Ten Years of Public Interest Oversight

10th Anniversary

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The PIOB today
The Public Interest Oversight Board (PIOB) is the global independent oversight body that seeks to improve the quality and public interest focus of the international standards formulated by the Standard Setting Boards supported by the International Federation of Accountants in the areas of audit and assurance, education, and ethics. Through its oversight activities, the PIOB works to bring greater transparency and integrity to the audit profession, thereby contributing to the enhanced quality of international financial reporting.

The PIOB provides independent oversight throughout the entire process of standard setting to help ensure that standards development is fully responsive to stakeholder needs, accountable and transparent. The Public Interest responsiveness of standard development requires aligning the priorities of the profession with those of all stakeholders. Strengthening confidence is the ultimate objective of the current architecture in place, of which the PIOB is an essential component.
1.2.- What we do

The PIOB oversees

1. **The strategies and work programs of the standard-setting boards under its oversight** (International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA))

2. **The nominations process** to select the members of the standard-setting boards under its oversight, in order to ensure that the persons involved collectively bring sufficient technical competence and breadth of perspectives to develop high quality standards in the public interest;

3. **The standard-setting process**, including the operation of the Consultative Advisory Groups (CAGs) and the selection of its members, to ensure that international standards are set in a transparent manner with sufficient attention to stakeholder input.

4. **The Compliance Advisory Panel** to ensure that appropriate steps are being taken to promote the adoption and implementation of international standards.

The PIOB communicates with

5. **The Monitoring Group** to ensure that input from regulatory and other international public policy entities is taken into account in PIOB’s oversight activities.

6. **IFAC leadership** to promote the collaborative relation underlined by the current structure.

7. **Other stakeholders (investors, regulators, other)** to bring their views into the standard setting process. The objective is to contribute to increase awareness of the present framework of international standard setting in audit and assurance, ethics and education, thus informing objective decisions over the adoption of international standards.
1.3.- Standard setting structure

MONITORING GROUP

PIOB FOUNDATION

Other Public Interest Stakeholders

Public Interest Oversight Board

IFAC

NOMINATING COMMITTEE

IAASB

IESBA

IAESB

IAASB CAG

IESBA CAG

IAESB CAG

COMPLIANCE PROGRAM

CAP
The present standard-setting structure is the result of changes agreed in 2003 to upgrade the status of professional standards from purely self-regulatory instruments implemented by the International Federation of Accountants (IFAC) member bodies to widely recognized and used professional standards with a higher public interest status. This was to be accomplished through external public oversight. External oversight was introduced to restore public confidence of the worldwide investor community and other stakeholders, which had been severely shaken in the 2002–03 major financial failures, and to enhance the credibility of financial reporting. The basic philosophy was—and is—that accountants, especially auditors, make a critical contribution to public confidence in the financial markets and related economic activities; at the same time, investors and other stakeholders are entitled to have standards that take into account the public interest, including public trust in the published data. It was also hoped that more authoritative standards would be adopted more readily in different jurisdictions.

The outcome of the 2003 negotiations resulted in a complex organizational scheme based on a three-layer structure, involving the needs of the accountancy profession represented by IFAC (the first layer), the interests of investors, markets, and users of the accounts, embodied in the new oversight structure (the second layer), and the overall monitoring role exercised by the international financial institutions, the ultimate guarantors of the public interest in this specific domain (the third layer).

The PIOB is responsible for overseeing the public interest activities of IFAC related to auditing and financial statement assurance activities, with special reference to standard setting in the areas identified in the 2003 agreement. It oversees the activities of the three standard-setting boards (SSBs), but also of other bodies within IFAC, such as the Nominating Committee and the Compliance Advisory Panel. The original documents largely identified these bodies with IFAC; it is only in more recent years that the SSBs have been clearly separated from IFAC and designated as independent standard-setting boards.

The notion of independence was not part of the original setup, although some provisions pointed in the direction of independence.

This scheme represents a unique example of worldwide standard setting and has proved to be exceptionally successful. In the absence of a treaty-based international authority, developing standards or regulations applicable on an international scale is difficult and often disappointing. The PIOB’s success is based on the unique conjunction of the needs of the accountancy profession, the expectations of the markets and business firms, and the seal of acceptance by the bodies with authority in the field of finance.

In the 2003 agreement, the PIOB is not in charge of detailed supervision of the standard-setting process: the agreement is clear that the PIOB does not act in a management or operational role, leaving the drafting of standards to the standard-setting boards. The same applies to the planning of SSB activities: the PIOB can request that an SSB add a matter to its work agenda or take up a particular project.

There has been some misunderstanding about whether the PIOB’s mission is to verify that the standard-setting process follows “due process” or whether it is to serve the public interest. The interpretation has changed over time.

The 2003 agreement created, under the heading Public Interest Oversight Board, a body to oversee the public interest. Its creation was a “key reform.” The PIOB’s mission is: “to increase confidence of investors and others that the public interest activities of IFAC—including the setting of standards by IFAC boards and committees—are properly responsive to the public interest.” And further, “PIOB is responsible for overseeing the public interest activities of IFAC.” The mission of the Monitoring Group (MG) is to “monitor the execution by the PIOB of its mandate.” Several statements in the 2008 MG charter refer to this task: the MG will consult and advise the...
PIOB with respect “to regulatory, legal, and policy developments that are pertinent to the PIOB’s public interest oversight.” Similar references are found in the MG charter: “The PIOB was created as part of that reform [the 2003 reform] to ensure that the public interest is properly taken into account by the PIACs’ (public interest activity committee) standard-setting process.” The MG monitors how the PIOB is carrying out its public interest role with particular regard to its oversight of the standard-setting process. This analysis does not deny the importance of due process as an instrument that the PIOB can use to ensure balanced standard setting and to ensure that the views of all stakeholders have been sought and taken into consideration. But due process in itself does not guarantee that the public interest will be considered.

The texts of these two fundamental agreements clearly establish that the PIOB has the right, beyond and apart from due process oversight, to take a stand on public interest issues, to determine whether these have been mentioned in the public consultations or not, and to ensure that the standards are responsive to the public interest. The role of the PIOB in protecting the public interest does not depend on remarks made during the consultation process. Different from national consultations, worldwide consultations reflect a diversity of interests and views and often cannot reflect all concerns that may be considered relevant to the public interest. The task of the PIOB is to draw attention to these points.

The PIOB has applied this reading of the public interest concept: in its Seventh Public Report, it stated, “Respect for due process may not always guarantee the public interest.” In subsequent consultations, consultees—especially from the non-professional side—clearly supported the idea of the PIOB focusing on the public interest.

The question remains: What is “the public interest”? Although this notion is used in many jurisdictions (for example, in competition, product standards, bank supervision, and resolution, to name a few), it is rarely defined in the law or in specific governance codes; its meaning is strongly related to the context in which the issue arises. “Public interest” is used as a criterion to define the higher priority to be reserved for issues that touch on the welfare of the wider public. In its Sixth Public Report, the PIOB published a tentative analysis of the notion of public interest, applying it to the specific subject of the accountancy profession. Rather than focusing on the multidimensional nature of public welfare, including financial, political, social, and environmental aspects, public welfare in the case of accountancy services refers to financial welfare. Therefore, the accountancy profession is seen as contributing to the public interest by strengthening public confidence in public account-related information.

In two recent cases, the PIOB deemed that the standard-setting work that had been presented for approval was unfinished and that additional work was needed on aspects that, in its judgment, were closely related to the public interest. In each case, the public interest should be determined on the basis of its own characteristics, taking into account the interests of the relevant public. This is also the lesson to be learned from judicial decisions applying the “public interest” test, especially in the field of competition law.

The standard-setting system created by the 2003 agreement is based on a subtle balance of professional and public interest considerations. The presence of experienced professionals on the standard-setting board has been a driving force in developing this considerable body of standards and other normative instruments. The balance has to be preserved to ensure that professional interests are not seen as having received priority and that the standards take sufficient account of the wider societal interests.

There is an overarching concern about the effectiveness of the accountancy profession in avoiding major, or even not so large, dysfunctions in the economy. Expectations are high, perhaps too high. At least with regard to relying on the information coming from the audit inspections, the work is not finished. This concern relates not only to setting new standards, but also to enforcing and implementing existing standards. All involved in this ambitious effort to make the world financially safer should not wait for the next major collapse of public confidence to start acting in their respective fields of competence.
Once it was established, the Public Interest Oversight Board moved quickly in shaping its operation to do exactly what it was asked to do: oversee. As an independent body, it had been charged with overseeing the activities of the standard-setting bodies and concluding whether, in its view, the standards produced by the standard-setting boards were designed to serve the public interest.

The result of the oversight was in itself assurance—assurance to the public. That oversight was initially carried out largely by physical observation at standard-setting board meetings and related activities. The work was highly labor intensive and expensive. Like all organizations, the PIOB had and will continue to have limited resources. It needed to direct those resources in the most effective way possible.

In 2010 the PIOB developed a more formal risk-based methodology for overseeing standard-setting processes. This methodology was designed to ensure that resources were directed where they were needed most. As a result, the key foundation of all of its work is the Nominations Committee process of appointing high-caliber persons to the standard-setting boards.

Different degrees of investment in oversight activities are directed, depending on the likely systemic impact of a failed standard and the confidence levels of the PIOB in the standard-setting board.

The degree of investment is continually reassessed throughout the following seven-step methodology:
1 **Assign team leaders for oversight activities.** A PIOB member is assigned to lead the oversight activities. Close cooperation between board members and between the board and the PIOB Secretariat is a fundamental feature of the PIOB, but it becomes crucial to ensure the continuity of oversight processes in a scenario of less than 100 percent direct observations.

2 **Develop oversight assurance models.** Based on its experience, the PIOB has formalized four assurance models, each one offering a different level of assurance. The level chosen for each plan should be of sufficient intensity to enable the PIOB to conclude whether the activities of the standard-setting board follow due process and properly safeguard the public interest.

3 **Determine oversight techniques.** The oversight assurance model proposed by each team leader and approved by the PIOB will determine the oversight techniques to be followed throughout the year for each of the standard-setting boards subject to oversight.

4 **Have the oversight plan approved by the PIOB board.** These plans may be reviewed throughout the year, as required.

5 **Execute the oversight plan.** In executing its plan, the PIOB will observe the conduct of the work, active participation, and debate by board members, ensure the full transparency of meetings and key decisions, and engage in active consultation with all key stakeholders.

6 **Present the oversight findings to the board.** At the conclusion of the calendar year, each team leader will present the findings of the year’s work to the PIOB, along with the recommended conclusion. These findings will be published in the year’s Public Report.

