



National Association of State Boards of Accountancy

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The Monitoring Group
General Secretariat
International Organization of Securities Commissions (IOSCO)
C/ Oquendo 12
28006 Madrid
Spain

Via email: MG2017consultation@iosco.org

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

Dear Members of the Monitoring Group:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the above referenced Monitoring Group Consultation (the Consultation). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs.

In furtherance of that objective, NASBA offers the following comments on the questions presented in the Consultation and an additional general comment.

General Comments

It is our understanding that the proposals included in the Consultation are predicated on the assumption that the current International Federation of Accountants (IFAC) standard-setting process has pervasive weaknesses and, thus, significant changes are required in the process. The Consultation, however, does not provide a clear picture of specific deficiencies nor how significant changes to the standard-setting process would correct them. Thus, while NASBA understands the concerns that are raised in the Consultation, and addresses all the questions asked, without the ability to review additional detail of specific deficiencies, NASBA does not necessarily share the view that the current IFAC standard-setting model has fundamental flaws which cannot be mitigated. Therefore, NASBA believes that benefits and costs of each option in the Consultation should be evaluated and considered carefully before significant changes are implemented.

Responses to Request for Specific Comments

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?*

Based on our understanding of the IFAC standard-setting process, as well as other standard-setting processes, NASBA believes improvements to any standard-setting model should be considered on a periodic basis. The key areas of concern identified in the Consultation are fair for consideration. The profession is undergoing a tremendous transformation. As noted in the Consultation, accelerating changes in the audit and business environment, as well as innovations in technology, require standards which are more relevant and timely. It's been NASBA's observation that the present standard-setting process does take significant time and should be reevaluated to identify and address key priorities and timelines.

Currently, there are four separate volunteer-based standard-setting boards within the IFAC structure which are nominated, funded and staffed by IFAC. To some degree, the timeliness of standards is influenced by the availability of volunteers, many of whom have full-time jobs and other commitments outside IFAC. NASBA recognizes that the diversity of the existing volunteer board membership brings a broad range of skills and practical experience to the standard-setting process. At the same time, NASBA also recognizes that having a full-time board can create a mechanism which is fully dedicated to standard-setting and can potentially streamline time spent on key priorities. Furthermore, having a board which includes a substantial number of stakeholders from outside the profession can ensure that the standards are developed in the public interest.

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

Yes, NASBA agrees with the supporting principles articulated in the Consultation. NASBA also believes that in addition to being credible, all stakeholders involved in the standard-setting process should be generally informed about the auditing and ethics standard-setting processes, as applicable, and familiar with key issues and priorities impacting the auditing and accounting profession.

NASBA believes that adaptability and practicability of the standards are also key supporting principles to the standard-setting process.

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?*

NASBA believes that, in order for standards to be developed in the public interest, all standard-setting bodies should conduct extensive outreach, soliciting public and regulatory input. An example of such outreach was the recent request for input by the International Ethics Standards

Board for Accountants (IESBA) from regulators, users, internal auditors, standard setters and others on the Fee Questionnaire. Such outreach should be done on a more consistent basis allowing the input from various stakeholders to then be incorporated in the standards. A process of planned, proactive outreach to identified stakeholder groups would help to facilitate improved public and regulatory input on proposed and newly implemented standards. NASBA also recommends better utilizing the existing framework and relationships within the current IFAC structure, such as members of the Consultative Advisory Group (CAG) and National Standard Setters (NSS), to facilitate a wider involvement and outreach.

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.*

NASBA supports the retention of separate boards for auditing and assurance and ethics. However, there is a need for increased liaison and cooperation between the International Auditing and Assurance Standards Board (IAASB) and IESBA to avoid duplication of efforts and to ensure sharing of information between the two boards. Movement has been made in this direction as, during recent IAASB and IESBA meetings, joint sessions have been initiated by these boards. NASBA also believes that the establishment of joint task forces to work on areas of common interest would be beneficial to the international standard-setting process.

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

NASBA supports retaining the International Accounting Education Standards Board (IAESB) as an independent board, with the benefit of a dedicated CAG and competent public oversight. Further, IAESB's operations should continue to remain the responsibility of IFAC.

