

## **PIOB TERMS OF REFERENCE AND OPERATING PROCEDURES**

### **PIOB TERMS OF REFERENCE**

#### **1. OBJECTIVES OF THE PIOB**

- 1.1 The Public Interest Oversight Board (PIOB) is responsible for the oversight of the standard-setting process of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), collectively referred to as the standard-setting boards (SSBs).
- 1.2 The role of oversight includes ensuring transparent deliberation of the SSBs, including their development of standards in the public interest in accordance with the Public Interest Framework, and evaluating the degree to which standard-setting operates independent of undue interference and remains accountable to the public interest.

#### **2. BACKGROUND OF THE PIOB**

- 2.1 The Public Interest Oversight Board Foundation (“PIOB Foundation”), is a Foundation established and registered in Madrid in terms of Spanish Law. It is the legal entity that houses the PIOB.
- 2.2 The PIOB Foundation is governed by its Board of Trustees<sup>1</sup>, responsible for the orderly and effective running of the Foundation, as dictated by Spanish law and corporate governance principles. All members of the Board of Trustees of the PIOB Foundation are members of the PIOB Technical Committee.
- 2.3 The PIOB Technical Committee (referred to as the “PIOB” throughout these Terms of Reference), is a Committee of the PIOB Foundation appointed to carry out the oversight activities of the PIOB Foundation.

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<sup>1</sup> Members of the Board of Trustees of the PIOB Foundation are subject to approval by the Spanish Foundations Protectorado, which oversees foundations in Spain.

- 2.4 The PIOB reports to the Monitoring Group, responsible to oversee and monitor the execution by the PIOB of its mandate. The Monitoring Group is also responsible for appointments of members to the PIOB, as set out under the “Membership” section below.
- 2.5 These terms of reference have been approved by the Monitoring Group and any changes thereto shall require Monitoring Group and PIOB Board of Trustees approval.

### **3. ROLE AND RESPONSIBILITIES**

The following are the responsibilities of the PIOB in respect of governance, monitoring and oversight of the SSBs:

#### **Oversight over standard setting processes**

- 3.1 Oversight of the standard setting processes to ensure that the standards, supported by the strategies and work plans, set by the SSBs are responsive to the public interest and aligned with the principles of the Public Interest Framework.
- 3.2 Oversee that the standard-setting activities follow due process, as certified by the PIOB, throughout the standard-setting development cycle, including that the SSBs appropriately consider and balance input from stakeholders, through ongoing engagement with the SSBs throughout the standard-setting development cycle.
- 3.3 Regularly engage with the respective SSB throughout the full development cycle of each standard to ensure adherence to due process and its public interest responsiveness in accordance with the Public Interest Framework.
- 3.4 Timely communicate to the relevant SSB any concerns around how the public interest is being addressed during the development of a particular standard for the SSB to seek to find an agreed upon solution.
- 3.5 In accordance with its oversight framework and due process, determine the number of SSB meetings and Stakeholder Advisory Council (SAC) meetings to observe each year, and observe meetings accordingly.
- 3.6 Provide a separate public certification on the approved new or revised standard of the relevant SSB, stating that:

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- 3.6.1 The PIOB oversaw the standard-setting process throughout the full development cycle;
  - 3.6.2 The PIOB considered that the new or revised standard was developed in a manner consistent with the agreed due process; and
  - 3.6.3 The PIOB considered that the new or revised standard is responsive to the public interest in accordance with the Public Interest Framework.
- 3.7 In the very unlikely circumstance that the PIOB is unable to issue a certification, as per the point above, publicly state the reasons therefore. Such reasons shall not be based on a technical disagreement with the relevant SSB.

### **Participation as a member of [NewCo]**

- 3.8 Perform the responsibilities of a Member of [NewCo], as set out in the [NewCo] Bylaws.
- 3.9 Appoint public interest Trustees to the [NewCo] Board of Trustees, as specified by and in accordance with the [NewCo] Bylaws, and provide such support to the public interest Trustees as may be needed for them to perform their responsibilities as Trustees in accordance with PIOB operating procedures.

