



Federation of European Accountants
Fédération des Experts comptables Européens

Eddy Wymeersch
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Sent by email:
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Cc: Gonzalo Ramos, Secretary
General
gramos@ipiob.org

Brussels, 24 November 2016

Subject: 2017-2019 PIOB Strategy – Public Consultation Paper

Dear Mr. Wymeersch,

The Federation of European Accountants (the Federation) would like to provide you with its comments on 2017-2019 PIOB Strategy – Public Consultation Paper.

Our comments are included in our responses to the questions in the consultation document which seems to aim at introducing further reforms to the approach of the Standard Setting Boards under PIOB supervision. Please refer to the Appendix for further details.

We see standard setting as having three ‘pillars’. On one side there is the preparation of the standards by individuals bringing technical expertise, on the other side there is the supervision of the standard setting process in the public interest by a public oversight body composed of a wide range of stakeholders and in the middle, there are the Standard Setting Boards of ‘mixed’ composition which direct, review and improve the technical work and where the decision-making on the standards takes place. During the development and oversight of the standard setting, each of these ‘pillars’ form part of and take into account the due process, especially the external input received from stakeholders.

We have used this model as the basis for our responses including suggestions for our areas of improvement and changes.

More specifically, we have concluded that the roles and remits of the PIOB and the Monitoring Group are not clear. An oversight body should not directly be involved in the standard setting itself, the latter should be independent of the supervision of the standard setting process. The expected role of an oversight body should be to oversee the setting of standards in the public interest.



The public interest at large should be represented by a wide range of stakeholders, of which regulators are just one. An over-focus on regulators should be avoided to produce standards which are not merely compliance-oriented or to be applied in a “tick-the-box” fashion without taking into account the fundamental principles, the overall objectives and the use of judgement associated with standards.

Furthermore, as far as the composition of the Standard Setting Boards is concerned, the more the standards require a high level of technical expertise, the more the representation from those who have this expertise and that apply it is required. Practitioners should therefore continue to play a key role in standard setting. As far as the selection and nomination of members of the Standard Setting Boards is concerned, we share the concerns on both the perceived lack of independence of and perceived lack of transparency regarding the current nomination process. FEE is working on a project and plans to suggest potential alternative solutions at a later stage. All nominations should be based on clear and transparent selection criteria. It should also be clear that all members of any Standard Setting Board should serve the public interest.

In addition, it is unclear whether it is the PIOB, the Monitoring Group or in fact the International Federation of Accountants (IFAC) that can initiate reforms of the Standard Setting Boards currently under supervision of the PIOB. The Monitoring Group is also looking into potential reforms and there is a need for them to also go public, be transparent and consult on them. We strongly believe that the PIOB and the Monitoring Group should at least be aligned on these suggestions for potential reform and present them together.

Finally, our Federation started a project on standard setting in the 21st century which we hope to publish in 2017 and which we expect will cover matters such as:

- (i) what is a standard;
- (ii) what is standard-setting;
- (iii) stakeholders and their needs
- (iv) the public interest in standard-setting;
- (v) key principles and criteria for standard-setting in 21st century; and
- (vi) where do existing standard-setters stand in relation to these principles.

In our project, we have done a comparison with standard setting in other sectors like telecommunication, aviation, ... and we noted that the complexity, inclusiveness and transparency of the “due process” of these other standard-setters vary considerably from ‘ours’ as they often function as technical committees of mainly experts with minimal oversight.

However, the standards under consideration in the PIOB Consultation Paper have a very extensive process of standard-setting, a highly-developed consultation and due process, as well as an independent oversight structure. In particular, they have adopted well-structured procedures in order to make sure that criteria such as legitimacy, accountability, transparency, inclusiveness or public oversight are going to be achieved to the maximum extent possible.

The current system is thus far from broken and overall very good and high quality standards come out of the current process of the Standard Setting Boards under PIOB supervision. In comparison with standard setting in other sectors, the current process might appear over-engineered and we would like to warn against adding further complexity to it.



In our project, we have also attempted to come up with an 'ideal model' to standard setting. We had to abandon that aspiration as, although expectations and perceptions might be different, it does not appear to be possible to be fulfilled.