It is critical that the accounting profession have a strong set of educational standards that are consistently applied on a global basis. Given the accelerated pace of change, we are seeing increasing educational demands placed on professional accountants. The breadth and depth of requisite skills and competencies are increasing. IAESB needs to respond to these changing demands on a timely basis, both in terms of updated education standards and in issuing implementation guidance.

When IAESB and IFAC evaluate compliance with educational standards, consideration must be given to differing educational models on a global basis. However, we also recognize that professional accountants can obtain the same educational standards even with differing pathways to attain that education.

Our overriding concern is that the public interest is best served when new education guidance matches the pace of change we are experiencing in the financial reporting process.

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

NASBA believes that ethical standards for professional accountants in business and professional accountants in public practice should be set by the same standard-setting body to protect the public interest by avoiding differences and confusion in ethical standards across the profession.

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.*

As noted in the Consultation, many board members come from within the profession.

Consideration of a “cooling off period” or “revolving door policy” should be made so that there is not a threat to the public interest from a member immediately returning back to their former role.

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?*

Yes, NASBA agrees that the focus of all standard-setting boards should be strategic in nature to more effectively utilize the skills and expertise of the board members. Although we believe that board members do need to read and understand drafts of standards, a significant amount of the IAASB’s and IESBA’s meeting time is dedicated to detailed page-by-page drafting of the standards, instead of focusing on key strategy and priorities. Assigning the responsibility for drafting the standards and other technical documents to the staff would allow the board members to review and approve the standards in a more effective and timely way. Boards would also continue to have final approval of revisions when enhanced clarity of proposed guidance is necessary.

NASBA believes that the issue of whether the board members should be remunerated is complex and requires detailed consideration of many factors, such as the source and amount of funding, the severing of a board member’s past employment relationships, and other considerations.

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

NASBA believes that in order for the standards to be set in the public interest, a standard-setting board should aim to achieve as much consensus as possible. Therefore, NASBA does not believe that simple majority sets an appropriate level for the objective standard-setting. NASBA recommends that the board should adopt standards, at a minimum, on the basis of a supermajority (e.g. at least 2/3).

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?

NASBA does not have specific expectations for the size of the board. We do, however, believe that regardless of the size, one of the key criteria in the composition of the standard-setting board is achieving adequate input from all relevant stakeholder groups including users, regulators, investors and preparers, with a primary focus being the appointment of the most qualified individuals. Additionally, board members should act in the interest of the public, not their constituency.

In determining the size of the board, it is also important to consider the budgetary implications, including board compensation and travel costs. It is necessary to ensure that budgetary constraints on the size of the board do not create impediments to its effective operation.

NASBA is not opposed to either a full-time board or a board comprised of part-time and full -time members. If a full-time board is desired, we caution against allowing board members to leave their previous firms to serve the board, and then immediately return to those firms once their board service concludes, for potential conflict of interest reasons. If a board is comprised of primarily part-time members, frequent turnover could result in a lack of continuity in standard setting.

As to diversity and representation of board members, NASBA believes the primary criterion in the selection process should be the nominee's high-caliber qualifications including professional knowledge. We do acknowledge that choosing candidates from various geographical locations and backgrounds may bring valuable input and allow different perspectives to mitigate impediments to the adoption of international standards.

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

NASBA believes that understanding of auditing and ethical standards, as relevant, and familiarity with key issues in the profession are critical skills for all members of the standard-setting board. Additional skills may include communication, negotiation, political and problem-solving skills. We also recommend that people with a regulator's perspective be included on the boards.

NASBA agrees that board members should be selected from a diverse group of qualified candidates and we generally support membership criteria outlined in the Consultation. NASBA, however, does not support the requirement that the Chair must not come from a practitioner/audit firm background. As noted earlier in our letter, strong familiarity with issues impacting the profession is critical to the standard-setting process.

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?*

NASBA is supportive of the concept of a CAG and believes that the CAGs play an important role in representing the public interest in the standard-setting process. We are somewhat concerned that the current three-year terms with a maximum of a nine-year limit for CAG members may be too long.

