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The Monitoring Group
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

Re: Consultation Paper on *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*

Filed Electronically: MG2017consultation@iosco.org

To Whom It May Concern:

The U. S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.¹ The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. The CCMC supports efforts to improve audit effectiveness, including through one set of global high-quality auditing standards. The CCMC appreciates the opportunity to comment on the Monitoring Group (“MG”) Consultation Paper on *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest* (the “CP”).

Financial reporting is built upon a foundation of investor protection and capital formation. In our inter-connected world, both U.S. and international standards are

¹ The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

relevant to the U.S. and all participants in its capital markets.² We are very concerned with the CP in that it:

- 1) Does not identify the problem it seeks to address;
- 2) Fails to define the public interest;
- 3) Fails to recognize the strengths of the existing standard-setting model, including global adoption of the existing standards; and
- 4) Fails to consider the impact of the proposal, particularly costs to the global economy.

Public interest is at the core of the CP, yet the CP fails to define what the public interest is. To move forward without identifying and discussing the problem or defining the public interest is fraught with potential harm to the capital markets, capital formation, and investors. For example, it is not clear whether the public interest includes investor protection and capital formation. If it does not, this may have adverse consequences for financial reporting certainty and the flow of decision-useful information. We also note that regardless of the definition of public interest, all stakeholders have a role in promoting the public interest, and diversity of views is important to maintain in doing so.

Furthermore, we believe that options proposed in the CP, in their current form, can discourage broad stakeholder participation in the standard setting process and possibly not attract the expertise needed to develop audit standards. As a result, the CP, if adopted in its current form, may obstruct governance and oversight. Accordingly, we would support a more thorough review and impact assessment before any changes to the existing model are proposed.

1. Premise for Reform

The CCMC appreciates the efforts of the MG to consider strengthening the governance and oversight of the international standard-setting bodies for auditing and ethics—namely, the International Auditing and Assurance Standards Board (the “IAASB”) and the International Ethics Standards Board for Accountants (the

² Further, international standards are relevant for other U.S. entities, including governmental entities.

“IESBA”). The CCMC strongly supports a commitment to transparency, due process, and public consultation in this reassessment.

The responsible case for extensive reform requires compelling evidence of a problem, a clear articulation of that problem, and cost-beneficial solutions to the problem.³

The CP asserts reform is needed because of a *perception* of undue influence by the accounting profession on the standard-setting process. This is an assumption for which the CP does not provide compelling evidence. Indeed, the CP acknowledges it is not the case that the standards are deficient. Even so, the assumption was the basis for outreach by the MG and used to develop key reforms.⁴

The CP goes on to state that the *assumed* perception represents a risk that standards will not be relevant, timely, or developed in the public interest and speculates further that this may adversely affect stakeholder confidence in the standards.⁵ However, to the contrary, many consider the IAASB the premier auditing standard-setter in the world. Furthermore, in addressing the vast majority of standard-setting issues, the IAASB has been timelier than other standard-setters, such as the Public Company Accounting Oversight Board (“PCAOB”) in the U.S.

As our subsequent discussions of oversight, funding, board structure, and staffing explain, the CCMC is concerned that the proposed reforms may undermine the efficacy of the audit-related standard-setting process, in addition to being very costly.⁶

³ The MG acknowledges that audit-related standards should be cost effective (see the CP, page 9). The CCMC strongly believes that this overarching principle should be extended to the standard-setting process itself.

⁴ The CP states that the MG interviewed 29 current and former standard-setters and engaged with the International Federation of Accounting (“IFAC”), the Public Interest Oversight Board (“PIOB”), and the Global Public Policy Committee (“GPPC”), among others (see the CP, pages 8 and 28). Appendix 2 of the CP provides *examples* of questions posed during these interviews. While the CP describes this as the “evidence record,” the CP does not identify the individuals interviewed or provide any data on their responses. Further, the CP does not indicate whether this information is either publicly available or available on request.

⁵ See the CP, page 8.

⁶ For example, the MG acknowledges that options proposed in the CP will require changes in legal arrangements, taxation arrangements, lease agreements, and employment arrangements; changes in the location of the Boards, staff, and any oversight bodies; and changes in the ownership of the International Auditing Standards (ISA’s), Code of Ethics, and other pronouncements and guidance (page 7). None of these matters are considered in the CP. Setting aside the uncertainties inherent in negotiating all these types of activities and arrangements, these changes will involve significant one-time costs and will likely result in significantly higher recurring costs for standard-setting going forward. Additional costs would also occur from an increase in compensated individuals envisioned under options discussed in the CP.

2. Oversight

The CCMC strongly supports the core principle of a separation in oversight and standard-setting. Oversight of the standard-setting process by an independent body should be a distinct and separate role from the development and drafting of audit-related standards.

