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Public Interest Oversight Board  
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Madrid  
Spain

(Via electronic mail)

Dear Public Interest Oversight Board

Thank you for the opportunity to comment on the 2017-2019 PIOB Strategy Consultation Paper. Below I set out my responses to those questions that are pertinent to the IESBA.

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

The PIOB already takes steps to identify public interest goals and risks. Notably, since my predecessor's (Jörgen Holmquist) and my chairmanship, I am not aware of a significant risk identified by either the Board, the IESBA Consultative Advisory Group (CAG) or the PIOB that has not been responded to, the more recent cases of safeguards and fees being good examples.

Improvements can be undertaken under a "more structured methodology" that is mentioned in the consultation paper (p. 10) but is not specifically described therein. I presume that, on the basis of the consultation, the PIOB will be in a position to pinpoint the elements of this methodology more clearly, beyond the frequency of meetings with the Monitoring Group and the CAG.

My general observation is that when the PIOB chooses to go beyond 'due process' discussions and into the substance of standards, it must develop a clear process of oversight that will coordinate with the various stages of standard-setting board (SSB) standard development.

An important improvement could be in the way the PIOB evaluates and approves the strategy and working plans of the SSBs. The PIOB has the mandate to agree or disagree to what the SSBs themselves propose, and add on items to the SSB agenda. Thus, the PIOB can give early and decisive input to the SSB programs.

The process of strategy and work plan approval must become more transparent and become as informative as possible to the SSBs. Besides major Public Interest issues that must be clearly conveyed, the PIOB could explicitly consider two additional aspects: (a) overlaps and synergies of strategies among SSBs, and (b) the impact of strategies on promotion of global adoption and implementation, which is of course a fundamental issue of public interest.

Clearly the articulation of PIOB decisions on SSB strategy should become the basis for its subsequent monitoring activities.

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

The Ethics Board is a *working board* whose mandate is to produce high quality standards. Therefore, it is composed of members who are expected to act not as ‘representatives’ but as bona fide experts who commit to act in the public interest, have equal rights and responsibilities in the Board, and aim to be effective contributors to the standard-setting work process. Thus, the notion of ‘representation’ can have unintended consequences in pushing various members to claim exclusive rights of ‘representation’ of specific constituencies. This may endanger the efficiency of the Board as a working unit and convert it to a forum of ‘constituency debates’.

Having said that, the original notion of ‘balance’ in SSBs was to have a diversity of perspectives in the Board that would underpin its independence. This was originally implemented through a quota system of ‘practitioners’ and ‘non-practitioners’. ‘Practitioners’ were active members of the audit profession. ‘Non-practitioners’ were non-practicing members of the profession or individuals not otherwise belonging to the profession who would include ‘public members’. The PIOB is correct in asserting that the original formula needs redefinition.

The basic split between ‘practitioners’ and ‘non-practitioners’ can be maintained. Additional diversity can be sought within each category. In fact, the nomination process and membership of the SSBs have evolved considerably. This reflects (a) the intense focus on additional qualitative criteria of selection, (b) the active involvement of independent SSB chairs in the selection process, and (c) the oversight of the PIOB itself.

A balanced composition of the Ethics Board must recognize the benefit and the goal of a ‘diverse background model’, which, in part, is already reflected in the present composition and seems to work well. Ethics standards are not as technical as the ISAs and touch on attitudes, states of mind, behaviors, perceptions, modes of implementation and legal/cultural environments around the world. Hence, each of the existing broad categories of SSB membership could be internally enriched further.

For example ‘practitioners’ may include persons from large and small practices, the public and non-profit sectors, and of different geographic origin. ‘Non-practitioners’, (non-public members) may include persons with experience in corporate governance, preparers of financial statements, financial analysts, and institutional (or other) investors. ‘Public members’ may include policymakers, academics, and persons with regulatory and judicial experience. In general terms of professional formation, it is helpful to have some persons from backgrounds other than accounting, for example economists, lawyers, ethics specialists.

