2017-2019 Public Interest Oversight Board (PIOB) Strategy Public Consultation Paper

Dear Mr. Wymeersch:

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the 2017-2019 PIOB Strategy Public Consultation Paper (the Consultation Paper).

We recognize the good progress that has been made in enhancing the processes and operations of the PIOB following the Monitoring Group's (MG's) 2013 recommendations related to increasing the efficacy and transparency of the PIOB's oversight activities. We believe that it is the right time to reflect on the several enhancements to the standard-setting process resulting from the MG's 2013 recommendations and consider what more can be done, including as it relates to the oversight activities of the PIOB. The Consultation Paper raises important questions in this regard.

The Monitoring Group (MG) is currently embarking on a strategic analysis of the IFAC standard-setting model, including important dialogue with relevant stakeholders. We support, and are contributing to, this initiative because we understand the importance of ensuring that the model is fit for its purpose of developing and maintaining standards that serve the public interest and is sustainable into the future. Because all the elements of the standard-setting model are interlinked, we support a holistic and end-to-end approach to this strategic evaluation.

To be clear, our support for the MG's strategic analysis of the standard-setting model is not due to concerns about the quality of standards that have been produced from the current model. We believe that the existing standard-setting model results in high-quality standards that serve the public interest, and our comments to the Consultation Paper reflect this belief.

Instead, our support for the MG's strategic analysis is an acknowledgement that the construct of the current standard-setting process aims to achieve its objectives (e.g., transparency, due process) within fairly strict constraints (e.g., resources, cost, time) that are driven by the current compositions of the standard-setting boards (SSBs) and the respective Consultative Advisory Groups (CAGs), as well as the structure of the standard-setting process overall. We also recognize that there is a perception among some stakeholders that the profession has undue influence in the standard-setting process.

Changing the current constraints and improving the process (while not sacrificing the critical objectives and the quality of the standards) could not only result in improved more effective and efficient model but one that is recognized to include fair representation of all stakeholders. Specifically, we advocate changes to the structure of the standard-setting process that facilitate attracting highly-competent non-practitioners with recognized standing in their respective communities to participate in, and effectively contribute to, the standard-setting process.
A revised model may include, for example:

► SSBs, comprised of a mix of stakeholder groups, but charged with operating at the level of strategic decision-making, which would allow for a reduction in the membership needed for each respective SSB

► An increased staff complement for each SSB, which would include supporting staff of high-standing and technical expertise who can lead project development and stakeholder outreach, as well as be positioned to consult with appropriate expert and practitioner advisory groups as necessary

► Oversight focused on ensuring that the SSBs have followed appropriate due process during the development of their respective standards

Because the MG's strategic analysis could result in fundamental changes to the standard-setting model, we believe it would be premature to make changes to the PIOB's current role or responsibilities in advance of the outcome of the MG's analysis.

Our responses to the specific questions in the Consultation Paper, as set out below, are primarily in the context of the current standard-setting model, but we also have included thoughts that are more forward-looking in nature, where relevant.

Responses to specific matters on which the PIOB is seeking comments

2.1 Identification of threats to the public interest

Q1. Do you think the process currently in place to identify risks to the public interest is appropriate?

Yes, we believe that the current process to identify risks to the public interest is appropriate. The current approaches to outreach, consultation and due process within the current standard-setting model are extensive and have provided a sound basis for the SSBs to identify priorities, explore alternatives and take into account the views of all stakeholders. Together these activities have provided “checks and balances” in the standard-setting process to both identify risks to the public interest and, when identified, to address them.

Can you suggest any improvements?

Pending the outcome of the MG’s analysis of the standard-setting model, we do not suggest any improvements at this time. However, in considering changes that can be made as part of the MG’s strategic analysis of the standard-setting model, we believe it would be helpful to consider a model in which the SSBs have a higher-level strategic focus by virtue of diversity of their membership and a focus on identifying emerging developments and relative priorities. This should include identifying and understanding public interest issues from the perspective of each of the three disciplines of the SSBs - auditing and assurance, ethics, and education - and considering upfront whether certain issues are best addressed through coordination of the SSBs.
Q2.  **In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard-setting process?**

As a general principle, we believe that the standard-setting process needs to ensure that all key stakeholders are fairly represented. The perception that this may not be the case in the current model is likely one of the strongest reasons for reform. To add further credibility to the process, the representatives on the SSBs and the respective CAGs should be highly knowledgeable and sufficiently competent in the disciplines relevant to the specific mandates of the SSBs (e.g., for the IAASB, financial reporting and assurance matters) and be recognized as leading authorities inside and outside their respective communities.

