



ANNEX
PIOB CONSULTATION PROCESS

PIOB Consultation questions

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PIOB Consultation questions

Q1: Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms (“to increase the 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”) still appropriate? Please explain your views.

Q2: Do you agree that the PIOB’s main focus should continue to be to oversee due process and protect the public interest? Are there any other matters that the PIOB should focus on? Please explain your views.

Q3: Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?

Q4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?

Q5: Do you agree with the medium-term strategic objectives for the PIOB? Please explain otherwise

Q6: Given the implementation of the Oversight Assurance Mode in place of the 100% direct observation model, do you think that the achievement of a sufficient level of oversight comfort by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? Please explain your reasons.

Q7: Do you agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest priorities? Please explain.

Q8: Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its informed approach to oversight requires an active interaction with all stakeholders?

Q9: Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus? Do you think the present minimalist policy is sufficient? Do you think that raising awareness of the work of the PIOB should be an objective of its communications policy? Please explain.

Q10: Do you agree with the view that has been put forward that funding has to be diversified and should not largely dependent of IFAC funding?

Q11: Please suggest alternative sources for diversifying and financing the PIOB budget.



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ANALYSIS AND DISCUSSION OF COMMENT LETTERS AND ENSUING RECOMMENDATIONS

A total of twenty one letters have been received in reply to the PIOB consultation process: six from Audit firms, eight from IFAC member bodies, five from audit regulators, one from IPSASB and one personal submission.

1. Audit Firms

Comment letters received from Audit Firms, **a total of six**, show a homogeneous and compact consensus:

- **Q1 and Q2:** All replies express support for the current PIOB mandate with a focus on due process oversight. Comment letters show concern with the possibility that the PIOB goes beyond due process oversight into technical issues to protect the Public Interest (PI). Two respondents explicitly refer with serious concern to the sentence in our VII Public Report and Consultation process that “*respect for due process may not always guarantee the Public interest*”.

One reply (PwC) argues that the PIOB should *not attempt to interfere with the PIACs interpretation of the PI*, but ensure that the PIAC receives all stakeholder and CAG input and debates it thoroughly. (This argument is based on the premise that every PIAC acts in the PI at all times, which may not always be the case).

The unanimous sense of all the replies is support for the PIOB mandate to focus on due process oversight, respecting the PIAC’s responsibility to debate over technical issues in their role as standard-setting bodies.

All replies from the six respondents show support for the PIOB mandate to extend to oversight of IPSASB. Three respondents do so in their response to the PIOB consultation, even though the question was not posed. The rest of audit Firms support independent PIOB oversight of IPSASB in their replies to the MG paper.

- **Q3:** The “informed oversight” approach receives full support from all respondents. This has clear implications regarding more active interaction with stakeholders.



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- **Q4:** Regarding avenues to improve oversight of PIACs, two respondents suggest the need for the PIOB to communicate better the work that has been done. One of these encourages the PIOB to “*work with the Boards to expand their use of **feedback statements**, which provide an overview of the key messages raised by responses in consultation papers and how those key messages were addressed... **feedback statements** are an effective communication method and provide transparency*”. The other respondent suggests that the PIOB could **attend PIAC task force meetings** and **encourage adoption** of ISAs and the Code.
- **Q5:** The medium term objectives outlined in the PIOB strategy paper receive support, but it is recommended that **the PIOB consider its communications and the oversight model** in that context.
- **Q6:** A clear 4/5 majority of respondents prefer the 100% observation model to the Oversight Assurance Model (OAM). The lack of continuity in observations of a PIAC or failing to observe meetings in full are put forward as risks that may outweigh the cost benefits of OAM.
- **Q7:** Regarding consultation of PIAC strategies through an active communications policy, one respondent (KPMG) interprets this question to imply a formal consultation process of the PIOB in parallel to the standard setting boards (SSB). This respondent discourages such consultation and recommends instead that “*the PIOB should focus on ensuring input from the MG and other stakeholders and evaluating whether such input has been included as one of the key factors in the Board’s shaping of strategic plans*”. This is what was intended to be consulted on, so the reply is considered affirmative. The other four respondents agree that the PIOB consults all stakeholders through an active communication policy, but **do not agree that the MG should be consulted separately from the rest of stakeholders**.
- **Q8 and Q9:** A general thread in all replies is the need for the PIOB to carry out better communications to explain the current structure in place. Respondents believe that many stakeholders are not aware of the current oversight arrangements in place, so all agree that the PIOB should better communicate the robustness of the present system to increase confidence of stakeholders. Respondents also agree that the PIOB needs to actively engage stakeholders to carry out its “informed oversight” approach. Both dimensions of PIOB communications receive support.



