Mr. Eddy Wymeersch  
Chairman  
Public Interest Oversight Board  
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SPAIN

26 November 2016

Dear Mr Chairman:

2017-2019 PIOB STRATEGY PUBLIC CONSULTATION PAPER (AUGUST – NOVEMBER 2016)

We thank you for the opportunity to comment on the Public Interest Oversight Board’s 2017-2019 Strategy Public Consultation Paper (August – November 2016).

The Board has requested public comment on the PIOB’s strategy for the next three years, including considerations of the current standard-setting model in the fields of audit, ethics, and education, and how this model may evolve in the future. We will begin by providing a general overview of how we view the current global standard-setting model in terms of its function and oversight and highlight what we believe are important reforms to ensure that the model fairly represents all stakeholders and truly operates in a manner that produces standards in the public interest. We then will respond to the specific questions posed in the consultation paper itself.

Overview

We believe there is no better time to take an in-depth look at the current standard-setting model, not only given the context of the PIOB’s tenth anniversary of serving the public interest through its oversight of the standard-setting bodies, but also in light of certain criticisms, including that we, the profession, have exerted undue influence on the standard-setting process. It is vital to our credibility and sustainability as a profession to address this perception, even if it means contemplating fundamental changes to the overall system, including the composition of standard-setting bodies, as well as the function of the model itself. The Monitoring Group has undertaken a comprehensive review of IFAC’s standard-setting model in a project that closely parallels the PIOB’s strategy consultation. We applaud this initiative and support the dialogue it will initiate. We encourage the PIOB to await the results of the Monitoring Group’s work before implementing any changes to the PIOB’s structure, role or operations.
Recommendations

The standard-setting model as a whole is a sum of its parts; that is to say that the health of the overall system cannot be effectively assessed without first examining its key components. These include the standard-setting Boards themselves, the technical staff charged with crafting standards, and the oversight mechanisms in place to protect the public interest in the standard-setting process. In assessing each of these elements, we support reforms designed with the overarching goal of improving the system to combat the perception that any one stakeholder is valued more than another, while at the same time, preserving the PIOB’s public interest mandate.

First, with regard to the standard-setting Boards, we recommend smaller Boards (i.e. no greater than 12 members) that represent key stakeholders and that operate on the level of strategic decision-making. When determining the composition of the Board, as much credence should be given to standing in an individual’s respective community as his or her level of competence or technical expertise. This can only add to the credibility and legitimacy of the Board and its processes.

The standard-setting bodies should be equipped with technical staff members who are highly regarded in their communities, possess sound technical skills and have the capacity to lead. They should exhibit the ability to develop and manage projects efficiently, as well as communicate with stakeholders and advisory groups to thoughtfully incorporate constructive comments into their work.

Finally, we recommend the PIOB maintain a robust system of oversight that will hold the Boards accountable for high-quality standards and observance of due process. This oversight is necessary to protect the public interest and should focus first and foremost on governance at the decision-making level of the Boards, not at the operational level.

We will expand upon these recommendations in our responses to your questions below.

Responses to Strategy Consultation 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?

Yes, we indeed feel that the current process, including Board outreach efforts and consultation, is one that is appropriate and effective for identifying risk to the public interest. We would not recommend any changes at this time, absent results of the Monitoring Group review. However, that is not to say that improvements to the standard-setting model itself will not be needed to address future challenges. Therefore, we recommend a more forward-thinking, proactive, and holistic approach to reform, making the necessary adjustments to the composition and structure of standard-setting bodies to re-focus the attention on priorities and projects that reflect the interests of all stakeholders and result in standards produced 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?

As discussed in the overview, we believe the perception that the standard-setting process is skewed in favor of certain stakeholders, including the profession, is an issue that must be addressed in order to preserve the legitimacy of the overall system and increase confidence that
standards are generated with the public interest in mind. As such, we recommend that representation on the standard-setting Boards be comprised of all key stakeholders, including investors, regulators, audit committee members, financial statement preparers, and audit practitioners. Audit committee members are of particular importance in our view, as they are ultimately held accountable for how an audit is conducted and its overall quality. Regardless of the technical background of each member, it is important that they are highly regarded in their respective communities, and on a more fundamental level, they must have the time to commit to full participation on the Board. To aid with the issue of demand on time, we feel it is important to focus the Board’s mission on decision-making while leaving project development and technical operations to highly-qualified staff supported by task forces/working groups.