For further information on this letter, please contact Hilde Blomme on +32 2 893 33 77 or via email at hilde.blomme@fee.be.

Kind regards,
On behalf of the Federation of European Accountants,

A handwritten signature in black ink, appearing to read 'Petr Kriz', written in a cursive style.

Petr Kriz
President

A handwritten signature in blue ink, appearing to read 'Olivier Boutellis-Taft', written in a cursive style.

Olivier Boutellis-Taft
Chief Executive

Cc: Gerben Everts and Brian Hunt, Monitoring Group

About the Federation of European Accountants

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of almost 1 million professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

The Federation is in the EU Transparency Register (No 4713568401-18).



Appendix - Request for Specific Comments

Identification of threats to the public interest

Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

- (1) We have no specific comments on or improvements to the current process of identifying risks to the public interest, which forms part of the internal functioning of the PIOB.
- (2) However, from a broader perspective, we would like to comment that the role and remit of the two oversight structures, of the PIOB, as well as of the Monitoring Group (MG), respectively, are not clear. Both roles and remits would benefit from being clarified, including how they are aligned (or not). In addition, the Monitoring Group also appears to be considering reforms in the area of standard setting. Therefore, it would be beneficial if the PIOB and the Monitoring would work together in this area. See also our response to Q15.
- (3) In general terms, we propose the following principles and criteria:
 - a. Consideration of the public interest is an integrated part of the independent standard-setting structure and process.
 - b. Any oversight body should have clear objectives to avoid complicated structures and be efficient.
 - c. It is envisaged that there would not normally be more than one oversight body.
 - d. The composition of the public interest oversight body should be such that it is/has:
 - i. Representative of a broad range of key stakeholders and is not dominated by special interests.
 - ii. Protected from independence threats resulting from its funding.
 - iii. Authority to approve the standard-setting board's due process and process for recruitment of new members to the board.
 - e. There is a stable funding mechanism to support the standard-setting board and its public interest oversight body.
- (4) The expected role should thus be to oversee the setting of standards in the public interest, including whether all input received from stakeholders was given appropriate consideration by the Standard Setting Boards. Therefore, in the interest of efficiency and to avoid complicated structures, it is envisaged that there would not normally be more than one oversight body, with clear objectives.
- (5) The current focus of the PIOB is on whether the due process of standard setting has actually been followed, which we consider to be satisfactorily covered. The question is whether this is the way to respond to the mission of overseeing the setting of standards in the public interest. At least, the PIOB should clearly communicate on whether and how the standards are in line with the public interest, not only when the standards are finalised but at appropriate key points during the standard setting process, especially when the PIOB doubts whether the standard would be in the public interest.



- (6) We also reflected on whether the PIOB could or should be more involved in the setting of standards themselves. We are not convinced that this would be possible without seriously breaching its mission, as it is very important that the setting of standards itself should be independent and not be mixed up with the supervision of the standard setting process.

Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

- (7) The public interest at large should be represented by a wide range of stakeholders with competences, expertise and experience in the standards being considered. Apart from the profession, regulators and investors, this could for instance also be preparers of financial and non-financial information, other business representatives, members of corporate boards and of audit committees, non-governmental organisations, employee associations, social groups, communities, pension funds, socially responsible investors, academics, ...
- (8) It should be added that an over-focus on regulators should be avoided to produce standards which are not merely compliance-oriented or to be applied in a “tick-the-box” fashion. Regulators are just one of the many stakeholders which make up the public interest at large, they are not the public interest. The contributions and views of the many other relevant stakeholders are equally valid and need to be addressed in order to create balanced standards.
- (9) As far as the composition of the Standard Setting Boards is concerned, apart from competence, qualification, technical capacity and diversity in geographical environment, background, gender ... , we believe that the following principles are important to consider to achieve the necessary balance:
- a. No particular stakeholder group is able to exercise undue influence within the standard-setting board.
 - b. Any stakeholder represented should respect the public interest.
 - c. The composition of the standard-setting board should balance broader stakeholder representation.
 - d. There are sufficient structures in place to insulate the standard-setting board from undue political or other external influence.
- (10) It should be recognised that the standards requiring a high level of technical expertise, like the ones issued by the IAASB, require more representation from those that apply them, in this case, the profession. This implies that the profession has a key role to play in the IAASB and therefore, having half of the IAASB being composed of practitioners continues to make sense.