7 **Review PIOB experience.** The board will review the experience of the year and lay the groundwork for the next year’s oversight methodology and assurance cycle.

While it has been under constant review and improvement since its establishment in 2010, the methodology has formed a sound basis for the conduct of the PIOB’s oversight activities.
1.6.- PIOB board composition through the years

2005
PIOB ORIGINAL BOARD

Dr. Stavros Thomadakis, Chairman (2005-11)
Professor of Finance, University of Athens, Greece. Former Chairman of Hellenic Securities Commission, the European Regional Committee of IOSCO, and the expert group on Market Abuse of the Committee of European Securities Regulators

Mr. Antoine Bracchi (2005-11)
Président, Conseil National de la Comptabilité, France

Mr. David A. Brown, Q.C. (2005-11)
Former Chairman of the Ontario Securities Commission, Canada. Founding chair of the Council of Governors of the Canadian Public Accountability Board. Member of the Council of Senior Advisors to the Auditor General of Canada

Mr. Fayezul Choudhury (2005-11)
Vice-President and Controller, The World Bank

Mr. Michael Hafeman (2005-14)
Actuary and independent consultant on supervisory issues. Former Assistant Superintendent of Financial Institutions, Canada

Mr. Kosuke Nakahira (2005-7 +)
President and Chief Executive, Shinkin Central Bank. Former Vice-Minister of Finance for International Affairs, Ministry of Finance, Japan

The Hon. Aulana L. Peters (2005-2012)
Retired lawyer. Former Commissioner of the U.S. Securities and Exchange Commission and former member of the Public Oversight Board of the American Institute of Certified Public Accountants, Member, Accountability Advisory Board to U.S. Comptroller General.

Professor Dr. Arnold Schilder, RA (2005-8)
Executive Director, De Nederlandsche Bank NV, Netherlands. Member of the Basel Committee on Banking Supervision and Chairman of the Basel Committee's Accounting Task Force.

Observers:

Former chairman of the U.K. Financial Reporting Council. Former chairman of BUPA, Cookson Group PLC, the Post Office, Manpower Services Commission, Rank Xerox (UK), the Council of the Open University, the Council for National Academic Award, and the National Council for Vocational Qualifications. Former president of the Confederation of British Industry (CBI).

Professor Dr. Kai-Uwe Marten (2005 – 14)
Professor of Accounting and Auditing, University of Ulm, Germany. Deputy Chairman of the Auditor Oversight Commission, Federal Republic of Germany

Secretary general

Donna Bovolaneas, FCPA, FCA (2005 - 2009)

2007

Toshiharu Kitamura (2007 – 14)
Professor of Financial Economics, Waseda University, Japan. Former Senior Executive Director, Development Bank of Japan. Former Deputy Director-General of International Finance, Ministry of Finance of Japan.

2008

EU OBSERVERS TO MEMBERS

Sylvie Mathérat (2008-13) (BCBS)
Director of Financial Stability, Banque de France, Member of the Basel Committee on Banking Supervision and current Chair of the Basel Committee's Accounting Task Force.
**2009**
Secretary general
Gonzalo Ramos (2009)

**2011**
BOARD RENEWED

New Chair - Eddy Wymeersch (current chair)
Former chairman of the Committee of European Securities Regulators (CESR) (2007–10) and of the European Regional Committee of IOSCO, former chairman of the Belgian Commission Bancaire, Financière et des Assurances (CBFA).

New Members - Rob Ward, AM (2012-14)
Former PwC worldwide audit leader, former Chairman Australia Public Policy Committee, former PwC national Managing Partner Public Policy and Regulatory Affairs and former President of The Institute of Chartered Accountants in Australia.

Chandu Bhave
Former chairman of the Securities and Exchange Board of India; former chairperson of the Asia-Pacific Regional Committee; and former chairman of the National Securities Depository, Ltd.

Chuck McDonough (2011-14)
Former Vice President and Controller of the International Bank for Reconstruction and Development ("World Bank").

**2012**
Jane Diplock, AO
Former Chair, Executive Committee, IOSCO (2004–11) and chairman, New Zealand Securities Commission.

**2013**
Nic van der Ende, RA
Member of the Basel Committee on Banking Supervision’ Accounting Expert Group and Audit Sub-Group.

Julie Galbo (2013-14)
Deputy Director General at the Danish Financial Supervisory Authority.

**2014**
BOARD RENEWED

Michael Holm
Former director of the Reinsurance and General Insurance Division of Finanstilsyn, Danish Financial Supervisory Authority.

Maria Helena Pettersson

Karel Van Hulle
Associate professor at the Business and Economics Faculty of the KU Leuven. Former head of unit at the European Commission

Chuck Horstmann
Former IFAC deputy president (2002-5). 40-year career in public accounting and more than 20 years of experience in global management roles dealing with professional and regulatory matters.

Jules Muis

**2015**
Aileen Pierce
Emeritus Professor of the University College Dublin (UCD), Ireland. Former Chair of the Consultative Advisory Group (CAG) of the International Accounting Education Standards Board (IAESB) for three years from 2012 and representative of the European Accounting Association (EAA) on the CAG since 2008.
1.7.- PIOB Secretariat

The PIOB Secretariat is located in Madrid at Calle Oquendo 12, 28006. The Spanish Government grants free use of the premises, which are shared with the IOSCO Secretariat.

CURRENT STRUCTURE

Gonzalo Ramos
Secretary General (2009)

Susana Novoa
Director of Oversight (2007)

Claudia Deodati
Oversight Advisor (2012)

Heather Erickson
Executive Assistant (2013)

Renzo Lari
Financial Controller (2014)

Rocío Goudie
Communications and External Relations Advisor (2006)

FORMER PIOB STAFF MEMBERS

2005-2014
Jonathan Bravo
Financial Controller

2007-2008
Andrew Crain
Director External Relations

2009-2012
Carlta Vitzthum
Communications Director

2012
Michelle Mani
Administrative Assistant
The PIOB Board meets 4 times a year at the end of each quarter: March, June, September and December. Three of the meetings are usually held in Madrid and one is held abroad, alternating location to achieve wider geographical presence and interaction with the regional auditing and regulatory community.

### 43 Meetings – 13 held abroad

<table>
<thead>
<tr>
<th>DATE</th>
<th>LOCATION</th>
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<tr>
<td>March 1, 2005</td>
<td>Paris</td>
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<tr>
<td>March 20-21, 2006</td>
<td>New York</td>
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<tr>
<td>December 18-19, 2006</td>
<td>Tokyo</td>
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<tr>
<td>June 25-26, 2007</td>
<td>Amsterdam</td>
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<tr>
<td>December 10 – 11, 2007</td>
<td>New York</td>
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<tr>
<td>December 4-5, 2008</td>
<td>Brussels</td>
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<tr>
<td>March 30-31, 2009</td>
<td>Athens</td>
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<tr>
<td>November 5-6, 2010</td>
<td>Kuala Lumpur</td>
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<tr>
<td>June 27-28, 2011</td>
<td>Buenos Aires</td>
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<tr>
<td>February 29 – March 2, 2012</td>
<td>New York</td>
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<tr>
<td>November 16-18, 2012</td>
<td>Cape Town</td>
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<tr>
<td>February 27-28, 2013</td>
<td>New York</td>
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<tr>
<td>September 11-13, 2014</td>
<td>New York</td>
</tr>
<tr>
<td>March 24-25, 2015</td>
<td>Abu Dhabi</td>
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1.9.- PIOB Milestones

2005

• Stavros Thomadakis is appointed first chair of the PIOB
• First meeting of the PIOB is held in Paris - March 1st

2005

December

• Donna M Bovolaneas named Secretary General
• PIOB Foundation is registered in accordance with the provisions of the Law 49/2002, 23 December

2006

PIOB By-Laws registered with the Spanish Authorities

2006

• PIOB website is launched
• PIOB publishes first annual report

2007

• Spanish Government through the CNMV grants use of the premises in Oquendo 12 to the PIOB Secretariat, shared with the IOSCO General Secretariat
• PIOB Secretariat is set up in Madrid

2008

25 September

The European Commission joins the Nominating Committee of the Monitoring Group

2008

• MG Charter Agreement
• The two European Commission observers to the board become full members

• IFAC Reform Agreements
2009

- Completion of the IAASB’s Clarity Project
- February 27, 2009
- Gonzalo Ramos named new PIOB Secretary General

2010

- MG assessment of the implementation of IFAC Reform
- Final Report: MG Review of the IFAC Reforms
- PIOB Self-Assessment

2011

- Eddy Wymeersch appointed new PIOB Chairman
- PIOB launches budget diversification effort together with the MG and IFAC
- PIOB Launches its New Oversight Methodology

2012

- PIOB Public Consultation on its work program 2012, and beyond
- MG Governance review
- PIOB Recommendations in response to its consultation on the PIOB work program 2012 and Beyond
- IFIAR Joins the Monitoring Group

2013

- PIOB’s new website is launched

2014

- Public Interest Workshop is held in New York

2015

- PIOB holds its Tenth Anniversary Seminar in September
- CNMV renews agreement to continue to host the PIOB in Spain
1.10.- The PIOB funding structure - 2015

TOTAL: 1,532,907€

56,24%
International Federation of Accountants
862,073€

20,35%
European Commission
312,000€

0,52%
Interest Income
8,000€

2,34%
World Bank
35,834€

7,83%
Abu Dhabi Accountability Authority (ADAA)
120,000€

6,52%
International Organization of Securities Commissions
100,000€

3,59%
Bank for International Settlements (BIS)
55,000€

2,61%
UK Financial Reporting Council (UK FRC)
40,000€
1.11.- PIOB image

PIOB CORPORATE IMAGE EVOLUTION

2005

![2005 PIOB Logo]

2009

![2009 PIOB Logo]

2015

![2015 PIOB Logo]
SECTION 2

PIOB History

Different perspectives on how the PIOB came to be

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It was therefore critical to restore and enhance public confidence in financial reporting and independent audit. In 2003 the group of regulators and the IFAC had various discussions, which resulted in the IFAC reform.

The objective of the IFAC reform was to increase public confidence in the IFAC's audit-related standard-setting activities, mainly conducted by the IAASB, while paying proper attention to the public interest. Before the IFAC reform, audit-related standard-setting activities were based primarily on the inputs from audit practitioners themselves. We believed that standard setting should remain within the remit of the profession, but our key challenge was to improve the process in order to respond properly to the inputs on how standard setting relates to the public interest, such as comments made by investors, regulators, and others.

