



IPSASB Review Group  
[ipsasb@oecd.org](mailto:ipsasb@oecd.org)

25 April 2014

Ref.: PSWP/AKI/OBT/PWE/JPL

Dear Sir, Dear Madam,

**Re: FEE comments on IPSASB's Review Group consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB)**

FEE welcomes the public consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB) and avails itself of this opportunity to make the following points:

Eurostat's consultation on the suitability of IPSASs has identified governance and, especially, the lack of oversight as being areas of significant concern for Governments. Consequently, resolving these issues could promote a more widespread adoption of generally accepted public sector standards. This is seen as a vital step in improving international public sector accounting in the aftermath of the global financial crisis, which revealed serious deficiencies in the financial reporting practices of many governments.

Thus, the public consultation on the reform of the IPSASB governance by the Review Group is timely and should remain high on the agenda. This is particularly important as the current debate on introducing and implementing European Public Sector Accounting Standards (EPSAS) has given rise to an intensive public debate in Europe.

FEE has duly considered the different options laid out by the IPSASB Review Group. Each option presents a certain number of advantages and challenges.

**Question 1:** *Do you agree that there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:*

- a. Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees?*
- b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?*
- c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?*
- d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.*

**Option C** (re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies) would remove any perceived conflict of interest associated with IFAC's financial support to the IPSASB and create a truly independent standard setter for the public sector. This option may be considered as the ideal solution.

However, due to the need for a contemporary reform of the IPSASB governance model, option C might not be the practical solution. Indeed, not only does this option pose significant questions in terms of financing and staffing but establishing a new structure is likely to be highly time-consuming. Consequently, this option is probably not suitable for the resolution of the IPSASB governance issue in a reasonable timeframe.

When considering **option A** (extending the scope of the IFRS Foundation's Monitoring Board and Trustees activities), FEE has noted that in the most recent Trustee's strategy review in February 2012, the IFRS Foundation considered the possibility of expanding its remit to include the IPSASB. As a result of their discussions, both internally and with stakeholders, the IFRS Foundation agreed not to take this forward in the short term, as a majority of respondents preferred that the IASB continue in the short-term to focus on private sector standard setting. However, the Trustees did believe that they should consider the expansion of the organisation's mandate at some point in the future.

This option would have a number of practical advantages and challenges, it could most likely add credibility of acting in the public interest and could better ensure the independence of the standard-setter. Therefore, option A should not be excluded as potential future solution. Nevertheless, such a solution would (i) need to be developed together with the IFRS Foundation and (ii) most likely require a review of the IFRS Foundation's constitution which at this time is not expected for another two years.

**Option B** (establishing monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC) would seem to be the most straightforward and practical solution for the time being. This option could ensure public interest credibility to the standard-setting board, provide the necessary expertise to the oversight board and require a limited investment of resources and time for establishing it. Therefore, it could be a step in the right direction and help move standard setting for the public sector forward.

On the other hand, this option would not address concerns over accountability, independence, and perceived conflicts of interest that are raised in relation to the current governance and oversight system of IFAC. These would need to be dealt with to make this option viable.

If option B were to be considered as the way forward for the IPSASB governance reform, further clarification on the funding mechanism would be required in order to enhance the perception of independence. The Review Group is encouraged to investigate further on this matter.

Furthermore, the Review Group could analyse in further detail whether establishing the monitoring body and oversight body as one single body (single tier approach) could ensure simultaneously oversight and monitoring functions. This lighter architecture could provide greater efficiency and contribute to reducing the financial burden of having two separate bodies. However, it needs to be considered if one single body can cover efficiently both respective functions (monitoring and oversight).

Overall, all these options have their pros and cons. A more innovative approach might be required. Some ideas on what this might look like are highlighted below under question 5.

**Question 2:** *Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?*

It is to be considered whether the members of the oversight body would appoint members of the IPSASB, or to what extent they would participate in their nomination.

**Question 3:** *Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?*

FEE generally agrees with the proposed composition of the IPSASB monitoring body.

However, further clarification would be needed regarding the balance of the various interests within the monitoring body between primary and secondary resource providers, as well as between the national monitoring bodies and international standard-setting institutions. Further clarification is necessary as to how the various interests would be weighted in the composition of the monitoring body.

**Question 4:** *Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?*

FEE believes it is paramount that individuals in the oversight body hold the right set of skills and competences in public sector accounting. In this respect, inclusive and qualitative stakeholder participation is necessary.

**Question 5:** *Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.*

FEE believes that the different governance reform proposals suggested are not as innovative as they could be. Therefore, we encourage the Review Group to investigate further potential options. One of them could be the development of a hybrid solution between option A and B. Considering that the monitoring body and the oversight body do not have the same objectives, they do not necessarily need to be located under the same structure.

Therefore, it might be worth investigating a hybrid model of expanding the IFRS Foundation's monitoring board with a public sector focus and creating a new IPSASB oversight body (a public sector version of the PIOB) within the remit of IFAC.

The monitoring body has to ensure that the standard setter works in the public interest, i.e. the interests of the primary users of the financial information. For that purpose, its members need not necessarily possess specific public sector expertise or technical knowledge. The IFRS Foundation's monitoring board has well established competence, resources, procedures and credibility for ensuring the public interest of accounting and financial reporting standard setting activities for the private sector, most of which would be readily applicable to the setting of public sector accounting standards. Additionally, the cost of the IPSASB monitoring would only be incremental to those already being incurred.

The oversight body has to ensure the due process in standard setting, which requires an appropriate technical competence in the accounting and financial reporting area, as well as recognised experience in the public sector. The oversight body is likely to include individuals selected in their capacities as accounting standard setters, preparers of financial reporting, public practice professionals, and academics. Establishing a new oversight body for the IPSASB, while it remains under the auspices of IFAC (a public sector version of the PIOB), would have the following advantages:

The members of such a body could be selected fully on the basis of their background and expertise in public sector accounting issues;

Such a body could be established reasonably quickly without requiring significant constitutional and organisational changes to the IFRS Foundation and to IFAC's constitution and organisation.

Therefore, it might be worth investigating whether such a solution would be feasible, taking into account both legal and funding issues.

Regarding legal matters, it would, for example, need to be investigated whether the expanded IFRS Foundation's monitoring board could be responsible for nominating the members of a public sector version of IFAC's PIOB. The Memorandum of Understanding which the IASB and IFAC have signed to note the common and mutual interests of the IASB and IPSASB and to set up some communication and co-operating processes could serve as a basis for that purpose, in particular as it refers to potential options for enhancing the standard setters' contribution to serving the public interest.

Regarding funding issues, it would need to be carefully investigated whether the current funding of the activities of the IPSASB, half of which are met by IFAC members, could be maintained.

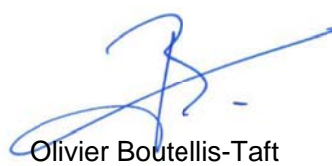
Furthermore, the cost-effectiveness and the concrete applicability of such a structure would need to be carefully investigated by the IPSASB Review Group.

For further information on this matter, please contact Ms. Petra Weymüller, FEE Senior Manager, on +32 2 285 40 75 or via e-mail at [petra.weymuller@fee.be](mailto:petra.weymuller@fee.be).

Yours sincerely,



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