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27 June 2012

Ref.: AUD/PRJ/HBL/SHA

Dear Sir or Madam,

**Re: FEE Comments on the Monitoring Group Public Consultation on the governance of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC**

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Monitoring Group on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC. FEE is separately also responding to the Public Consultation Paper on the IOB Work Program 2012 and Beyond.

**Main comments**

FEE, its member bodies and their professionals are active in all areas in which the International Federation of Accountants (IFAC) Public Interest Activity Committees (PIACs) or independent Audit, Education, Ethics and Public Sector Accounting Boards are involved as international standard setters. We also work in other areas like accounting, financial reporting, sustainability, integrated reporting, XBRL, etc. which draw on other international standard setting boards for which the current, highly advanced IFAC governance, due process, monitoring and oversight is often put forward as a model. This in itself should be recognised.

In our opinion, IFAC governance, due process, monitoring and oversight are already highly developed and, as stated in your Monitoring Group Consultation Paper, the recommendations made in 2003 and in 2010 have been eagerly and satisfactorily implemented by IFAC and its independent Boards.

The establishment of high quality standards and practices in auditing and assurance, ethics and education has until now been achieved by the work of IFAC independent Boards as accommodated by the IFAC governance, funding and other mechanisms, thus balancing public interest considerations with the necessary technical expertise. We strongly believe this continues to be a successful formula for auditing, assurance, ethics, education and public sector accounting standard setting for the future. For instance, the adoption of the Clarified International Standards on Auditing of March 2009 by over 100 legislators, regulators, supervisors and others around the globe is the ultimate confirmation that the objective of setting high quality standards is achieved.

#### *Enhanced focus on monitoring and oversight*

We however support the performance of an assessment of the effectiveness of the 2010 IFAC governance reforms by the Monitoring Group and the PIOB as FEE is open-minded to further enhancements by bringing more public interest considerations into the monitoring and oversight of the activities of IFAC and its independent Boards. This could include further enhancements of the role of the Public Interest Oversight Board (PIOB) and in leading the discussions on further IFAC Reforms.

#### *Funding implications of further enhancements*

The Monitoring Group should take into account the fact that improvements usually have a one-off and/or recurring financial and/or resource implications. The budget of IFAC for its independent Boards, the Consultative Advisory Groups and the PIOB is limited and while some re-allocations and further efficiencies might be possible, there appears to be little opportunity for further increases if the sources of funding remain the same. Therefore, it is crucial to perform a thorough research of alternative funding sources and a cost/benefit analysis before embarking on any further enhancements of IFAC and its independent Boards. Any recommendations the Monitoring Group may have in this respect would be highly welcomed.

#### *Communication of the enhanced monitoring and oversight*

We believe that it is not only important to further enhance the governance, monitoring and oversight of IFAC and its PIACs, but it is even more crucial that the establishment and functioning of this governance structure as well as its rigour and independence is communicated clearly and widely. It is not uncommon to hear criticism on IFAC, the PIACs and their resulting standards from a governance point of view, often uninformed and unfounded, which more and better communication could counter.

In this respect, enhanced transparency on the performance of the oversight functions by the PIOB would be very helpful as well. More timely disclosure of the agenda and minutes of its meetings, including an indication of the discussions held, issues encountered, possible differences of opinion concerning the PIAC's execution of due process, resolution of issues and differences of opinion, could be useful to avoid the impression the PIOB might be a body without any real impact.

#### *SMEs and SMPs*

One of the key priorities of FEE which is not addressed in the Consultation Paper is the consideration in the standard setting activities of the IFAC independent Boards of issues relating to, and the involvement of, Small and Medium-Sized Entities (SMEs), including listed SMEs, and Small and Medium-Sized Practitioners (SMPs). Although the interests of the Monitoring Group and its members might, in the majority of cases, be focused on listed, regulated or public interest entities, the output of the IFAC independent Boards is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

We have considered your preliminary recommendations put forward in the Consultation Paper with great interest and in addition to our main comments above, provide you below with our detailed responses and comments to your questions.

For further information on this FEE<sup>1</sup> letter, please contact Hilde Blomme, FEE Deputy Chief Executive, at +32 2 285 40 77 or via email at [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) from the FEE Secretariat.

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<sup>1</sup> FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.  
FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;

Yours sincerely,



Philip Johnson  
President

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- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
  - To represent the European accountancy profession at the international level.

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

## Responses to specific questions

**Question 1: Do you consider it necessary to enhance representation of the public interest? If so, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner board members, would you suggest to reinforce the mechanisms to safeguard the public interest?**

As the objective of the IFAC governance structure is setting high quality standards to promote stakeholders' confidence, we believe that this could be achieved even better by bringing more public interest considerations into the work of the IFAC independent Boards or Public Interest Activity Committees (PIACs).

