Public Interest Oversight Board
[sent by email]

23 November 2016

Dear Sirs

PIOB Strategy 2017-2019 consultation paper
Grant Thornton is one of the world’s leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 42,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

We make some high level comments below, and respond to the consultation questions in the appendix to this letter.

The standard setting model
We believe that it is appropriate to periodically review the standard setting model, to ensure that it is still fit for purpose, and remains inclusive of relevant stakeholders including the accounting profession.

We understand that the Monitoring Group (MG) is currently conducting a strategic review of the IFAC standard setting model and we support the broad stakeholder dialogue that will be part of that review. The component parts of the standard setting model, being strategic direction, oversight, standard setting Board (SSB) membership, SSB staffing, and funding of the standard setting process, are intrinsically linked. Therefore pending the outcome of the MG’s review it would be premature to make changes to the PIOB’s role and responsibilities in isolation.

We know anecdotally that some stakeholders have concerns that the accounting profession has too much influence over the standard setting process, but we have only heard these concerns with reference to IESBA and IAASB, not for IAESB or IPSASB. We are also unclear whether this is a widely held view, or a representative view of a narrower group of stakeholders. A more robust survey is needed before we can conclude on this perspective.
A key driver of the perception of undue influence is likely the sources of funding. Significant providers of finance to any process should have input into that process. Any changes to SSB governance should be careful not to impair the IPSASB and IAESB which stakeholders appear to generally support. PIOB funding need be no more secure than SSB funding.

We have a range of views within our organisation about what an appropriate governance model for high quality international standard setting should be. One thing we all agree on is that there should be a forward looking meaningful debate that seeks a long term solution. Another source of agreement is that SSBs should be smaller, full time, and supported by more staff.

The role of the respective Consultative Advisory Groups (CAGs) does not feature in the PIOB’s paper, but they are influential. Their role is to monitor and direct the SSBs, and they have broad representation across all stakeholder groups. They have a significant positive impact on the work of the IAASB and IESBA.

The main issues to address in reviewing the standard setting model, and the main obstacles, are:

- Standard setting in the public interest
- The role of SSB oversight
- Fair representation of all stakeholders
- Characteristics of SSB members
- Funding
- SSB and staffing structures

**Standard setting in the public interest**

The tone of the PIOB paper is that the public interest is not given due weight during IAASB and IESBA discussions. The paper also infers that only the regulators consider the public interest.

There are many opportunities for stakeholders to bring public interest issues to the discussion, including during debate about SSB future work plans. The CAGs play a major role here.

A significant part of due process is respect for views of others, and learning about different perspectives. It is our understanding, which we believe would be supported by PIOB observers, that SSB discussions should be and are diverse with ample opportunity for all to have their views heard where no one group dominates the conversation, and no one group asserts the right to hold sway on a given point of discussion.

All SSB participants are serving the public interest. No one stakeholder group has a monopoly on what high quality standards should be that serve the public interest. For example, regulators are set up to address a public need; and the accounting profession was established with public interest front of mind.
The role of SSB oversight
The primary considerations for SSB oversight should be: do the SSBs follow internationally accepted due process which enjoys the support of key stakeholder groups, and comprise high quality people, delivering high quality standards?

The current standard setting process has evolved over many years and has produced standards of high quality, and it remains sufficient grounds for the PIOB and other stakeholders promoting their use. We have no evidence of failure in due process, and none is described in the PIOB paper, so before stakeholders enter a discussion seeking improvement in SSB governance it should be made clear that there are no grounds for the discussion to be used by any party to criticise the standards or due process, or impair wider adoption of the body of standards. We should ask what is the problem we are trying to solve – or is there even a problem in the first place?

That said, it is right to periodically consider potential improvements.

There is a PIOB observer at all SSB calls and meetings, and that observer is asked at each meeting to confirm that deliberations have appropriately considered the public interest. We would be concerned if there was more PIOB involvement in detailed SSB activities because that would put the PIOB’s oversight function at risk. The principle of risk-based oversight is at times inconsistent with PIOB interaction at the SSBs during the drafting process which is overly detailed. NOCLAR and long association were two projects that were delayed by two years to address regulator comments which kept being revisited.

