Response of:

**Dutch Investors’ Association VEB**

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Re: 2017-2019 PIOB Strategy Public Consultation Paper

Ladies and gentlemen,

The Dutch Investors’ Association (Vereniging van Effectenbezitters, hereafter “VEB”) would like to draw your attention to the following.

1. **Introduction**

VEB was founded in 1924 with the objective of representing the interests of retail and institutional investors. Currently, VEB is the largest association representing investors in the Benelux with approximately 45,000 members.

VEB is also a founding member of the European Investors’ Association IVZW, a pan-European organisation representing investors.

2. **General position of the VEB in the debate on accountancy**

As has been shown in recent years, the auditor has a clear public task to fulfil in engendering faith in financial markets.

The legislator has designated the auditor as the most suitable party to investigate in the public interest, the financial statements and make a critical evaluation of the management of companies, specifically on the basis of the knowledge and expertise that it holds. In any event, the correct application of financial reporting standards but, to an increasing extent, also beyond that, as shown by the wider discussion on integrated reporting. Stakeholders expect the auditor to assume this role.

In this perspective, VEB welcomes the efforts of the Public Interest Oversight Board (“PIOB”) to reinforce the auditor’s role in the public interest. The VEB has taken note of the 2017-2019 PIOB Strategy Public Consultation Paper (“Consultation Paper”).
Furthermore it is essential that the public interest is incorporated in relevant audit and ethical standards. The PIOB as well as the standard setters therefore have an important task to fulfil.

3. **Question in the Consultation Paper**

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

Unfortunately there is an autocracy of members of audit firms in standard setting. The role of the Public Members of standard setting boards (“SSBs”) should be enhanced. Audit and ethical standard setting is not exclusive to members delegated by audit firms such as the Big 4, or other (former) audit practitioners with a similar background, interest and mindset. Since it does not make sense that regulators draft the rules they supervise, the latter also applies more or less to regulators.

Public members should be the majority in SSBs. We understand that there are not sufficient qualified people readily available for this. There is a clear task for regulators, governments and audit firms to improve this shortcoming by identifying capable public members of standard setting boards. There should be compensation for these public members, see question 5.

To enhance the role of the PIOB defending the public interest, public members should be in the majority in SSBs and in the Nominating Committee of IFAC.

In the past, audit firms have shown to address the public interest only marginally. It is in the audit firms’ own interest to enhance the public interest, as the value of the auditor diminishes when he loses sight of the public interest.

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

Investors and regulators are the most important stakeholders. Furthermore, other organisations such as the large fund industry and the industry itself also need to be represented in the standard setting process. Notably, the available expertise should reflect the needs of the market (e.g. ESG and cyber security).

**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?**

Yes. We definitely see the benefit in the introduction of a public member Chair of the Nominating Committee. Furthermore, the majority of the Nominating Committee should consist of public members.

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

The current Nominating Committee is the IFAC Nominating Committee. Apart from dealing with the SSB nominations, it also deals with internal IFAC Nominations. This combination is not any longer defendable, neither in governance nor in perception. It would make sense to have a separate Nominating Committee specifically dedicated to the nomination of the members of the SSBs. Another good idea would be to give the PIOB a stronger role in the nomination and evaluation of SSB members, compared to the oversight role of a Board of Supervision, and of the Board of Trustees in the IFRS Foundation.

**Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?**
VEB believes that the perspective of Public Members is pivotal in the process of standard setting. Auditors should serve the public interest. This means the public’s voice should be heard in the standard-setting process, not only with regards to accounting standards but also to audit, ethical and educational standards. Members from the audit profession may have private interests that deviate from the public interest (e.g. limiting liability, protecting the accounting market against new competitors). The perspective of Public Members should be aligned with the public interest.

It would be good if the PIOB would introduce other public members from stakeholders associations such as the VEB, European Investors’ Association or representatives of institutional investors such as Eumedion. The VEB is happy to discuss its potential involvement.

**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?**

Public Members should receive a decent remuneration in the absence of a sponsoring organization. In order to balance not only the quantity but also the quality of the Public Members vis-à-vis the non-Public Members, the payment should not only include reimbursement of costs; it should be a decent remuneration for the work that is performed.

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

Yes, VEB has several litigation cases against audit firms. We are happy to provide you with the details on request, these are not meant for public disclosure.

**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?**

Yes, the PIOB or Public Members should be involved in an early stage in order to supervise adherence to the public interest (i.e. in the SSBs). Furthermore they should create an appropriate sense of urgency within working groups and task forces.

**Q8. Where do you see gaps in the PIOB’s oversight?**

Further to Q7, VEB agrees that it is difficult to gauge and monitor the PIOB’s qualitative and quantitative output as it is difficult to measure the results of advocating the public interest in the established standards.

**Q9. Do you think the length of time taken 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?**

Expediting the process of standard setting is key. In order to meet the needs of the rapidly changing financial markets there should be a short term solution, such as provisional standards. The PIOB in cooperation with the SSBs should develop a parallel process to develop a provisional standard in due course in order to cope with the needs of the market.
Further to this parallel process, new standards should be developed within a shorter time frame (i.e. maximum of two years). Furthermore, there should be the possibility to develop a new standard within a period as short as deemed necessary in order to cope with the continuous demand of the fast moving financial markets. One may appreciate that the public cannot understand why it takes such a long time to introduce or amend accounting standards. For instance; it is unacceptable that it takes almost 10 years to draft a new audit or ethics standard.

Developments such as big data and cybercrime demand continuous alterations of the current standards. It is essential the standard development process is improved in due course.

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

Auditing is a fast moving discipline. New developments such as big data and cybercrime demand continuous adaptations, not only of the standards, but also of the education curricula. Furthermore students should be taught about the tasks and desired role of the accountant in light of the public interest he should serve.

VEB wants to make clear that it is necessary for audit students to improve their interview techniques. In general there should be more focus on independent qualitative research and not only quantitative analysis.

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?

PIOB should engage more actively with stakeholders to get a good idea of the public interest issues that require adaptations in international accounting education standard-setting, and in accounting education practice and processes.

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)?

The ISAs, the Code of Ethics, and the IESs could be adopted in a way similar to the adoption of IAS/IFRS (i.e. by way of endorsement by the European Commission, as laid down in the IAS Regulation).

Q13. Do you find the PIOB Quarterly Updates useful?

Yes

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

Unfortunately, audit is only being covered by the press in case of incidents. The development of new standards does not attract coverage. PIOB could improve its communication about its position in the aftermath of such incidents.

Q15. What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?
The public interest will be of paramount interest in the audit debate. The tension between the private interest of audit firms and public interest will not disappear in the future. Therefore the role of the PIOB as defender of the public interest will remain necessary and required, also in the longer run.

4. **Standard setting enhancements being developed by the Monitoring Group in 2016**

VEB fully agrees with the enhancements being developed by the Monitoring Group. VEB is happy to participate in the more balanced multi stakeholder composition of the SSBs.

Please do not hesitate to contact us if you want to discuss our response.

Yours faithfully.

Vereniging van Effectenbezitters

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