

23 November 2016

Mr. Eddy Wymeersch, Chair
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**Re.: 2017-2019 PIOB Strategy: Public Consultation Paper
(August – November 2016)**

Dear Mr. Wymeersch,

We would like to thank you for the opportunity to provide the Public Interest Oversight Board (PIOB) with our comments on 2017-2019 PIOB Strategy: Public Consultation Paper (August – November 2016), hereinafter referred to as “the Paper”.

The Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW) represents the Wirtschaftsprüfer [German public auditors] (WP) profession in Germany and is responsible for the issuance of IDW Auditing Standards, which transpose the International Standards on Auditing (ISAs), and other technical professional standards in Germany for the WP profession. The IDW is a full and founding member of the International Federation of Accountants (IFAC). The IDW is also a full and founding member of the Fédération des Experts Comptables Européens (FEE). Together with the German Wirtschaftsprüferkammer (WPK), the IDW has been a sponsoring organization of members of the International Auditing and Assurance Standards Board (IAASB) and its predecessor, the International Auditing Practices Committee (IAPC), and of the International Ethics Board for Professional Accountants (IESBA), and the International Accounting Education Standard Board (IAESB) since their inception.

We believe that the IDW is recognized by relevant Ministries of the German government and German regulatory authorities, and by the European Commission, as a technically competent participant in discussions with them about auditing,

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Prof. Dr. Klaus-Peter Naumann,
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page 2/7 to the comment letter to the PIOB dated 23 November 2016

auditors and the accounting profession in both the long term interests of the profession and the overall public interest, which we believe to be in consonance in the long run. We believe that this is so because, ultimately, professional accountants, including auditors, as a profession must provide services that deliver real added value to users in the public interest as a prerequisite for the long-term success of the profession. We have written our comments on the Paper from this perspective.

While the Paper focuses on the IAASB, IESBA and the IAESB (the three standard setting boards, or hereafter “SSBs”), we will focus on the impact of the recommendations of the Paper on the IAASB, since this is the PIAC that concerns us most. Nevertheless, our comments may also apply to the other PIACs. Our comment letter borrows liberally from a similar comment letter dated August 13, 2010 that we had provided to the Monitoring Group of Regulators (MG) in response the Monitoring Group Review of the IFAC Reforms – Consultation Paper of June 10, 2010.

Before addressing some of the individual questions raised in the Paper, we will provide some general comments on the Paper.

General Comments

The PIOB Approach to Its Consultation on PIOB Strategy

We have a number of concerns about the approach taken by the PIOB to its consultation on PIOB strategy. We would like to point out that for some years now there has been an agreed process between the IFAC and the MG in which the governance and the overall standard setting processes at the SSBs are subjected to cyclical reconsideration. This last occurred in 2012, and the proposed reforms were implemented in 2013. It is unclear to us on what basis the PIOB draws its mandate to address questions in relation to governance and the overall standard setting processes within the remit of the MG outside of that process agreed between the MG and the IFAC. It seems to us that the PIOB has overstepped its mandate under its current terms of reference, which are limited to help ensure that standards development is fully responsive to stakeholder needs, accountable and transparent in the public interest, and in particular to:

- (i) ensure that the processes of standard development under its oversight follow due process and are responsive to the public interest;
- (ii) ensure the completeness of the strategies and work plans of standard setting boards,

page 3/7 to the comment letter to the PIOB dated 23 November 2016

- (iii) oversee the process of nominations to all SSBs and Consultative Advisory Groups under its oversight, and
- (iv) oversee the Compliance Advisory Panel.

This does not imply that, when considering strategic questions, the PIOB should not consider its potential future role, but in consulting on its strategy, addressing other questions publicly that are not a part of its mandate beyond the review cycle agreed with the MG may be counter-productive because it may impair the trust that the public has in the excellent work done the SSBs and needlessly call into question the high quality of their standards.

Comments on Selected Questions

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? Can you suggest any improvements?

Given the public interest oversight of the PIOB over the standard setting processes, the involvement of the CAG, the involvement of members of the MG in the CAG and through outreach and the special consideration of MG comment letters, the inclusion of public members on the SSBs, and the duty of all members and technical advisors on the SSBs to consider the public interest, it seems to us that the process currently in place is exemplary in its ability to identify risks to the public interest. While improvements can always be made, we have not as yet identified any reasonable proposals, either in the Paper or otherwise, to further improve the process.

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

We recognize that the PIOB has an oversight role over the operation of the Nominating Committee. However, we believe that before answering this question, some clarification on the nature of standard setting at the SSBs might be useful. To use the IAASB as an example, as part of the standard setting process, users must advocate the nature and extent of the services desired under a standard, if any, whereas, based upon its expertise, the profession must circumscribe the nature and extent of the service technically deliverable in the context of user desires and the costs that would be incurred. Ultimately successful standard setting in this area involves an understanding between the profession and other stakeholders about

page 4/7 to the comment letter to the PIOB dated 23 November 2016

whether the engagements designed by the standards meet user needs in terms of costs and benefits and whether, based upon its expertise, the profession is of the opinion that such services in this context are technically deliverable. In this sense, the IAASB is a “technical board” in the first instance, rather than a “political board”, but it does have the political responsibility to ensure that the public interest is met by the standards it promulgates. Consequently, without the decisive influence of both the profession and other stakeholders in IAASB standard setting, the quality and acceptability of the standards, and hence, whether they would meet the public interest, would be questionable. We believe that this applies broadly to the other SSBs too.