Balanced composition is a goal *but a quality and expected performance threshold is an absolute desideratum in member selections*. Members must pass a bar of experience, available work time, ability to lead or participate in task forces, and willingness to contribute personal work in standard composition. Without this the quality and timeliness of outputs will suffer.

Board composition cannot be judged by itself in a vacuum, as the Board does not operate in a vacuum. The Board's effectiveness in pursuing public interest goals is closely connected with the management of the work process and timely delivery; with the interactions with the CAG and important stakeholders. The CAG itself is a multi-constituency body that includes persons who bring a variety of perspectives and some of whom could themselves be Board members. Ultimately, therefore, the issue of diversity must be seen as an outcome of the whole structure of Boards cum CAGs.

It should be noted that if some constituencies are not present on the Board (because of size or other constraints), the interaction with the CAG and the consultation process are the manner in which all viewpoints will be heard and evaluated by the Board. An increase in the size of the Board in the interest of diversity should not be a choice, as it will make the Board less manageable.

Finally, the IESBA would benefit from having at the Table an additional official observer, e.g. one from an IFIAR member or from an important national standard-setter, or from an investor organisation. Be it noted that the CAG chair, and of course the PIOB observer, who represent important public interest constituencies already sit with the Board, and are well informed and active parties.

***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?***

There is benefit in involving a chair and some participants who are public members in the Nominating Committee (and independent of IFAC). A key attribute is that those individuals should be closely familiar with the work of IESBA (and other SSBs) and understand the need for a high quality threshold on member selection as I explained in my response to Question 2. This is a matter of perceptions and substance if the population of candidates expands in the directions I indicated under Question 2.

I must note in all fairness, however, that my interactions with the Nominating Committee have been very good, professional and public-interest minded and that my views as IESBA Chairman have been effectively sought and considered.

It is important for any Nominating Committee to take more steps so that the pool of candidates be expanded. One practical measure is to lobby CAG member organizations and national standard-setters to submit and support candidacies.

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

Yes, but not always. In my experience there is no evidence of 'block' opinions as neither public members nor practitioners voice uniform views on matters of substance. Public interest perspectives are also voiced by practitioner members. The path from diversity of viewpoints to final convergence of opinions on standards is, in my experience, a very rich exercise in public interest thinking. PIOB members who have been observing Board meetings and voice complimentary final remarks on the quality of discussion, can testify to this.

***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?***

This is an important but sensitive matter. In a multi-constituency model as outlined in Question 2, the issue of remuneration may touch on non-public members as well. Remuneration should in principle be available to all who do not get support from a sponsoring organization. It will furnish an important incentive to attract high quality members. It is also, however, a question of what would be the right amount, budget resources, and sustainability of such funding in the long term.

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

No, I am not aware of any gaps.

***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?***

Let me begin by clarifying that the Board directs the work of the Task Forces at all stages and is the decision-maker in the promulgation of standards.

There can be benefit in PIOB oversight of task forces, at least on a selective basis. Let me note in this respect that the work of task forces at several stages is subjected to CAG and regulatory stakeholder reviews. Task Force chairs already undertake to interact directly with the CAG and occasionally with groups such as IOSCO Committee 1 and IFIAR SCWG, to whom they present their progress and from whom they receive feedback.

If the PIOB were to engage in selective observations of task forces, I would suggest meetings at two important stages: (a) project inception when the nature and scope of issues to be addressed in the project, and the related public interest objectives, are first considered for presentation to the Board. PIOB input could be valuable at that point; and (b) development of responses to the Exposure Draft for Board consideration; this will furnish a key opportunity for the PIOB to appreciate the principal judgments and dilemmas involved in the project.

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

Please refer to my answers to Questions 1 and 7. In addition, it would be very helpful if written observation reports submitted to the PIOB by its SSB observers also became available to SSBs themselves on a timely basis, to assist Boards in their deliberations and decisions. This will be an improvement in the quality, transparency and effectiveness of oversight.