We then agreed to establish a new body, the PIOB, completely independent from the audit profession, to oversee whether the public interest was being reflected properly in the activities of each standard-setting body. The establishment of the PIOB was the core element of the IFAC reform, which sought to provide reliability, transparency, good governance, and, hence, legitimacy to the audit standard-setting process.

**Conclusion**

Having thought back to the crucial moment of restoring the public confidence in auditing and to the introduction of the PIOB, I am extremely pleased to celebrate the PIOB on its 10-year anniversary. I would like to pay tribute to my good friend and colleague Stavros Thomadakis, the first chairman of the PIOB, and to all of my former colleagues who committed themselves to this undertaking, for having made this reform a success that would become a reference for other organizations. If we look back at the history of financial reporting, disaster strikes when you least expect it. It is our collective duty to demonstrate that the market economy goes handinhand with integrity and public interest.

**History of the PIOB**

In the early 2000s, major financial scandals and auditing problems had seriously eroded the public trust in the reliability of financial reporting and independent audit. Although we recognized that dishonesty and irrational motivation were the major causes of the problems, we also recognized that independent audit did not prevent them, which everyone had expected it to do, and even shared responsibility for some of the failures. It was this kind of major earthquake, and the following aftershocks, that provoked the severe and lasting damage to investor confidence.

The PIOB was created as a result of the collaboration between the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the World Bank, and the Financial Stability Forum (FSF) and of the discussions we had with the International Federation of Accountants (IFAC), chaired by René Ricol, who led this organization on the road to reform.

When the PIOB was created, I was the chairman of the French Financial Market Authority and deputy chairman of the IOSCO Technical Committee. Together with my colleagues, I worked hard to lead the coordination among the financial regulators and international organizations and to incorporate the public interest within the audit-related standard setting at that crucial moment. We should never forget the lessons learned back then, and I would like to take this opportunity to share the history of the PIOB and why it was necessary to establish the PIOB in 2005.

**It is a great honor and pleasure for me to share my comments on the history of the PIOB, on the occasion of its anniversary, 10 years after its creation in 2005.**

**History of the PIOB**

It was therefore critical to restore and enhance public confidence in financial reporting and independent audit. In 2003 the group of regulators and the IFAC had various discussions, which resulted in the IFAC reform.

The objective of the IFAC reform was to increase public confidence in the IFAC’s audit-related standard-setting activities, mainly conducted by the IAASB, while paying proper attention to the public interest. Before the IFAC reform, audit-related standard-setting activities were based primarily on the inputs from audit practitioners themselves. We believed that standard setting should remain within the remit of the profession, but our key challenge was to improve the process in order to respond properly to the inputs on how standard setting relates to the public interest, such as comments made by investors, regulators, and others.

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I am currently serving as chairman of the Trustees of the IFRS Foundation, which recognizes the importance of developing a global set of accounting standards—International Financial Reporting Standards (IFRS)—in order to serve the public interest within the global economy. For similar reasons, our organization is supervised by a Monitoring Board, which is essential to the quality of our governance, process, and ultimately our legitimacy. Because IFRS are widely adopted internationally, their proper implementation has become one of our strategic objectives and requires close cooperation with auditors. Similar to the IFRS and closely linked to them, the implementation of audit-related standards is also essential. However high the quality of the audit-related standards, their proper implementation requires a high degree of professional scrutiny.

I wish the PIOB all the best in its important role of continuing to protect the public interest within audit related standard-setting activities, and I look forward to enjoying a continuous and fruitful cooperation between the IFRS Foundation and the Public Interest Oversight Board.
Since February 2005, the Public Interest Oversight Board has been a well-recognized global, independent oversight board that seeks to ensure that international standards for auditing and assurance, ethics, and education for the accountancy profession are set in a transparent manner that reflects the public interest. The PIOB’s formation and continuing efforts reflect a unique collaboration between the International Federation of Accountants (IFAC) and the international financial regulatory community that started in 2003 and has continued to this day.

Following the 1997 Asian financial crisis, the World Bank and other organizations publicly criticized the work of international audit firms—in particular, their willingness to sign off on financial reports prepared using inadequate accounting principles. In addition, efforts were launched to establish a global accounting standard setter that would be independent of the accountancy profession, giving rise in 2001 to the International Accounting Standards Board (IASB). In response to these developments and other input, IFAC made various attempts to enhance audit credibility and improve audit quality and international audit standard setting. One of those efforts was a proposal for public oversight of IFAC, published for comment in 2001. However, IFAC did not establish the PIOB at that time, and one of the reasons for this was most likely the chain of dramatic corporate frauds that were revealed starting in 2001—most notably, Enron and later also WorldCom and other scandals—which caused investors to lose billions of dollars, severely damaged audit credibility, and dramatically raised calls for reforms. Moreover, in 2002, the Sarbanes-Oxley Act in the United States gave the new Public Company Accounting Oversight Board (PCAOB) new powers to set standards for audits of public companies and to regulate, inspect, and enforce auditor compliance with these rules.

The FSF’s public announcement in March 2003 was very important to this reform-development process because it urged establishing an independent external oversight body acting in the public interest to oversee the standard-setting efforts of IFAC’s International Auditing and Assurance Standards Board (IAASB). Following this announcement, in early May, IFAC submitted a draft “Proposal for Reform” to the regulatory group that had attended the Paris meeting, and IFAC requested a meeting in Washington, DC, in June to discuss this approach to reform. Working closely with Scott Taub, chairman of IOSCO Standing Committee 1 (deputy chief accountant, U.S. Securities and Exchange Commission), and other members of the regulators, we were able to coordinate our technical regulatory discussions in a manner that contributed to a uniform preliminary regulatory position strongly supporting a robust framework for reform and public interest oversight.

Meetings to discuss the approach to reform continued during the summer of 2003 with René Ricol, Ian Ball, IFAC’s chief executive officer, Charles Horstmann, IFAC’s deputy president, and other members of IFAC’s leadership. These meetings involved Roger Ferguson...
(FSF chairman and vice chairman of the U.S. Federal Reserve Board), Svein Andresen (FSF secretary general), and Howard Davies (FSF member, chairman of the U.K. Financial Services Authority, and a key member of IOSCO), as well as Scott Taub, myself, and other representatives of the regulators. By summer’s end, a preliminary agreement was reached in support of a framework of IFAC reforms, including formation of the PIOB to provide public interest oversight for IFAC’s standard-setting activities. The reforms also included forming a Monitoring Group of regulators to appoint PIOB members, monitor PIOB activities and implementation of the IFAC reforms, and maintain a high-level dialogue with IFAC leaders and the PIOB on key regulatory issues and other audit matters. These reforms would need the approval of the 150+ members of the IFAC Council and representatives of the regulatory organizations.

After approvals had been received from the regulators, René Ricol presented the draft reforms to the IFAC Council meeting in Singapore in November 2003, and Scott Taub and I presented the regulators’ views and uniform support for the reforms at the meeting. We were pleased to see that the IFAC Council unanimously approved the reforms. To obtain the support of international regulatory organizations and IFAC for a robust reform framework in less than a year was indeed a major achievement that speaks to the quality of the dialogue between IFAC and the regulators and their shared commitment to taking strong, credible steps to help to restore public confidence in international audit standard setting.

As IFAC and the regulators started working to implement the reforms, the revelation of the Parmalat fraud in 2003 raised questions regarding audit quality in Europe that temporarily delayed the involvement of the European Commission with implementation of the reforms. However, the regulators and IFAC persevered in their efforts, and the Monitoring Group was formed with Michel Prada (FSF member and chairman, Autorité des Marchés Financiers, France, and chairman, IOSCO Technical Committee) as its first chairman. The Monitoring Group then went through a rigorous process to appoint the PIOB, which held its first meeting in 2005 with strong support from the FSF. Also, at the request of audit regulators, the FSF later assisted in the formation of the International Forum of Independent Audit Regulators (IFIAR) in 2006. The Monitoring Group is now composed of representatives from IOSCO, BCBS, IAIS, FSB, EC, IFIAR, and the World Bank. It was my privilege to have served as a founding member of the Monitoring Group, initially representing the BCBS and later representing the FSB until end-2012.

Since 2003, substantial progress has been achieved in moving toward a global system in which national jurisdictions adopt and enforce high-quality auditing standards that are developed internationally with the public interest in mind. As the PIOB celebrates its tenth anniversary in 2015, it is important to recognize its importance in providing public interest oversight in a manner that enhances the quality of international audit standard setting.
In 2005 the architects of the International Federation of Accountants (IFAC) reform created a new and powerful process for formulating standards for the external audit of public companies. IFAC harnessed the expertise of senior, practicing members of the accounting profession whose daily working lives expose them to complex issues facing financial statement preparers and their external auditors. The standards they promulgated would profoundly influence both the credibility of the financial narrative disclosed to the public and the business models adopted by the audit firms offering independent audit of those financial statements. To counteract the obvious conflict of interest embedded in this proposed model, the architects conceived the formation of a new international body—the Public Interest Oversight Board—to provide public interest oversight of the standard-setting process.

In choosing this model, the architects were aware of the contrast between the existing model for creating accounting standards, which employed professional standard setters working together in London under the supervision of a board of trustees, and a new, radical model that permitted the auditing profession to remain involved in setting the standards by which its members would conduct their business, subject to rigorous public oversight designed to ensure that the public interest is fully considered during the standard-setting process.

As a member of the International Organization of Securities Commissions (IOSCO) and a past chair of its Technical Committee, I was fortunate to have been involved in the design of this reform and a founding member of the PIOB.

Those early days of the PIOB were interesting but challenging. Working with almost a blank slate, the PIOB drafted terms of reference for itself, while overseeing the other elements of reform that contemplated stronger, more independent standard-setting bodies (SSBs), the creation of effective consultative advisory groups (CAGs) with experienced leadership, and a process for populating these groups under the supervision of the PIOB. Throughout these development phases, the PIOB worked closely with the architects of reform—IFAC, the World Bank, IOSCO, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, and the European Commission.

One of the PIOB’s biggest challenges, however, was the implementation of its core mandate—the oversight of the public interest in the setting of standards that would govern the teaching and qualification of audit professionals, the performance of the independent audit, and the ethical standards by which the profession would conduct itself. The inaugural members of the PIOB had diverse backgrounds—central bankers and former regulators, corporate directors, a public servant, and a former audit practitioner. Although collectively, we had considerable expertise in dealing with audits and audited statements, we were not chosen for our comprehension of what constitutes the public interest in the setting of standards by which the audits would be performed.

