

Sent via e-mail: MG2017consultation@iosco.org

29 January 2018

Ref: 18/02

Mr. Gerben Everts
Chair of the Monitoring Group

Dear Mr. Everts,

RE: Monitoring Group consultation on *Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest*

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent Monitoring Group consultation which aims to consider options for further enhancing the governance and oversight of the international audit-related standard-setting process.

The IAIS is a founding member of the Monitoring Group and has been an active contributor to its work to advance the public interest in international audit standard-setting and audit quality. We acknowledge the significant work done by the Monitoring Group members in developing the options outlined within the Consultation and we are proud to have been able to participate and contribute to those work efforts.

The IAIS believes the options provided and questions asked within the Consultation will result in useful feedback on how best to move forward to address issues about the independence of the current standard-setting process and its responsiveness to the public interest. The IAIS looks forward to the dialogue which will follow the Consultation feedback, and it plans to actively contribute as necessary to the development of a complete set of final reform proposals, detailed transition plan, and impact assessment that will be subject to further public consultation.

We agree with the problems identified, including the possible undue influence by the audit profession on the standard setting process and the overarching principle that standard setting serve the public interest. The supporting principles identified within the Consultation help to outline considerations that are in the public interest. The supporting principle of 'relevance' could be defined to also include the idea of high-quality standards. Also, the statement within the Consultation that the standard-setting must also be sustainable in the long-term – which brings to mind issues of funding, strategy and organisational competence – could arguably also be specifically identified in terms of a principle supporting the public interest. As the public interest framework is a key component of the reform initiative, we look forward to the development of such a framework and its future release for public consultation.

The Consultation outlines various options with respect to the future structure of the standard-setting Board(s), all of which could work under the right circumstances, but this is difficult to assess without a clear view of all the details that may be key to effective operation. Given that, the IAIS looks forward to the dialogue following the feedback received on the proposal for an appropriately sized and skilled board(s) responsible for the development and adoption of international auditing and assurance standards and ethical standards, with IFAC retaining responsibility for educational standards and the IFAC compliance program. We agree that

IFAC should continue with responsibilities for which they have expertise and that do not need to be carried out in a structure that is independent of the profession (such as running the international compliance programme), whereas an independent body should be responsible for audit-related standard-setting activities that must be conducted in the public interest. On the matter of ethical standards, it may be useful and efficient to have that done by a single board so as to have better alignment of timing, consistency and a strong foundation of high-quality standards across all auditors and professional accountants in business.

The IAIS believes that changes to the standard setting boards nomination process is needed to address concerns on independence. We agree with the proposals for continuing an open call for candidates and the appointment of board members should not reside with IFAC. A nominating committee should be independent of IFAC and should be tasked with carrying out the selection process.

The IAIS agrees with the proposal to provide adequate remuneration to standard-setting board members, at least some of whom should be full-time, and to have an appropriate level of permanent technical staff, as both are necessary to promote independence and to ensure high quality and credible standard-setting. Maintaining a smaller, multi-stakeholder and more strategically-focussed board should allow for more proactive planning and response to emerging trends. The Board members must also have sufficient technical skills to fully appreciate the elements needed for high-quality standards and provide effective direction and challenge to the materials developed by the staff. In this regard, the IAIS fully supports the development of a skills matrix for assessing potential board members, continuing with the use of the Consultative Advisory Group (CAG) to provide the board with stakeholder input, and incorporating good governance practices such as member rotation or staggered terms to balance the need for board continuity with the also valid need for a periodic refresh of the members to ensure the board has up-to-date skill sets and perspectives.

An appropriate role for the chair of the board(s) is crucial to the effectiveness of any board structure developed. The IAIS supports a strong role for the board chair, including the ability to appoint senior staff based on merit considerations and providing recommendations regarding the appointment or reappointment of the members of the board.

At the same time, the Public Interest Oversight Board (PIOB) should be an effective check on the chair and the standard setting board(s), and it needs to ensure the chair is accountable for effective audit-related standard-setting in the public interest. In this regard, the PIOB's functions should be focussed to ensure that it can properly oversee and evaluate the activities of the board and its members, and could be appropriately expanded, such as approval of board budgets and possibly having a role in the procurement and collection of funds. However, it would not be appropriate to specify the full extent of the PIOB's necessary functions until the other parts of the reforms are better understood including how the public interest will be met. As a result, providing the PIOB with a veto over the adoption of a particular standard or the ability to technically challenge or direct the standard-setting board to take certain actions may or may not be a step too far into the board's operational responsibilities – if such powers are to be provided to the PIOB, it should only be within a framework that defines where such an override is clearly needed to protect the public interest.

The Monitoring Group should continue to monitor the overall implementation and effectiveness of standard-setting reforms, and specifically the execution of the PIOB's mandate and approval of its budget. The Monitoring Group should continue to serve as the nominating committee for the PIOB, utilising appropriate skills matrices and criteria, and as proposed IFAC should no longer have a role in this process so as to better ensure PIOB independence. As part of these reforms, the future role of the Monitoring Group may need to be redefined.

Lastly, having a stable independent long-term funding model is of paramount importance for ensuring the effectiveness of the future standard-setting processes, governance and oversight. The IAIS supports the principle that the main beneficiaries of high-quality globally accepted standards should bear the cost of the processes in place to develop them.

The Consultation focusses on diversification of the funding base as a means to support independence objectives, and considers whether the funding could come from mandatory levies rather than voluntary contributions. Many regulators use a funding model in which regulated firms are charged levies in order for the regulator to recover the costs of their operations – this model does not create regulator independence issues as the cost recovery levies charged to regulated firms are mandatory fees, not voluntary contributions. At the same time, the model should also ideally consider funding from other significant beneficiaries of high quality standards so as to minimise the proportion of ‘free-riders’ in the system. However, there are many difficulties in trying to tie a funding model too tightly around the concept of users pay, and the IAIS looks forward to the future discussions and specific consultation on the funding issue. All things considered, a better diversity of funding sources would be a good step forward.

This response letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG’s membership represents a subset of all IAIS members. If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: mark.causevic@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,



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Chair, Executive Committee



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Committee