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February 13, 2018

Mr. Gerben Everts
The Monitoring Group
c/o International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
SPAIN

RE: Strengthening the Governance and Oversight of The International Audit-Related Standard-Setting Boards in The Public Interest

Dear Mr. Everts,

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the *Monitoring Group Consultation: Strengthening the Governance and Oversight of The International Audit-Related Standard-Setting Boards in The Public Interest* (the "Consultation").

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is high.

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[1] With offices in Charlottesville, New York, Hong Kong, London, Mumbai and Beijing, CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 151 countries, of whom more than 125,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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Executive Summary

The Monitoring Group's Consultation paper lists concerns about the current standard-setting model. Above all it notes that there may be an adverse effect on stakeholder confidence in the standards because the accounting and audit profession is seen to have undue influence on the standard-setting process.

At the 2017 International Institute on Audit Regulation, PCAOB Board Member Steven B. Harris noted:

> *I share these concerns about the independence of the international audit and ethics standard setters. Today, a majority of the governing boards of both of the audit and ethics standard setters is not independent of the profession, nor are their funding sources. As a result, the standards remain open to what I consider to be legitimate concerns that they may be susceptible to a standard setter's form of regulatory capture.*

We believe this matter needs to be addressed as financial accounting and reporting and the quality of auditing thereof are public goods, necessary to investor confidence in individual enterprises and the global capital markets as a whole.

We note, however, that the Consultation has presented a vision of how audit standard-setting and related activities should be restructured without presenting a strategy of how to attain the vision. As a result, we have reservations about making large-scale changes before the Monitoring Group addresses exactly how the funding model and governance structure would work.

All of the proposed changes are predicated on a new funding model and the reforms cannot be undertaken without that model being firmly in place. The proposed changes would create a standard-setting model that is potentially significantly more costly than current arrangements. The proposal will require a significant increase in funding with all board members being remunerated, a significant increase in the number of permanent technical staff and will require a new legal entity be established in a different location. However, there appears to be no authoritative basis on which to collect a levy from stakeholders (e.g. audit firms, investors, regulators, etc.).

Furthermore, should such a model be implemented we urge the Monitoring Group to consider ways to ensure that the new model is not seen to be a pay-to-play model. If this is not ensured, the proposed model will not be seen to be independent as funding will still be seen to be coming from the audit profession. It is also unclear as to how many firms will be charged a levy, how this will be administered in different countries which benefit from high quality standards.

The Consultation states,

> "Standard-setting must also be sustainable in the long term (eg with long term secure funding, a clear long-term strategy and the technical competence necessary to support a demanding and growing workload).

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We agree which is why we urge the Monitoring Group to be more specific on how the vision might be implemented, beginning with a funding mechanism. Our letter below outlines the areas where we believe further details may be necessary.

To create a plan of reform, we suggest appointing a multi-stakeholder advisory group to make a recommendation for a path forward as the SEC did with its Committee to Improve Financial Reporting. Of course, the Monitoring Group has received multi-stakeholder input from the roundtables it has conducted, but given the large-scale changes that have been proposed in the Consultation a focused advisory group to study the process and ramifications of effectuating these changes would a worthwhile endeavor.

While the Monitoring Group is resolving the specifics of the funding model and governance structure and other open questions, our letter suggests certain improvements to the current system that should be explored.

CFA Institute agrees with the proposal that strong international standard-setting includes certain key elements – a multi-stakeholder model, broad geographical representation, sufficient checks and balances and independent oversight. We urge the Monitoring Group to give greater consideration and place much emphasis on having more voting members who have experience using financial statements for making investment decisions. We support such representation throughout the process, including on the standard-setting boards, the Public Interest Oversight Board (PIOB), and Consultative Advisory Groups (CAGs).

Our detailed views are outlined below.