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?**

We believe that the Chair of the Nominating Committee, as well as the Chairs of the standard-setting Boards, above all, should be independent, simply defined as being free of any conflicts of interest. As a general matter, we take issue with the categorization of Board members as “public interest member,” “practitioner,” and “non-practitioner,” as these labels are ambiguous and difficult to define. Focusing on the independence of the Nominating Committee Chair will facilitate a perception of objectivity in the nominating process. The Chair should demonstrate a commitment to due process and transparency in considering nominations to the Boards.

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

No. We do not believe that a nominating committee of solely “public members” is necessary to achieve the objective of an unbiased Board selection process. Instead, the focus should be on the nominating process itself. There should be a thorough and consistent method for vetting committee members against a defined set of criteria which include the aforementioned attributes of solid community standing, technical competence, and commitment to full participation.

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

While certainly, individual members bring their own unique backgrounds and experiences to the Board, we do not believe that “public” member necessarily translates to acting in the public interest any more than “non-public” member does. Indeed, this misconception is demonstrative of the definitional problems that arise with the categorization of members that we described above. Rather, the effective protection of the public interest should be the responsibility of the collective Board, regardless of the “bucket” to which each member belongs. All members of the Board should demonstrate a commitment to the public interest. To that end, we recommend to the Monitoring Group that as part of its ongoing review, it reconsider the “grouping” of Board members and focus instead on promoting diversity and balanced representation on the standard-setting Boards.

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?**

As a general matter, compensation can be an effective tool for attracting more highly experienced and qualified Board members. Time is a valuable commodity, one that potential Board members may not be willing to give up on a volunteer basis. Thus, we recommend exploring the merits of Board member compensation in the Monitoring Group’s review of the standard-setting model.
We caution, however, that remuneration of only some board members may create a public perception of bias, so we encourage consideration of compensation for all members, regardless of which stakeholder group they are intended to represent.

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. Generally, we believe that recent standards have been produced with respect for due process and reflect the input of a variety of stakeholders. However, our view is just one of many that should be considered, so we encourage the PIOB’s consideration of all stakeholder responses to ensure the overall level of concern for public interest is accurately captured.

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 believe the oversight role of the PIOB should be one of governance first, ensuring the protection of public interest by monitoring the standard-setting bodies at the decision-making level. The standard-setting Boards are responsible for establishing priorities and dictating the direction of the Boards’ work. Oversight at this juncture is critical and in our view, the most appropriate place for the PIOB, for it is at this level that the standard-setting agenda is created and consideration of the public interest is key. The Board’s vision is to be carried out by the working groups and task forces assigned to each project, and it is ultimately up to the Board to direct these groups and make decisions that determine the outcome of the standards. Again, we believe the PIOB should be vigilant over how the Boards arrive at these decisions rather than dictate the outcomes themselves.

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

Currently, we do not see any gaps in the PIOB’s oversight model. We also question whether expanding the authority of the Board in the name of the public interest will diminish the perception that the profession is unduly influencing the standard-setting process. We believe this can only be addressed through bold and fundamental changes to the standard-setting model itself. Determining the appropriate composition of the Boards, equipping the Boards with well-qualified technical staff, and developing consistent and effective due process mechanisms will all work in conjunction to build confidence among stakeholders that the standards are produced in the public interest. While the PIOB plays a vital role in challenging the standard-setting Boards and holding them accountable for the production of high-quality standards while observing due process, we believe that your influence, much like that of other standard-setting oversight bodies (e.g. IASB and FASB), should not have direct reach into the content of the 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?

We do not believe there is a “right” length of time to assign to the development of a standard, as projects vary in terms of complexity, as well as the number of available resources the standard-setting Board can commit at a given time. Several other factors play a role in determining the length of time that is spent on a standard, including the nature and extent of the public comment process and the level of engagement with relevant stakeholders. To the extent that public debate
and stakeholder engagement are deemed productive – when fresh ideas are being offered with the intent of improving the final product and reaching a consensus – we would not recommend stifling these outreach efforts for the sake of shortening the timeline. However, there is a point in which the dialogue can become stagnant or even counterproductive which can harm the public interest, especially in cases where the environment is ripe for change but the window of opportunity is narrow. In these circumstances, it may be prudent for all parties to act as expeditiously as possible, but still without sacrificing due process.

We believe strongly in the merit of re-evaluating all of the processes involved in the development of a standard to see if they can be made more efficient. While it is important to consider alternative paths, underlying issues, and potential unintended consequences of a particular standard, it may be possible to tailor these elements of due process to match the level of complexity and ensure a project is appropriately staffed and that technology is effectively being used to, for example, expedite task force/working group deliberations.

