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Dear Sir or Madam,

Re: FEE Comments on the Monitoring Group Consultation Paper on the Review of the IFAC Reforms

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Monitoring Group Consultation Paper on the Review of the IFAC Reforms.

Main comments

FEE, its members and their professionals are active in all areas in which the IFAC PIACs or independent Audit, Education and Ethics Boards are involved as international standard setters. We also work in other areas like accounting, financial reporting, sustainability, XBRL, etc. which draw on other international standard setting boards for which the current, highly advanced IFAC governance, due process, monitoring and oversight is often put forward as a model. This in itself should be recognised.

In our opinion, IFAC governance, due process, monitoring and oversight are already highly developed and, as stated in your Monitoring Group Consultation Paper, the recommendations made in 2003 have, in almost all cases, been fully implemented. We understand the reasons why the current review has gone further than originally envisaged but the Consultation Paper should make it more explicit that the original objectives have been met and that the majority of the recommendations made are a consequence of the increased scope of the review rather than a lack of willingness to change by IFAC in the period 2003 – 2009/2010.

The establishment of high quality standards and practices in auditing and assurance, ethics and education has until now been achieved by the work of IFAC independent Boards as accommodated by the IFAC governance, funding and other mechanisms, thus balancing public interest considerations with the necessary technical expertise. We strongly believe this continues to be a successful formula for auditing, assurance, ethics and education standard setting for the future. For instance, the adoption of the Clarified International Standards on Auditing of March 2009 by over 100 legislators, regulators, supervisors and others around the globe is the ultimate confirmation that the objective of setting high quality standards is achieved.

To enhance this work, however, we support bringing more public interest considerations into the work of the IFAC independent Boards by, for instance, commissioning independent research studies on specific topics with high public interest relevance and/or involving third parties with specific expertise not already involved in the Boards and in relevant Task Forces.

SMEs and SMPs

One of the key priorities of FEE which is not addressed In the Consultation Paper is the consideration in the standard setting activities of the IFAC independent Boards of issues relating to, and the involvement of, Small and Medium-Sized Entities (SMEs), including listed SMEs, and Small and Medium-Sized Practitioners (SMPs). Although the interests of the Monitoring Group and its members might, in the majority of cases, be focused on listed, regulated or public interest entities, the output of the IFAC independent Boards is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

Enhanced focus on monitoring and oversight

Within the context of monitoring and oversight, we are supportive of the performance of an assessment of the effectiveness of the 2003 IFAC governance reforms by the Monitoring Group as FEE is open-minded to further enhancements, especially in the monitoring and oversight of the activities of IFAC and its independent Boards. This could include further enhancements of the role of the PIOB and in leading the discussions on further IFAC Reforms.

Funding implications of further enhancements

The Monitoring Group should take into account the fact that improvements usually have a one-off and/or recurring financial and/or resource implications. The budget of IFAC for its independent Boards, the Consultative Advisory Groups and the PIOB is limited and while some re-allocations and further efficiencies might be possible, there appears to be little opportunity for further increases if the sources of funding remain the same. Therefore, it is crucial to perform a thorough research of alternative funding sources and a cost/benefit analysis before embarking on any further enhancements of IFAC and its independent Boards. Any recommendations the Monitoring Group may have in this respect would be highly welcomed.

We have considered your preliminary recommendations put forward in the Consultation Paper with great interest and in addition to our main comments above, provide you below with our detailed comments on your preliminary recommendations.

Detailed comments on preliminary recommendations

Section I. Composition of the Standard Setting Boards

Mix of Board Member Backgrounds

Recommendation 1: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

In order to properly represent the public interest and produce high quality output, Board members indeed need to demonstrate both objectivity and competence in the relevant subject matters. Ideally, each individual board member should be or be seen as totally objective, a quality more commonly associated with members from outside of the profession, and highly competent and experienced, a quality more commonly found within the profession. Therefore, balancing both objectivity and competence is oftentimes difficult in practice.