### **Public interest oversight over effectiveness and accountability of SSBs**

- 3.10 Approve the development of and subsequent changes to the governance documents of the SSBs, including Terms of Reference and Operating Procedures that outline, among other items, the due process of standard setting and the establishment of or changes to the SAC.
- 3.11 Oversee the development, maintenance and administration of a written policy that governs potential conflicts of interest for the SSBs and their staff.
- 3.12 Assess the effectiveness of the SSB Chairs.
- 3.13 Conclude on whether an SSB's strategies and work plans were developed in a manner consistent with agreed due process and whether the strategies and work plans are responsive to the public interest.
- 3.14 Assess each SSB's delivery against its strategies and work plans, as agreed by the respective SSB and adopted by the [NewCo] Board of Trustees in accordance with its governance responsibilities.

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- 3.15 Hold each SSB accountable for the use of its budget, as approved by the [NewCo] Board of Trustees in accordance with its governance responsibilities.
- 3.16 Oversee the Service Level Agreement between IFAC and [NewCo].
- 3.17 Hold the SSBs accountable for the results of periodic effectiveness reviews.

### **Governance over membership of the SSBs and the SAC**

- 3.18 Establish the SSBs Nominations Committee to be responsible for facilitating the nominations process and recommending for appointment of members of the SSBs and the SAC (“SSBs Nominations Committee”).
- 3.19 Appoint suitable individuals to the SSBs Nominations Committee.
- 3.20 Oversee the nomination and appointment process for SSB Chairs, ensuring an open call, evaluation and recommendation by the SSBs Nominations Committee, and appointment by the PIOB in consultation with the Monitoring Group.
- 3.21 Oversee the nomination and appointment process for SSB members, ensuring a multi-stakeholder composition of board members appointed in the public interest, as governed by the PIOB skills framework.
- 3.22 Oversee the nomination process for SAC members and appoint its members and official observers.
- 3.23 Approve nominations to the SSBs and the SAC, as recommended by the SSBs Nominations Committee.
- 3.24 Appoint Vice Chairs of the SSBs in consultation with the Monitoring Group, following nomination by the respective SSB Chair and evaluation and recommendation by the SSBs Nominations Committee.
- 3.25 Respond to consultation by an SSB on the appointment of up to three observers with privilege of the floor at the SSB.
- 3.26 Remove an SSB Chair in consultation with the Monitoring Group, or an SSB member in consultation with the respective SSB Chair, before the end of a term of service for poor performance, incapacity, conflict of interest, or other conduct not consistent with the SSB’s Code of Conduct.

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- 3.27 Acting in consultation with the Monitoring Group, approve the removal of an SSB Chair as a Co-Chief Executive of the [NewCo] by the Board of Trustees.
- 3.28 Remove a SAC member before the end of their term of service, on the recommendation of the SAC Chair or Co-Chairs.

### **4 PIOB MEMBERSHIP AND TERMS OF SERVICE**

- 4.1 The PIOB shall include ten objective and gender diverse members, including the Chair, committed to the public interest. Members shall be drawn from a geographically and experientially diverse variety of stakeholder groups.
- 4.2 PIOB members, including the Chair, shall be identified through an open call for nominations. The method of appointment will be determined by the Monitoring Group with consideration of a skills matrix that foster leadership, expertise, and diversity of thought and geography.
- 4.3 PIOB appointments are made by the Monitoring Group and confirmed by the Board of Trustees of the PIOB Foundation.
- 4.4 PIOB members are appointed for a three-year term, renewable once with approximately one-third of the membership rotating or considered for reappointment each year. In the case of a member being appointed as Chair, this appointment may be extended, limited to a third three-year term.
- 4.5 Members of the PIOB act in their own capacity as independent members, and do not represent the interests of their employer or any other organization.
- 4.6 The Monitoring Group has the right to assign an observer to attend meetings of the PIOB. Such an observer will have speaking rights at meetings of the PIOB.

### **5 MEETING PROCEDURES AND TRANSPARENCY**

- 5.1 The PIOB meets, in person or by simultaneous telecommunications link, at least quarterly and as often as its Chair may determine, or at the request of three of its members.