The Boards

Multi Stakeholder Board

Per the Consultation,

> "The board should be multi stakeholder, drawn from three groups – users (including investors, preparers, academics and those charged with governance), regulators (including audit, securities supervisors and enforcers and prudential regulators) and auditors. Board members must be equally represented from the three groups."
>
> "To maintain user confidence in the standards and the standard-setting process, the board collectively will need to continue to demonstrate a high level of technical competence, so that in adopting a standard, the board can have assurance that it has been developed: to achieve the objectives that the board has set; and can be practically used by the profession to deliver high-quality audits."

We agree with these statements. We support a multi-stakeholder board composition to appropriately reflect a broad range of global stakeholders. A multi-stakeholder board will bring a diversity of perspectives. While some of these members may not be steeped in technical audit language, they will bring valuable and different insights.

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We stress the importance of having investors with experience of using financial statements for making investment decisions represented on the board. This would by far be the best mechanism for having investor input on proposals and careful consideration of investor views before issuing proposals or final standards. If there were much more board representation of people with experience making investment decisions, then we are confident that effective investor outreach and debate of views would fall into place appropriately as needed.

We also underscore the importance of global multi-stakeholder input in all phases of the standard-setting process including receiving input from the International Consultative Advisory Groups (CAGs).

Number of Boards

The Consultation states,

> "In developing options for consultation, the Monitoring Group considers the advantages of a single board to include better coordination of ethical and auditing standards to focus on necessary areas of change which amplify key messages, drive consistent auditor behavior and support enhanced stakeholder engagement while reducing duplication of work effort on issues that are relevant to both auditing and ethics; providing a more flexible staffing model to support the delivery of priority projects and offer staff better career development, while delivering economies of scale; and board members focusing on the strategic challenges rather than detailed drafting."

CFA Institute agrees that the creation of a single standard-setting board for auditing and ethics would reduce duplication of work effort on issues that are relevant to both auditing and ethics, provide a more flexible staffing model and deliver economies of scale. We do, however, question whether combining these two boards might dilute the focus on each of the topic areas, as well as possibly reduce the level of expertise—especially the time of board members given the new smaller single board—devoted to each area of standard-setting.

Size of Boards

The Monitoring Group should reconsider the optimum size of the boards. The current size of each board is between 19 and 22. This has been in place to promote broad skills and geographical diversity and could be smaller. However, the board should be of sufficient size so as to reflect appropriate skills and geographic diversity but not be so large as to cause unproductive dialogue. We note that the International Accounting Standards Boards has achieved geographic diversity with 14 board members. We suggest a smaller size of say 11. The reason we propose an odd number of members is that in the case of an odd number each vote has greater significance.

The Consultation further says,

> "The focus of this consultation is on those standards that support audit as a public interest activity. Therefore, this paper includes an option that the setting of ethical standards for professional accountants in business and educational standards should continue to be performed by separate boards, supported by IFAC."

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We question whether separating ethics standards for auditors from ethics standards for the rest of the profession might create perceptions of a two-tier profession in the public's mind. Is this in the public interest?

Furthermore, will the need for coordination between the proposed IFAC-supported ethics board for professional accountants-other-than-auditors and the new single board that deals with audit and audit-related ethics enhance quality and consistency? Potential misalignments between the two Codes might create confusion.

Nominations

Per the Consultation,

> "Currently, standard-setting board members are appointed by IFAC on the recommendation of its Nominating Committee and with the approval of the PIOB. Vacancies on the independent standard-setting boards are filled through an open call for nominations."
>
> "In order to address the current concerns set out elsewhere in this consultation document, the Monitoring Group seeks views on proposals that would require:
> - The standard-setting board nominations process to continue to be conducted via an open call for candidates; and
> - Once reforms to the Boards have been successfully implemented, the nominations process be administered solely by the PIOB."

CFA Institute agrees with the changes proposed to the nomination process. There needs to be a disconnect between the funding and the nominations process. The Monitoring Group needs to outline what the composition of the new nominating committee would be. We support a new nominating committee that includes various stakeholder groups, as appointed by the Monitoring Group. We further support the Monitoring Group overseeing the entirety of the nominations process.