After considering a host of alternatives, it became clear that the only true arbiter of the public interest was the public and that the most effective, perhaps the only, way to fulfill our mandate was to ensure that a broad cross section of an engaged public was involved in the process of creating the standards, either through direct involvement on CAGs or the SSBs themselves or through a robust public consultation process. Of course, mere solicitation of public input would not be sufficient; that input would need to be seriously considered and evaluated; the final product would need to reflect the views expressed or detailed reasons published for not reflecting them. Thus the PIOB began its mandate by focusing on the process by which draft standards were developed and exposed as a means
of assessing whether the views of those with an interest in the outcome were properly considered. As we gained experience with this approach, we supplemented our direct observation of the workings of the SSBs and the CAGs with detailed reviews of the comments received during consultation and their treatment by the SSBs, and in camera, dialogue with the CAG chairs to understand how the CAG advice was reflected in the final standard proposed. Thus although the PIOB’s efforts have been concentrated on assessing the process by which standards are formed, an assessment of the effectiveness of that process in exposing and ultimately protecting the public interest is what motivates this approach.

The PIOB continues to play an essential oversight role in the setting of auditing, education, and ethical standards for the profession. I am pleased to have been a part of its foundation and congratulate the current members for their continued efforts to ensure its ability to oversee the public interest in this vital pillar of our capital markets.
I first became aware of the IFAC reform process in 2002, shortly after the work began. I had become chairman of the U.K. Financial Reporting Council (FRC) in 2001. I was carrying out, with government and the profession, a major reform and extension of the work of the FRC. Recognizing that independent oversight was needed, the U.K. profession was an active and constructive collaborator in creating a new FRC structure, ceding to it authority in various areas. At that time, Graham Ward and others at IFAC was working on the IFAC reforms. Before becoming IFAC president, Graham was a senior figure on the U.K. scene, having been president of the Institute of Chartered Accountants in England and Wales, and I knew him well.

Graham sought my views on the proposed IFAC reforms. I gave them my support. Later, it became clear that the reforms would go ahead and that the PIOB would come into existence. I was asked if the FRC would provide a temporary office for Stavros Thomadakis, the intended PIOB chairman, to start his work on setting up the PIOB. Thus my connection with the IFAC reforms and the PIOB, although I was only a peripheral player, dated from their inception. It was perhaps only natural that, on retiring as FRC chair at the end of 2005, I became one of the two European Union (EU) nominees on the PIOB, serving as an observer until the EU signed up fully to the PIOB.

Because of the EU delay in deciding to appoint observers, the PIOB had been in existence about a year when I arrived on the scene. Stavros and colleagues had already taken the critical decision to institute 100 percent direct observation of the IFAC bodies that the PIOB was overseeing. This enabled PIOB members to convey very directly the public interest message and for them to climb the learning curve about the bodies overseen. This made the discussions about any recommendations for improvement much richer and more practical.

There were many discussions about, for example, the process of nomination to IFAC bodies, which gave greater diversity of candidates and better credibility to the process. Again, recommendations were made to change how the process of setting a standard was reported, adding greater clarity and transparency and enhancing the credibility of the outcome. Another critical decision was for the IFAC president and team and the standard-setting boards and consultative group chairs to report to the PIOB at its quarterly meetings. This direct dialogue was fruitful for both sides and supported the process of incremental change within IFAC and with the way the PIOB carried out its duties.

There is no doubt in my mind that the PIOB’s detailed examination of the way the IFAC bodies worked—looked at from a public interest perspective, backed by the practical experience of attending meetings, and quarterly face-to-face meetings of the key IFAC people—was the bedrock of the PIOB’s early success. Later, the Monitoring Group, the body of international organizations monitoring the work of the PIOB, raised issues including regulatory capture (Was the PIOB too close to IFAC?), process (Was 100 percent attendance necessary?), and budget. These issues were hotly debated, and others can comment on the outcomes. The debates might have been easier had the Monitoring Group not been such a dysfunctional entity in the early years (a year could go by without any proper contact and the membership was ever-changing).

I look back with affection on my time with the PIOB. Strong personalities from a lot of relevant backgrounds were gathered around the table. The issues were always fully and vigorously debated. No doubt we were imperfect, but, as a later review found, the essentials of the IFAC reforms were implemented. The regulatory structure is stronger as a result of the reforms and the creation of the PIOB.
When the Public Interest Oversight Board was founded in 2005, there was broad agreement that it constituted a novel experiment: it would restructure the governance of standard setting in the areas of audit, ethics, and education, change the composition of the boards, strengthen consultative advisory groups (CAGs), and establish a public interest oversight function.

The experiment was persuasive on paper, but left much to be clarified and resolved in practice. The PIOB was created to establish, through its practice, the credibility of the new system over which it presided, including not only the PIOB itself, but also the standard-setting boards, the CAGs, the Nominating Committee, and the Compliance Advisory Panel.

Once the PIOB was launched, matters of organization, location, staffing, and operating procedures became pressing. But pressing as they were, they did not detract from members’ determination to start work of substance right away. Observations of meetings, conversations and visits with stakeholders, and intense board discussions helped to clarify our paths of thought and action. We observed everything, we pushed for the expansion and diversification of the CAGs, we asked questions about public interest aspects of the standards, and we deliberated on the due process of proposals that we received for approval.

One major project had probably the largest public interest implications: the Clarity Project for the International Standards of Audit (ISAs). Oversight of this project covered a lot of space and enabled PIOB members to become increasingly familiar not only with the substance but also with the technical complexities of the ISAs. The contribution of the CAGs was progressively stronger and more focused, and the openness of the standard setters to a variety of stakeholders, beyond the accounting profession, was reinforced.

Perhaps the most notable achievement of the early PIOB was the dynamic and cohesion that developed among its members. Although frequently differing in perspectives and opinions, all members worked conscientiously toward convergence and synthesis. As former PIOB chairman, I found this to be a most memorable feature. An achievement of persisting, equal value was the attraction of dedicated, loyal, capable staff, many of whom still serve today.

I am truly grateful for the devotion and friendship of all who helped to convert the PIOB from an experiment on paper to a living, thriving organization.
I joined the PIOB in September 2005, but my interest in this organization was first sparked in 2003 during a discussion between international regulators and the International Federation of Accountants (IFAC) on the need for IFAC reform, including independent oversight of international standard-setting activities. As a financial services regulator and professional accountant, I already understood and actively supported the respective missions, perspectives, and processes of these two communities. But while I could fully appreciate the serious challenges facing both of them in the aftermath of the Enron fraud and other recent financial collapses, I still needed a bit more convincing that a new form of international “public interest” oversight was necessary.

As the meeting progressed, my perspective began to change. It was true that major efforts were already under way in certain jurisdictions to improve monitoring of auditor performance and oversight of national standard setting. On the surface at least, these measures seemed more than adequate to deal with the problems identified. But for international regulatory groups concerned with the bigger picture, something more was needed. Local and regional financial crises of various types and magnitudes had been steadily eroding worldwide confidence in audits and the audit profession for the better part of a decade. And in an era of increasingly globalized markets and marketplace regulation, international regulators looked beyond improvement of local standards to the need for improved and globally harmonized standards of audit practice. Encouraging broader adoption of existing international standards might help to meet both objectives, but regulators first needed to determine whether the process used to develop these standards was both high quality and sufficiently responsive to the public interest needs of global stakeholders. The answer: add international public interest oversight to the standard-setting model.

Thinking more about what this proposed oversight body might do, I recognized its unique potential. First of all, it could identify and validate the existing strengths of international standard-setting processes. It could also spot any opportunities to make those processes even better and actively encourage continuous improvement of the process. Perhaps most important, it could communicate its findings and conclusions to any number of audiences with full independence and credibility. And finally, if this approach worked, there could be significant longer-term benefits for international regulators, the profession, and worldwide users of financial information through broader adoption and harmonization of international standards. By the end of the meeting, I was not just convinced but ready and eager to help make this happen.

My opportunity came in the summer of 2005 when the PIOB selected me as its first secretary general and chose Madrid as its international headquarters. The next several weeks were a blur of activity as I wrapped up assignments at the Basel Committee Secretariat, tackled PIOB start-up issues, and made two exploratory trips before moving to Madrid in mid-September. And what a surprising move it turned out to be! Long accustomed to big cities with impersonal office towers, long daily commutes, and frigid Canadian winters, I was amazed to discover that the “office” was located in what was once a gracious private residence, that home was only a short bus ride away, and that Madrid winters rarely, if ever, included snow. Together with the warm welcome and ongoing support of the International Organization of Securities Commissions (IOSCO) and the Comisión Nacional del Mercado de Valores (CNMV)—Spain’s market regulator and our official host—I could not have asked for a better start to this new adventure.
The job description was clear enough—establish a legal presence in Spain and start up and operate the PIOB Secretariat for its first few years—but intuition warned me to expect more than a few challenges along the way.

The first involved determining what kind of local structure would best meet the needs of the PIOB and Spanish regulators, obtaining agreements from all our international sponsors as well as Spanish authorities, and completing the required legal steps. The personal learning challenges were enormous for someone absolutely new to the country—Spanish laws, Spanish regulations, Spanish business protocol, and enough Spanish to know what I was doing!—but by mid-December the PIOB was a reality. I could not have succeeded in this task without full cooperation on all sides or the expert guidance of our external legal counsel, Luis de la Peña. My deepest thanks to all concerned.

The second challenge was to set up constructive and effective working relationships with IFAC Chief Executive Ian Ball and his staff. While this highly capable group had provided the PIOB with full technical and administrative support for six months, it was now time to identify who should do what and how to work together while still respecting the governance boundaries set by the IFAC reform. At first we focused on complementary and collaborative protocols around PIOB observation events and PIOB-IFAC meetings, but over the following year we also successfully migrated all day-to-day administrative functions and full PIOB operating autonomy to Madrid. In our four years together, Ian and his staff did everything possible to launch the Secretariat and support the PIOB mission, and we could not have achieved what we did without their help.

The third challenge was to develop and maintain effective working relationships with our international regulatory sponsors. Given that the PIOB was independent of the standard-setting process but still a part of the IFAC reform model and accountable to the international regulatory community for its own performance, this was perhaps the most complex of our tasks. Nevertheless, this aspect of our governance model provided important and useful opportunities to engage with international regulators, exchange information, experiences and perspectives and demonstrate accountability for the quality, impact, and—in my role—cost-effectiveness of PIOB oversight.