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- 5.2 PIOB meetings shall be chaired by the Chair. In the event of the Chair's absence, the members present shall select one among the longest serving members to take the chair for the duration of the meeting, or of the absence of the Chair.
- 5.3 A quorum for meetings is 50% plus one member present.
- 5.4 For a resolution to be adopted it must be by the affirmative vote of 50% plus one of the members of the PIOB.
- 5.5 Each PIOB member has one vote which can be exercised by the appointed member. The PIOB Chair holds a casting vote in the case of a tie.
- 5.6 Resolutions may be adopted in writing without a meeting, provided that no member of the board objects to such procedure and votes against the resolution.
- 5.7 Minutes of every meeting are prepared and presented at the next meeting for approval by the PIOB.
- 5.8 Meetings of the PIOB are open to the public either in person or via webcast. However, it may, at its discretion, hold certain sessions of meetings in private<sup>2</sup>.
- 5.9 Summaries of the minutes of the PIOB meetings are published in the PIOB Foundation's website.
- 5.10 The PIOB posts briefing and observation memoranda relating to the observation of SSB meetings, with further information to contextual matters, where required, on the PIOB Foundation's website, explaining how it discharges its oversight role.
- 5.11 The PIOB Foundation will make publicly available an annual report and related financial statements.

## **6 OTHER**

- 6.1 In consideration for the oversight activities, PIOB members shall receive compensation as determined by the Board of Trustees of the PIOB Foundation, subject to the formalised funding and budgetary approval arrangements of the PIOB. This includes travel related expenses, as justified.

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<sup>2</sup> For example, certain sessions of meetings related to general administrative matters or matters with privacy implications are not open to the public and these minutes are not posted on the website of the PIOB.

## **PIOB OPERATING PROCEDURES**

### **1. BACKGROUND**

- 1.1 The following operating procedures seek to facilitate, and not restrain, the optimal functioning of the PIOB in respect of its monitoring and oversight role in applying the new arrangements under the Monitoring Group Recommendations. The procedures may be modified in practice, based on experience or in response to change in circumstances, and shall be periodically reviewed by the PIOB in consultation with the Monitoring Group.

### **2. GENERAL**

- 2.1 The PIOB Code of Conduct and the Public Interest Framework shall be made available on the PIOB Foundation's website.
- 2.2 PIOB members and staff are required, upon appointment and annually thereafter prior to the first meeting of the PIOB for the year, to affirm their agreement to the PIOB Code of Conduct and make a Declaration of Commitment to Public Interest.
- 2.3 PIOB new member induction and information sessions shall include a review of the PIOB Code of Conduct, the Public Interest Framework, the PIOB's Terms of Reference, the Bylaws of [NewCo] and any other document relating to the operation of [NewCo], and these PIOB Operating Procedures.

### **3. INTEGRATION OF THE PUBLIC INTEREST FRAMEWORK**

- 3.1 PIOB oversight will be conducted in accordance with the Public Interest Framework.
- 3.2 To this end, the PIOB will assess the public interest responsiveness of any new or revised standard by overseeing the SSBs throughout the full development cycle of each standard, with specific reference to the following steps to be followed by the SSBs as outlined in the Public Interest Framework:

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- 3.2.1 Identify the varying perspectives and needs of groups with legitimate interests in relation to the proposed standard throughout the full cycle of its development;
  - 3.2.2 Define the desired goal that would allow the standard to best serve users' needs;
  - 3.2.3 Identify criteria to assess the standard's responsiveness to the defined goal, in terms of the qualitative characteristics that the standards should exhibit;
  - 3.2.4 According to the criteria, reasonably weigh input from the different groups; and
  - 3.2.5 Given the defined goal, assess the expected contribution of the standard to users' needs, and consider whether it is responsive to the public interest according to the Public Interest Framework.
- 3.3 Assessing whether a standard is in the public interest requires careful application of judgment, in which the Public Interest Framework seeks to guide both the SSBs and the PIOB. This judgement is best informed when the standards' development and consultation process elicit all stakeholders' views and focus is placed on assessing the merits of the various views, irrespective of whether the views are a minority or majority.
- 3.4 The PIOB provides oversight of the standard-setting process, by ensuring that due process has been followed by the SSBs and that the standards respond to the public interest in accordance with the steps and qualitative characteristics set out above.
- 3.5 The PIOB communicates its views and the basis thereof to the SSBs, in a timely manner throughout the standard-setting process and works collaboratively with the SSBs to understand the input received and how decisions were made. The PIOB works collaboratively with the SSBs to seek an outcome consistent with the Public Interest Framework.

