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Public Interest Oversight Board

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JICPA Comments on “2017-2019 PIOB Strategy Public Consultation Paper”

The Japanese Institute of Certified Public Accountants (JICPA) is grateful for the opportunity to comment on the *2017-2019 PIOB Strategy Public Consultation Paper* (the “CP”).

Under various transformations in the field of accounting and audit, including the expansion of new technologies and regulations, the current standard setting system has evolved over the years to ensure that sufficient discussions are made, and robust due process is followed, in order to develop high-quality standards in the public interest.

JICPA strongly believes that the current standard setting system with due process oversight is effective model for developing and maintaining high-quality international standards with a good mix of checks and balances between accounting professionals and those having a stake in financial reporting. While there is always a room for improvement, in fact, we now see a great number of high quality standards being developed under the current system, and the adoption and implementation of those standards have progressed on a global scale. We believe that this serves as an excellent proof for the relevance of the current standard setting model.

As one of the founding members of IFAC, JICPA has been actively involved with the Standard Setting Boards (“SSBs”), IFAC Boards and Committees both directly and indirectly in various ways, including providing comments on proposed standards and other documents, as well as sitting on National Standard Setters meetings and other events. Based on these experiences, we provide our views on the questions in the CP, referred to below.

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

We believe that the PIOB oversight has sufficiently been conducted. With due consideration to the available resources, the PIOB should consider even more effective allocation of PIOB members and financial resources in efficiently identifying risks.

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

Ensuring efficient and effective discussions among relevant stakeholders are one of the important elements for developing high-quality standards in the public interest. We believe that an appropriate size and an apt number of members can inherently be limited, since too large a group or members involved, it is sometimes difficult to achieve thorough discussions.

As such, we believe that the PIOB should consider improving the representation in Consultative Advisory Groups (CAGs) in the first place, instead of accommodating more representations in the SSBs. In such a case, JICPA suggests that reflecting the views of those charged with governance (e.g., audit committee members etc.) in CAGs would be worth considering.

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?

The Chair of the Nominating Committee should be equipped with sufficient knowledge and experience in IFAC or SSBs activities to select most suitable and appropriate personnel for the given positions. We therefore foresee a considerable challenge in identifying a public member with those characteristics as the Chair of the Nominating Committee.

In selecting members for each SSB, it is crucial to have a group of individuals with profound understanding of the IFAC and SSBs backed by the knowledge and experience in the profession. Therefore, we believe that it is not feasible to arrange an entirely separate Nominating Committee.

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

Independence of an individual could be discussed by simply evaluating his or her

educational or professional backgrounds on the surface, but what is more important will be the mental attitude of an individual to perform in an independent manner as a public member. Furthermore, it is also crucial that a public member has the professional expertise to contribute to the SSBs. We therefore believe that a person with a sense of balance, who is able to speak out for the public interest and also contribute to the discussion by utilizing his or her foundation in accounting and auditing, would need to be appointed as a public member.

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?

We question whether the introduction of a remuneration scheme would support attracting more public members and further increasing their participation in SSBs. Instead, we believe that a more inherent issue lies in whether public members can ensure sufficient contribution to SSBs while taking positions in other organizations.

Even if it were to consider the introduction of a remuneration system, it would need to ensure funding framework with a clear rationale for introducing remuneration only for public members, given that SSBs have historically been supported by a large caliber of volunteers. In addition, if IFAC takes the burden of the remuneration for public members, questions may arise as to the independence of those remunerated public members from IFAC in their activities in SSBs. In such a case, it would be required to consider other public funding source to ensure public members are perceived independent from IFAC.

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

We have not faced any specific concerns in regards to individual standards. We have not also heard of specific cases where particular concerns have been expressed on the quality of standards.

We believe it is important that a well-considered combination and balance should be upheld in the standard setting arrangement, and given that there are various views on the definition of public interest, it is essential that we ensure no one view would solely constitute the public interest in the process.

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 taskforces?

The PIOB observers fully participate in SSB meetings, and the upcoming Strategy and Work Plans are consulted from the early stage of their development at SSBs. Discussions in working groups and task forces are effectively updated and followed in SSB meetings with input from PIOB observers from the public interest perspectives.

Working groups and task forces are formed to create a basis for further discussion and reviews at the SSBs, and therefore, its work involves a large volume of technical matters. By being involved at an early stage in the discussion of standards, PIOB may surpass its assumed roles and responsibilities of a due process oversight, and become involved in the actual process of developing standards. This may, as a result, bring about a serious concern for a separation of execution and monitoring under the current system.

Furthermore, we must say that PIOB's involvement in working groups and task forces are not plausible considering the number of meetings to be attended and a volume of technical works to be undertaken. Provided that there are only a few due processes to be monitored in working groups and task forces, it is reasonable to say that the need to extend PIOB oversight is minimal.

Q8: Where do you see gaps in the PIOB oversight?

Taking on its assumed roles and responsibilities, PIOB has conducted sufficient due process 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?

To develop and maintain high-quality international standards in the public interest, it is important to ensure thorough consideration and discussions by following a robust due process. Instead of just focusing on shortening the length of time taken to develop standards, it is essential to carefully review issues dealt with in the standards and their complexities so that the appropriate length of time is secured.

Q10: What topic would you consider-from a public interest perspective-essential additions to the present education curricula?

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?

We understand that IESs 1 to 8 are currently at the stage of further adoption and implementation after major revisions and redrafting.

In coping with the changes in accounting and audit, we should also consider ways to address those changes in the area of education as we observe progresses in practice of accounting and auditing.

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 of international standards should be promoted in harmony with, and with due respect to, the particular circumstances and conditions of specific countries and member bodies. In monitoring the observance, it might be useful to maintain a dialogue with other players such as the World Bank and IFIAR so that duplication of monitoring can be avoided.

Q13: Do you find the PIOB Quarterly Updated useful?

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

We believe that the PIOB should continue providing information on its website and other relevant means to maintain transparency in its activities and information disclosure. However, we are doubtful of the PIOB independently organizing a forum or a workshop as a way to increase understanding of its roles. Given its standing and objective, we believe it is more efficient that the PIOB considers participating in outreach activities conducted by IFAC member bodies or other organizations.

Q15: What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?

Current PIOB oversight functions effectively as a whole. With a focus on its responsibility of due process monitoring, the PIOB should safeguard efficient and effective monitoring furthermore.

Additionally, given the public interest nature of the oversight activities of the PIOB, it would not be appropriate to heavily rely on funding from IFAC. We believe that the PIOB needs to heighten its effort to secure other funding sources to account for its activities.

Although we agree with enhanced communication between MG and PIOB in order to

establish a close coordination, it is however inappropriate for the MG and PIOB to have excessively strong relationships since it has the potential to undermine their respective independences and a current three-layer standard setting governance model.

The PIOB takes responsibility in due process oversight. Going beyond its responsibility by advancing into the discussion of the actual contents of standards would possibly impair the credibility of the current three-layer standard setting governance model, and could as a result, pose critical concerns for the independence of PIOB and the public interest to be served through its oversight.

We hope those comments would be of assistance to PIOB in contemplating its future strategy.

Aiko Sekine
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