boards, and directly funds, accommodates, and provides support and staffing for them.
- IFAC itself is funded by the international accounting firms.
- Audit firms and professional accountancy bodies provide a majority of board members and their technical advisers.

Thus we welcome reforms that address this and remove standard-setting activities from the profession and introduce a multi-stakeholder and independent governance structure. This should future proof the standard setting process. It is also important, as the paper acknowledges, that the standards are relevant and up to date, and that the boards respond on a timely basis.

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

The IA broadly supports the overarching principle that standards should be set and perceived to be set in the public interest. We also agree that the public interest should not be defined in that it should evolve as expectations change. As regards the supporting principles, we have the following suggestions.

- The standard setting process should have sustainable funding. Whilst we recognise that a staged approach is being followed and that the funding is to be looked at once the structure is established, we firmly believe that for the standards to have credibility, they need to be developed by a process where not only there is accountability but also sustainable funding that does not infringe on its independence. "Sustainably funded" should be a separate supporting principle.
- The process needs to be monitored to ensure that the principles are adhered to. Thus "monitored" should be a separate supporting principle.
- The "independent" principle appears to mix two issues – independence such that no one stakeholder can exert undue influence and representing the diversity of the key stakeholders. These should be separate supporting principles: "independent"; and "representative".

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?

The IOB has a process to identify risks to the public interest, and as articulated in its [Consultation on 2017-19 IOB Strategy](#) we support it seeking to develop a more structured methodology in its interactions with the Boards and the Consultative Advisory Groups (CAGs), and organising regular workshops with the CAGs' and Monitoring Group's representatives. We also consider that, given the importance of audit to the investor community, it is vital that process responds to the issues raised by investors and other users of financial statements. Thus in representing the public interest it is vital that there is better representation of investors, asset managers and analysts, in the

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standard setting process, both on the CAGs and the board. The process should also ensure that wider investor views are solicited in developing proposals.



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.

The IA supports a single independent board for setting both auditing and assurance, and ethical standards. As stated in the consultation paper, this would help ensure better coordination of ethical and auditing standards and drive consistent auditor behaviour. Ethical behaviours should be embedded into everything an auditor does – and thus into the operational standards for audit. We also consider that this would help reduce duplication of effort and deliver economies of scale. In this context, by independent we mean objective or impartial. The board will still need representation from the profession to ensure that its standards are operational.

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

The IA agrees that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain IFAC's responsibility. Responsibility for educational standards often rests with professional bodies rather than regulatory authorities, and although skills and competencies are fundamental to quality auditing we consider this is a key role for the profession rather than a function that needs the same level of public interest oversight as audit and ethical standards. We also support IFAC continuing to run an international compliance programme to ensure that its member bodies are conforming to the requirements of the standards.

6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

As the IA's focus is on auditing in the public interest, we do not have a strong view as to whether IFAC should retain responsibility for the development and adoption of ethical standards for professional accountants in business. However, in principle we consider it makes sense for IFAC to retain this role. It is important that professional accountants act with integrity and objectivity, but by the nature of their work, they are not required to be fully independent of the entity they work for, and the public interest considerations are different from those of auditors.

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.

The IA has no further comments.

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?

The IA agrees that the board should have a more strategic focus. Whilst it should be supported by an expanded professional staff, we also consider more use could be made of CAGs to support and provide technical input to the board.

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Under the current arrangements the boards' members are not remunerated (except for the IAASB and IESBA Chairs). Thus candidates either have to be financially independent or have sponsorship of some kind such that their time commitment and travel expenses are funded. To facilitate wider, more international representation it would be helpful if, at a minimum, travel expenses were reimbursed. Our preference, however, is for the introduction of a remuneration scheme, as suggested in the consultation paper, as this would further enhance the ability to attract members.

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

The IA understands that currently a consensus has to be achieved before a standard can be adopted on the basis that this helps ensure that the standards are more sustainable. However, this can also mean that too much has to be compromised and that timeliness is impacted. Timeliness could be improved by the board adopting standards on the basis of a majority vote. This could allow the board to be more decisive, avoid unnecessary delays and reflect the fact that acting in the public interest requires standards that not all stakeholders necessarily agree with. We do not necessarily consider this should be a simple majority but say a majority of at least three quarters particularly if a standard is likely to have a significant impact.

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?

The IA supports the proposal to reduce the size of the board from 18 to 12 members and that a third should come each of the three groups: users; regulators; and auditors. It is often noted that the optimum number of members for the effective operation of a board is 8 to 12. Moreover, to ensure board members are aware of the practicalities encountered by the user and preparer community, we support three quarters being part time members to ensure a current practical perspective is brought to the table. This would also allow more user and preparer representation.

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

The IA supports the development of a skills matrix to drive the assessment of potential members. Board members should include a balance of strategic and technical skills, and each member should have an independent mind-set to challenge the status quo and assess critically the impact of policy proposals. They should adopt a professional approach, together with intellectual flexibility and objectivity in making decisions. Moreover, board members need to commit to the overarching principle of setting standards in the public interest as well as the supporting principles.