In addition to investors and regulators, we believe that audit committees should be represented in the audit standard-setting process given their governance responsibilities over the audit process and audit quality. In addition, those responsible for corporate reporting in companies that are subject to audit (i.e., preparers) have a perspective that is important to understand especially as it relates to the practical implementation of new audit standards. These groups also are likely to have a vested interest in the ethics and education standards because these standards are directed to all professional accountants, including those within the business community.

Although we support broad stakeholder representation in the standard-setting process overall, we also strongly believe that the members of the SSBs must have the necessary technical competence to be capable of deliberating technical standards, particularly under the current model. Further, representatives on the CAGs need to have sufficient technical competence be able to understand the nature of the issues on the SSBs' agendas to make a valuable contribution to the SSBs' deliberations.

However, changes in structure of the standard-setting model, which allow for the SSBs to operate at a more strategic decision-making level due to greater support from highly-qualified staff, may facilitate shifting the balance of responsibilities. This may mean, in particular, that the level of technical competence required for a non-practitioner SSB member may not necessarily need to be commensurate with those of practitioners, which could assist in attracting a wider range of non-practitioners to serve on the SSBs.

Achieving proper representation and the appropriate balance of responsibilities in the standard-setting process, including through the composition of the SSBs and the CAGs, should be, in our view, a key focus of the MG's analysis of the standard-setting model.

Q3. **Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of standard-setting board members and Chairs?**

Yes, we support the proposal to have an independent Chair of the Nominating Committee. This would strengthen confidence in the objectivity of the nominating process. The Chair should be responsible for ensuring the type of robust due process in the nominating process that exists today continues to be undertaken. The Chair also should be accountable to the key stakeholder groups for demonstrating the effectiveness of this due process through the competence of the members that are appointed and the diversity in the constituents that such members represent. These qualities are more important than the ability to categorize the Chair as a “public member” under the current definition. As we further comment in our response to Q4, the current definitions and use of “practitioner”, “non-practitioner” and “public member” need to be reconsidered.
Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?

We are not convinced that an entirely separate Nominating Committee is appropriate. Instead, we believe it is important that the membership of the Nominating Committee represents a broad range of constituencies in order to be best positioned to translate this diversity into the SSBs themselves. That said, it is also important that the nominating process continues to be robust and free of political intervention or other undue bias. Nominees should be thoroughly vetted against a defined set of criteria, including, in particular, the competence of the nominee to be able to fulfill their mandate on the SSB and recognized as leading authorities inside and outside their respective communities. PIOB oversight of the Nominating Committee’s process and deliberations should continue to evaluate that this due process is achieved.

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

No, not necessarily. All SSB members bring the perspective of their individual experiences to the standard-setting process – as well as from their stakeholder community, their organization, and their geography – and we believe these different perspectives enrich the standard-setting process. The SSBs are more informed of the possible views of different constituencies during the standard-setting process.

Regardless of their individual perspectives, we believe that all SSB members should be expected to be committed to, and be motivated by, a strong sense of the public interest. This is not a responsibility solely for public members nor should the views of public members have more weight in determining what is in the public interest. Rather, we believe the public interest is served by the very fact of bringing together stakeholders in the form of a diverse and well-represented SSB that collectively acts transparently and in accordance with due process.

Further, we do not believe that the current categorization of the SSBs’ composition by “practitioner”, “non-practitioner” and “public member” has served its intended purpose of evidencing the diversity of the SSBs, due at least in part to a lack of common understanding of the definitions of each category.

As part of the MG analysis of the standard-setting model, consideration should be given to better defining the stakeholder groups that should be represented on the SSBs. This should include consideration of definitions that more accurately represent the individual roles of the SSB members (e.g., investor, regulator, audit committee member, preparer, current practitioner, etc.) versus the current focus on the roles of their respective sponsoring organizations.

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?

We support exploration of remuneration for SSB members because it is likely to enable the SSBs to attract highly-experienced and qualified members (not only public members) who otherwise may not choose or be able to serve on the SSBs. However, we believe this exploration is best performed in conjunction with the MG’s analysis of the standard-setting model. Such remuneration should be considered in context of the overall funding model and the processes to allocate funding to the SSBs.
2.2 Strengthen PIOB oversight

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

No. In our view, recent standards have been developed following appropriate due process and appropriately taking into account the varying perspectives and concerns of stakeholders such that these standards, as a result, serve the public interest.

