

Comments from Consejo Profesional de Ciencias Economicas de la Ciudad Autonoma de Buenos Aires – Argentina.

### **Section 1: Key Areas of Concern in the Current Standard-Setting Model**

#### **Q1. Do you agree with the key areas of concern identified with the current standard-setting model? Are there additional concerns that the Monitoring Group should consider?**

In our opinion, it is convenient that the governance reforms occurs simultaneously with the implementation of the new standard-setting model. Delaying the reform of the governance model would weaken the credibility of the new standard-setting boards and would affect their ability to fulfill their mission of developing standards that are in the public interest.

The present International Federation of Accountants (hereinafter, “IFAC”) standard-setting model has been very effective in serving the public interest by developing high quality standards for audit and ethics, and has contributed to accelerate the global adoption of the international standards around the world in a consistent manner. The broad adoption of standards for audit and ethics supports public interest and stakeholders’ needs, including investors’ expectations. Although the key areas of concern identified may reflect the concerns from some stakeholders about the current standard-setting model, we do not agree that there is any evidence that the existing standards have not been developed in the public interest.

The model has been changed over the last years, including the creation of the Public Interest Oversight Board (hereinafter, “PIOB”), as a key part of a collaborative model between the accounting profession (IFAC) and the international regulatory community represented by the Monitoring Group (hereinafter, “MG”), taking advantage of the benefits of a private-public articulation. Under this model, the PIOB role has been designed to act more in the role of a monitor than as a governance body to ensure that the public interest is properly served.

Notwithstanding the effective design and operation of the current model, the MG – in the consultation paper (hereinafter, “CP”) - notes that some stakeholders have the perception that the profession has undue influence in the standard-setting process. In response to that perception, the CP proposes moving away from the current private-public collaborative model to a new model, in which an independent entity is created to develop international audit-related standards. In a model in which the standard-setting boards are part of an entity that is independent of the profession, a governance body consistent with a board of directors (or trustees) would need to exist to provide oversight to the process, and not merely a monitoring function. One of the responsibilities of the governance body would be to set the strategy of the standard-setting organization, including the priorities of the standard-setting boards. In our opinion, the CP does not explore this fundamental shift in governance responsibilities, and merely attempts to broaden the role of the PIOB to expand its activities beyond monitoring to include some of the additional responsibilities that would be expected in a governance body. This could blur the line between governance and operations, and could diminish the effectiveness of the oversight board.

### **Section 2: Guiding Principles**

#### **Q2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?**

The reformed model should include the following three principles:

- **Distinct and separate roles for oversight and standards development:** Governance should oversee the activities of the standard-setting boards, without assuming the role of the standard-setting

boards by intervening in technical matters. The organization/model similar to International Accounting Standards Board (IASB)/International Financial Reporting Standards (IFRS) Trustees is a model for standard-setting and governance that would meet this principle. The governance body should not influence the content of the audit or ethics standards.

- **Participation of all relevant stakeholders at both the oversight and standard:** Setting levels (geographical representation and diversity of skills, expertise and perspectives). The aim should be designing a representative model of all key stakeholder groups, which should have confidence that their views will be considered and appropriately weighed from the beginning of the process. The board is able to make informed, balanced decisions taking into account all the inputs; and the resulting standards are of high quality and recognized as such by all stakeholders.
- **A pathway to broad-based funding within a foreseeable timeframe:** The current model's funding is provided solely by the profession. This is one of the factors that leads to the perception of ownership of the standard-setting process. The funding model for the board and the oversight body should be equitable and should be free from perceived conflicts of interest.

In order not to undermine the confidence in the reformed standard-setting model, the three principles should be met at the inception of the new model and not in stages.

In particular, in relation to the principle of "independence", we do not agree that the working groups should reflect, at each stage, the diversity of the key stakeholders. The working groups should be formed based on the need to support the staff in the development and drafting of projects, and their composition should reflect the specific needs of the draft standard-setting project that is being prepared. In our opinion, the board's dissemination and advisory functions are intended to gather the views of all key stakeholders.

Given that it is the board that directs the staff and working groups on the objectives and scope of the project, as well as the evaluation of the outcome of the working groups to make informed decisions, it is at the board level that participation of multi-stakeholder is needed and, in fact, it is essential to the credibility of the standard-setting process. We also believe that PIOB, in order to provide credible oversight, should also include the same diversity of multiple stakeholders as the board.

