



To the Monitoring Group (MG)

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Subject: Eumedion's response to the Monitoring Group's consultation document 'Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest'

Ref: B18.06

The Hague, 9 February 2018

Dear members of the Monitoring Group,

Eumedion appreciates the opportunity to respond to your consultation document 'Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest'. This excellent consultation document depicts a clear ambition towards a modern and future-proof governance structure for audit standard setting that will be much better aligned with the public interests. In general, we support the suggested changes.

Eumedion represents the interests of over 65 institutional investors, all of whom are committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard reporting and audit frameworks as a critical part of a global financial infrastructure, especially since investors are dependent on the quality and credibility of reporting for allocating their own and entrusted capital. Together our participants invest over € 5 trillion of capital in equity and corporate non-equity instruments.

Please find our response to the questions below.

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

We agree with each of the three key areas of concern, i.e. 'adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession', 'standards are not developed fully in the public interest' and 'relevance and timeliness of standards'. We do not see any other key areas of concern.

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

We agree with each of the six supporting principles. However, the objective 'Cost effective' insufficiently stresses that standards should always aim to be effective, not just cost effective. A low cost standard with a low effectiveness should not qualify as a substitute for a medium cost standard with medium effectiveness. We suggest that the objective is renamed to 'Effective and cost effective'. It could also include a reference that both the costs and the benefits of a (revised) standard should include the perspective of the general public including investors, and the audited entity.

Effectiveness of standards is also dependent on whether authoritative wording is appropriately used versus wording that is considered to be voluntary guidance. In choosing whether parts of a standard are formulated as guidance or hard requirements the board should judge which language is most effective in serving the public interest. Generally, if hard requirements are a realistic alternative for voluntary guidance, the board should aim for hard requirements.

**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 MG could add the criterion of enforceability. Generally, if standards are phrased in a way that contributes to enforceability, we expect this to contribute to their effectiveness. Lack of enforceability will negatively affect stakeholders' trust in the effectiveness of the framework as a whole.

**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.**

We strongly prefer a single board for both assurance standards and ethical standards for auditors. Ethics standards are of no less importance than the assurance standards themselves. We concur with the strategic focus of the board as envisaged by the MG, and the hiring of supporting staff to prepare board documents. We expect the MG to design a selection process that results in a single board that is capable of setting standards for both. A drawback of separate boards is that if the frequency of publications of the ethics board turns out to be lower than the assurance board, the general public could interpret this as if ethics are 'delegated' to separate board and not as important as the assurance standards themselves. Keeping two separate boards implies there would be a bright line between ethics standards and assurance standards, of which we are not convinced. Besides, a single

board is more simple, likely to be cheaper, and requires the recruitment of fewer high quality board members.

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

We agree.

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

We agree. We acknowledge that there are differences in ethical requirements for auditors and accountants in business: the auditor should serve the public interest, whereas the accountant in business is in a much less independent position and cannot be expected to serve the public interest as extensively. Mixing the target audience may result in diluted requirements for auditors as some requirements may turn out to be excessive for accountants in business. We see a strategic need for the IAASB to focus on auditing only. Therefore, setting standards for accountants in business that are not auditors should fall outside scope of the IAASB. There is also a credibility issue as an accountant in business could challenge any ethical standard imposed by the IAASB on him as he may perceive it as a demand set by a board that has, or should have, a strategic focus on auditing only. In line with the logic mentioned in the consultation document, we consider it more appropriate for IFAC to set ethical standards for accountants in business.

**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.**

No, we are not aware of any further options.

**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?**

Yes, we agree with both questions. We expect the strategic focus, together with the hiring of staff, to result in a greater standards setting capacity to meet changing environment and needs from society. We expect the resulting lesser focus on detailed drafting to reduce the risk of the board missing out on strategic issues.

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

Yes, we agree. Even though we foresee that board members are likely to reach consensus on many topics, majority voting is necessary to safeguard progress. Besides, a due standard setting process is a better safeguard for high quality standards setting than the alternative of super majority voting.

**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 parttime (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?**

We disagree with just limiting board size to 'no fewer than twelve'. We are not in favour a much larger board than twelve as we are not convinced this positively affects constructive decision-making. However we would grant the PIOB some degrees of freedom to adapt board size to circumstances. Instead of 'no fewer than twelve', we prefer 'no fewer than 10 + 1 (chair) and no more than 14 +1'.

We welcome the suggestion to allow part-time board membership. We expect this to be instrumental in ensuring that sufficient high quality board members from all backgrounds can be found. This is also in line with IASB practice where part time board membership is allowed, and to our knowledge, at least one board member currently is installed on a part time basis.

We firmly believe that seeking only full-time members would unnecessarily and unhelpfully restrict the membership of the board and reduce its ability to stay in close touch with changing perceptions among its stakeholders.

We are unconvinced that the suggested 'equally represented from the three groups' properly safeguards that the board as a whole will, and will be perceived, to work in the public interest. The main reason is that the definition of the three categories is not along the lines of the different stakeholders' interests. Investors and preparers now are combined in a single category 'users', which wrongly implies that it is not so relevant whether a board seat is taken by either an investor or a preparer. Instead, we would like to propose five categories: 1) investors; 2) regulators (including audit, securities supervisors and enforcers and prudential regulators); 3) auditee related stakeholders (preparers & those charged with governance); 4) auditors; and 5) academics. We would like to suggest that each group should be represented.

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

The MG should especially safeguard that the board as a whole has all the skills and attributes that are needed for constructive decision making on high quality audit standards at an expedient pace.

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

We agree. We expect that keeping the concept of a CAG in place will facilitate making other changes to the structure. Over time the role of the CAG may be revisited.

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

We agree.

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

We agree. We consider this as one of the key changes. We assume that it is the intention to have an open call for candidates.

**Q15. Do you agree with the role and responsibilities of the PIOB as set out in this consultation? 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? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?**

We agree. We foresee no longer a need for giving the PIOB a veto on the adoption of a standard with the proposed improvements to the nomination process and the envisaged IAASB composition.

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

We agree. We foresee that the proposed changes to the structure somehow transform the nature of the PIOB to materialise towards a structure that mirrors the governance structure of the IFRS Foundation, where the PIOB will take on a trustee-like role. In such capacity, the PIOB should indeed be independent from the audit profession. PIOB members/Trustees should be appointed as individuals, not as representatives of any specific organisation.

**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?**

General well established practices for boards of listed companies would also apply to the composition of the PIOB. to be effective, boards should not be too large; boards need to be sufficiently diverse, for example in expertise, background, region, age and gender. The use of a skills matrix can help ensure all skills are properly represented. That said, individual board members do not necessarily need to be Chartered Accountant.

**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 have no detailed comments. Ultimately, we would support the PIOB and the MG practices to mirror those of IFRS Foundation's Trustees and monitoring group, which we consider as best in class amongst standards setting bodies.

**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?**

We are convinced that the public interest is best served with a PIOB that focuses on auditing and assurance and ethical standards for auditors only. We also refer to our response to question 6. We consider educational standards to be clearly within the domain of the profession itself.

**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.

**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 agree.

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

We agree.

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

No, we have no detailed comments on this topic.

**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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?**

**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?**

We see merit in the idea that a levy on the profession collected by the PIOB as it best safeguards the independence of the standards setting board. We currently have no suggestions for other funding mechanisms.

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

No, we are not aware of any other matters.

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

No, we have no further comments on this topic.

If the MG would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos ([martijn.bos@eumedion.nl](mailto:martijn.bos@eumedion.nl), +31 70 2040 304).

Yours sincerely,

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