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

NASBA finds it difficult to comment on this question without knowing what the to-be-developed public interest framework will look like. As such a framework does not currently exist, it seems appropriate to develop the framework before contemplating changes to the standard-setting regime. When considering, as noted on page 4 of the Consultation, the Monitoring Group has asked the PIOB to support it in developing a public interest framework, NASBA recommends including all stakeholders, including regulators, preparers and users in a robust and transparent development process.

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

NASBA believes that the proposed changes may help dispel the perception of lack of independence of board members.

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?*

NASBA agrees that, as an oversight body, the PIOB should have an ability to express its views as the standards are being developed, debated and voted. However, we believe the PIOB's ability to veto the adoption of the standards removes them from the oversight role and places them in the standard-setting role with no oversight – such a framework will not serve the public interest.

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

NASBA agrees with the option to remove IFAC representation from the PIOB to allow for enhanced separation and oversight. IFAC representation could be replaced by non-practitioner participation such as users and regulators.

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?*

NASBA believes that in order to maintain user confidence in the standard-setting process and to protect the public interest, it is important to have a broad range of non-practitioner representation at the PIOB, including users of audit reports, regulators and those engaging auditors.

NASBA believes that skills and attributes of PIOB members should be a good balance of strategic, technical and communication skills. PIOB members should possess a strong understanding of issues in the profession as well as public interest concerns and display an open mind when dealing with standard-setting 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 MG member organizations, or do you have other suggestions regarding the nomination/appointment process?*

NASBA believes the PIOB members should be selected from a broad list of candidates with focus on non-practitioner participation. The MG should publicly solicit nominees, not just from its member organizations. The focus should be on the qualifications of the nominees for the role.

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?*

NASBA supports the PIOB retaining its current oversight role over all relevant standard-setting boards.

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?*

NASBA does not believe that the Consultation provides enough comprehensive information about the composition of the Monitoring Group, its authority, and its current oversight process to provide additional input on its current role. However, if the Monitoring Group is to continue its oversight role, we believe that a periodic and transparent assessment of its composition is necessary to evaluate its effectiveness.

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?*

NASBA agrees that expanded professional technical staff can provide additional resources to facilitate technical drafting of standards. It will also enable the standard-setting board to take on a more strategic role.

NASBA does have concerns, however, over the source of additional funding which may be necessary to provide such support.

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

NASBA agrees that having permanent technical staff employed by the board would allow for the enhancement of institutional knowledge regarding standards under consideration, and should help mitigate potential conflicts of interest, real or perceived, in the development of those standards.

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

NASBA does not have any further suggestions.

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)?*

NASBA agrees that appropriate checks and balances could possibly be put in place to mitigate the risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession. The challenge, however, is the perception that the funding of IFAC by the accounting firms is a fundamental flaw which creates an inherent bias.

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?*

NASBA does not have any further suggestion on this other than the items noted in our response to Question 24.

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

NASBA does not have any further suggestions to add.

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

To a major extent, NASBA agrees with the concern that the funding of IFAC by the accounting firms can create a perception of an inherent bias which needs to be addressed by the Monitoring Group. However, we also acknowledge that board members and technical advisors from accounting firms bring significant depth of knowledge and present-day practical experience which are essential to the current standard-setting process.

NASBA is aware that on an annual basis the IFAC boards hold liaison meetings with National Standard Setters (“NSS”) from around the world. NASBA strongly supports the idea of continuous cooperation and active wider involvement by NSS. NASBA also believes that further improvements could be made to enhance this process and to ensure that the public interest expectations from the relevant stakeholders have been adequately addressed. We therefore recommend that the Monitoring Group further evaluate the adequacy and the comprehensiveness of the NSS selection process and consider including the NSS liaison in the scope of its review.

At the Washington, D.C. roundtable discussion held by the Monitoring Group to gain input on the Consultation Paper, it was announced that one final Consultation Paper is expected to be released in June 2018 with final decisions to follow in short order. Given the critical importance of the international audit and ethics standards, NASBA has grave concerns that this ambitious timeline does not allow for adequate and transparent deliberation of the difficult and complex challenges under review. Gaining support from all stakeholders will ultimately be crucial for any changes contemplated.

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Thank you for the opportunity to comment on the Monitoring Group Consultation, *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*.

Very truly yours,



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NASBA Chair



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