Additionally, in relation to the principle of "relevance", we believe that its description should be broadened to recognize the need to elaborate standards that are capable of practical implementation on audits and assurance commitments for all entities. This includes small and medium-sized entities, and private entities. We do not believe that it is in the public interest to have international standards that only take into account the needs relevant to the audits of listed entities or other public interest.

**Q3. Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so, what are they?**

The public interest framework is a key integral part of the standard-setting model. The CP notes that a framework for developing standards in the public interest has not been finished by the PIOB yet. It is difficult to comment on the CP in the absence of this framework.

It would be important for the public interest framework to be exposed for consultation prior to its finalization.

In developing this public interest framework, the public interest frameworks used by accounting standard-setting boards (IFRS) should be considered. The work performed by the auditors and their respective reports are directly related to the financial statements. Accordingly, the definition of public interest should be aligned for accounting and audit-related standard-setters.

Understanding the dynamic trends affecting the accounting profession, such as technology, innovation, globalization, etc. is also relevant in addressing the public interest. The trends need to be proactively identified, monitored and considered in the standard-setting process to address the public interest.

In particular, we believe that audit quality is best supported through principles-based standards, which are in the format of objective-based requirements with supporting application material. These standards are designed to perform audits and, therefore, to allow the auditors to determine how to design and perform their audits. It allows standards to be scalable, adaptable to the specific circumstances of any audit, and that can adopt technological changes. We recognize the importance of using standards as criteria for conducting inspections, but we do not believe that enforceability is or should be a primary attribute of standards in public interest. That approach could lead to rules-based standards that, in our view, would negatively affect the appropriate and necessary exercise of professional judgment, which is critical to carry out high-quality audits.

### **Section 3: Options for Reform of the Standard-Setting Boards**

**Q4. Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.**

There are both pros and cons of having two separate boards responsible for setting (i) auditing and assurance standards and (ii) ethical standards for auditors.

In the case of having two boards, we think that they should operate at a strategic decision-making level than in the current model, with multi-stakeholder representation in each board. However, the auditing and assurance and ethics standards boards should be aligned on the overarching principles around standard-setting. In order for the standard-setting boards to be able to function at the appropriate strategic decision-making level, both boards would need to have an expanded staff of professionals.

We recognize that having two boards formed by qualified professionals and supported by experienced staff will increase costs. This emphasizes the importance of the broadened funding base, where the profession is not the primary source.

It would also be important for the staff to operate in a manner that preserves and enhances the transparency of the standard-setting model, so that stakeholders can follow the development of standards and provide meaningful input into the standard-setting process.

**Q5. Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not, why not?**

In our opinion, it is convenient that the development and adoption of the educational standards remain a responsibility of IFAC.

In case the international audit-related standard setting is moved out of IFAC into an independent entity, the new governing body or the PIOB should not have an oversight role or responsibility with respect to the educational standards.

We also believe that the MG, and potentially the PIOB, have a role to play in promoting the global and consistent adoption of the international standards, and monitoring the barriers to their adoption or acceptance.

**Q6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.**

The fundamental ethical principles should be the same for the profession as a whole, which could be best achieved by continuing to have all ethics standards be the responsibility of a single ethics board. In addition, as an individual may move between roles throughout the individual's career (as preparer of financial statements, auditors, practitioners or other forms of professional accountants), having two sets of similar - but not exact - standards could give rise to unnecessary confusion about the expectations for the individual.

However, if the responsibility for the setting of ethics standards is split into two boards (in the case that the ethical standards for professional accountants in business would remain with IFAC), we believe that the fundamental behavioral standards that apply to all the accountants should be the same. One way to meet this objective would be for the two ethics boards to jointly develop and work on common behavioral ethical standards. Each board would then independently develop incremental standards that would apply to accountants in business or for auditors, as applicable.

**Q7. Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so, please set these out in your response along with your rationale.**

Having one set of global standards that is principles-based and scalable for small and large companies is critical to the global economy. For example, there should be a clear plan as to how the new standard-setting model will ensure the global buy-in by all multiple stakeholders and a consistent adoption of the future standards.

It is in the public interest for the reformed standard-setting board to have the regulatory objective of including auditing and assurance standards that are appropriate for the services performed for all entities, regardless of their nature, size and complexity. This includes small and medium-sized entities (SMEs), private entities and the public sector. In our opinion, the MG needs to pay special attention to the adequacy of the reforms for the stakeholders of these entities.