- (11) Requirements for technical background are less pronounced for IESBA members considering that the standards issued relate to ethics and independence. Nevertheless, the following issues should be considered. There is a trend of growing representation by regulators that see standards as a “tick-the-box” exercise without taking into account the fundamental principles and the use of judgement associated with standards on ethics and independence. Also, it seems that regulators do not always have regard for the more authoritative legislation issued at national and European level. This does not only send conflicting messages to stakeholders but also seriously limits the possibility to adopt and implement the Code of Ethics. Reference is made to further comments in our response to Q12.
- (12) Indeed, neither purely rules-based nor purely principles-based standards should be produced. Experience has shown that standards will always exist somewhere between rules and principles. The key issue would be to strike the right balance between the two; i.e. a system that encourages applying the spirit of the standard while at the same time supporting and encouraging the exercise of professional judgement and the role of the profession.

Q3. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?

Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?

- (13) In general terms, the profession is fully supportive of applying standards which are widely seen as being of high quality, however without the perception of ‘self-regulation’.
- (14) Although the PIOB oversees the nomination process to the IFAC Independent Standard Setting Board, several concerns have been raised on the nomination by the IFAC Nominations Committee to the Standard Setting Boards. This regards both the perceived lack of independence of the nomination process under the control of IFAC and thus the profession as well as the perceived lack of transparency regarding the nomination of board members.
- (15) FEE recognises these concerns and concurs that the status quo regarding selection and nomination of Standard Setting Boards members is no longer an option. Because this is a matter of utmost importance, we plan to consider this further and propose potential alternative solutions in our paper on standard setting in the 21st century as referred to earlier. We would expect this to include further reflections on the composition of the nomination committee, its chair, the need for clear and transparent selection criteria such as the best person for the job, in addition to competence and qualifications, technical capacity, diversity, ...
- (16) As far as diversity is concerned, we have heard repeated concerns about potentially unbalanced representation in the Standard Setting Boards. These concerns pertain more particularly related to having at least half of all members of the boards being from Anglo-Saxon countries. Some believe this might lead to group think, although all other principles and criteria for nomination on the boards appear to be met.



Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

- (17) First and foremost, there appears to be a need to have more clarity about what the profile of a public member in the Standard Setting Boards is. As indicated above, this should also be based on clear and transparent selection criteria such as the best person for the job, in addition to competence and qualifications, technical capacity, diversity, ...
- (18) For the moment, the perspectives of public members are largely represented in the Consultative Advisory Groups of the Standard Setting Boards which form an integral part in the due process of the standard setting process. Fuller use could be made of this already existing representation.
- (19) Whether public members bring perspectives on the public interest different from those of the accountancy profession, who also work in the public interest, depends largely on the individual rather than on whether he or she is a public member or not.

Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?

- (20) It would be up to the Monitoring Group and/or the PIOB to seek additional funding for this.

Strengthen PIOB Oversight

Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?

- (21) We would like to reiterate that overall, the standards issued by the Standard Setting Boards are considered to be of high quality and in the public interest. This is a message we get from the vast majority of stakeholders which we believe is crucial to be repeated. In relation to the education standards board, we refer to our response to Question 10.
- (22) This does not mean that further improvements to the already high quality standards could not be envisaged.
- (23) Although we appreciate that standards are to be set after the development of best practice, we believe that standards should be timely and responsive to current developments and innovation in the market, including technological changes. The fact that standards have moved from being principles-based to being more and more rules-based, often following pressure from regulators, has definitely made the standard setting process more time-consuming. Five years is no longer an exception for the development of a standard from inception to finalisation.