***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?***

Having become an insider in the standard-setting process myself, I have revised the view I held earlier that standards take a long time to complete. This is a difficult question and placing time limits for projects is no answer, given the existing due process that is itself an anchor of public interest; nor should speed be prioritized at the expense of quality.

It is fair to say that a time of two to three years looks normal. Clearly some projects (e.g. NOCLAR) have taken much longer. Most projects, however, actually mature in the normal time. Those that have taken longer have done so for good reason. NOCLAR was a major innovation that required much care and dialogue to gain global understanding and operability. All major innovations must be given breathing space for thoughtfulness and should not be compressed or hurried, in the public interest.

On the other hand, minor projects involving limited revisions to extant standards should be expected to be on the short end of the normal time or even shorter – indeed, some (such as the revision of the definition of “those charged with governance” in the IESBA Code) have taken just 12 months.

From a systemic viewpoint, the timeliness of deliverables also depends on how loaded a Board's work program is and how thinly spread its capacities become, given the volunteer character of the Board. The size of the Board itself is an important parameter. Diversity may increase but timely operation may be suffer as size increases and vice versa.

A point to note is that capacity limits are not only internal to the Board. They also exist at CAG and stakeholders' levels since consultation imposes considerable burdens upon them. The IESBA frequently

receives complaints about 'stakeholder overloads' when it issues consultation papers and exposure drafts. In addition, several important stakeholders who represent large constituencies frequently respond to formal consultations with long delays, generating time frictions in the Task Force's working plans.

I also expect that the restructured Code will be much more amenable to revisions for improvement, as proposals for change will be better evaluated in terms of time – to – completion depending on whether requirements or application materials are affected and which parts of the Code need revision. When, for example, it becomes apparent that new application material is required to address how practice has developed (but which does NOT involve any new thinking as regards principle or requirements), the SSBs might contemplate a more streamlined process that would not involve the full 'project proposal – implementation-consultation' cycle. This is a matter the feasibility of which we can explore with the SSBs and the PIOB.

***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)?***

Adoption and implementation are important and concern the Ethics Board in several respects. We are undertaking a number of measures to raise global awareness of the Code. The restructured Code will be far friendlier than the extant Code for purposes of adoption, implementation and enforcement.

The inputs we receive from IFIAR inspection findings must be improved as they can offer valuable insights on the way the Code is applied. Inputs from other stakeholders who apply the Code, e.g. the larger firms for transnational audits, are also an important source of information. The comments and suggestions from national standard setters are another input of high significance. These and other such inputs can supplement the efforts of the CAP.

The issue of global adoption in the case of the Code is more complex than that of ISAs. The Code as an instrument to be implemented is much more exposed to variation of legal, regulatory and cultural factors across jurisdictions. This is especially relevant to adoption, given that even major jurisdictions frequently adopt different solutions to what they perceive as major ethical issues. The matters of partner and firm rotation, and the EQCR are cases in point in the area of auditor independence.

The PIOB could very usefully, using its own inputs and insights, offer advice on aspects of the Code that need to 'navigate' the complex global landscape while remaining principle-based and focused on the global public interest.

***Q13. Do you find the PIOB Quarterly Updates useful?***

Yes, they are useful and should be maintained. All publications of the PIOB are helpful, as are also the seminars. I found the last seminar I attended in September very thoughtful, rich and challenging. I do

think that the PIOB should publicize its activities more and increase the transparency of its proceedings, including its observation reports, now that it has attained maturity.

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

I summarize pertinent remarks arising from my response to previous questions:

- (a) More publicity of its activities, especially in the area of implementation.
- (b) Higher transparency of its proceedings and decisions, especially in the case of approvals of strategy and work plans of SSBs.
- (c) Publication of policy positions relevant to the notion of *global* public interest in face of important divergences between major jurisdictions.

In the case of Ethics standards, the PIOB would be welcome to join IESBA in common outreach with the goal of raising public awareness of the Code, its global relevance and its contributions to the public interest.

With kind regards



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