**Section 3 cont'd: Current Composition and Role**

**Q8. Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?**

In our opinion, the boards should operate increasingly at a strategic decision-making level with highly qualified technical staff responsible for leading project development. Notwithstanding, we believe that ultimately the board is responsible for the standard, and each member of the board voting for or against the adoption of a proposed standard has the responsibility to fully read and understand the proposed standard and not just rely on the fact that the staff of the board have followed the due process in its development. In order for each board member to fulfill this responsibility, it will be important for each standard-setting board member to have at least a basic understanding of auditing and ethics.

We also believe that remuneration should be used to attract and retain the most qualified members, such as audit committee members, investors, regulators and preparers of financial statements. The remuneration should be based on the market-comparable rates with boards of similar nature and responsibilities.

**Q9. Do you agree that the board should adopt standards on the basis of a majority?**

We disagree with this proposal. It is not in the public interest to adopt standards that all the multiple

stakeholder groups, in their entirety or a significant part, do not support. Reaching consensus is important to establish high quality standards in the public interest. However, we agree that requiring unanimity would not be practical. Accordingly, we recommend that the super majority currently required be retained in the new model. Further:

- We believe that the timeliness of standard development should be evaluated in the context of specific projects. Moving too fast or not fast enough both present risks, and it is necessary to find the right balance.
- The change in the boards' composition so all stakeholder groups are represented will add value and quality to the standard-setting process. However, it will likely add time to the process on the front end, but may result in efficiencies at the end of the standard-setting process.

Transparency during all the standard-setting process and subsequent adoption is key. It is important to have open meetings, to share publically "in process" drafts, to describe the basis of dissenting in public publications, etc. The standard-setting boards should provide sufficiently detailed "basis for conclusions" to promote a global and consistent implementation, which is critical to serve the public interest.

**Q10. Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?**

In determining the right number of standard-setting board members for each board, there is a need to strike the right balance. The board should not be:

- Too large. The board should be able to engage in meaningful dialogue and all members actively participate in the dialogue.
- Too small. The board should be large enough as to achieve an appropriate diversity of representation (geographic and skills mix).

We believe that the size of each standard-setting board should be fixed and, therefore, would not support the concept of a minimum board size. In considering the fixed board size, it would appear that a board with 12 members would allow for the right level of engagement within board discussions, but may not be large enough to achieve appropriate stakeholder representation. Maybe, a board of 15 or 18 members is needed to achieve the diversity objectives.

While we believe that the list of already identified stakeholders may be comprehensive, it will be important to identify sub groups within each group in order to obtain appropriate multi-stakeholder representation. For example, the regulator group could include securities regulators, audit regulators and financial institution regulators. It may also be appropriate to move users (investors) to the regulators' group as their interests may be more aligned with certain regulators. Using this approach, the third group would be a preparer group, which would include preparers, audit committee members, and others involved in governance.

Evolution in the profession may translate into the need for individuals with specialized knowledge to participate in the standard-setting process.

The participation of all relevant stakeholders at both oversight and standard-setting levels is needed. To ensure that a reformed standard-setting model has wider acceptance, we believe there should be greater multi-stakeholder involvement in the development of the reformed standard-setting model. One way to

effectively accomplish this would be for the MG to explore ways to increase multi-stakeholder participation as it moves into the next phase of its project, such as increasing engagement with stakeholders throughout the process of developing the proposed reforms, adding representatives from other stakeholder groups to the MG standard-setting reform working group, creating a new multi-stakeholder panel or working group to develop the proposed reforms to the standard-setting model, etc. This will ensure that the multi-stakeholder views are incorporated from the beginning, which should facilitate a smoother transition from the current model to the future model.

**Q11. What skills or attributes should the Monitoring Group require of board members?**

All the members of the board should be respected representatives of the groups of stakeholder that they represent. All of them should have at least a basic understanding of auditing and ethics while some of them should be audit experts. They should have appropriate time, interest, skills, a strategic vision, and the energy needed to commit to the standard-setting activities.

**Q12. Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?**

The Consultative Advisory Groups (hereinafter, "CAG") add value as they evaluate proposed standards at a more detailed level, providing an important input to the process.

There should be a greater transparency around CAG meetings and, depending on the nature of the project, additional supplement expertise may be required.

