For the attention of Mr. Gonzalo Ramos  
Secretary General  
PIOB Secretariat  
C/ Oquendo, 12  
28006 – Madrid, Spain  

25 November 2016  

Dear Mr. Ramos  

2017-2019 PIOB Strategy Public Consultation  

We appreciate the opportunity to respond to the Public Interest Oversight Board’s Consultation on its proposed 2017-2019 Strategy.  

The Consultation Paper raises a number of important questions about the IFAC public interest standard setting model.  

We believe the time is right to be reflecting strategically on the IFAC model and enhancements that should be made to ensure it remains fit for purpose for the future. It is for this reason that we are supportive of the Monitoring Group’s Standard Setting Enhancement initiative. It will be through broad stakeholder dialogue – to which this consultation will contribute – and collaboration that we can collectively build a well-supported model for the future.  

The questions posed in the consultation paper are a good prompt for thinking about different aspects of the current model. We have been giving a lot of thought to the current model – its strengths and its weaknesses. We have concluded that fundamental change to the standard setting model is needed.  

We appreciated the opportunity to share some of our ideas with you when we met with you and Mr. Wymeersch in October. You encouraged us to use our response to the PIOB Strategy Consultation to set out our view of what a future model could look like. Therefore, rather than respond to the individual questions in the consultation paper, we have set out what we believe needs to change and why, and our vision of a model in which stakeholders can have confidence.  

Where the current model is open to challenge  

There is a persistent perception among some stakeholders that the profession has undue influence in the IFAC standard setting process. This is of significant concern because the longer the perception
exists, the more it raises doubt about the credibility and legitimacy of the standard setting boards, their due process and the standards. It is vital that changes are made to address that perception.

The current composition of the standard setting boards allows for equal representation of practitioners and non-practitioners. However, the operating model constrains effective involvement of non-practitioners – due to, for example, the length of the Board meetings, the expectation of significant working group responsibilities, and the level of detail in the Board and working group deliberations. Board members are not compensated for their time and only a few (the three “public interest members”) have all travel costs reimbursed. It is a significant personal commitment and, unless sponsored or supported by a member body (which, in itself, raises questions about independence from the profession), it is very difficult to attract high quality non-practitioners, and for them to be able to make as much investment in their contribution as the practitioners are able to make.

The creation of the Public Interest Oversight Board through the joint effort of IFAC and the international regulatory community in 2005 was an attempt to counter perceptions through transparency into and oversight of the Boards’ deliberations and due process. What has become clear, however, is that the introduction of public interest oversight has not been enough to overcome the perceptions.

Over time, the PIOB has become more vocal about the issues it considers to be of public interest and has sought to influence the Boards’ deliberations on them. We question whether this will have the desired outcome in the longer term. The more that oversight intervenes and/or overrides due process itself, the more that it risks undermining confidence in the standard setting boards and the outcome of its due process – the standards. Ironically, the attempt to strengthen the model could inadvertently undermine it.

**The aim of needed reforms**

In our view, the standard setting model should be such that the composition of the Boards, their operating model and due process are designed in a way that stakeholders can be confident that the standards produced are in the public interest. To achieve this, the model has to be seen to fairly represent all key stakeholders and enable them to participate on an equal footing as priorities are set and the standards are developed.

Therefore, the reforms should focus first on the changes needed to the Boards and operating model so that the Boards can attract highly competent “non-practitioners” and increase their ability to effectively contribute.

**Our views on what an effective model could look like**

To achieve that aim, the changes we recommend include:

- Smaller 12-member standard setting Boards, comprised of a mix of key stakeholder groups – investors, audit committees, regulators, preparers and auditors. Twelve members provide sufficient breadth for diversity, whilst being recognised in research on corporate boards as being
effective. Board members need to have recognised standing in their stakeholder group. They also need to be highly competent – able to understand the nature of the issues on the Board’s agenda in order to make a valuable informed contribution to the debate. But both competence and standing are important.

- Standard setting Boards should operate at the level of strategic decision-making, approval and direction to staff. Individual Board members could be asked to oversee and liaise with staff on specific projects, but otherwise, would not be expected to participate in project working groups or task forces.

- Explore compensating Board members. From a perception perspective, it is likely that all Board members should be remunerated rather than restricting it to one category. The level of compensation might be aligned to similar Board roles.

- The Chairmen of the standard setting Boards should be “independent”. In our view, that does not mean that they cannot have an accountancy designation. Rather, it is important that all stakeholder groups would recognise the individuals as being of high standing, objective and without direct conflicts of interest.

- Increased frequency, but reduced length, of Board meetings and, to the extent possible, making effective use to technology to facilitate remote participation for some (but not all) Board meetings.