## **4. PIOB INTERACTIONS WITH SSBs AND THEIR RELATED ACTIVITIES AND STRUCTURES**

### **General**



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- 4.1 The principle of regular and timely dialogue between the PIOB and SSBs, in support of successful certification of new or revised standards, shall underlie the PIOB and SSB interactions.
- 4.2 This includes regular and timely dialogue between the PIOB and SSB Chairs, and at other appropriate levels of the PIOB and SSB organizations where flow of information and clarifications, as necessary, are essential.
- 4.3 PIOB and SSB dialogue shall take into account the key milestones of the standard setting development cycle, namely project inception, exposure draft approval and final approval of the standard.
- 4.5 The PIOB may choose to engage with stakeholders, including but not limited to the Monitoring Group, Monitoring Group member bodies, other regulators, investors and other relevant stakeholders. The purposes of such engagement include to enhance its understanding of the public interest and the responsiveness of the standard-setting processes in that regard; to discuss other matters of relevance with such stakeholders; and to enhance the credibility of standards issued by the SSBs. However, in carrying out that engagement the PIOB should not duplicate stakeholder engagement activities by the SSBs.

### **Public Interest Issues**

- 4.6 The PIOB shall communicate recommendations and concerns around how the public interest is being addressed in the work of the SSB in accordance with the Public Interest Framework, for the SSB to review and consider the issue and basis thereof.
- 4.7 To the extent necessary to resolve differences of views, the PIOB shall respond in writing to a request from the SSB Chair or senior staff, in order to clarify or elaborate on the basis of a recommendation made or concern raised by the PIOB.
- 4.8 The PIOB and SSB Chairs shall convene in a timely manner to discuss any matter that may impact on the ability of the PIOB to issue a certification of a final standard, and the proposed way forward to resolve the matter.
- 4.9 The PIOB shall consider submissions made by the SSBs requesting certification of a new or revised standard.

### **Observation of SSB meetings**

4.10 In accordance with its oversight framework and due process, PIOB shall determine the number of SSB meetings to observe each year. PIOB member/s observe meetings of the SSBs with right to the floor.

**Observation of and engagement with Stakeholder Advisory Council (SAC) meetings**

4.11 In accordance with its oversight framework and due process, PIOB shall determine the number of SAC meetings to observe each year. The PIOB shall observe the meetings of the SAC with right to the floor.

4.12 The PIOB may appoint up to four additional individuals as official observers of the SAC, based on recommendation of the SSBs Nominations Committee.

4.13 The PIOB shall engage with the SAC Chair(s) if, in exceptional circumstances, requested to do so by the SAC Chair(s) in order to discuss a matter of concern.

**5. OVERSIGHT OVER EFFECTIVENESS AND ACCOUNTABILITY OF SSBs**

5.1 On an annual basis, the PIOB shall engage with the individual Chairs of the SSBs to agree on an assessment mechanism, including process, timelines and reporting mechanisms, for the following:

5.1.1 An annual assessment of effectiveness of each Board’s chairs, taking input from relevant stakeholders;

5.1.2 An annual assessment of effectiveness of the SSBs’ delivery against its agreed strategy and workplan;

5.1.3 An annual assessment of accountability of the SSBs’ use of its approved budget; and

5.1.4 If applicable, assessment of accountability of the SSBs for the results of SSB’s periodic effectiveness reviews.

5.2 For the annual assessment of effectiveness of the Chairs, the PIOB Chair will solicit input from stakeholders. Such feedback and agreement of enhancements or corrective action will be discussed and agreed between the relevant SSB Chair and PIOB Chair.