2.3 Supporting Accounting Education

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

Accountants of all specialties – tax, corporate reporting, audit and assurance – are operating in a rapidly changing world that is increasing in complexity and relying more and more on the use of sound judgment. In an effort to address this dynamic environment, the IAESB undertook a dramatic overhaul of the education standards which apply to the accountancy profession as a whole. We applaud IAESB for recognizing the need for bold changes, and we support their current strategic plan which puts emphasis on the standards development process and the need for obtaining solid evidence upon which to base the organization’s priorities.

As a member of the Global Public Policy Committee (GPPC), a global forum of representatives from the six largest international accounting networks (BDO International, Deloitte, EY, Grant Thornton, KPMG International, and PwC) dedicated to constructively shaping global public policy of the profession in the public interest, we have spent and will continue to devote a significant amount of time on what we refer to as the “audit of the future.” With the advent of complex fair value estimates in financial reporting, new innovations in technology, and sophisticated data analytics, all paired with enhanced auditor reporting and the demand for better insight into the overall financial health of a company, the task of preparing tomorrow’s auditors is enormous. With this in mind, the PIOB may wish to explore how it can work with key stakeholders to help ensure that education curricula are evolving to ensure that tomorrow’s accountants and auditors will have the necessary skills, competencies and grounding in ethics, independence, and the public interest to effectively perform the audits of the future.

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 discussed in our previous response, we believe it is essential to anticipate what will be demanded of the profession in the future and begin preparing accountants/auditors to respond to these evolving needs. For our part, we will continue to explore the future role of audit in a rapidly changing financial reporting environment. But we are only one of many stakeholders who will benefit from adopting a forward-thinking approach. We encourage the PIOB as a part
of their outreach efforts to solicit the view of all stakeholders on what the future of corporate reporting will look like and how best to respond to these changes.

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)?**

We firmly believe that the acceptance of international standards cannot and will not be achieved if there is continuing doubt about the credibility of the standard-setting bodies or the due process they follow. The PIOB can therefore play a key role in supporting changes that will enhance confidence in the standard-setting bodies and hold Boards accountable for developing high-quality standards and utilizing thorough, transparent, and objective standard-setting processes that reflect the input of all stakeholders. Once the PIOB is satisfied that these processes are in place and consistently followed, then we believe it will be beneficial to publicly support the adoption of international standards through a campaign of active advocacy and communication.

2.5 Transparency and Communication

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

Yes. Generally, we believe that any communication that adds transparency to the PIOB’s activities and demonstrates the organization’s successful execution of oversight in the public interest will help build confidence in the standard-setting process. Indeed, we encourage the PIOB to continue publishing the quarterly updates and also explore other means of promoting transparency, including providing summaries of standard-setting Board meetings at which a PIOB member plays an observing role. It would also be beneficial to provide more insight into your own meetings to reveal more about how you are working to achieve your oversight objectives.

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

Once again, we believe communication and transparency are vital to the success of your organization in terms of public perception. All stakeholders must understand what your role is as the overseer of the standard-setting bodies, and it must be clear how you work to promote the public interest through a robust system of checks and balances and vigilance over due process.

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?**

Before addressing this question, we believe fundamental changes to the standard-setting model itself must be considered in order to lend credibility to the standard-setting process, thus bolstering the confidence that standards are produced in the public interest. Therefore, as previously noted, we support the Monitoring Group’s review of the IFAC standard-setting model, and we plan to play an active role in this important dialogue.

We believe examining all elements of the standard-setting process and the willingness to explore bold reforms are vital to the credibility of our profession and the overall health of the financial reporting system from the perspective of all stakeholders. Building standard-setting Boards that
represent all stakeholder groups and equipping them with highly-esteemed and qualified technical staff will provide a solid foundation upon which to build the entire standard-setting model. The PIOB’s focus must then be on holding the standard-setting Boards accountable for high-quality standards and challenging them to ensure due process is followed. In our view, this is the best way to fulfill your public interest mandate. Your role should not be one of direct influence on the content of the standards or their ultimate outcome, but one of governance to ensure the public interest is preserved at every stage.

Once again, we appreciate the opportunity to comment on your strategic plan and request thoughtful consideration of our response. We applaud your continued effort to engage all stakeholders on how best to uphold your mandate of ensuring that high-quality standards are put forward with the public interest at the core. If you have any questions regarding our comments, please do not hesitate to contact Sylvia Smith, (+44 20 76948089 or sylvia.smith@kpmgifrg.com).

Yours sincerely,

KPMG IFRG Limited