In this context, we note that investors and regulators are able to propose candidates to the Nominating Committee and sponsor candidates for SSB membership now, but it is apparent that they regularly fail to do so. Our experience has been that when their interests are directly affected by proposed legislation or regulation, investors and regulators never fail to “step up to the plate” with adequate resources to defend their interests. One can only surmise that in fact, their interest in the technical detail of standard setting is in fact limited, and that they apparently believe they have adequate influence at a higher level through the other mechanisms that we identified in our response to Question 1. In our view, the balance in representation in the SSBs needs to be between those who apply the standards and those who have an interest in the product of those standards, as is currently the case in the SSBs – not necessarily to have a balance between all stakeholder groups equally as suggested in section 1.1 of the Paper.

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?

We believe that this question clearly exceeds the current mandate of the PIOB, and is currently under discussion between the IFAC and the MG. In any case, it is unclear to us how a Nominating Committee without substantial participation from the profession would be able to ascertain the technical qualifications of the candidates needed for the SSBs so that an appropriate mix of candidates is nominated with the needed balance we note in our response to Question 2.

page 5/7 to the comment letter to the PIOB dated 23 November 2016

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

Every stakeholder brings a unique perspective on the public interest, depending upon the jurisdiction in which they operate, the education and training they have received, and the roles they currently exercise. However, as noted, the accountancy profession, which applies the standards in practice, is uniquely placed to seek to understand how the needs of other stakeholders can be addressed through standard setting by balancing the magnitude and incidence of costs and benefits in an overall public interest context. Without this input from the profession, standards would cease to become practicable and would degenerate into statements of political desires of other stakeholders (who are interest groups, too) with only a tenuous relationship to what is actually operationalizable in practice. For these reasons, we believe that the balance between those that apply the standards and those that use the product of those standards is a crucial component of standard setting in the public interest.

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?

In line with our response to Question 2, as a matter of principle, we do not believe that public members should generally be permitted to be proposed for candidacy for membership in the SSBs unless they are sponsored by a “sponsoring organization” that is prepared to bear the costs of that candidacy. It appears that the underlying problem is the unwillingness of other stakeholder organizations (associations of preparers such as industry associations, and associations of analysts, regulators, etc.) to bear the cost of sponsoring a member on the boards. The fact that such groups are prepared to take part in the CAG meetings and to bring adequate resources to bear in other situations that affect them, but not bear the cost of having a member attend SSB meetings, is indicative that these groups have little technical interest in standard setting, but do have great political interest in the overall outcome of standard setting. The provision of remuneration of public members would encourage a “free rider” syndrome among these other stakeholder bodies that would need to be borne by the profession, which would be unfair in principle. Rather the IFAC, the MG and the PIOB need to encourage these other groups to recognize the importance of audit standard setting by having them bear the cost of members that they sponsor. If, despite the endeavors by the IFAC, the PIOB and the MG, stakeholder organizations other than from the profession are not prepared to bear the cost of sponsoring members, then the IFAC, the MG and the

page 6/7 to the comment letter to the PIOB dated 23 November 2016

PIOB will need to draw the conclusion that these other stakeholders must believe that, irrespective of any protestations on their part to the contrary, the technical details of standard setting are not really of enough interest to them.

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?

Yes, we are aware of two instances where we believe that standards did not adequately respond to our public interest concerns. In both cases, we believe that undue pressure from regulators seeking to inappropriately use international standards to reach objectives that they could not legitimately reach in their home jurisdiction by means of law or regulation resulted in standards that are not in the public interest because the standards usurp the role of national legislators in determining the national public interest. We also believe that this also appears to be caused by the PIOB not recognizing that regulators are interest groups, too, that may also follow their own, rather than just the public, interest. Furthermore, we believe that PIOB does not adequately recognize that just because some action might be in the public interest, it does not mean that international standards are the appropriate vehicle to respond to that interest, which means that when these actions are implemented in international standards, these then cease to be in 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?

We do not see any benefit because the main technical and political decisions are taken at Board level – not in the task forces. Furthermore, task forces thrive on open and informal communication, in which brain-storming and considering otherwise unlikely solutions are an important part of the process. PIOB oversight at this level might stifle innovation.

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

We do not see any gaps in the PIOB's oversight: it covers all the major issues (nominations, strategy and work plan, the board meetings, board agenda papers) needed to appropriately fill its role.

page 7/7 to the comment letter to the PIOB dated 23 November 2016

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 find this question to be somewhat unbalanced, because it presumes that the SSBs take inordinate time to develop and issue standards. We would like to point out that, for example, the IAASB issues standards more quickly than the PCAOB (and we believe, the IAASB standards are of higher quality and more innovative, too). In any case, the IAASB takes much less time for its projects than, for example, the IASB. It is unclear to us what the PIOB is using as a benchmark. Certainly, some national standard setters might be somewhat quicker, but then they generally operate in a simpler environment without multiple jurisdictions using completely different legal systems, and languages and culture are not as crucial an issue. In our view, there is a danger in seeking to shorten the time too much because it has a direct impact on the quality of the drafting done.

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?

We believe that this is a sensitive issue that is currently under discussion between the IFAC and the MG. We would, however, like to provide one note of caution: if the PIOB role is expanded too much, it would no longer be an oversight body, but a standard setting one without the appropriate resources and expertise, and it would undermine the independence of the SSBs. For this reason, we believe that caution needs to be exercised before expanding the role of the PIOB any further.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,



Klaus-Peter Feld
Executive Director



Wolfgang P. Böhm
Director, Assurance Standards,
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