Public Interest Oversight Board (PIOB)

Per the Consultation,

> "The Monitoring Group will serve as the nominating committee for the PIOB. In determining the membership of the PIOB, the Monitoring Group will consider the need for the membership to be representative of the wider non-practitioner stakeholder community, particularly in respect of geographical diversity, and will consider the suitability of applications with reference to a skills matrix (to be developed) which will identify those skills and attributes needed to represent and advocate for the public interest."
>
> "In order to ensure that the PIOB is viewed by stakeholders as independent of the accountancy and audit professions, this consultation proposes that IFAC will no longer be able to propose a member of the PIOB. The Monitoring Group will ensure that the PIOB as a whole has an appropriate technical understanding of audit matters by taking the advice of auditing experts within the Monitoring Group such as IFIAR."

CFA Institute agrees with these propositions.

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The PIOB plays an important role in safeguarding the public interest by overseeing all aspects of standard-setting. The PIOB should continue to approve all appointments to the standard-setting boards, and approve strategies, work plans, and budgets.

Monitoring Group

Per the Consultation,

> "Under the current model the Monitoring Group is responsible for:
> - Monitoring the implementation and effectiveness of the standard-setting reform process;
> - Appointments to the PIOB through its Nominating Committee, which relies on nominations from specific Monitoring Group member organizations; and
> - Monitoring the execution by the PIOB of its mandate, including approval of the PIOB's annual budget.
>
> This consultation will not, in the medium term, require changes to the role and remit of the Monitoring Group itself."

We agree that the role of the Monitoring Group should remain unchanged.

Staff

Per the Consultation,

> "Under the current model a very limited number of staff support the work of the standard-setting boards…
>
> To address stakeholder concerns about independence, the standard-setting board staffing model needs to change from a small in-house technical staff supplemented by in-kind contributions from the audit firms and professional accountancy bodies into a fully self-supporting body, independent of the IFAC and/or its members."

We agree that the new model proposed in this Consultation will certainly create a perception of greater independence but it will require a significant increase in permanent technical staff to undertake detailed technical work as the balance of responsibilities between board members and staff will change with the board focusing on strategic objectives.

The new model will require incurring of additional costs and there will no longer be in-kind contributions from board members and the firms that employ them. These changes should not be undertaken until the specifics of the funding model are addressed.

The Consultation also says,

> "In the transitional period, this may include the use of secondments from different stakeholders to help to build additional capacity. In the longer term the use of short term technical secondees will help the board respond to urgent projects which need to be undertaken, and also to ensure that the staff of the Board is regularly refreshed with those who have up-to-date practical technical skills."

The Consultation does not clarify where the secondees will come from and how it can be ensured that they will have the appropriate technical skills if they are not from the auditing profession.

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Funding

The Consultation states,

> "The scope for diversifying the funding base of the independent board and the PIOB will be further explored, although the Monitoring Group will seek a dialogue with those that use the standards issued by the Board (audit firms), those that benefit from high-quality audit (investors and preparers) and the international regulatory community as a way of providing adequate and sustainable funding. A preferred option would be to move to a situation whereby the Board and PIOB are less reliant on funding from the accountancy and auditing professions to fund their work, although the Monitoring Group is aware that this is a challenging proposition, given the limited progress that has been made to date on diversifying the providers of the PIOB's relatively small funding. The Monitoring Group is also mindful of possible practical difficulties in sourcing additional funding from the international regulatory community.
>
> The Monitoring Group is minded that the PIOB should collect and allocate funds independently of the standard-setting boards (rather akin to the role of the IFRS Trustees with respect to the IASB) and that funds be collected via a contractual levy on audit firms."

The proposals would create a standard-setting model that is potentially much more costly than current arrangements. The proposal will require a significant increase in funding with all board members being remunerated, a significant increase in the number of permanent technical staff and will require a new legal entity be established in a different location. However, there appears to be no authoritative basis on which to collect a levy from the audit firms.

Furthermore, should such a model be implemented we urge the Monitoring Group to consider ways to ensure that the new model is not seen to be a pay-to-play model. If not, the proposed model will not be seen to be independent as funding will still be seen to be coming from the profession. It is also unclear as to how many firms will be charged a levy, how this will be administered in different countries such as India or Malaysia and with what taxing authority. We urge the Monitoring Group to reconsider how a new funding model could be implemented, with what authority, and how it can be ensured that it is seen to be transparent and independent.