- **Q10 and Q11:** There is unanimous support for budget diversification, placing the responsibility on the MG and IFAC.

2. IFAC Member Bodies

A **total of eight comment letters** were received specifically to *the PIOB work 2012 program and beyond*. One letter represents two French professional bodies and another four UK professional associations, so the total number represented by this input is **12** professional bodies. Other submissions specific to the MG consultation paper refer also to the PIOB, so the statistic can be somewhat misleading.

Views differ regarding the new Oversight model, and interesting suggestions are put forward:

- **Q1:** Respondents show unanimous support for the PIOB mandate to protect the PI through due process oversight. One respondent suggests **eliminating the focus on investors in the current definition of the PIOB’s mandate to include all key stakeholders**.
- **Q2:** There is no appetite in any of the respondents to see the PIOB go beyond due process oversight. AICPA in particular argues that the PIOB going into technical analysis would duplicate the role of the PIACs and CAGs.
- **Q3:** respondents show unanimous support for the concept of “informed oversight”.
- **Q4:** In order to enhance oversight, the French bodies and the Belgian Institute **suggest improving the transparency of the nomination process**. The German body **recommends engaging PIAC and CAG members and TAs more actively**.

FEE also **recommends enhanced transparency of PIOB oversight functions**: “*More timely disclosure of the agenda and minutes of its meetings, including an indication of the discussions held...could be useful*”. The same organization recommends that **SMEs should be better represented in standard setting**.

The French bodies make the point that the responsibility of the PIOB should remain to **provide assurance that standards are responsive to the PI**.



- **Q5:** The medium term strategy of the PIOB receives full support. **Both FEE and the Belgian Institute recommend clarifying the roles of the MG and the PIOB.**
- **Q6:** The evolved oversight model receives mixed support. **The German Institute argues very effectively for 100% observation, and the French Institutes suggest the PIOB go back to 100% DO if it proves advisable.**
- **Q7:** replies support the PIOB consulting all stakeholders without giving any preference to the MG. The German paper is particularly good in his argument that **the PIOB has to develop its own opinion independently after consulting all stakeholders, including the MG:** MG organizations are another group of stakeholders with a specific interest. It is the PIOB's task to go beyond a regulatory view of the PI and articulate a broad view of the PI including the views of **all** stakeholders.
- **Q8 and Q9:** The PIOB receives support to interact with all stakeholders to carry out effective oversight, which is why one respondent (**IDW**) recommends continuing with 100% DO. There is general support to the PIOB carrying out a more effective communication policy beyond its current “minimalist” approach.
- **Q10-Q11:** Respondents back PIOB budget diversification.

3. **Regulators, Standard Setting Boards and other Public Bodies**

Five letters have been received from regulators -ESMA, the Government of British Columbia (GBC), the Independent Regulatory Board for Auditors from South Africa (IRBA), the Superintendencia de Compañías del Ecuador (SCE), and the Australian Financial Reporting Council AUS FRC - and one from IPSASB. One personal submission has also been received. The letters from the Australian body mainly address the MG consultation paper.

ESMA's comments are based on a good understanding of the standard setting structure and support the PIOB mandate. Their recommendations suggest increasing the technical capacity of the PIOB to go more into technical grounds as required by PI protection, improving PIOB communications and transparency, and supporting PIOB oversight of IPSASB as a first step of a debate on IPSASB oversight.



The letter from the **GBC** provides further support for the PIOB mandate as developed in the consultation paper and supports the extension of PIOB oversight to IPSASB.

The submission from the **SCE** also supports the PIOB's mandate, its medium term objectives, OAM, a more active communications policy to consult with stakeholders and budget diversification.