Although FEE is of the view that the current IESBA Chair's independence is in no way compromised although he is a practitioner, FEE would also be supportive of the appointment of an independent IESBA Chair solely for reasons of perception.

At this point in time, we believe that these actions are sufficient to enhance the representation of the public interest in the work of the PIACs, in particular in the IESBA.

We are for instance not supportive of having a majority of public members and non-practitioners on the PIACs. In order to properly represent the public interest and produce high quality output, all independent Board members need to demonstrate both objectivity and competence in the relevant subject matters. Ideally, each individual board member should be or be seen as totally objective, a quality more commonly associated with members from outside of the profession, and highly competent and experienced, a quality more commonly found within the profession. Therefore, parity in membership is applauded whereby both objectivity and competence are balanced, based on the principle of the "best person for the job" as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards which continues to be of key importance.

**Question 2: In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded?**

FEE is not supportive of this recommendation as we agree with the Monitoring Group that this is not feasible in terms of expertise and funding at this point in time.

**Question 3: Do you consider the current three-tier system adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?**

On balance, FEE support maintaining the three-tier system of the Monitoring Group, the PIOB and the PIACs ('Boards'). We believe that there needs to be a clear allocation of responsibilities between the Monitoring Group and the PIOB. The potential ambiguity and over-lap between the roles of the PIOB and that of the Monitoring Group would be reduced through a clearer definition of the role of each group.

We think that a broader representation is necessary within the Monitoring Group<sup>2</sup> in order to be truly representative of the public interest at large, to strengthen the political credibility of the Group and the standard setting process.<sup>3</sup> However, in order to continue to be recognised as global standard setters, high-level monitoring activities and political accountability of the Monitoring Group have to be accompanied by indisputable technical expertise. The PIOB exercising direct oversight of the due process connected to standard setting as well as securing wide stakeholder acceptance is essential to maintaining the technical credibility of the PIACs.

The responsibilities of the PIOB justify the three-tier approach. The PIOB is in reality accountable to a broader range of stakeholders and have a wider role to play in exercising direct oversight over due process.

Therefore, we recommend maintaining the three-tier system. However, clear delineation of responsibilities between the Monitoring Group and the PIOB needs to be found. This also involves increasing the role of the PIOB by strengthening their interaction with the stakeholder community in order to support and strengthen the legitimacy and credibility of the organisation.

**Question 4: Would you support the IPSASB being subject to PIOB oversight? Why? What conditions, if any, would you impose on such oversight? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones?**

We support the expansion of the PIOB's activities to also include independent oversight of the IPSASB. In our view, close oversight exercised by the PIOB over the key strategic decisions and the due process followed by the IPSASB would strengthen public accountability and contribute to a wide stakeholder's acceptance of the standards.

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<sup>2</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organisation of Securities Commissions and the World Bank.

<sup>3</sup> See our response to Question 12 for further details.

Given the increased public focus on public financial management due to the ongoing sovereign debt crisis and the related government debt issues, the adoption of high quality financial reporting in the public sector is considered essential to enhance transparency and restore public trust. To this end, an adequate oversight of the IPSASB by the PIOB would add to the legitimacy and the acceptance of the standards. This would be particularly important in Europe given the ongoing Eurostat's assessment on the suitability of the IPSAS for adoption in European Union Member States due by the end of 2012.

In order for the PIOB to meet its commitments regarding its oversight of the IPSASB, it is also important to reconsider its composition. It should be ensured that the criteria for selection of its members are adequately defined to allow for an appropriate number of members with the necessary professional and technical competences and experience in public sector accounting. It should also reflect broad international representation and diversity of geographical and other backgrounds relevant to the public sector.

We believe there is no need for having special conditions for the oversight of the IPSASB by the PIOB in comparison to how it is currently performed for other PIACs.

We are also aware of the ongoing discussion between IFAC and IASB regarding the future governance arrangement for standard setting for the public sector, including the option of the IASB and the IPSASB operating under a single oversight body. However, we agree with the statement made in the Consultation that the possibility of this option should be considered in the medium and long term.

**Question 5: Do you see merit in having a “Compilation document” for the whole structure? In this case, which alternative would you prefer for organising the structure and nature of the Compilation document?**

FEE is supportive of the recommendation to have a compilation document for the whole structure. However, in case this would result in amendments or additions to the structure and status of the monitoring, oversight and standard setting structure, a proper due process for consultation should be set up.

