

2017-2019 PIOB Strategy

A public consultation issued by the Public Interest Oversight Board.

Comments from ACCA to the Public Interest Oversight Board

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SUMMARY

ACCA is an organisation that is committed to the public interest. Accordingly, we are supportive of the PIOB and its work, and are pleased to have the opportunity to comment on the 2017-2019 strategy.

We agree with the goal to ensure that standards are set that serve the public interest by representing all stakeholders in a balanced manner, free from undue influence of any dominant stakeholder.

The public interest is served by there being high quality accountants receiving high quality education and training, regulated by high quality ethical standards and, in the case of auditors, following high quality auditing standards. It is also in the public interest for the public to have confidence in the standard-setting boards' standards, where such confidence is justified. As such, what matters in standard-setting is the outcome of the standard-setting process. To the extent that it doesn't unduly undermine confidence, the process by which standards are developed is less important.

We believe it is essential for there to be an oversight process that ensures that the SSBs' standards are of high quality and reflect the public interest. In places, the strategy could be enhanced by articulating how the PIOB's proposed interventions will improve outcomes. The PIOB's role is a difficult one: it is important to intervene when required by public interest concerns, but the benefit of intervening should be measured against its cost, namely the reduction in public confidence that it may bring.

At times in the consultation, we identified some proposals where it was not clear how the proposed intervention would improve outcomes in the public interest. We believe that the PIOB should seek to explain how the public interest would be served by these changes to demonstrate more transparently how it is fulfilling its mandate:

- The suggestion that a public member Chair of the Nominating Committee for the selection of SSB members and Chairs could be introduced (Q3).
- The suggestion that Public Members could be remunerated modestly for their contribution (Q5).
- The suggestion that IFAC's prerogative to nominate a PIOB member be removed (page 21).

Without an articulation of how these proposals will enhance the public interest, it is difficult to assess how the public interest is being served and whether there may be unforeseen consequences.

It would also be helpful for a clearer explanation of the PIOB's strategy for working together with the SSBs to develop global standards that reflect the public interest and are fit for purpose. With PIOB's goal being 'to ensure the public interest responsiveness of the standards developed under its oversight', this explanation could set out the PIOB's presumptions about the nature of the public interest, the objectives of the SSBs, the intentions of stakeholders in the financial reporting process, including professional accountants, and the outcomes that will best serve the public interest.

AREAS FOR SPECIFIC COMMENT:

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

The process in section 2.1 appears to represent faithfully the process of the PIOB to identify threats to the public interest. We note that everyone in the standard-setting process should welcome an open, respectful dialogue about how to improve standards in the public interest. As such, the role of identifying threats to the public interest is the duty of all stakeholders, including the SSBs themselves, not just the PIOB. We believe the PIOB could enhance its public interest role by working alongside the SSBs' existing processes for identifying threats to the public interest and by strengthening the safeguards the SSBs have put in place to reduce those threats.

The PIOB's approach to identifying threats to the public interest might then seek to identify any threats which the SSBs, either through error or as a result of flaws in their process, have failed to identify and respond to themselves.

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

We believe a more holistic view of representation is needed. What matters is whether the SSBs produce high quality standards that represent the public interest. While involving investors and regulators directly in the standard-setting process may more closely align standards with the interests of those stakeholders, it is not the only way to achieve representation. For example, the SSBs can and do hold outreach events with specific stakeholders to understand their views. And every standard includes a public consultation process to allow stakeholders to contribute their views directly. The meetings of SSBs and their agenda papers and minutes are open and available to the public.

Including stakeholders from particular constituencies may improve responsiveness to those constituencies' interests, but it is far from a guarantee. What matters most is that

the standard-setting process has a way of collecting and reacting to the views of a wide range of stakeholders. One can imagine easily situations in which a stakeholder notionally represents a constituency on an SSB but fails to communicate that constituency's views to the board. And there is a danger of engendering factionalism in board members, rather than encouraging them to think and act holistically.

We also suggest it would be helpful for the PIOB to reflect on the drivers of underrepresentation for certain groups on SSBs. We believe it is too simplistic to attribute this underrepresentation to failures of the nomination process. Different groups may have different root causes: for example, cost may be a critical issue for some stakeholders but time and expertise might be more important for others. Without a proper understanding of the root cause of any underrepresentation, it may be difficult to address them adequately.

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

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

The PIOB's could do more to articulate both the policy deficiency that these proposals seek to address and how these proposals are believed to be the best way of addressing them.

While we can see some benefit to the introduction of a public member Chair of the Nominating Committee, it is not immediately clear to us how it will address either the issue of underrepresentation identified in Q2 or the PIOB's desire to make the standard-setting process more responsive to the public interest. We understand that the PIOB has a representative at all Nominating Committee meetings for SSB appointments and has to approve the proposed appointees. We welcome a more detailed articulation of how an independent chair of the Nominating Committee for SSB appointments would improve the quality and diversity of nominations.