- To enable the Board to operate at the level of strategic decision-making, it will be necessary for staff to take on greater responsibility for project development, under the direction and oversight of the Board. This will require an increased staff complement. Projects would need to be led by experienced and highly qualified individuals, with recognised technical expertise as well as broad business/political acumen. The project leaders could be supported by technical managers and a quality review team. Staff would lead on both project development and related stakeholder outreach, and work with/be advised by appropriate expert and practitioner advisory groups set up for each project.

- We continue to see the importance of an oversight body with responsibility to challenge and hold the Boards accountable and able to demonstrate how due process has been observed. However, similar to the oversight in other major standard setters, such as the IASB and FASB, we do not believe the oversight body should have the ability to directly influence the content of individual standards. If the Boards’ composition, operating model and due process are right, such intervention would not be necessary. It also avoids blurring governance and executive function.

- In addition to stakeholder engagement by the Board members, and targeted stakeholder outreach by staff on specific projects, a consultative advisory group would provide valuable input and advice at the Board’s request to inform the Board’s thinking. However, the advisory group should be advisory in nature and not an integral part of due process itself.

There are a number of considerations that flow from this related to questions asked in the Strategy Consultation paper.
- **Key stakeholder groups represented on the Boards** – As a general principle, we believe that the standard setting process needs to be seen to fairly represent all key stakeholders – investors, regulators, audit committee members, preparers and practicing auditors. Audit committees should be represented, given their governance responsibilities over the audit process and audit quality. Senior executives responsible for corporate reporting in companies who are subject to audit also have a perspective that is important to understand – for example, they may identify practical implications that are relevant when setting new standards. Practitioners need to be practicing practitioners in audit firms given the vital importance of understanding the issues being faced in audits, the broader business and economic environment, and the latest thinking in methodology and innovation. We also believe that clarity on necessary “cooling off” period before a former practitioner can be considered to represent one of the other stakeholder groups is needed.

- **Categories of members** – We would eliminate the current categories of “practitioner”, “non-practitioner” and “public interest” member. These definitions are subject to varying interpretation and susceptible to challenge. Instead, we believe the aim should be for ensuring that the key stakeholder groups above are fairly represented.

All Board members should be expected to be committed to, and be motivated by, a strong sense of the public interest – there are not certain members whose views are more relevant in weighing what is in the public interest. To achieve this, members of the standard setting Boards should be accountable for acting in a collective/public interest rather than representing their individual stakeholder group interest.

- **Nominating Committee** – The most important attribute of the nominations process is that it is robust and free of political intervention or other bias. As with the Board Chairmen, we support having an “independent” Chairman of the Nominating Committee. This would strengthen confidence in the objectivity of the nominating process. The Chairman would be responsible for ensuring the type of robust due process in the nominating process that exists today is undertaken and accountable to the key stakeholder groups for demonstrating this. We are not convinced that all of the members of the Nominating Committee would be non-practitioners. In fact, there would be disadvantages if the Nominating Committee did not have sufficient understanding of the roles and expectations of the positions being filled.

- **Due process** – Due process is critical to the credibility and legitimacy of the standards. The IFAC standard setting boards are, perhaps, the most transparent of all of the global standard setting bodies, and their due process considered robust.

There are few easy issues in standard setting today. Projects are complex and involve significant change affecting not only auditors but other stakeholders. It takes time to engage relevant stakeholders and obtain an understanding of the alternatives, issues, and possible intended and unintended consequences. However, while we strongly believe in the importance of robust due
process, we also believe that it may be possible to tailor it to the needs of the particular projects (e.g., based on complexity, extent to which it is forging new ground, and the amount of behavioural change involved).

We recognise that a challenge in designing the model is that the remit of the three public interest standard setting Boards – auditing, ethics and accounting education – differ. Both the IAESB’s and IESBA’s mandates extend to the accountancy profession as a whole, and not just auditors. Those responsible for implementing the standards also vary (e.g., member bodies and licensing organisations vs regulators and/or national standard setters). In our comments above, we had in mind the design that would work for the auditing and ethical standards for auditors. A different construct might make more sense for the education standards – although in saying that, we recognise the importance of those standards to the competence of auditors and assurance providers and the future of the profession overall.

**Concluding remarks**

We have been encouraged that in our conversations with you and others there is considerable agreement on the need for change. This sets the stage for constructive dialogue and collaboration towards building a well-supported model that is fit for the future.

We plan to actively participate in the broad stakeholder dialogue on the future of the IFAC standard setting model being led by the Monitoring Group. We support their review and, as will be clear from our remarks, will be advocating for bold and fundamental reform of the overall model.

Pending the outcome of the MG’s review, we think it would be premature to make any changes to the PIOB’s current role and responsibilities, or indeed to other elements of the model – the model as a whole is interrelated and there would be significant risks in implementing change on a piece meal basis.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at jan.e.mccahey@pwc.com.

Yours sincerely,

Jan McCahey
Global Regulatory Leader