**Question 6: Given the breadth of the current mandate, would you consider it helpful to modify the name of the structure to improve its visibility? In this case, what name would you suggest?**

FEE does not believe that the names of the *Monitoring Group* and the *Public Interest Oversight Body* should be modified. They appear to be well-established and should therefore not be tampered with.

However, FEE would be supportive of the recommendation to amend the name of the governance structure of IFAC currently referred to as the *IFAC Structure*. The reference to

“International standard-setting structure in the public interest in the fields of audit and assurance, ethics and education” appears to best reflect the structure of the governance of IFAC.

**Question 7: Do you agree with the proposal that the MG should have a more strategic role?**

FEE is supportive for the MG to have a higher level role as it should remain within the MG mission of providing high-level monitoring of the activities of the PIOB. This would ordinarily not include direct involvement with the PIACs, a role which is dedicated to the PIOB in the current three-tier structure which we support.

**Question 8: Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIACs’ agendas and receiving appropriate feedback?**

FEE is not supportive of this recommendation, as further detailed in our response to Question 7.

**Question 9: Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with PIACs?**

FEE is supportive of the recommendation for the MG to improve its communication activities as long as this would remain within the MG mission of providing high-level monitoring of the activities of the PIOB. This would ordinarily not include direct involvement with the PIACs and CAGs, a role which is dedicated to the PIOB in the current three-tier structure which we support.

**Question 10: Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having the public in attendance?**

FEE is supportive of the recommendation to improve how the Monitoring Group liaises with investors. However, investors are not a necessarily a homogeneous group or are even not necessarily grouping their interests, which makes liaising with them particularly challenging. In this respect, we refer to our responses to Question 12.

FEE is also supportive of the recommendation to have public Monitoring Group meetings.



**Question 11: Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate or, should others bodies be considered instead?**

FEE is supportive of this recommendation.

**Question 12: What is your opinion about the current composition of the MG?**

**(i) Do you believe that other organisations (i.e., national or regional regulators) should or could be represented in the MG? If so, which criteria do you think new members should fulfil to become MG members?**

**(ii) Should a maximum be set to the number of MG members?**

**(iii) Would you favour a change on how the Chairperson is appointed?**

As stated in our response to Question 3, FEE thinks that a broader representation is necessary within the Monitoring Group<sup>4</sup> in order to be truly representative of the public interest at large, to strengthen the political credibility of the Group and the standard setting process.

The current members of the MG are, in the majority of cases, organisations which are focused on listed, regulated or public interest entities. However, the public interest in its entirety is wider and should also take account of the interests of Small and Medium-Sized Entities (SMEs) including listed SMEs on which the economy at large thrives all over the world.

This is particularly important as the output of the PIACs, of which the MG provides high level monitoring, is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

(i) FEE believes that other organisations should be represented in the MG, but ordinarily not national but at least regional, preferably global organisations. The criteria new members should fulfil to become MG members should be that they are global or regional organisations which represent the public interest in its entirety, as explained above, or that they represent the interests currently underrepresented in the MG, as for instance SMEs.

(ii) In case national organisations would be invited to become members of the MG, it appears desirable to at least consider to set a maximum number of MG members in order to keep operating the MG manageable and practicable from a practical point of view.

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<sup>4</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organisation of Securities Commissions and the World Bank.

(iii) As far as the appointment of the Chairperson is concerned, it appears good practice that the Chairperson is an individual, elected by the members of the MG from amongst the representatives of the members of the MG, based on the best practice principle of 'best person for the job'.

**Question 13: Do you see a problem in MG members appointing full time employees of organisations represented in the MG as PIOB members?**

As this currently already appears to be the case without causing any major issues, FEE does not see a problem in MG members appointing as PIOB members full time employees of organisations represented in the MG.

**Question 14: Would you consider convenient to avoid direct hierarchical relationship between the PIOB and the MG members?**

This should preferably be avoided, as it appears the high-level monitoring and direct oversight might otherwise become circular.

**Question 15: Do you think that the roles and responsibilities of MG and PIOB should be further clarified? Do you have specific suggestions regarding which areas this clarification should address?**

As stated in our response to Question 3, we believe that there needs to be a clear allocation of responsibilities between the Monitoring Group and the PIOB. The potential ambiguity and over-lap between the roles of the PIOB and that of the Monitoring Group would be reduced through a clearer definition of the role of each group.