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?*

No, we do not believe PIOB oversight of working groups or task forces would be beneficial. Consistent with other major standard-setting models, such as IASB or FASB, we believe the role of PIOB oversight is not to directly influence the process or override the outcome. It follows that the PIOB should avoid activities that may have a negative effect on its independent oversight of due process, which requires a sufficient level of objectivity. Because we view the working groups and task forces to be part of the underlying operations of the SSBs, we believe that PIOB involvement with these groups runs the risk of the PIOB being perceived to have some extent of involvement in the operational matters of the SSBs.

Under the current standard-setting model, the responsibility for priority-setting and decision-making is firmly at the SSB level, which in our view is the appropriate level for governance and PIOB oversight.

Specifically, we view working groups and task forces to have a primary role of working through input received from outreach and stakeholders, evaluating alternatives and assembling recommendations for SSB consideration. The work products of these groups are presented to the SSB members in a manner that provides transparency into the working group deliberations. All SSB members are able to evaluate and challenge the recommendations made, make their own decisions, and direct the activities of these groups.

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

We do not see any particular gaps in the PIOB’s oversight under the current standard-setting model.

As a general rule, we do not believe that strengthened oversight should be used to compensate for known or perceived deficiencies in the underlying standard-setting process. Instead, we support the MG’s holistic approach to analyzing the standard-setting model, including considering oversight needs in light of the planned revisions to the underlying process (refer to our response to Q15).

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?*

We understand that the development of standards often is a lengthy process driven primarily by the complexity of the topics addressed and the need to take into account the views of a diverse set of stakeholders.
First, we do not believe that the length of time taken in standard development is capable of being arbitrarily shortened. Typically, the priorities of the SSBs are complex issues for which stakeholders are specifically seeking the SSB’s expertise and due process to develop practical and high-quality solutions. Of most importance is that the final standards are of high quality. Otherwise, there are risks that they will not be accepted or adopted.

Further, the projects undertaken by the SSBs often result in significant changes in standards, which may have significant consequences not only for accountants or practitioners, but other stakeholders as well. Outreach, consultation and validation across stakeholder groups are critical to the standard-setting process and also assist the SSBs in evaluating whether the changes are capable of being implemented as intended, which is important to achieving stakeholders’ confidence in the resulting standards.

At the same time, we recognize that a lengthy delay between the identification of an issue in need of immediate attention by a SSB and the availability of a new standard to address the issue is an unfavorable outcome for all stakeholders. There is definitely a need to balance timeliness and quality as part of the standard-setting process. To that end, we believe that achieving this balance should be a critical objective of the MG’s strategic analysis of the standard-setting model.

In our view, the MG’s analysis should include specific consideration of changes that will accelerate or tailor the standard-setting process based on the needs of a particular project. In particular, we believe smaller SSBs with a strategic focus that are supported by increased and highly-qualified staff resources are improvements that will assist in improving the pace of standard-setting.

2.3 Supporting accounting education

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

Recognizing that the International Education Standards (IESs) have recently been through a major overhaul to update the curricula for today’s professional accountants, we do not believe there are topics that are essential additions to the IESs at this time.

The revised IESs focus on not only establishing professional competence, but also on maintaining professional competence. This focus is essential, in our view, to the professional accountant successfully applying the foundational skills in the IESs to practice issues that arise in the future. Nevertheless, we do believe there is a need to continually evaluate on a go-forward basis whether the current education model operates effectively when applied to changes in practice or issues that arise. In addition, in light of developments particularly in the areas of corporate reporting and technology, there is a need for ongoing and proactive consideration of whether the current education model will appropriately prepare future accountants to successfully enter the profession equipped with necessary skills and competencies to deal with these developments.

We therefore believe the IAESB’s proposed three-pronged strategy, which includes a post-effective date review of its revised IESs, ongoing implementation support, and evidenced-based standards development, is well-positioned to identify and respond to the education needs of professional accountants on a timely basis.
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 part of the PIOB’s outreach, we would encourage the PIOB to seek not only views on the current role of professional accountants and the quality of today’s audits and assurance engagements, but also use outreach as an opportunity to gain an understanding of the changes that are occurring that will affect the education needs for tomorrow’s audits, assurance engagements, and corporate reporting.

Further, outreach for the purposes of understanding education-related issues should include engaging with academics in addition to professional accountants and regulators.