The fourth and final challenge was, in the end, the most personally satisfying: to build a vibrant and sustainable Secretariat and provide the best possible support to the PIOB and its mission. We worked hard over those first critical years, and I am grateful to those who worked beside me for what we were able to achieve together. I am truly pleased and proud to see that Rocio Goudie, my multi-talented “right hand” and best teacher about all things Spanish, and Susana Novoa, who contributed so much to the evolution of PIOB technical oversight methodology, are still with the organization and have moved to positions of greater responsibility. I am also delighted to see how much the Secretariat has continued to grow and evolve over the last several years under the expert guidance of my successor, Gonzalo Ramos.

This retrospective would not be complete without reflecting on the founding members of the PIOB. These 10 unique individuals, representing a wide range of skills, senior experience, and perspectives, were brought together to attempt something that had never been tried before and expected to “hit the ground running.” These were tall orders, but by the time I arrived, the PIOB was already a well-functioning team with a clear sense of purpose and direction and an initial oversight program well under way. Over time, as the PIOB continued to deepen its understanding of standard-setting processes, explore the nature of the international public interest, enhance its approach to oversight, and broaden its communications program, more and more of the hoped-for public interest benefits began to emerge. This is a testament not only to the wisdom and foresight of international regulators but also to the PIOB’s collective vision, enthusiasm, and hard work under the strong leadership and steady hand of Chairman Stavros Thomadakis. It has been a privilege to serve them and I will be forever grateful for that opportunity.

Now, on the occasion of the PIOB’s tenth anniversary, I am sending my warmest greetings and congratulations to the current PIOB Chairman Eddy Wymeersch, members of the board, Gonzalo Ramos and PIOB staff. Their public interest mission remains as vital and relevant today as it was in the beginning and I wish them every success in their future endeavours.
My connection to the PIOB significantly predates its launch in 2005. Not long after I had left a full-time role as a senior executive of a supervisory agency in mid-2003 and taken up work as a consultant, I was contacted by the International Association of Insurance Supervisors (IAIS) Secretariat. They explained the work being done on the IFAC governance reforms and the role of the PIOB in the proposed architecture. They asked whether I might be interested in being the IAIS’s nominee to the PIOB. The role of the PIOB seemed to be a worthwhile contribution to the public interest, it added another dimension to my work, and I was told that it was unlikely to require more than 5 to 10 days of my time annually. So I expressed my interest, and, in October 2003, the IAIS confirmed my nomination at its annual meeting. But a year went by and, in September 2004, I informed the IAIS that I was unable to provide an update on the activities of the PIOB because it had yet to hold its first meeting. I wondered whether it ever would.

Nevertheless, after a gestation period far longer than that of an elephant, the first meeting of the PIOB eventually took place, in Paris, on February 28 and March 1 of 2005. Eight members gathered for that meeting; led by our chair Stavros Thomadakis, they included Antoine Bracchi, David Brown, Fayez Choudhury, Kosuke Nakahira, Aulana Peters, Arnold Schilder, and me. As part of the comprehensive briefing we received from IFAC leadership and representatives of the Monitoring Group, we learned that the appointment of two members to be nominated by the European Commission would come later, once it was satisfied with the details of the PIOB’s mandate. Later that year, Kai-Uwe Marten and Sir Bryan Nicholson joined as observers and, in due course, became full members.

Although the mandate of the PIOB is reasonably straightforward, a wide variety of issues had to be dealt with in acting to satisfy it. Some were conceptual, such as developing an understanding of the public interest and how the PIOB might best contribute to it. Others were methodological, such as understanding the details of the standard-setting process, deciding how the PIOB would oversee various aspects of it, and proposing changes to make the process more robust. Finally, there were important operational issues, such as establishing a Secretariat, developing policies and working procedures, and considering alternative approaches to funding the costs of the PIOB in the longer term.

Steady progress was made in successfully dealing with these issues. We developed a framework that described factors contributing to the public interest and identified responsibilities of the PIOB and others for strengthening these factors. This framework was refined over time, and specific aspects have been discussed in the various PIOB Public Reports. Early on, we decided that the oversight methodology should include frequent direct observations of the public interest activity committees and their consultative advisory groups. Members became actively involved in sharing the oversight duties, which contributed greatly not only to our understanding of the standard-setting process but also to our ability to evolve both the standard-setting process and the oversight methodology. The legal framework for the PIOB was established, and the Secretariat became operational through the extraordinary efforts of the first secretary general, Donna Bovolaneas, and her assistant, Rocío Goudie, working under the guidance of the chair and with the assistance of the Spanish authorities.

I consider myself privileged to have had the opportunity to serve on the PIOB for nine years. Although the time required far exceeded the initial representation (more like 50 days a year instead of 5 to 10), the output also far exceeded my expectations. I believe that the PIOB has had a significant positive effect on the public interest activities of IFAC and has contributed to the successful evolution of a shared public and private sector model of standard setting. I am proud to have been a part of this effort. It has been a privilege to work with a great number of people who have shown tremendous commitment and dedication to the public interest in fulfilling their respective roles in the process—from colleagues on the PIOB and members of the Secretariat to members of the public interest activity committees, the consultative advisory groups, IFAC leadership and staff, and the Monitoring Group.
The IFAC reforms of 2003 marked a significant change in the accounting profession’s approach to the development of international standards for auditing, education, and ethics. These reforms ushered in a new era, one in which a private sector organization, the International Federation of Accountants (IFAC), invited public scrutiny of its activities. In an effort to increase public confidence in the quality and integrity of its standards, IFAC petitioned international regulators to establish a mechanism for public oversight of its standard-setting activities. The Public Interest Oversight Board was created as a result of a cooperative effort between IFAC and a coalition of international regulators, which included the Basel Committee on Banking Supervision, the Financial Stability Forum, the European Union, the International Association of Insurance Regulators, and the International Organization of Securities Regulators.

On a warm day in 2005, the first members of the PIOB, eight individuals from different nations, cultures, and professional backgrounds, gathered in Madrid and set about developing a framework within which they could effectively carry out their mandate of overseeing, in the public interest, the development of international standards for auditing, education, and ethics. These original members included myself, Antoine Bracchi, David Brown, Fayez Choudry, Michael Hafeman, Koshi Knakahira, Arnold Schilder, and of course Stavros Thomadakis, the chair. Within a year, PIOB membership increased by two: Kai Ulwe Marten and Sir Bryan Nicholson.

Given their mandate, the original PIOB members understandably spent time trying to formulate a definition of what was “in the public interest” that all members could embrace. Those debates were interesting and energizing. I believe that the more we discussed “what is it,” the further we seemed to be from reaching a consensus. The difficulty we encountered in developing a precise definition of “in the public interest” that was acceptable to all lies in the fact that, in the context of setting standards for the accountancy profession, the concept embodies both a notion of “process” as well as of “substance.” Specifically, in order to identify the public benefit derived from having auditing, education, and ethics standards for accountants, one must consider the process by or through which the standards are developed—that is, the transparency, fairness, and balance of the process—as well as the substantive quality of the end product: Does the standard ensure reliable and comparable financial information? In my view, application of these general principles should yield standards that serve the public interest even as that notion changes over time and circumstances. In the end, I believe that the original members of the PIOB became an effective group of public servants with credibility as overseers of the public interest.

In the early days, the PIOB focused its oversight efforts on what we (perhaps it was only me) called the Three Ps—people, plans, and process. These were the primary elements of the standard-setting process as overseen by the PIOB. Without putting the right people in the right place and ensuring that they worked on the right priorities, the standard-setting boards would have accomplished little. So the PIOB developed an approach to oversight focused principally on these “primary elements.”

The People

PIOB early oversight began with the selection of members for the standard-setting boards. This function is carried out by IFAC’s Nominating Committee. As noted in our First Public Report, the PIOB immediately recognized that the work of the Nominating Committee was key to ensuring that its standard-setting activities served the public interest. Consequently, it took an active interest in the work of this committee, observing it on a regular basis and engaging closely with its members.
Pursuant to the IFAC reforms, the PIOB was given responsibility for approving all appointments to the standard-setting boards. Our first action was to suggest that the selection criteria for nominees should clearly support achievement of specific public interest goals and be put in writing. For example, we encouraged the Nominating Committee to manage the selection process in order to achieve parity between practitioners and non-practitioners on the standard-setting boards with a view to controlling the risk that the profession’s self-interest might dominate the standard-setting process. Other recommendations were aimed at improving board diversity, with respect to geographic region, professional experience, and gender. Finally, we recommended that the committee require IFAC members to submit multiple candidates for each position, thereby expanding the pool of candidates. While championing these changes, the PIOB tried not to lose sight of the importance of maintaining a high level of technical expertise so that the quality of the final standards would not be compromised.

The Plans

The PIOB’s authority includes the right to review and approve the strategic plans and work plans of the standard-setting boards. This element of PIOB oversight was introduced in 2006 after we had some experience observing how the standard-setting boards operate. Based on those observations, the PIOB proposed that all three boards adopt a common strategic planning process. Once the planning process was more or less standardized, the PIOB could monitor it more easily, review the scope and transparency of public (external) consultation efforts, and assess the responsiveness of final plans to the comments and suggestions received during public consultations. Finally, the PIOB looked at the final plans to determine whether there were any “public interest” gaps that might require us to recommend additional projects. The PIOB also urged increased consultation with the public, especially on strategic plans and work plans, and encouraged the standard-setting boards to expand their outreach activities. The standard-setting boards actively embraced both recommendations.

The Process

Finally we get to the process. The governance model of the IFAC reform was structured to protect the public interest by including the standard-setting boards, their advisory groups (the consultative advisory groups, CAGs), and the PIOB. The responsibilities and activities of these elements and their interaction were designed to ensure that the public interest was taken into account in the development and adoption of the standards. Back in the day, the policies and procedures governing the interaction of the boards, the CAGS, and the PIOB were referred to as “due process.” I would frequently sound a note of caution about use of the stock phrase “due process” to describe our approach, as I feared this could, in the minds of some, become synonymous with compliance with a set of fixed rules and procedures. In my view, due process is not totally or readily encapsulated within a set of prescribed rules and procedures. Of course, formal procedures, rules, and guidelines are necessary, especially in standard setting, to ensure that the process is thorough and consistent in its consideration of the pros and cons relating to the action being contemplated. Any process that claims to ensure “due process” has to allow the expression and consideration of the opinions of all who have an interest in or are affected by the action contemplated. As a PIOB member, my concern was that the process followed by the standard-setting boards was open, fair, and transparent. This outcome is not always guaranteed by the simple, rote adherence to formalized rules and procedures.