**Q13. Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?**

In our response to the question 3, we pointed out that the CP notes that a framework for developing standards in the public interest has not been developed yet. Be believe that it is critical to have this definition.

**Q14. Do you agree with the changes proposed to the nomination process?**

In our response to the question 1, we stated that, in our opinion, it is convenient that the governance reforms occurs simultaneously with the implementation of the new standard-setting model. Therefore, the nomination process will need to be considered accordingly.

Public confidence will be enhanced when all the multiple stakeholders are represented in the reformed governance body that appoints standard-setting board members. This reformed governance body should be responsible for the selection and appointment of well-recognized standard-setting board members, using an open nomination process.

**Section 4: Oversight – Role of the PIOB**

**Q15.1. Do you agree with the role and responsibilities of the PIOB as set out in this consultation?**

In our opinion, in a reformed model, the governance of the standard-setting boards also needs to be changed. The model stated in the CP retains the current role of the PIOB with expanded responsibilities. PIOB acts more like a monitor, with a strong influence in the standard-setting process, rather than playing a role of a governance body. The role and effectiveness of the governance body will be a key factor of the standard-setting reform and ensures the confidence of all the multiple stakeholders that neither the profession nor any other part will have an undue influence on the standard-setting process. The oversight body should serve as the guardian of the reformed model and its effectiveness. It should oversee that (i)

due process has been observed; (ii) the reformed model is robust; and (iii) the multiple stakeholders have confidence in it.

The governance body should not directly intervene in the work of the standard-setting boards and technical debates. The credibility of the standard-setting process depends on its independence from any particular outside influence.

We recommend that the governance body should be modeled following the guidelines of the IFRS Foundation Trustees. In our opinion, it serves as an effective governance body and ensure the accounting standard-setting board appropriately serves the public interest.

**Q15.2. Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards?**

We do not believe that the PIOB or the governance body should be able to veto the adoption of a standard, or challenge the technical judgements made by the standard-setting boards. The role of the governance body should be the oversight, rather than putting itself in a position in which – via veto or technical challenges - it becomes the *de facto* standard-setter.

The governance body should have the power, after public consultation, to reconsider or amend the due process used by the standard-setting boards. It also could make recommendations, such as improvements to the standard-setting board’s outreach activities.

It would be beneficial to periodically require the governance body to undertake a public review of the structure of the standard-setting boards, its governance arrangements and its effectiveness in fulfilling its objectives.

**Q15.3. Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?**

In our opinion, the PIOB needs to be replaced with a new governance body. The CP notes that there is a perception that the profession has an undue influence on the standard-setting process. A critical component of such process is to involve all the multiple stakeholders, including those who are challenging the focus on the public interest, in the debate. The governance body should communicate the rigor of the due process followed by the standard-setting boards, and the rigor of its oversight of the activities of the standard-setting boards.

**Q16. Do you agree with the option to remove IFAC representation from the PIOB?**

As mentioned before, it is critical to reform the current governance process around standard-setting where the new governance body is selected using an open nomination process (a model similar to the IFRS Foundation).

**Q17. Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?**

As the composition of the standard-setting boards, the governance body should also have multi-stakeholder representation. We consider all board members should have current relevant experience of using audited financial statements where some members are also audit experts.

It is essential that the governance body includes individuals with experience in serving governance roles (boards, audit committees, risk committees, etc.) on Public Interest Entities, and well recognized for their background in assessing both management and the auditors work.

Likewise, to continue supporting its credibility in the supervision of due process of technical standards, PIOB should include current auditors in its composition, given that these would incorporate technical knowledge, directly derived from applying international auditing and accounting standard in its membership.

**Q18. Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?**

We believe that the appointment process to identify individuals to be part of the governance body should include an open nomination process. In this way, any party will be able to nominate individuals for consideration. We also consider that such process should not be limited to candidates nominated by the MG. The call for nominations should be open to anyone with the appropriate criteria and supportive of a robust and open dialogue on standard-setting that serves the public interest – model similar to IFRS Foundation.

**Q19. Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?**

It would be better if the new governance body should focus only on the independent standards setting boards for auditing and assurance and ethical standards for auditor's professionals in business. Although the activities of other issuers must be taken into account to avoid inconsistencies, under the reformed standard-setting model, we do not believe that the governance body should have a direct oversight role over the activities of the standard-setting boards.