The letter from **IRBA** is submitted by the chair of the Standards Coordination Working Group of IFIAR compiling inputs from IFIAR members from South Africa, Taiwan, Thailand, The Netherlands and Spain. The letter acknowledges that the comments expressed are not representative of IFIAR's views and that in some instances the views were different. The Spanish regulator has submitted its own reply, which does not match the views expressed by IRBA. The PIOB welcomes the coordination effort and appreciates the difficulties involved.

IRBA's submission suggests a PIOB that should focus on IAASB and Ethics, go into technical analysis of the finalized standards (outcomes), monitor MG members comment letters to ensure input into the standards, apply PI criteria approved by the MG, and engage IFIAR more proactively.

The PIOB acknowledges the arguments from investors and other regulators (ESMA, AUS FRC) regarding the benefits of a standard- setting architecture based on standard setting boards **independent from IFAC**, especially as regards **the perception of independence** of the standard setting Boards.

Leaving aside concerns of political pressure, the merit to leverage the profession to ensure the high quality and use of standards, the challenge to finance SSBs outside IFAC in the medium term and a significantly more costly PIOB, the issue is how best to ensure that standards are developed in the public interest within the current model.

If it is the case that the present system of independent standard setting boards sitting within IFAC facilitates undue influence from the profession, **the answer is the existence and refinement of an effective oversight mechanism that mitigates the influence of the profession over standard setting and ensures balanced participation of all stakeholders in the standard setting process, including regulators**. This is the role of the PIOB. PIOB oversight ensures that regulators can input their views through the CAGs and comment letters, together with the rest of stakeholders, oversees the process and tries to ensure that all issues are thoroughly debated. **The PIOB encourages stakeholders to influence the PIAC and CAG debate through established due process in order to contribute to help protect the PI, and applauds the continued efforts of international organizations who are members of the MG in this regard (EC, BCBS, FSB, WB, IOSCO, IFIAR, IAIS).**

Let us now focus on the submissions from this group of respondents to the questions posed:

- **Q1: ESMA** supports the PIOB mandate but thinks that the PIOB **should not limit its role to due process oversight**. ESMA agrees that due process oversight may not always guarantee the PI, and recommends that the PIOB acts as “guardian of the public interest” and, if necessary, **challenges PIACs technical decisions if necessary to protect the PI**. ESMA



further supports extending the PIOB mandate to **include oversight of IPSASB** as a first step in a wider debate about this issue.

SCE and the **GBC** also agree with the PIOB mandate, and the **GBC** supports PIOB oversight of IPSASB as a first step in a wider debate about this issue. **IPSASB** also supports extending the PIOB mandate to IPSASB oversight.

IRBA thinks the current PIOB mandate should narrow down to oversee IAASB and Ethics, and that the PIOB has not fully ensured that IFAC standards are developed in the public interest. PIOB oversight **should concentrate on analyzing outcomes and focus on the technical content of the standards.**

- **Q2, Q3 and Q4: ESMA, GBC, SCE and IPSASB** support due process oversight and the model of informed oversight.

ESMA thinks that “*ensuring that private sector standard setters are acting in the public interest is not a straight forward issue*”, and recommends that “*the PIOB increases its efforts to assess whether the decisions by the PIACs and its task forces sufficiently take into account the public interest*”. **ESMA** replicates some of the PIOB consultation paper text in their own reply to show strong support for the concept of informed oversight. **ESMA** suggests PI protection could imply **analyzing the outcome of the standard setting process and the quality of the standards with a view of public interest needs; it also suggest that the PIOB could look more into technical issues.**

IRBA thinks that the MG and the PIOB should “strictly regulate” compliance with standards, and focus on analyzing outcomes and not only process –“too little focus on content”. The PIOB should look into technical issues, monitor the concerns of regulators, analyze whether a project is in the PI and do “more work” in analyzing processes. The letter asserts that the PIOB had not identified voting by proxy and the role of TAs as issues in the architecture previous to the 2010 IFAC Reforms assessment, which shows the lack of communication capacity of the PIOB.

- **Q5: ESMA, the GBC, SCE and IPSASB** support the PIOB medium term objectives.