The PIOB should support SSB due process actively and not passively. The PIOB should be an advocate for the standard setting process that they oversee.

Fair representation of all key stakeholders
A critical element of a high performing standard setting function should be that there is fair representation of all key stakeholders. Standard setting is a collegiate, collaborative activity, so in discussing future governance of the SSBs participants need to avoid a “them and us” mentality. Inferring that there is a practitioner versus non-practitioner conflict is unhelpful and unwarranted. All stakeholders are engaged in standard setting as their way of contributing to standards which serve the public interest, so no one stakeholder group has a monopoly in understanding or deciding what is in the public interest.

SSBs should be diverse and proportionate in their representation of key stakeholder groups, and so should the oversight body. We observe no need for both a MG and a PIOB.

Characteristics of SSB members
All board members need to have the time, commitment, knowledge and experience to inform meaningful participation. Typically, non-practitioner members find it harder to demonstrate all four attributes. A drive for more non-practitioners on boards, or a greater proportion, in our opinion is just window dressing if they do not possess all four attributes – which is not a problem provided that they do no harm.

In reality the practitioners do most of the work as many of the regulators and public members do not have the time/ experience/ qualifications to lead a working group or to
provide meaningful input into the board’s discussion on what are technical topics. Increased volume of SSB work but fewer practitioners doing that work increases the risk of narrow input just when the PIOB perceives the need to broaden input – so reduced practitioner representation implies a need to have more SSB staff with greater skills, and thereby increased cost.

The nomination process is open to all. Users and preparers might not engage in the standard setting process as much as we would all wish – but perhaps they would if they saw a pressing need from their perspective. Absent evidence to the contrary it could be said that the current process is substantially delivering what those stakeholders need.

**Funding**

We sometimes hear individuals observe that the SSBs are dominated by the accounting profession. We believe PIOB observers at SSB discussions would agree that SSB discussions and decisions are not dominated by the accounting SSB members. Instead, our understanding is that the perception of dominance stems from the main source of SSB funding which is from the Forum of Firms members, and national professional bodies (which in turn derive most of their funding from national accounting firms). A funding mechanism from a broader base might be one way of addressing the perception of dominance by one stakeholder group.

**SSB and staffing structures**

In order to facilitate more efficient standard setting and more timely publication of high quality standards, we would support a structure where SSBs have fewer members, but those members are full time. SSB members would do less work in generating the text of proposed standards, and devote more time to understanding the perspectives of stakeholders on particular issues, and more time debating key issues. In turn this would place greater emphasis on the work of the SSB staff, who would likely need to be given greater support to deal with the greater volume of work, and more senior level colleagues to process the greater volume of higher level responsibilities.

If you have any questions on this letter, please contact either myself or Grant Thornton’s Director – public policy Nick Jeffrey (T: +44 207 391 9592; nick.jeffrey@gti.gt.com).

Yours faithfully

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**Appendix: comments on specific questions**

2. **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? Can you suggest any improvements?*

Grant Thornton answer: Yes, the current process is appropriate – there are numerous opportunities in the current process for public interest concerns to be raised and if necessary addressed. No one group can be said to be the owner or guardian of the public interest in international standard setting, because by definition that is a broad term and means different things to different stakeholders. It is for stakeholders collectively to contribute to the standard setting process in 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?*

Grant Thornton answer: Possibly preparers. A more important factor than stakeholder representation is that the SSBs are made up of people of the appropriate calibre. Applications are open to all – investors and preparers are already able to apply, but don’t as much as we would all like.

*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?*

Grant Thornton answer: With the checks and safeguards already in place, we do not believe that this is necessary. We observe no problem which would be rectified by a public member chair of the Nominating Committee.

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

Grant Thornton answer: No. The nominations process is already robust and challenging, with a qualified committee that is committed to getting the highest quality people from diverse backgrounds; it needs no refinement. It is not immediately clear that a public member Nominating Committee chair or exclusively public member Nominating Committee members would substantially enhance understanding of SSB needs or the quality of the people appointed to the SSBs.