See also our responses to Q1 and Q14 for further comments relevant to all SSBs about how the PIOB may increase its understanding of public interest issues.

2.4 Adoption and implementation

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

One action we believe that the PIOB could take is to increase its communication of its support for the international standards emphasizing the robust due process to which the PIOB has held the SSBs accountable, which could be performed through:

- **Openly advocating the standards in its outreach activities.** We believe that the rigor of the standard-setting process and PIOB’s satisfaction with the outcome needs to be an ongoing theme in outreach activities by the PIOB chair and its members.

- **Increasing the transparency of its observations and deliberations leading up to its conclusions that individual standards were approved by the respective SSBs in accordance with due process and with regard to the public interest.** By communicating the robustness of the oversight process throughout the standard-setting process on an individual project basis, we believe this would increase confidence in newly issued standards, and hence contribute to their adoption and implementation. (See further comments in our response to Q13 as to how transparency in this regard may be improved).

Secondly, we believe that it is important for the PIOB to specifically recognize the importance of, and monitor through its outreach, the views of the member bodies, because these are the organizations that commit to the adoption and implementation of the international standards. Ensuring their views are taken into account is critical to enabling adoption of the standards without significant modification.

Related, we also believe that the views of the community of small- and medium-sized practitioners, and their smaller entity stakeholders, are important to the successful implementation of the standards. It is important that the international standards are capable of scalable implementation across firms and engagements, and are not developed with only listed or public-interest entities in mind.
2.5 Transparency and communication

Q13. Do you find the PIOB Quarterly Updates useful?

Yes, the PIOB Quarterly Update is a useful publication because it improves the transparency of the quarterly activities of the PIOB, including its outreach, and meeting agendas and related decisions.

However, we believe more could be done to increase the transparency of, in particular, the views and deliberations of the PIOB. Transparency into the PIOB’s activities and how it fulfills its mandate can play an important role in building confidence in the oversight process, and the international standards themselves.

For example, the PIOB Quarterly Update provides a calendar of the meeting oversight activities performed (or to be performed) but does not provide any insight as to the PIOB observations from the individual meetings. Although the PIOB observer comments may be captured in the respective SSB meeting minutes, these views are not visible through the Quarterly Update publication. The Quarterly Update could include links to the published SSB minutes or otherwise summarize PIOB observations from each meeting on a quarterly basis.

As another example, the PIOB meeting agenda materials are not public, and although significant decisions are captured in the Quarterly Update, the reasons for those decisions are not transparent. In particular, it may be useful to add information about matters considered in the PIOB’s deliberations on whether standards submitted for approval have proper regard for the public interest.

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

By increasing its transparency and communications as suggested in our responses in Q12 and Q13, we believe the PIOB will improve its platform for engaging with stakeholders. Stakeholder engagement, in our view, is key to the PIOB understanding the importance of its role and to identifying risks to the public interest. The PIOB should also continue to engage directly with the SSBs and the CAGs in understanding the stakeholder views that are being heard and shared in these venues.

3.1 PIOB vision 2019 and beyond

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

As a member of one of the key stakeholder groups in the standard-setting process, we plan to actively participate in the stakeholder dialogue on the future of the standard-setting model being led by the MG. We support the MG’s strategic analysis of the model and believe that quite fundamental changes should be considered to address, in particular, the perception that not all stakeholders may be fairly represented in the standard-setting process.

As we have noted throughout our comments, the reforms need to be considered holistically for all elements of the standard-setting model because they are interlinked. The public interest is served through a standard-setting model design that ensures balanced participation of all relevant stakeholders and the standard-setting process giving due consideration to their differing views.
A fresh look at the oversight model and the role of the PIOB is best performed in the context of the enhanced design of the underlying elements of the standard-setting process. Under our vision for the standard-setting model as outlined in our introductory comments, we continue to see the importance of governance and oversight through an independent oversight body. Assuming that public interest objectives are fully ingrained in the enhanced model's design, the role of oversight can continue to focus on holding the SSBs accountable and demonstrating how due process has been observed.

We would be pleased to discuss our comments with members of the PIOB or its staff. If you wish to do so, please contact Donald P. Zimmerman, Global Vice Chair, Global Professional Practice (donald.zimmerman@eyg.ey.com) or Bob Landwehr, Deputy Director, Global Professional Practice (bob.landwehr@uk.ey.com).

Yours sincerely,

Ernst & Young Global Limited