A decade has passed since that first meeting of the PIOB. I hope that the model for public oversight established by the original members of the PIOB, albeit modified and evolved, has withstood the test of time.
SECTION 3

STANDARD SETTING

After ten years of PIOB Oversight

3.1.- Two shock waves // Toshiharu Kitamura
3.2.- Reflections on Standard setting after a decade of PIOB oversight // René Ricol and Ian Ball
3.3.- Q&A with Fayez Choudhury
3.4.- PIOB’s role in safeguarding public confidence in financial statements // Lord Jonathan Hill
3.5.- Balancing the needs of practitioners and the expectations of users // Howard Wetston
Two shock waves smashed against the side of the corporate financial reporting system and the international accountancy or audit profession in the first decade of the twenty-first century: the Enron scandal (2001) and the collapse of Lehman Brothers (2008). The corporate financial reporting system and the international accountancy or audit profession had been expected to sustain capital markets and ultimately produce sound socioeconomies. I jumped on the main deck of the PIOB in the interval between the two waves, having a rather rough voyage between 2007 and 2014.

The first wave resulted in an overhaul of the basis of auditing activities, centering on the standard-setting process and establishing the PIOB. The second wave is now resulting in the overhaul of two major masts of financial reporting—faithful auditor reporting and professional independence—in an effort to secure public confidence in audit services.

The year 2009 witnessed the completion of the Clarity Project by the International Auditing and Assurance Standards Board (IAASB) and the redrafting of the Code of Ethics by the International Ethics Standards Board for Accountants (IESBA). But one of the most inspiring discussions took place in 2009 and into 2010, both inside and outside the PIOB. It started with controversy over the redrafted Code of Ethics. In my understanding, it accelerated to involve consideration of whether or not the consultative advisory groups (CAGs) are appropriately representative (encompassing a variety of views from the public, private, and other sectors), whether auditing ethics are a matter of auditors’ self-regulation (for the benefit of the accountancy or audit profession) or public action (for the benefit of the public), whether PIOB’s oversight should be confined to due process and transparency or be extended to the substance of standards to guarantee the protection of the public interest and other matters. Already the second-wave influences have begun to make themselves felt deeply in the global—in particular, the European—economy and in the audit services.

3.1.- Two shock waves

Being positioned to absorb the two shock waves successively affecting the financial reporting system, the PIOB has evolved beyond the original implications of the oversight model based on the two-prong perception of professional expertise (to benefit from the commitment of experienced audit professionals) and the public interest (to ensure the public interest through public-interest-based oversight). Now the PIOB is clearly aware of how the new or revised standards and evolving priorities related to the strategic plans of the standard-setting boards relate to the public interest. The message of PIOB Chairman Stavros Thomadakis in the Sixth Public Report (May 2011) led to the statement, “Respect for due process may not always guarantee the public interest,” in the Seventh Public Report (May 2012).

Private sector initiatives dominated the standard-setting boards from the 1980s through the 2000s. However, the standard-setting boards have evolved progressively to become public entities against the backdrop of the PIOB. While “the devil is in the details” in the standard-setting process, as Sir Bryan Nicholson has cautioned, the activities of the standard-setting boards are moving toward more public consideration and a more balanced membership structure (practitioner, non-practitioner, public members) and more conceptual diversity (developing economies, dynamic economic changes).

During my assignment for the PIOB, I was impressed by my colleagues’ serious discussions, often invigorated by Mr. Michael Hafeman’s precise memory. I also recall the strenuous efforts of leaders and staff members inside and outside the PIOB, who dedicated themselves to reforming the financial reporting system. Since my departure from the PIOB, I have cherished the memory of their lively activities.
Reflections on a decade of the Public Interest Oversight Board must inevitably start with the context, in the early years of the century. When the discussions commenced that resulted in the formation of the PIOB, a series of high-profile financial reporting failures had led to a loss of confidence in corporate financial reporting. While Enron has become the emblem of those failures, failures occurred in various countries and their combined impact made clear to both the regulatory community and the accounting profession that action was needed to restore confidence in corporate reporting. For the profession, the circumstances leading up to the collapse of Arthur Andersen, in the middle of 2002, were salutary, albeit traumatic.

Alongside the loss of confidence in corporate reporting, there were concerns about the role of the accounting profession in the regulation of financial reporting. By 2002 these concerns had already led to the creation of the International Accounting Standards Board (IASB). While an internal review of the operations and constitutional arrangements of the International Auditing and Assurance Standards Board (IAASB) had taken place in 2000–01, it was clear that even though some aspects of the review were welcomed by the regulatory community, they did not go far enough in ensuring that International Standards on Auditing (ISAs) were sufficiently responsive to the public interest.

Against this backdrop, intense discussions commenced in earnest at the World Congress of Accountants in Hong Kong in November 2002, and agreement to the proposals that came to be referred to as the International Federation of Accountants (IFAC) reforms was substantially reached in September 2003. These reforms were approved unanimously by the IFAC Council in November 2003.

The Profession’s Objectives

We were, respectively, president and chief executive officer of IFAC in the period during which the IFAC reforms were negotiated and agreed. In the conduct of the negotiations, our own and our board’s key priorities were the following:

- Regain confidence in financial reporting through protection of the public interest in the standard-setting process

- Ensure that standard setting is informed by the expertise of those engaged in the activity itself—in this case, primarily auditing. Our view was that standards would be stronger if they were grounded in the knowledge of those responsible for conducting the activity and if at least some of those setting the standards had to live with the results of their deliberations

- Demonstrate responsiveness to a situation that plainly required action. The reform proposals were key to the profession’s response. Alongside the reform negotiations, IFAC established a task force under the leadership of John Crow, former governor of the Bank of Canada, to examine issues that went beyond the loss of confidence associated with standard setting.

The following is perhaps the most succinct statement of the intentions of both IFAC and the regulatory community at the time. It is taken from the reform proposals themselves:

The objective of the reforms is to increase confidence that the activities of IFAC are properly responsive to the public interest and will lead to the establishment of high-quality standards and practices in auditing and assurance.

1 The focus of this reflection is corporate financial reporting. Financial reporting in the public sector was an issue in this context only to the extent that there was discussion ahead of and following the creation of the PIOB as to whether its mandate should encompass IFAC’s Public Sector Committee (as it then was), the setter of International Public Sector Accounting Standards.
The Nature of the IFAC Reforms

The IFAC reforms were certainly radical. They made the standard-setting processes markedly more transparent, and they created new institutional arrangements for standard setting that assigned significant authority to international regulatory and financial institutions. They assigned clearly defined roles to different institutions, distinguishing specially between the role of management (which rested with the IFAC board) and the role of oversight (which rested with the PIOB). These arrangements were intended to ensure that standard setting was conducted in the public interest and that IFAC (through the Compliance Program) would act to improve the quality and capacity of the global profession. Standard setting became a collaborative effort between the profession and the regulatory community, with both having significant roles and responsibilities in the process. Finally, IFAC saw the arrangements established by the reforms as a starting, not an end, point, with the understanding that there would be further evolution, within the principles underpinning the reforms.

Reflections on the decade.

We view with pride the manner in which the profession, through IFAC, executed the reforms. This is reflected in a comment in the PIOB’s Third Public Report:

“Today, it is clear that the leadership of IFAC has stayed firmly on the path of reform and, by adopting a positive approach to this task, assisted the work of the PIOB.”

While IFAC adhered to the letter of the agreement encapsulating the reforms, over the following decade the spirit of the reforms led to significant actions that were not specified, or indeed conceived, at the time of the reform design. A clear example of this is the effort that IFAC put into policy position papers defining the “public interest” in standard setting and elaborating how this might be reflected in an international standard-setting process. These documents enabled IFAC not only to explain the rationale for and the benefits of the new arrangements, but also to design and evaluate further enhancements to those arrangements.

A second reflection relates to the time it took for the new arrangements to be established and to become fully operational. As noted, the changes agreed were radical, and, perhaps as a consequence of this, establishing the PIOB took well over a year. Even then, it was not in final form, as the European Commission sought further changes to the agreement reached and formalized in 2003. This was an early reminder that reaching agreement is important, but that success ultimately depends on implementation.

One of the “unknowns” from the perspective of the profession was who would be appointed to the PIOB. While IFAC had an opportunity to make submissions if it had a concern about any of the proposed appointees, the selection of members of the PIOB was very much the responsibility of the Monitoring Group. What was most striking about the appointments to the PIOB was the quality of the individuals selected. They were senior and respected members, or former members, of the institutions with nominating responsibility. As a consequence, the PIOB settled relatively rapidly into a pattern of operations that reflected fully and independently the principles underpinning the initial agreement. The working relationship between IFAC and the PIOB was, from the beginning, professional and collegial, though challenging. IFAC leadership developed a genuine respect for the PIOB, reflecting in large part the manner in which PIOB discharged its role.

A matter of fundamental importance to IFAC was that the design of the reformed structure would be fully respected, and it rapidly became clear that this was also the position of the PIOB. This commitment engendered a positive attitude on the part of the wider profession regarding the reforms and the manner in which they were being implemented. It led to a growing confidence within the profession (a mutual confidence, we would like to think!) that the reforms were fit for purpose and had created a stable set of oversight arrangements. In doing this, they added authority to the standards, which, of course, was a significant part of the intent. A decade later, the arrangements are resilient, to the extent that features of the reforms have been replicated in the arrangements of the IASB. An example is the creation of a Monitoring Board (analogous to the Monitoring Group, albeit narrower in representation) within the IASB structure.

As well as implementing the reforms outlined in the terms of the agreement between IFAC and key stakeholders, IFAC introduced additional reforms that were consistent with the overall objective of enhancing governance arrangements.

2 The physical location of the PIOB, in Madrid, did initially create some logistical challenges, though these were overcome through the efforts, which IFAC was pleased to assist, of the newly appointed staff support for the PIOB.
The structure was reviewed on several occasions during the first decade of the PIOB, including by IFAC itself. The outcomes of these reviews in all cases saw no need for significant changes to the reform arrangements and acknowledged that IFAC had implemented, and indeed gone beyond, the requirements of the agreement. The reviews also identified relatively minor changes to the arrangements, which were acted on.

During the past decade, the arrangements have not been subject to serious challenge. Notwithstanding the financial crises—both global and sovereign debt—that have constrained global economic growth in the decade, the process for setting auditing standards, or indeed the standards themselves, have not been seen as a major factor contributing to the crises.