Reaching such parity in membership as recommended is applauded but often difficult or impossible to execute in practice, taking into account the time and financial commitment required to be a board member. The principle of the “best person for the job” as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards is of key importance and should not be disregarded either.

The ultimate objective continues to be the establishment of high quality standards and practices in auditing and assurance, ethics and education by the IFAC independent Boards which in our view can only be achieved *by balancing* between Board members who have the necessary technical expertise and Board members who have other professional experiences and backgrounds. Therefore, the IFAC independent Boards are and should continue to be composed of an equal number of practitioners and non-practitioners.

As noted already in our main comments, other possibilities for embedding the public interest should be considered, like, for instance:

- Developing standards based on independent research studies commissioned on specific topics with higher public interest relevance and requiring less technical expertise, as done for instance for the further development of ISA 700 on auditor reports by the IAASB to respond to the needs of users; and
- Involving outside experts not being Board members in Task Forces on specific subject matters with a high public interest character, for example, involving representatives from the Basel Committee for Banking Supervision and other relevant organisations in the development of ISA 540 on auditing accounting estimates including fair value accounting.

Additionally, as also noted in our main comments, the involvement of SME representatives and SMPs in the IFAC independent Boards should be given greater and due consideration, as competence and experience in auditing of different sizes of entities should be duly considered.

Assignment of Board Seats

Recommendation 2: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.

The current Terms of Reference of the Audit and Ethics Boards stipulate that the members will comprise ten members from IFAC member bodies, five representatives from the Forum of Firms and three public members. The latter can be put forward by any individual or organisation. We would contend that practitioners provide the expertise *necessary* for the Audit and Ethics Boards to set high quality auditing and ethical standards.

The members of IFAC are professional accountancy organisations recognised by law or general consensus within their countries as substantial national organisations. The Forum of Firms is an association of international networks of accounting firms.

The involvement of IFAC members and Forum of Firm members in IFAC and its independent Boards has developed historically. Modifying the multifaceted balance developed over time requires taking stock of the views expressed on the matter and holding a specific debate on possible approaches and their impact with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, IFAC members, the Forum of Firms, independent IFAC Boards, IFAC SMP Committee, Nominating Committees, CAGs, etc.

We also repeat our main comment on the involvement of SMEs and SMPs in the IFAC independent Boards in respect of the assignment of board seats as well as our comment in Recommendation 1 that the principle of the “best person for the job” as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards remain of key importance.

Ability to Attract Public Board Members

Recommendation 3: The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.

Creating funding for public members of Boards, it would appear appropriate to have a wider debate with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, IFAC members, the Forum of Firms, independent IFAC Boards, Nominating Committees, CAGs, etc.

Setting a Code of Ethics for Accountants

Recommendation 4: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.

The ultimate proof of whether the structure, including the composition, of the underlying Board for any standard setting activity is appropriate, lays in the acceptance of its output.

When comparing the application of the output of the Audit Board (the Clarified International Standards on Auditing of March 2009) with the acceptance of the output of the Ethics Board (the IESBA Code of Ethics for Professional Accountants of July 2009), the former appears to be significantly more frequently adopted by legislators, regulators, the accountancy profession and others around the globe than the latter.

However, the Terms of Reference including the structure, composition, etc. of the underlying Audit and Ethics Boards is very similar if not the same. Therefore, the reserve towards the adoption of the IESBA Code of Ethics for Professional Accountants by regulators and the accountancy profession alike cannot only be explained by matters like Board structure, composition, etc.

FEE recommends to have a wider debate with all stakeholders concerned, including the Monitoring Group, the PIOB, IFAC, the Ethics Board, its members, its Nominating Committee, the accountancy profession, SMPs, etc. to come to an acceptable solution for all parties concerned in relation to setting a code of ethics for accountants, including independence standards.

Section II. Operating Procedures of the Standard-Setting Boards

Role of Technical Advisors to Board Members

Recommendation 5: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.