In this respect, the current role of the PIOB is to provide oversight of the standard-setting process of the IAASB, IESBA, IAESB and CAP, including the standard-setting board member nominations, whereas the MG provides high-level monitoring of these activities of the PIOB. This role of the PIOB could be further clarified in a strategic plan as far as the following is concerned:

- The public interest *mission* to which the PIOB is committed. This can include reflecting on the meaning of public interest as a whole as well as on the strategic objectives which should be achieved in the short and mid-term time frame;
- The *governance* of the PIOB, based on independence and public accountability;
- The *process* to ensure that the standard setting which is overseen is of high quality, meets the requirements of a well-functioning economy and capital market and is implemented consistently across the world:

- The *financing* to ensure that the organisation is financed in a manner that permits it to operate effectively, efficiently and independently.

**Question 16: Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?**

FEE is supportive of this recommendation.

**Question 17: Do you see merit in the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget? What should the involvement of the MG be in the production of these documents?**

FEE is supportive of the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget. The involvement of the MG in the production of this document should be the provision of high-level monitoring, similar to its mission in relation to other activities of the PIOB.

**Question 18: Do you think that the current composition of the PIOB could be enhanced? Would you consider convenient that the PIOB's composition is reviewed each time a new body becomes full member of the MG?**

Reference is made to our response to Question 12 which is also applicable to Question 18. Although it is not recommended to review the composition of the PIOB each time a new body becomes full member of the MG, the composition of the PIOB would be expected to be reviewed at predetermined regular interval.

**Question 19: Would you consider the current composition of the PIACs appropriate? Do you see merit, in the context of a second effectiveness review, in exploring the idea of having a majority of non-practitioners and a majority of public members?**

At this point in time, we believe that the actions proposed in Question 1 are sufficient to enhance the representation of the public interest in the work of the PIACs, in particular in the IESBA.

We are not supportive of having a majority of public members and non-practitioners on the PIACs. In order to properly represent the public interest and produce high quality output, all independent Board members need to demonstrate both objectivity and competence in the relevant subject matters. Ideally, each individual board member should be or be seen as totally objective, a quality more commonly associated with members from outside of the profession, and highly competent and experienced, a quality more commonly found within the profession. Therefore, parity in membership is applauded whereby both objectivity and

competence are balanced, based on the principle of the “best person for the job” as the primary criterion for the selection of board members as currently applied based on the Terms of Reference of the Boards which continues to be of key importance.

**Question 20: Do you consider best practice a nine years period for rotation of the representatives of CAG member organisations?**

FEE fully supports the rotation principle of the representatives of CAG member organisations to bring fresh viewpoints on a periodic basis. We see this principle as a best practice but not as a firm requirement, leaving it up to member organisations to comply. In this respect, we believe it is important that it is also recognised that organisations should have the legitimate right to appoint the person they consider to be their best representative and that rotation could also cause some problems in small organisations that do not have many suitable candidates for that position.

**Question 21: Would you agree that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion?**

FEE is supportive of this recommendation.

**Question 22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?**

FEE agrees that the ideal funding formula would involve many parties, providing the PIOB with a system of financing that permits it to operate effectively, efficiently and independently. It would indeed be great that the governments of all countries which have adopted the standards as issued by the PIACs would contribute to funding of the PIOB.

With the largest part of the PIOB budget financed by IFAC, this is currently not achieved and does not seem feasible in the short term. In this respect, we encourage IFAC to attempt to make the current external sources more permanent and to explore further funding of the PIOB from external sources.

**Question 23: Do you think it feasible to have a similar funding structure in place for the PIOB to that in place for funding the IFRS Foundation?**

As we agree with the observation that auditing and related standards might not be perceived as a public good that requires special financing like accounting standards, we have doubts to believe that a similar funding structure for the PIOB as for the IFRS Foundation would be realistic.

**Question 24: Do you see the need for and/or merit in having a permanent Secretariat for the MG? In this case, do you think IOSCO should provide resources for a permanent Secretariat to the MG?**

With the MG providing high-level monitoring and not direct oversight of the standard setting activities and nominations in PIACs as the PIOB does, there does seem to be less need for the MG to have a permanent secretariat as compared to the PIOB's needs for one. As the PIOB already has an independent permanent secretariat set up, it appears practicable that the permanent secretariat of the PIOB would also provide for the secretariat needs of the MG.

**Question 25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?**

In this respect, we refer to the latter part of our response to Question 15.

**Question 26: What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?**

As indicated before in our responses, we believe that the current structure, together with some of the recommendations as supported in this letter, are appropriate.

**Question 27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?**

In this respect, we refer to our responses to previous questions.

**Question 28: Do you think that there is any other overall structure that could achieve improvement in audit quality more efficiently? If so, what could they be and how might they be financed?**

In this respect, we refer to our responses to previous questions.