- (24) We believe that in the area of technology more work could be done to respond to the public interest. Only very recently, the IAASB Data Analytics Working Group has released a Working Group Paper, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*. The purpose of the paper is to explore emerging developments in the effective and appropriate use of technology, including data analytics, to enhance audit quality. Although this is definitely a positive indication, it is an initiative which was launched very recently and can only be seen as a starting point.
- (25) Looking further into the IESBA, there seems to be no active discussion or consideration of the impact of technology on standards and practice, at least as far as it concerns any public references.
- (26) There seems to be a need to rethink the process of developing standards to be more effective: it can for instance be questioned whether the fine-tuning of the drafting of standards should be done by the entire Standard Setting Boards or whether the staff or working groups/task forces could take up (part of) this role.
- (27) In addition, standards should be issued only when there is a real necessity to respond to actual market's needs and evolving practice. In this respect, it can be questioned whether time spent on (minor) conforming amendments of standards deserves the attention and board time currently given to them.

Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?

- (28) No. Reference is made to our response to Question 1. The role of the PIOB should be to oversee the setting of standards in the public interest. It is important that the setting of standards itself should not be mixed up with the supervision of the standard setting process.
- (29) More specifically, we believe there are three 'pillars' to standard setting:
- a. On one side there is the preparation of the standards by persons bringing technical expertise (the working groups or task forces);
 - b. On the other side there is the supervision of the standard setting process in the public interest by a public oversight body with a wide range of stakeholders (the PIOB /Monitoring Group); and
 - c. In the middle, there are the Standard Setting Boards with the overall objective to produce high quality standards that serve the public interest. These Boards of mixed (multi-stakeholder) composition which direct, review and improve the technical work, is where the decision-making process on the standards takes place, as well the liaison with the oversight body (the Standard Setting Boards).
- (30) Each of these 'pillars' are part of the due process and also take the due process fully into account when developing or overseeing standards. This means especially giving appropriate due consideration to all input received from the consultative advisory groups as well as the comments received in public consultations from all stakeholders.



- (31) It appears that some have the perception that working groups or task forces are ‘dominated’ by the profession. Preparatory work needs to be done by competent and experienced individuals, preferably with a wider range of backgrounds, who have the necessary time to invest in a particular project. There is a need for technical excellence for those and actually a lot of this expertise and time sits within the profession. This situation is typical for standard setting in most other professions, however higher involvement in the drafting of the staff working for the Standard Setting Boards might be an option.

Q8. Where do you see gaps in the PIOB’s oversight?

- (32) Reference is made to our response to Question 1 in relation to the role of the PIOB which needs further clarification on how to fulfil its mission of overseeing the setting of standards in the public interest.
- (33) The perception of how the role of the PIOB is performed is not helped by the difference in approach to the ‘observation’ role of PIOB members in Standard Setting Board meetings, Consultative Advisory Group meetings, ... Some PIOB members barely intervene once at the beginning and once at the end of a multiple day meeting, others intervene in a way similar to a voting member of the board. It could be questioned whether there is really a need for the PIOB to be involved at the same level in all standard setting projects.
- (34) At times, the overall consideration of comments on exposure is seriously delayed because one or more particular stakeholders have not managed to send their comment letters within a reasonable timeframe after the deadline for comments. This could create the impression that some stakeholders are more important than others. No stakeholder should be capable of delaying or otherwise hampering the due process that the PIOB oversees.
- (35) Formally, the PIOB seems to remain procedural in overseeing the standard setting process. This is also enhanced by the fact that all Standard Setting Boards appear to have more than one oversight body (PIOB and Monitoring Group) (or in case of the IPSASB, the Public Interest Committee and Monitoring Group). At the same time, on some occasions, the PIOB appears to get directly involved in the setting of the standards. For example, questioning the approach to going concern reporting and the approach to ‘NOCLAR’. As already indicated, the PIOB should clearly communicate on whether and how the standards are in line with the public interest, not only when the standards are finalised but at appropriate key points during the standard setting process, especially when the PIOB doubts whether the standard would be in the public interest.

Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

- (36) Yes. Reference is made to our response to question Q6.
- (37) There is a balance to be struck between timeliness and due process for the issuance of standards. This has implications on the authority of standards: the less due process, the less authoritative standards or pronouncements will be, but the more timely they will be.



- (38) Case per case, it could be considered which level of authority of the standards or pronouncements, and which corresponding level of due process, is appropriate. There might be cases where a rapid response to an emerging issue is more important than following the full due process and having an authoritative standard. Further formalisation of a staff paper or another less-authoritative pronouncement into a standard could be considered subsequently. These considerations regarding the most appropriate process and authority would also enable the standard setter to take on more projects.