It should be noted that the current Terms of Reference of the Audit and Ethics Boards stipulate the following in relation to Technical Advisors:

“[Board] members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the [Board] member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in [Board] debates and attend [Board] meetings regularly to maintain an understanding of current issues relevant to their role.”

This appears to appropriately reflect the role one would expect Technical Advisors to fulfil. The application, and if necessary ‘enforcement’, of these Terms of Reference in Board meetings is a task of the Chair of the respective Board.

The current Terms of Reference of the Audit and Ethics Boards stipulate the following in relation to [Board] members:

“[Board] members are required to sign an annual statement declaring they will act in the public interest and with integrity in discharging their roles within IFAC”.

This appears to appropriately reflect the responsibility [Board] members have in managing the involvement of their Technical Advisor in the Board as well as their relationship with their Technical Advisor which should be in the broader public interest.

Finally, FEE notes that, currently, the background of Technical Advisors is more diversified than suggested in the Monitoring Group Consultation Paper. Many technical advisors are not from larger audit firms but from national standard setting bodies, thereby bringing the needed technical expertise and standard setting skills to the Boards. It could be considered to extend the annual statement required for the Board members also to the Technical Advisors.

Participation of Audit and Ethics Board Members in Board Meetings

Recommendation 6: The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board’s agenda.

FEE is supportive of this recommendation.

Role of the Audit and Ethics Board’s Consultative Advisory Groups

Recommendation 7: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG’s technical advisory input role.

The current Terms of Reference of the Audit and Ethics CAGs make it very clear in paragraph 1 that their role is purely advisory. FEE’s involvement with the CAGs does not make us believe it is perceived otherwise. However, if it is believed to be an issue, it appears indeed to be an issue of communication and presentation rather than an issue of substance which can be addressed as proposed in the recommendation.

Meetings of the Audit and Ethics Boards' Consultative Advisory Groups

Recommendation 8: The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.

FEE is supportive of this recommendation.

Analysis of Comment Letters

Recommendation 9: The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.

FEE is supportive of the recommendation to summarise the comments received upon exposure or consultation by detailing the frequency of all comment, the role of all submitters and how the comment was dealt with.

Feedback on the Monitoring Group Member's Input to the Boards

Recommendation 10: The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.

Although this recommendation already formed part of the 2003 IFAC Reforms, FEE believes that all comments should be treated equally: either direct feedback is given to all individual submitters of comments not taken up or to none of them. In case of the former, it is crucial to perform a thorough cost – benefit analysis before embarking on such enhancement of IFAC and its independent Boards.

Finalisation of Standards

Recommendation 11: The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.

FEE is generally supportive of this recommendation but advises to be mindful of the additional costs that such enhancement of IFAC and its independent Boards may entail.

Voting by Board Members

Recommendation 12: The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.

FEE is supportive of this recommendation.

Section III. Implementation of the Standards

No recommendations were put forward.

Section IV. Oversight

Role of the PIOB Members in the PIOB's Oversight Work

Recommendation 13: The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.

FEE is supportive of this recommendation and believes that, for instance, recommendations 9 and 11 might be helpful in this respect.

Role of the PIOB Staff Members in the PIOB's Oversight Work

Recommendation 14: The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.

FEE is supportive of this recommendation and believes that, for instance, recommendations 9 and 11 might be helpful in this respect.

Diversity among the PIOB Members

Recommendation 15: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.

FEE is supportive of this recommendation. As mentioned in our main comments, due consideration should also be given to SME and SMP representation.

Funding of the PIOB

Recommendation 16: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.

FEE is supportive of this recommendation.

Section V. Monitoring

Interaction between the Monitoring Group and the PIOB

Recommendation 17: The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.

FEE is supportive of this recommendation.

Longer Term Operation of the Monitoring Group

Recommendation 18: Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.

FEE is supportive of this recommendation and hopes this would result in possible synergies and enhanced cost effectiveness.

For further information on this FEE letter¹, please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be from the FEE Secretariat.

Yours sincerely,



Hans van Damme
President

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.