ESMA and **IRBA** believe **PIOB** members have to have adequate knowledge of auditing and the need for high quality staff with an appropriate knowledge of auditing and public interest/ regulatory concerns. It is important to note here that the **PIOB** Board is not made up of auditors, but of overseers of due process and of the public interest. All **PIOB** Board members have a proven track record of regulatory, oversight or audit experience. **PIOB** oversight staff is of high quality and have audit experience.

IRBA thinks the **PIOB** should increase its engagement with **IFIAR**.

- **Q6: ESMA, IPSASB and SCE** support the **OAM**.

ESMA makes the point that approval of specific **OAM** is a collegiate responsibility of the Board –which it is, but perhaps was not clearly explained in the consultation paper- and encourages the **PIOB** to strengthen its oversight of the **IAASB** and its **CAG** given the importance of current projects

IRBA thinks the **PIOB** oversight methodology is too mechanical, and recommends “proactive engagement with public bodies to ascertain their concerns regarding the protection of **PI** should be considered”. Direct observation is not the most appropriate model of oversight, but instead **IRBA urges the PIOB to develop criteria for assessing whether standards meet PI benchmarks (such as enforceability, clarity and lack of ambiguity)** –these criteria to be approved by the **MG**.

- **Q7: ESMA** supports the **PIOB** sharpening oversight of strategies and consulting the “regulatory community”. The **GBC** also supports consultation with stakeholders.

IRBA thinks the **PIOB** should consult with the **MG** and does not support **PIOB** wider communications.

IPSASB thinks that, provided the **MG** is extended to include **INTOSAI**, **IMF** and other bodies, consultation of stakeholders is positive.

- **Q8 and Q9: GBC, SCE** and **ESMA** agree to develop communications further. **IPSASB** supports an active communications policy provided oversight of **IPSASB** is undertaken by the **PIOB**.



ESMA recommends more transparency, e.g., by providing **summaries of the meetings on the website or publishing reports assessing compliance with the due process.**

IRBA thinks that the MG should be “*the primary structure*” to interact with stakeholders. “*Based on their background and knowledge, MG members could inform the PIOB of the public interest concerns and issues*”. This view argues for reallocating the responsibility to assess the PI from the PIOB to the MG, and turn the former into an instrument of the latter to channel technical views in the standard setting process conducted by PIACs. Regarding Q9 on communications, this submission is not supportive of strengthening PIOB’s communication policy.

- **Q10-Q11: ESMA, GBC, SCE and IPSASB** support budget diversification. **ESMA** thinks that, in the long run, the PIOB should be financed by the regulatory community. **IRBA** also thinks that the regulatory community should finance the PIOB. Should IFAC continue to finance the PIOB, IRBA recommends the creation of a new independent body to carry out the collection and management of the fund.

4. **Personal submission**

This comment letter offers general support to the PIOB mandate, medium term objectives, communications policy and OAM.



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COMMENT LETTERS SUBMITTED TO THE PIOB

Organization/individual
1. Denise Juvenal and Manuel Rejón López
2. IPSASB (International Public Sector Accounting Standards Board)
3. Deloitte
4. CSOEC (Conseil Supérieur de L'Ordre des Experts Comptables) and CNCC (Compagnie Nationale des Commissaires aux Comptes), France
5. AICPA (American Institute of CPAs)
6. FEE (Fédération des Experts Comptables)
7. IDW (Institut der Wirtschaftsprüfer in Deutschland)
8. ICAEW, ICAS, CIPFA (Chartered Institute of Public Finance and Accountancy) and Chartered Accountants Ireland
9. Malaysian Institute of Certified Public Accountants
10. Institut des Réviseurs d'Entreprises
11. KPMG
12. Grant Thornton
13. CPA Australia
14. Price Waterhouse Coopers
15. Ernst & Young
16. Intendencia de Mercado de Valores, Ecuador
17. IRBA (Independent Regulatory Board for Auditors)
18. BDO
19. Government of British Columbia
20. ESMA (European Securities and Markets Authority)
21. Financial Reporting Council Australia

Total submissions to PIOB consultation: 21