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?

The IA agrees that the concept of a CAG should be retained. However, given the board is changing to more of a strategic role better use could be made of the CAGs in providing: advice on each of the board's agendas and project timetable (work programme), including project priorities; technical advice on projects; and advice on other matters of relevance to the board's activities. For example in the US the Public

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Company Accounting Oversight Board has a Standing Advisory Group and a specific Investor Advisory Group.



13. Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

The IA agrees that task forces that undertake detailed development work should adhere to the public interest framework. Adherence to the public interest should be a fundamental requirement for all the board's work.

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

The IA considers it is vital that the nominations process is independent of the profession- currently board members are appointed by IFAC on the recommendation of its Nominating Committee and with the approval of the PIOB. The Nominating Committee is chaired by IFAC's President and comprises the President and Deputy President ex-officio, and at least four additional members appointed by the IFAC Council as recommended by the IFAC Board. The Committee sources, selects and nominates all candidates for the boards. In the future we consider that:

- The standard-setting board nominations process should continue to be conducted via an open call for candidates.
- The nominations process should be administered solely by the PIOB and that IFAC representation should be removed from the PIOB – see question 16.

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?

The IA broadly agrees with the role and responsibilities of the PIOB as set out in the consultation paper. In this context, we note there is a three tier governance framework under which audit and ethical standards are set: the standard setting boards; an independent oversight body, the PIOB; and the Monitoring Group that monitors this structure and to which the PIOB is accountable. The governance framework for international accounting standards similarly has three tiers: the International Accounting Standards Board (IASB) that sets the standards; the trustees, the IFRS Foundation, which ensures that there are appropriate governance arrangements; and the Monitoring Board which acts to "provide a formal link between the trustees and the public authorities". The latter ensures the trustees discharge their duties and approves their appointment.

Given that accounting and auditing are complementary to each other, we believe consideration should be given to bringing these governance structures together so that both the audit standards boards and the IASB operate under the same framework. Ultimately this should help achieve economies of scale. In the event the structure stays as proposed, the PIOB's role should be akin to the IFRS Foundation's trustees in that it should be responsible for overseeing due process, and nominating and approving appointments to the board. It should not be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards.

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

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See question 14, the IA agrees that it is important that IFAC representation is removed from the PIOB.

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?

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 MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

The IA does not have any detailed comments on the composition of the PIOB but we consider it is important that its members are appointed by the Monitoring Group's members. The PIOB's members should be sufficiently independent and challenging to ensure regulators, particularly those on the Monitoring Group, and markets have confidence in them.

19. Should PIOB oversight focus only 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?

The IA considers that PIOB oversight should focus only on the board/boards for auditing and ethical standards. As noted in question 5, responsibility for educational standards often rests with professional bodies rather than regulatory authorities, and although skills and competencies are fundamental to high-quality auditing, we consider this and ethical standards for accountants in business are roles for the profession rather than a function that needs to be subject to the same level of public interest oversight as standards for auditors.

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 work, promoting high-quality standards and supporting public accountability?

The IA agrees that there should not be any changes to the role and remit of the Monitoring Group itself and support it:

- Continuing to be responsible for nominations to the PIOB but that it should be more transparent and robust, and subject candidates to a more demanding skills and capabilities assessment in order to reflect the needs of the new model.
- Ensuring the PIOB's accountability to stakeholders, and publicly through global stakeholder engagement.
- Continuing to approve the PIOB's budget and hold it accountable.

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?

The IA supports a significant increase in permanent technical staff to undertake detailed technical work in support of the board's strategic objectives as the balance of

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responsibilities between board members and staff changes over time. The board should also employ staff on merit and with different skills such as stakeholder engagement and project management to move projects forward more quickly than is the case at present. In this context, it is the skills that are important we do not consider that they necessarily need to represent geographical diversity.

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

In order to address concerns about the independence of the standard-setting process, and to ensure that all parties work in the public interest, the IA considers it important that the staff are employed, compensated and evaluated by the board rather than IFAC.

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

The IA does not have any other comments to make on improvements to the process. Overtime we consider it would be preferable for the board to consider these as the model develops and beds down.

24. Do you agree with the Monitoring Group that appropriate checks and balances can be put in 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 which would distribute the funds)?

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 opt for in the paper, and if so what are they?

Under the current model funding comes directly from, and costs are allocated by IFAC such that the boards' costs and staff salaries are paid by the profession. It is important that the board and the PIOB have a sustainable funding mechanism that does not undermine their independence. The IFRS Foundation in general is financed either by a levy on companies or through publicly supported financing. We recognise that this may be difficult to put in place and agree that a contractual levy, as opposed to a voluntary contribution, levied by the PIOB rather than the board, on the profession is the most appropriate way to ensure independence and provide sufficient initial funding.

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

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

The IA has no further comments to make.