At the same time, the new arrangements have enabled the development of standards that, arguably, would not have been possible under the preexisting arrangements. The new standard on auditor reporting is perhaps the best example of this: the standard was not initially welcomed by some parts of the wider profession, but was nevertheless adopted and is clearly seen as being in the public interest.

One of the most striking characteristics of the design of the reforms is that it combined within its structure both the insight that the profession gains from the conduct of audits (ensuring that the standards are grounded in what actually works) and the rigor of regulatory oversight (ensuring that the profession does not use the standard-setting process as a means of self-protection or rent extraction). In this respect, it draws on the strengths that both public and private sectors can bring to the process. The success of the arrangements is an important reminder that “private sector good, public sector bad” (or the reverse) is a simplistic and ideological way of designing institutions—good institutional arrangements are those that work effectively in a given set of circumstances.

The scope of the PIOB included the IAASB, but also the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB), and the Compliance Program, administered by the (now) Professional Accounting Organization Development Committee (PAODC), and the Nominating Committee. In all cases, the PIOB’s observation of board and committee meetings was valuable and reinforced the public interest dimensions of the issues before the boards and committees. The deliberations of the Nominating Committee, which we saw most frequently at first hand, followed a much more systematic, professional, evidence-based process, which has been very beneficial to the standard-setting process. This is perhaps best reflected in the selection of highly competent, professional chairs of the standard-setting boards.

The Compliance Program is one of the greatest successes of the reforms. In part this reflects the seriousness with which IFAC addressed this element of the reforms (removing from membership bodies that would not participate in the program), but it also reflects the manner in which IFAC members responded to the program, developing and implementing action plans to comply with their membership obligations.

**Looking Forward**

Looking forward rather than backward, a critical element of the ongoing success of the reform arrangements generally, and the PIOB specifically, is an understanding of and respect for the principles underlying the original design. The process through which the profession and the regulatory community reached the agreement was detailed, intensive, and rigorous. Elsewhere in this publication, vz Edwards describes the involvement of very senior members of the regulatory community in the process, so the outcome was a product of their experience and deep understanding of what constitutes effective regulation. The conclusions reached, in collaboration with IFAC, have stood the test of time. Going forward, the greatest challenge may be the discipline needed to remain consistent with the original principles, unless some compelling change of circumstances indicates the need for a different approach. Consistent with this is the need to ensure that the system as a whole operates effectively.

The design of the reforms did not rest on simplistic views of the relative merits of public and private sector activity, but rather on careful consideration of what would work effectively in a given set of circumstances. The collaboration that underpinned the initial design and implementation of the reforms has, we believe, been vindicated by experience. Absent any dramatic change in the global financial environment, we see as the best way forward the progressive, quiet strengthening and reinforcement of the current model.
How did you become a member of the PIOB?

When the PIOB was established as an essential element of the shared public-private sector standard-setting model, major regulatory and international financial organizations were asked to nominate members to it. I was the vice president and controller of the World Bank and its spokesperson on global accounting and auditing issues. I had also played a part in the design of the “IFAC reforms” that led to the creation of the shared public-private sector standard-setting model. In many ways I was the natural choice to be the World Bank Group’s nominee.

At the first meeting, what were your initial impressions?

I was impressed with the stature and accomplishments of my fellow PIOB members—people of real substance who would impart the credibility that the PIOB needed to have. And after the first trip, I realized that the prospect of making regular visits to the wonderful city of Madrid was icing on the cake!

What were some of the early challenges the PIOB faced?

The array of challenges was bewildering. I give all credit to our first chair, Stavros Thomadakis, for steering the board members—who came from a wide variety of professional backgrounds and who had never worked together before—through the numerous issues on which we needed to come to agreement in a thoughtful, deliberative, and well-paced process. The issues fell into three broad categories: (1) how a thorough and rigorous set of due process practices and procedures would be designed to assure that public interest considerations were addressed; (2) how the board would assure itself that these due processes were being followed, both in form and in substance; and (3) how the PIOB would project its objectives, actions, and outcomes so that stakeholders would be assured that high-quality standards were being developed with full regard for the public interest.

What progress did the PIOB make on these challenges during your tenure?

I believe that the PIOB can justly be proud of its accomplishments. We identified a rigorous set of due process steps that we continued to refine. The Monitoring Group’s review of the IFAC reforms (in 2009–10) identified further improvements. In the early years, a PIOB member observed every board and consultative advisory group (CAG) meeting, providing an invaluable baseline for understanding the process of standards development. Once that baseline was solidified, the PIOB moved to a risk-based observation process. Outreach has been effective in projecting the role and functions of the PIOB to major stakeholders so that it is now recognized as an essential element of the architecture for developing high-quality standards.

How do those challenges differ from the challenges the PIOB faces today?

The PIOB’s overall challenge remains the same: providing assurance that standards are developed with full observance of established due process and that commenters on the content of proposed standards have a range of transparent mechanisms for making their views known, with a public, transparent, and thorough deliberation of how those views have been addressed in the eventual standard. But the world inevitably changes and increases in complexity. The process of developing standards needs to address new issues as they emerge. In some instances, particularly in the area of ethics, there are sharp differences of opinion among various parties on the direction that standards should take. Thus the PIOB confronts the challenge of ensuring that the process involves a serious, substantive consideration of viewpoints and a clear, lucid explanation of how those views have been considered in formulating standards in the public interest.
When the PIOB was formed, public trust in the accounting profession was low due to a number of well-publicized scandals. What has the PIOB done to change this?

Corporate reporting failures arise for many reasons. They can start with governance failures, ethical failures, or issues around the competency of financial statement preparers. The lack of an independent, competent audit committee can also be a major factor. In some cases, ineffective audit execution has failed to detect or report misstatements. In other cases, regulatory oversight of listed entities has failed to address clear systemic or sectoral risk in a proactive, timely fashion. Within this range of accountabilities for ensuring reliable, high-quality information, the quality of the standards that auditors need to follow is only one element in the overall chain of accountability, and the development of these high-quality standards is the PIOB’s focus. This process has received the most systematic and sustained stakeholder attention, and the PIOB has been key in the effort.

You became chief executive officer of IFAC in 2012. What have been your impressions now that you are on the “other side”?

While at the PIOB, I was genuinely impressed with the commitment and good-faith efforts of IFAC, acting on behalf of the accounting profession, to make the shared public-private sector model work to produce high-quality standards in the public interest. So when I arrived here, there was really nothing that I needed to do to ensure that this commitment was embedded in IFAC’s DNA.

How are PIOB and IFAC able to work together?

IFAC and the PIOB interact in two areas. The first is standard setting. Discussions between IFAC and the PIOB in this area typically involve broader strategic issues regarding how the public interest perspective can be improved and, together with the Monitoring Group, regarding the PIOB budget. However, the primary dialogue in the standard-setting area is between the PIOB, the standard-setting boards, and their technical staff. The second area relates to the work of IFAC’s Compliance Advisory Panel (CAP). For a professional accountancy organization (PAO) to become (and remain) a member of IFAC, it needs to comply with seven membership obligations covering quality assurance for audits and investigation, disciplinary arrangements for its members, as well as commitments to promote the adoption and implementation of international standards—the International Standards of Audit (ISAs), the Code of Ethics, the International Education Standards (IESs), the International Public Sector Accounting Standards (IPSASs), and the International Financial Reporting Standards (IFRSs). The CAP oversees and advises IFAC Compliance Program staff on the implementation and operation of the member body Compliance Program as well as staff recommendations to the IFAC board regarding member admissions. This is a crucial element of IFAC’s work, in terms of seeking to ensure that PAOs maintain their good standing, address the requirements of IFAC membership, and demonstrate compliance with a minimum, yet high-quality, level of operation and performance. At the time of the IFAC reforms, IFAC asked the PIOB to extend its public interest oversight to the design and launch of this activity, and we believe that this oversight creates one of the most robust frameworks for global self-regulation of any profession.
The work of auditors is crucial for the stability of the business world, creating the confidence that is needed for companies to go about their business and attract investors. The importance of the role of auditors is underlined by what happens when things go wrong, as we have seen in recent financial scandals. Indeed, the Public Interest Oversight Board was created as a response to such concerns.

More generally, safeguarding public confidence in companies' financial statements has been one of the priorities that the European Union (EU) has addressed in its audit reforms of the last 10 years, with new rules being introduced in 2006 and a reform package in 2014.

The 2014 audit reform was intended to strengthen the independence of statutory audits across the EU and to address the questions that had been raised in Europe about the ability of statutory auditors to exercise sufficient professional scepticism.

The reform, which will be applied beginning in June 2016, will have a considerable impact on the way that statutory auditors and audit firms operate in the EU. The European Commission is working with member states to track how the new rules are being introduced, what effects they are having, how the quality of the market is evolving, and whether competition has been increased.

But audit does not exist for its own sake. Audit exists to develop confidence in the system and to give investors confidence in their investments. Audit is therefore crucial to the sound functioning, integrity, and efficiency of capital markets. Auditors can help to create an investment-friendly environment and to unlock capital to encourage market-led access to finance by increasing investor trust in financial information. They can also help to make the EU a more attractive place for non-EU issuers to list.

To help to boost confidence, the auditor should not just take a box-ticking approach and verify the compliance of companies’ financial statements with accounting standards but rather provide an unencumbered and objective opinion of a company's financial health. In other words, what really matters is ensuring quality audits to bring effectiveness, accountability, and integrity to capital markets.

Effective auditing standards should reflect that drive to ensure quality. The EU has a direct interest in ensuring that the processes through which international standards are developed are state of the art and fully consistent with the public interest, including financial stability. The PIOB’s independent oversight of these processes helps to guarantee that outcome.

The governance rules surrounding standard setting, including the membership and funding of the PIOB, should be effective and credible to ensure that the auditing standards are widely accepted and applied. Ensuring a high level of quality is in the interest of all parties concerned. The PIOB, alongside the other relevant bodies, plays a pivotal role in guaranteeing and promoting this credibility.

The PIOB deserves our thanks for all it has done over the last 10 years. I wish it well in its future work, which is of such importance to the EU’s financial system.
In my time as chair of the Monitoring Group, I have seen first-hand the significant contributions that the PIOB has made to enhancing the quality of standard setting through its commitment to the public interest.

When the PIOB was formed in the wake of major accounting scandals, the general perception was that visible audit failures had occurred and substantial reforms were needed to restore confidence in the setting of standards. Given the critical role that auditors play as a gatekeeper for the capital markets, the auditing, ethics, and educational standards underpinning their work are critical to ensuring that investors can rely on the information presented in financial statements.