Public Interest Framework

We note that the Consultation does not define "public interest". We believe that this is critical before developing a framework. If by public interest the Monitoring Group means investor protection, we note that the Consultation does not refer to investor protection in the document.

The Consultation states,

> "To allow the public interest to be better embedded, the Monitoring Group has asked the PIOB to support it in developing a framework that serves as a mechanism for assessing how the public interest is captured throughout the standard-setting process. This will support the dialogue between the standard-setting board(s) and the PIOB. The intention is that the standard-setting board should have a clear understanding of issues which are likely to raise public interest concerns within the PIOB."
>
> "The Monitoring Group expects this framework to be at the very heart of any reformed standard-setting process, and has asked this work to be completed for its review, and approval of a draft for public consultation."

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We note that the public interest framework is critical to the proposed reforms but has yet to be developed. We are, therefore, unable to assess how well this mechanism might work. We urge the Monitoring Group and the PIOB to prioritize the development of the framework. Within the framework there needs to be a clear recognition that investors are the key customers of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs.

Need to Avoid Disruption

The Consultation states,

> "The review will be developed in stages, and will cover all aspects of the governance and oversight of the standard-setting process (including the nature and roles of the PIOB and the Monitoring Group itself) to identify any changes that are necessary once this stage of the consultation and reform is finalised.
>
> The reason for dealing with any reform in stages, is to avoid disrupting or otherwise undermining confidence in the current standard-setting process."

While understanding why the Monitoring Group wishes to conduct the reforms in stages, we note that the Consultation consists of potential change to a number of variables within the current model and there is lack of specificity in the Consultation about how the proposals will operate in practice.

We, therefore, urge the Monitoring Group to provide greater specificity as to how the proposals will operate and clarity about where there may be actual deficiencies in order to assess which options for reform should be undertaken and over what timeline.

Process Improvements

While the Monitoring Group is resolving the specifics of the funding model and governance structure, improvements to the current system should be explored. For example,
We suggest:

- Exploring closer liaison between the IAASB and IESBA on key projects to resolve issues that affect both their standards and avoid duplication of efforts.
- Enhancing the strategic focus of deliberations, focusing board discussions on significant issues, and improving the structure of staff papers.
- Examine the scope to redesign processes of the standard-setting boards for greater efficiency.
- Revise processes to rebalance the detailed work undertaken by the standard-setting boards and technical staff.
- Align staff numbers and skills to evolving standard-setting arrangements. The board Chairs, technical support staff, and oversight bodies should initiate a dialogue to ensure the sufficiency of staff resources.
- Encouraging staff to explore how to enhance processes and leverage technology to gain efficiencies.

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- Making additional investment such as stipends for voluntary or part-time members which result in potentially more diverse and deeper pools of candidates for the boards, or investment to expand the permanent technical staff, could have a positive impact on overall productivity of the Boards.

Enhancements to current practices will help maintain stable and productive operations, while at the same time allowing for experience to be gained with new practices and for the Monitoring Group to resolve the issues with the newly proposed funding model and governance structure.

Impact Assessment

The Consultation says,

> "Monitoring Group will develop an impact assessment (see below) and a detailed transition plan. These will be developed, working closely with key stakeholders, including IFAC, the existing standard-setting boards and the PIOB. This will include matters such as transition plan and necessary legal arrangements and structures."

We agree and believe that this is particularly important given that the proposed model has significant associated transition risks, does not provide sufficient details with many fundamental matters being deferred for later consultation. It is therefore important to be clear on implementation and transition risks and carefully consider the potential for unintended consequences.

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Thank you again for the opportunity to comment on the Consultation. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org or Sandra Peters, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters
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/s/ Ashwinpaul C. Sondhi
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APPENDIX

Chart depicting the governance framework around the development of international standards for audit, assurance, ethics and education:

Diagram 1