While we do not believe that direct oversight of PIOB is necessary over the work of other standard-setting boards that intend to remain within IFAC, the activities of these boards should be closely coordinated with the new board in order to avoid conflicts or unnecessary inconsistencies in the requirements, which are or should be applicable to all professional accountants. We believe that PIOB's oversight of the new board could include oversight of agreed coordination processes, such as those we suggest related to ethical standards-setting in our response to the question 4.

## **Section 5: Role of the Monitoring Group**

**Q20. Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?**

We agree that the responsibilities that have been identified in the CP for the MG. However, we believe that the role and responsibilities of the MG under a reformed model should also be redefined. To holistically address reforms to the standard-setting process, we recommend that the roles and responsibilities of the MG should also be considered at this time. As mentioned in our comments to question 2 and question 15.1, we do not believe the PIOB meets the remit of the governance body to oversee the standard-setting model and due process. Given the needed changes to the governance model, the MG role, which is currently responsible for the nominations to the PIOB, will likely also change. It is also clear that the composition of the MG is not representative of all key stakeholders. As



mentioned earlier, an appropriate multi-stakeholder representation of the entire reformed model is critical to restoring stakeholder confidence.

We believe that moving to a role more aligned with the role of IFRS Foundation Trustees and its standard setting board is a good model to be considered. We also believe that there should be more transparency with respect to the members of the MG and their activities. For example, in the current model, the groups that are members of the MG are disclosed, but not the names of the individuals that are part of those groups. The name of the Chairman is the only one publicized.

### **Section 6: Standard-setting Board Staff**

**Q21. Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?**

We consider it is necessary to expand permanent technical staff to support the standard-setting boards. The technical staff should be valuable professionals with recent or current relevant experience in auditing in order to lead project development and stakeholder outreach and let boards operate at the strategic level. Project management and technical skills - that remain market-focused and up-to-date in the fast changing global environment - are essential for these staff.

In case it is necessary, shorter-term seconded staff can be hired for the specific projects that require deep expertise in certain areas.

**Q22. Do you agree the permanent staff should be directly employed by the board?**

We agree that permanent staff should be directly employed by the board. It would be recommendable to form a construct that includes a separate legal entity, similar to the IASB. In order to attract and retain valuable members, in addition to compensation, it is important to consider career progression.

### **Section 7: Process Considerations**

**Q23. Are there other areas in which the board could make process improvements – if so what are they?**

The participation of all relevant stakeholders - at both the governance and standard-setting levels – is critical to increase transparency in all the stages of the standard-setting process.

Therefore, we believe it is important, as part of the analysis of the reform options, to focus on the necessary supporting advisory and outreach processes to facilitate timely and effective dialogue with relevant stakeholders throughout the development process of the standards.

In this sense, given that we believe that the board should focus more strategic in nature, which leads to less discussions on technical issues, it may be useful to create a Technical Advisory Group, through which the board gain access to technical input, also including as a useful source of resources for working groups, thereby supporting the permanent and seconded staff.

### **Section 8: Funding**

**Q24. Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit**

**firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?**

We do not believe that an appropriate check and balances would mitigate the perception of undue influence by the profession, unless a diversified sustainable funding model is implemented within the near future, and it does not primarily depend on the audit Firms.

The revised model would include paid board members and permanent staff, and higher costs of standard-setting. These incremental costs - needed to support the standard-setting reforms - should not increase the current contribution of the profession.

**Q25. Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?**

In our opinion, we consider that a “contractual” levy should not be applied on the profession to found the board and the PIOB, mainly because this levy perpetuates, and in fact, increases the formality of the audit Firms being the sole source of funding the reformed standard-setting model, and for an undetermined length of time. The imposition of such a levy is totally contrary to the importance of an independent standard-setting model.

#### **Open Questions**

**Q26. In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.**

It is important that the IFAC continue playing a role in the standard-setting process, contributing to the consistent global adoption and implementation of the standards.

**Q27. Do you have any further comments or suggestions to make that the Monitoring Group should consider?**

A reformed model would have a greater acceptance if all the stakeholders had confidence that their needs and expectations have been properly considered from the beginning. The MG should explore ways to increase multi-stakeholder participation, as it moves forward in its projects.

Further, as we mentioned above, there is no common definition of “*public interest*”. The MG should prioritize the development of the “*public interest framework*”, as it decides the following stages in these important initiatives, where the CP is the first and transcendental step.

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