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

Grant Thornton answer: Yes, they do bring different perspectives, which are valued. But not necessarily on what represents public interest, which should be an individual member and collective responsibility of the SSB. Care is needed to make sure that those perspectives are informed, where unfortunately we have observed on occasion those perspectives can be grounded in miss-perception.
“Practitioner”, “non practitioner” and “public interest member” are not definitions that have worked well, due in part to a lack of understanding. Some expert SSB members do not fit neatly into one category.

**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?**

Grant Thornton answer: SSB member remuneration is tied to the standard setting funding issue and relevant to the MG review.

Presence of a sponsoring organisation is a sound proxy for representing a meaningful group of stakeholders. Lack of a sponsoring organisation may often indicate only narrow stakeholder representation (although not always). That said, lack of a sponsoring organisation should not preclude people from applying to join SSBs where they have the appropriate skillset. In such cases there should be a fund available, but it should be available to all SSB appointees – it would be inequitable to make this available just to public members. It may be that the MG will conclude that it is more appropriate that all board members be remunerated.

**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?**

Grant Thornton answer: No. The IAASB standard on audit reporting was exemplary in process and in output. The IESBA projects on NOCLAR and long association were delayed for two years substantially by having to respond to ultimately immaterial stakeholder concerns.

**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?**

Grant Thornton answer: No, PIOB involvement at that stage is not necessary, risks additional delay, and could in certain circumstances direct thinking down a particular path which might exclude otherwise helpful ideas. PIOB oversight is best exercised over the process that leads to the point of decision making in SSB meetings.

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

Grant Thornton answer: None.

**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?**

Grant Thornton answer: Yes. While it is right that the SSBs discuss responses, a more risk-based approach from all participants would help improve timeliness. The biggest delay on standard development is the expectation to respond in detail to every issue raised – the SSBs should be allowed to exercise discretion where this is justified, under the guidance of the
SSB chair. The PIOB should in the first instance discuss with the SSB chair where they observe inappropriate discretion being exercised.

Standards will take longer to develop where they are dealing with a new area, where the area is complex, and/or the new standard will drive significantly different behaviour. Therefore shortening the process might be desirable when considered in isolation, but will not be warranted in all circumstances.

2.3 Supporting Accounting Education

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

Grant Thornton answer: None.

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?

Grant Thornton answer: None.

2.4 Adoption and implementation

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)?

Grant Thornton answer: We support the request on page 14 of the consultation paper that new standards should include a statement that the PIOB “concluded that due process has been followed in the elaboration of the standard and that proper regard has been paid to the public interest”. Likewise the PIOB should support SSB due process actively, publicly and not passively – in public engagements and talking with stakeholders the PIOB should be an advocate for the process they oversee and the quality of the standards that are produced. Too often the PIOB is associated with negative messages about the SSBs and their output, which does credit to neither the PIOB nor the standards.

2.5 Transparency and communication

Q13. Do you find the PIOB Quarterly Updates useful?

Grant Thornton answer: Yes. The public needs to know that oversight is happening, and that due process has been followed by the SSBs.

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

Grant Thornton answer: The inference that the PIOB is the only group that considers public interest in standard setting is damaging to the credibility of the SSBs, SSB members and the standards they produce. PIOB should be forthright in telling others that SSB discussions are robust, that due process is followed and that there is extensive discussion by the SSBs of feedback and concerns. While given different perspectives all stakeholders might not agree with all decisions, the standard setting process which delivers those standards is robust and worthy of PIOB support.
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?

Grant Thornton answer:

- The PIOB’s role should remain one of oversight
- PIOB funding needs to be no more stable than SSB funding
- It is not clear why PIOB activities should not be limited (page 22), because at some point there must be a limit to the benefit that the PIOB can achieve
- A request for greater resources/ guaranteed funding over time should be accompanied by a robust cost/benefit analysis and business case for the SSBs and PIOB; a funding mechanism from a broader base might be one way of addressing the perception that SSB decisions are dominated by the accounting profession
- We don’t believe that we need both a MG and a PIOB
- The standard setting oversight body should be diverse in the same way that the SSBs and the CAGs are diverse