Supporting Accounting Education

Q10. What topics would you consider – from a public interest perspective - essential additions to the present education curricula?

- (39) Recently, the principal mission of the IAESB, namely the revision of the International Education Standards (IESs), was completed, for which we commend this Board. Therefore, in its comment letters to the IAESB of recent years our Federation questioned the need for the existence of the IAESB as a standard setting board. Therefore, we have also renounced our IAESB Consultative Advisory Group membership.
- (40) However, our Federation recognises the importance of education and will continue to engage in activities related to the skills of accountancy professionals. The Federation has recently pointed out the need to rethink the education of auditors and other assurance providers to ensure the right skillset for the future “*Pursuing a strategic debate: The future of audit and assurance, January 2016*”ⁱ, an issue we will continue to work on.
- (41) The areas on international level which remain largely uncovered are challenges from outside of the profession, such as digitalisation and other forms of technological changes, as well as other innovations that impact on the work of professional accountants. Another challenge is multi-disciplinary teams in the true sense of the word, for instance teams with professional accountants and IT specialists, with the latter not being professional accountants.

Q11. Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard-setting, and to accounting education practices and processes?

- (42) Reference is made to our response to Q10. Close attention to developments and changes inside the accountancy profession and in the wider environment outside of the accountancy profession should be the main focus.
- (43) As already indicated in our response to Q2, increasingly lengthy and rules-based standards might be in the interest of the regulatory community, as they are easier to enforce, but they foster a box-ticking mentality and discourage innovation and the use of professional judgement. Consideration should also be given to the public interest perspective of the potential longer term impact of excessive regulation on the ability of the profession to provide high quality services, adapt to newly emerging needs and its ability to attract and retain highly competent individuals to the accountancy profession.



Adoption and implementation

Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?

- (44) The ISAs have been adopted by 26 of the 28 European Union (EU) Member States and in a lot of other European countries. The Audit Directive (2014/56/EU) foresees in Article 26 that the European Commission is empowered to adopt, by delegated acts, international auditing standards in the area of audit practice, independence and internal quality controls. These are widely considered to be the ISAs and ISQC1. However, it appears that the European Commission does currently not plan to do so.
- (45) The Code of Ethics has been adopted, in full or partly, by approximately half of the EU Member States. The Audit Regulation for public interest entities (537/2014) includes requirements related to independence, prohibitions on the provision of non-audit services, capping of fees from allowed non-audit services and duration of audit engagements which go significantly beyond the Code of Ethics, which makes the Code less attractive for adoption in the EU.
- (46) As already explained in our response to Q1, we believe there should only be one public oversight level over standard setting. Currently, there is the Monitoring Group and the PIOB. It is not clear what their distinctive roles are and whether they work towards the same overall purpose of adoption and implementation of international standards. The PIOB could stress its public interest role, as it appears to be even questioned by certain members of the Monitoring Group, for instance the European Commission, which certainly hinders the adoption of standards.

Transparency and communication

Q13. Do you find the PIOB Quarterly Updates useful?

- (47) Yes. We appreciate transparency and encourage further efforts.

Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?

- (48) We refer to our responses to Q1 and Q8 on the role of the PIOB.
- (49) As an aside, this consultation on the PIOB 2017-2019 strategy, could have been clearer on the strategy which is effectively proposed.
- (50) The PIOB could also reflect on a better communication strategy and social media presence.
- (51) It is also important to work and be seen to work together with the standard setting boards towards enhancing their standards in the public interest rather than at times to seem to work against them. This appears to require much earlier communication between the Standard Setting Boards and the PIOB, for instance when observing board meetings.



Q15. What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?

- (52) We again refer to our responses to Q1 and Q8 on the role of the PIOB.
- (53) There is a need for the Monitoring Group to go public and be transparent and consult on their proposals for a potential reform of IFAC Standard Setting Boards. In addition, the Monitoring Group and the PIOB should at least be aligned and be seen to be aligned (in case they are) as one oversight body, before effectively becoming one.

ⁱ http://www.fee.be/images/publications/auditing/1601_Future_of_audit_and_assurance.pdf