Standard setting is a difficult balance of meeting the needs of practitioners who apply the standards and the expectations of users who rely on the information that results from the application of standards. As a global independent oversight body, the Public Interest Oversight Board has an important role in overseeing whether standard setters have achieved the appropriate balance and in ensuring that high-quality standards are being developed with the public interest in mind.

In a short period of time, the PIOB has demonstrated its leadership in the governance of standard setting by challenging the way in which issues are identified, presented, deliberated, and resolved. In turn, the standard-setting bodies have been receptive to the PIOB’s input by continually improving their methods of gathering information from the public and providing greater transparency on how the decisions underlying each standard are reached.

In my view, the strength of the PIOB is its ability to be dynamic and respond to new challenges. As the capital markets continue to evolve and new financial innovations and complexities continue to arise, I am confident that the oversight provided by the PIOB will give stakeholders confidence that standards are being developed in a manner that is fully responsive to the public interest.
Future Challenges
in Public Interest Oversight, the road ahead

4.1.- The challenges in public interest oversight // David Wright

4.2.- A look ahead to the future of standard setting and PIOB oversight // Olivia Kirtley
On behalf of the International Organization of Securities Commissions (IOSCO), let me congratulate the Public Interest Oversight Board (PIOB) on its 10th anniversary and wish it every success in the future. Equally let me thank Spain and particularly the Comisión Nacional del Mercado de Valores (CNMV) for being such an excellent host in Madrid, not just of the PIOB, but also of IOSCO as well, and for lodging us together in our most agreeable location in Calle Oquendo 12.

I remember well the setting up of the Monitoring Group and the PIOB more than a decade ago, when I was working in the European Commission in Brussels. From a European perspective, it was a controversial and difficult process influenced by three factors. The first was the logical need to develop global audit standards—notably in the light of numerous major audit failures, the starkest of them being the Enron debacle, which resulted in the loss of one of the big-five global audit firms. Pervading the background debates was fear that the collapse of one of the remaining big-four firms would result in unmanageable conflicts of interest and raise, even more, potentially serious issues related to oligopolistic competition. So economic, commercial, and financial logic pointed to the need for top-quality audit standards, like the International Financial Reporting Standards (IFRS) for accounting, to improve significantly the global quality of audit, a subject that IOSCO is pursuing still today.

The oversight of the International Accounting Standards Board (IASB)-IFRS system in the European Union (EU) provided another controversial element to this audit oversight debate. The bold adoption by the EU of the IFRS as its set of accounting standards at the beginning of this century was a difficult exercise, both in terms of substance—for example, the infamous IAS-39 carve-out—but also in terms of oversight of the IASB. France, in particular, was extremely concerned that politically and institutionally it was not acceptable for a non-accountable private sector body to set public sector accounting standards. France wanted much stricter political oversight and even government representatives on the IASB. The outcome of this exercise in the EU was the setting up of the European Financial Reporting Advisory Group (EFRAG)—a body to advise the European Commission on the technical quality of the IASB standards, with adoption of the IFRS by the European Commission. These debates and outcomes had a major structural influence on the development of the PIOB and the Monitoring Group model that exists today.

The third element that came into the institutional equation concerning global oversight was, of course, the Sarbanes-Oxley Act and the setting up of the Public Company Accounting Oversight Board (PCAOB) in the United States. The United States decided to reinvent its own audit standard setting and oversight with this act, and the clarity of the U.S. approach helped to forge a global consensus on the need to develop oversight of the standards and processes of the International Federation of Accountant (IFAC). The act also had a major extraterritorial effect by requiring PCAOB inspectors to supervise and oversee all auditors who audited companies listed in the United States, including foreign subsidiaries.

The PIOB has done sterling and important work within the confines of its mandate along with the Monitoring Group in overseeing the audit standard-setting work of IFAC. This difficult work requires judgment, sensitivity, and diplomacy. But, like any other public body, challenging new local, national, or global public policy issues are arising for the PIOB, such as the institutional structures of the global audit oversight bodies, participation in the PIOB, the scope of its mandate, its future relations with the International Forum of Independent Audit Regulators (IFIR), and its future financing model.

Finally, I would like to offer a personal word about four people closely involved in the PIOB today. First, I have known and greatly appreciated the PIOB’s current chair, Eddy Weymeerch, for many years, and it is more than encouraging to see him, a paragon of public service, duty, and intellectual leadership, at the helm as chair of the PIOB. Second, Karel Van Hulle, a current member of the PIOB and a former European Commission colleague, deserves more credit than almost any other person for the building of global accounting and auditing standards. Third, Jane Diplock, a former distinguished chair of IOSCO, has contributed much to the work of the PIOB. I have learned a great deal from her. Fourth, my co-host at Calle Oquendo 12, Gonzalo Ramos, PIOB’s secretary general, is a very distinguished and effective global thought leader and is much admired on the other side of the building we share, where IOSCO resides.
In the wake of major corporate scandals in the early 2000s, an international public debate arose on the need for more effective and well-considered regulation for the global accountancy profession.

In response, the International Federation of Accountants (IFAC), a key group of regulators, and other relevant public authorities came together and agreed to implement wide-ranging reforms—known as the IFAC reforms—to international standard setting. These reforms focused on setting standards for audit and assurance, ethics, and accounting education and resulted in a “shared public-private sector” standard-setting model designed to address the concerns of the regulatory community, while providing adequate scope for obtaining the input of those who would apply the standards.

An essential element of the model was the Public Interest Oversight Board. Its objective was to ensure that the standard-setting process operated in the public interest and thereby increased the confidence of investors and others in the due process and quality of standards that were developed.

Since then, IFAC, the Monitoring Group, and the PIOB have worked together to improve the model, enhance the independence of the standard-setting process, and ensure that the highest quality of globally accepted standards are developed, adopted, and implemented around the world. This cooperation and coordination have clearly had positive results. Indeed, the current model has enhanced the credibility of the standards. This is truly in the public interest, since the adoption and implementation of high-quality international standards is the foundation of high-quality, transparent, and credible financial reporting and is essential for promoting investor confidence in financial markets, facilitating the comparison of financial information globally, attracting investment, fostering cross-border activity, and supporting economic growth and stability.

The model is strong and effective for several reasons. It involves important contributions of experience and expertise from the accountancy profession within a framework that includes a wide array of inputs, checks, and balances—thus the term “shared public-private sector” model. To ensure that high-quality standards can be practically used and implemented, those who actually adopt and use them—that is, professional accountants—must be involved in the standard-setting process. Under this model, the profession provides the standard-setting process with access to a large global pool of professional accountants with diverse professional experience, geographies, and insights who volunteer their time and talent in developing the standards.

But in order to protect the independence of the standard-setting process from undue influence by accounting practitioners or any others who may be seen to have vested interests, the model includes a commitment to transparency and numerous other safeguards. Among these are a rigorous due process ( overseen by the PIOB) comprising robust consultations and extensive public debate and discussion; a balance of practitioners and non-practitioners and the inclusion of public members on the standard-setting boards; and input from consultative advisory groups (CAGs) that represent a broad range of international stakeholders.

What do I see in the future for standard setting and PIOB oversight? I believe—and hope—that the coming years will bring the following:

- A “shared public-private sector” standard-setting model that continues to be enhanced wherever possible and is understood and strongly supported by all those involved or affected
- Standard setting that is increasingly more nimble and responsive to evolving global economic demands
- A common understanding of the public interest among all participants
- Continued efforts to obtain direct input from investors, preparers, and the public
- Balanced and informed solutions to complex and difficult issues, in the public interest, that are workable by those who have to comply with them
- Regulation that is more evidence-based for desired outcomes, thus avoiding over-regulation and unintended consequences as much as possible.

- Enhanced dialogue and working relationships among IFAC, the PIOB, the Monitoring Group, the regulatory community, and other international organizations, in the public interest.

- Further enhanced trust in the quality and legitimacy of the standards and the public’s confidence in them.

- Increased adoption and implementation of the standards.

The next decade will inevitably bring new challenges. The quality and relevance of the standards—and the public interest in which they operate—are of utmost importance. I am gratified to see so many examples of innovative, progressive, and robust outputs from our standard-setting model, which are already driving change in the public interest.

An African proverb states, “For tomorrow belongs to the people who prepare for it today.” The work we do today will help to strengthen standard setting in the public interest, contributing to economic growth and stability.

We have come a very long way since the corporate scandals that shook the global economy in the early 2000s, and, going forward, we should continue to build on this foundation.
Thank you
On September 30th, 2015, the PIOB organized a commemorative seminar in Madrid to mark its 10th anniversary. This seminar alone could not encapsulate a description of its rich 10 years of history, of its present role, or a glimpse into its future challenges. This is exactly what this publication attempts to do.

In section 1, Eddy Wymeersch, PIOB Chair, describes the present role of the PIOB and Robert Ward, ex-PIOB member, explains the PIOB’s oversight methodology.

Sections 2 and 3 bring together the main architects of the IFAC 2003 Reform and of the creation of PIOB at the time of its inception, as well as the present protagonists of the international standard setting system in the field of audit, ethics and education for accountants.

Within the first group we find Michel Prada, former Monitoring Group Chair; Jerry Edwards, representative of the BCBS and later of the FSB in the Monitoring Group; René Ricol and Ian Ball, former president and CEO of IFAC; Stavros Thomadakis and Donna Bolovaneas, PIOB Chairman and Secretary General; and David Brown, Michael Hafeman, Toshi Kitamura, Sir Bryan Nicholson, and Aulana Peters amongst the founding members of the PIOB.

The second group includes contributions from Howard Wetston, MG Chair since 2013, Lord Jonathan Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union, David Wright, Secretary General of IOSCO, and Olivia Kirtley and Fayez Choudhury, president and CEO of IFAC.

The PIOB, like the current standard setting structure in its field of oversight, is the result of a collaborative effort that this publication attempts to visualize. For ten years now international regulators and global public interest organizations have agreed with IFAC and with the Standard Setting Boards on how the global standard setting system should evolve to better protect the public interest, and have all supported the existence of independent oversight as a key element in this evolving system.

The PIOB wishes to thank all those who have contributed to the process of strengthening the international standard setting system in the field of audit, ethics and education for accountants, and congratulate all of them for celebrating together the positive outcome of this global collective effort.
PIOB Board, 2015

From left to right: Nic van der Ende, Karel Van Hulle, Aileen Pierce, Chandu Bhave, Eddy Wymeersch (PIOB chairman), Michael Holm, Jane Diplock, Chuck Hortsmann, Maria Helena Pettersson, Jules Muis and Gonzalo Ramos (PIOB secretary general).