5.3 For the annual assessment of effectiveness of the SSBs’ delivery of its strategies and work plans, the PIOB will consider, among other factors, measurement of actual performance and progress of projects against original planned timelines.

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- 5.4 For the annual assessment of accountability of the SSBs' use of its approved budget, the PIOB will consider, among other factors, measurement of actual expenditure against its approved budgets.

## **6 PIOB INTERACTION WITH THE SSBs NOMINATIONS COMMITTEE<sup>3</sup>**

### **Engagement with SSBs Nominations Committee**

- 6.1 The Chair of the SSBs Nominations Committee will report, in writing, to every meeting of the PIOB as a standing agenda item, as to the activities of the Committee.
- 6.2 The SSBs Nominations Committee will report in writing at a high level to the PIOB to explain the key considerations that led to the recommendation of selected candidates. For clarity, PIOB retains the right to approve each candidate's nomination and appointment.
- 6.3 Any change to the Terms of Reference of the SSBs Nominations Committee are subject to the approval of the Monitoring Group, PIOB, and IFAC.

## **7 PIOB INVOLVEMENT IN [NewCo]**

### **PIOB Membership of [NewCo]**

- 7.1 The PIOB is a Member of NewCo, and has the responsibilities and powers of a Member under the [NewCo's] Bylaws. This includes, in the case of the PIOB, the power to appoint a majority of members of [NewCo's] Board of Trustees, one of whom is also to be the Chair of that Board. The other Members of [NewCo] are the Monitoring Group and IFAC.
- 7.2 The intention of the Members of [NewCo] is that they will at all times work collaboratively to give effect to the Monitoring Group reforms in the public interest.

### **Appointment of [NewCo] Trustees**

- 7.3 The PIOB shall appoint suitable individuals ("Trustees") to the Board of Trustees, in accordance with the Bylaws.

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<sup>3</sup> This section should be read in conjunctions with the Terms of Reference of the SSBs Nominations Committee.

### **Engagement with [NewCo]**

- 7.4 The PIOB Chair, with the support of the Secretary-General, is responsible for the PIOB's role as a Member of [NewCo] and its relationship with the other Members, and for the relationship with the SSB Chairs (whether or not in their capacity as the Co-CEOs of [NewCo]).
- 7.5 From time to time, the PIOB may engage with the [NewCo] Board of Trustees, or the Chair of the Board, without interfering in the responsibilities of the Board as specified in the Bylaws.
- 7.6 The Secretary-General may designate a member of the PIOB's staff to liaise with [NewCo] staff in relation to managerial or administrative matters.

### **8 DOCUMENTS TO BE CONSIDERED BY PIOB**

The PIOB will consider the following:

- 8.1 All written submissions by the SSB requesting PIOB certification post SSB approval of a new or revised standard, including details in adherence to the requirements of the Public Interest Framework.
- 8.2 The strategies and work plans submitted from time to time by the SSBs, requesting PIOB approval.
- 8.3 Quarterly reports by the SSB Chairs to the PIOB in respect of its meetings held, the progress of projects and planning for execution of strategies and work plans.
- 8.4 Submissions by the SSBs Nominations Committee recommending candidates for appointment to the SSBs.
- 8.5 Submission by the SSB Chairs in respect of nominations of member bodies and individuals to its stakeholder advisory council/s.

### **9 TRANSPARENCY**

The following PIOB documents shall be made available to SSBs and available to the public on the PIOB Foundation's website:

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- 9.1 PIOB written certifications, including details as required by the Monitoring Group Recommendations, for standards approved by the SSBs, or in the instances of the PIOB being unable to certify, reasons thereof.
- 9.2 Summaries of PIOB meeting minutes, public interest issues, PIOB briefing and observation memos (or any future document that will encapsulate this information in an enhanced format) shall be distributed to the SSBs, for information after the meetings, and shall also be posted on the PIOB Foundation's website for the public.
- 9.3 PIOB approvals of members to the SSBs, SSBs Nominations Committee and ~~SSBs~~ Standing Advisory Council (SAC).
- 9.4 The PIOB Public Report, which is an annual report on the activities of the PIOB and how it has discharged its duties.