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

We agree with the PIOB consultation that the definition of the category of Public Members is unclear. The concept is a helpful discipline in encouraging the Nominating Committee to think about the diversity of SSBs, but it does not guarantee responsiveness to the public interest. What matters is that all board members, whether a Public Member or not, are encouraged to think about and give perspectives of the

public interest and that they are effective at communicating those views to other members of the board.

As such, we believe it is unclear whether Public Members speak out for the public interest with a perspective different to that of the accountancy profession. And, even if they do, it is unclear whether those different perspectives impact the standard-setting processes in ways that better serve the public interest. We would welcome a more detailed explanation of the PIOB's thinking on these matters.

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

While we understand why this might be suggested as a way of increasing the pool of potential Public Member candidates for SSB membership, we have concerns that this proposal may have unintended consequences.

Firstly, we are concerned that it may create two 'tiers' of board member. It would be unfortunate for some board members to be seen as more or less important, merely because they are being paid compared to their volunteer colleagues. And we think it would be helpful for the PIOB to explore further the barriers to Public Member contribution, as set out in our answer to Q2, in order to understand how the proposal for modest remuneration might overcome them. In particular, the time commitment required of SSB board members remains a very significant challenge.

Additionally, it raises the issue of who would pay for the proposal. The source of this funding is important, as the perceived independence of Public Members may be threatened if they are being funded by another interest group, such as the large accountancy firms.

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

We do not understand this question. We view the public interest as being a singular concept that reflects the interests of all. As such, it cannot belong to any one individual or group. It is the responsibility of the SSBs to ensure that they identify public interest concerns throughout the standard-setting process and take steps to respond to them.

In our view, the current standard-setting process of all three SSBs, taking into account the involvement of oversight processes such as the PIOB, is largely fit for purpose and

serves the public interest. It is always possible to improve further and we welcome the PIOB's commitment to dialogue in this area. Overall, we believe that in the overwhelming majority of cases the responses of SSBs to public interest concerns are appropriate.

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

In our view, the involvement of working groups allows the SSBs to bring in a wider talent pool of experts and to share the burden of the standard-setting process more broadly. It also frees up the SSBs' time to allow them to exercise oversight more effectively.

The outputs of working groups and/or task forces are monitored closely by the SSBs and, as such, are subject to PIOB oversight. For PIOB involvement at an earlier stage to be effective, we would need to understand what it is about the current approach that the PIOB considers to be deficient and how exactly earlier PIOB involvement might enhance the process.

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

We see PIOB as having an essential role as the guardian of the public interest. For us, this means reviewing the extent to which public interest issues have been taken account of in outputs from the standard-setting process, including how well issues were identified and addressed during standard-setting and subsequent public consultations. We believe PIOB's strategy could explain more clearly how it will fulfil this very important public interest role in its activities.

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

It is important that standard-setting takes time to reflect on a variety of viewpoints in arriving at a new standard. We believe the time taken by the SSBs reflects the need for a meaningful drafting process and sufficient time for stakeholders to consult and respond. Reducing the timeframe of standard-setting might lead to more timely standards but it might equally result in important public interest perspectives being overlooked. We think it is preferable to get standards right first time.

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

We cannot identify any issues that we consider, from a public interest perspective, to be essential additions to the present education curriculums and which are not already being addressed by the IAESB in its existing standards, its current work programmes and its ongoing outreach and consultation. We support PIOB oversight of these work programmes and input into the IAESB's outreach activities.

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

As noted above, we support PIOB oversight of the IAESB's ongoing standard setting in accounting education. We believe the best way for the PIOB to enhance its understanding is to continue to engage constructively at IAESB meetings and in its public consultations.

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

We do not see a role for PIOB in encouraging adoption, beyond what is already undertaken by national bodies. However, we do consider the ease of adoption of new standards to be in the public interest. As such, we would support the PIOB considering the ease of adoption of new standards as an important criterion in ensuring that the public interest is being served.

Q13 Do you find the PIOB Quarterly Updates useful?

We believe the usefulness of the PIOB Quarterly Updates could be enhanced by focussing them on public interest issues in recent standard-setting and how they have been managed by the SSB with input from the PIOB.

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

We are grateful for the opportunity to comment on the PIOB's strategy through this consultation. We believe the PIOB could do even more to build a stronger narrative around how it ensures that the public interest is at the forefront of the SSBs' outputs.

With PIOB's goal being 'to ensure the public interest responsiveness of the standards developed under its oversight', this narrative could set out the PIOB's presumptions about the nature of the public interest, the objectives of the SSBs, the intentions of stakeholders in the financial reporting process, including professional accountants, and the outcomes that will best serve the public interest.

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

We believe it would be more helpful to SSBs and would enhance their public interest outputs for the PIOB to take a wider strategic outlook that reviews the extent to which public interest issues have been identified and managed within the SSBs' processes.