The CCMC does not support the CP proposal for intermingling the PIOB's responsibility for oversight of the standard-setting process with direct participation in promulgating auditing and ethics standards. For example, the CP envisions giving the PIOB veto powers and/or the ability to instruct the standard-setting board(s) as to the measures to take to remedy any identified breach of the public interest in the standards themselves.⁷ Such direct involvement by the PIOB would be contrary to the core principle of separation and inconsistent with notions of independence from the process by those charged with oversight and governance.

Broad stakeholder participation and independence are critical for informed and effective standard setting. Standard setter independence should also mean that no one point of view dominates the standard setting process.

The CP as constituted appears to thwart stakeholder participation in the standard setting process at all levels. Situations where this has happened in the past, such as the Fair Value accounting issues in 2008-2009, led to ill-informed decision making that created financial reporting distortions and threatened the independence of the Financial Accounting Standards Board ("FASB"). Similarly, the benign exclusion of the issuer voice in the PCAOB deliberations created a proliferation of internal controls that failed to provide investors with more decision-useful information while driving up costs for businesses. Fortunately, the Financial Accounting Foundation ("FAF") and the Securities and Exchange Commission ("SEC") stepped in to help address these shortcomings in due process.

Similarly, a time-honored tenet of the perception of independence involves the separation of external auditing from management and, therefore, precludes an ethical auditor from auditing his or her own work. It would be ironic indeed if this very principle, the preservation of which the PIOB has been entrusted to oversee, were to be violated in its own structure of oversight with PIOB control of the content and substance of the standards themselves.

⁷ See the CP, page 18.

Instead, after a more thorough consideration of the need and evidence for change, as part of exploring alternatives to address any resultant oversight concerns, the CCMC encourages the MG to consider a multi-stakeholder trustee model. A trustee model for oversight and governance is used in accounting standard-setting. For example, the International Accounting Standards Board (“IASB”) is an “independent standard-setting board of experts selected on the basis of professional competence and practical experience and drawn from a variety of backgrounds” and “is governed and overseen by trustees from around the world (IFRS Foundation) who in turn are accountable to a monitoring board of public authorities (Monitoring Board).”⁸ We suggest the MG consider a similar model.

A trustee model would also help address two other issues identified in the CP: funding and barriers to representation for at least some stakeholders in the audit standard-setting process. As to the latter, a trustee model for oversight would allow for broader representation from stakeholders as the barriers to service for some stakeholders (because of extensive time commitment and certain technical expertise requirements) would be mitigated. That said, trustees should be inclusive of all stakeholders and, in particular, avoid excluding the auditing profession.

Among the oversight responsibilities of the trustees would be to select board appointments through an open and transparent nomination process. Trustees would also have overall responsibility for funding audit-related standard-setting and the standard-setting boards. We next discuss funding in more detail.

3. Funding

According to the CP, currently IFAC directly funds the costs of audit-related standard-setting in the amount of about \$18 million annually. In addition, another \$12.5 million of in-kind contributions are provided by those that sponsor board members or provide board members with access to a technical advisor. In turn, IFAC is funded by member organizations and the global accounting profession.⁹

The CP presumes “the fact that these contributions are paid directly or provided directly to the organization which is currently responsible for the appointment of board members [i.e., IFAC] creates a significant risk or perceived risk that there may be a link between willingness to pay and ability to influence the

⁸ See “Remarks before the 2017 AICPA Conference on Current SEC and PCAOB Developments” by Nigel J. James, Associate Chief Accountant, Office of the Chief Accountant (December 4, 2017).

⁹ See the CP, page 25.

standard-setting process in some way.”¹⁰ The CP proposes to change the extant arrangements through a contractual levy on audit firms that would be collected and allocated by the PIOB.

Adopting a trustee model for oversight addresses one aspect of concern as board members would no longer be appointed solely by IFAC, although IFAC could nominate individuals for trustee consideration. Otherwise, we question the practicability of a contractual levy on audit firms. Certainly, the legal authority for such a levy is problematic. Furthermore, funding from audit firms would still be funding from the profession. Thus, it is difficult to understand how a levy would solve any perceived or actual problems of funding from the profession.

IFAC and the audit firms have generously “stepped up to the plate” to fund international audit-related standard-setting. If indeed there is a perceptual problem with the profession funding standard-setting, we strongly recommend that the MG develop a viable funding mechanism in which all stakeholders participate.

Finally, we note that support of audit-related standard-setting comes in many forms. Proposals for reform need to consider any consequences for these other forms of support. For example, one essential form of support is the adoption of promulgated standards. In this regard, it is important to recognize the commitment of the GPPC and IFAC to the adoption of IAASB and IESBA standards. The MG should avoid undertaking changes that may undermine the efficacy of the standard-setting process and jeopardize other forms of support.

4. Standard-Setting Boards and Staff

The CP proposes replacing the current board structure with a single board for developing both auditing/assurance and ethics standards for auditors. The CCMC views this option as untenable, and we do not support it.

The CCMC favors retaining the current board structure with separate boards for auditing/assurance and ethics.¹¹ The nature of standards for auditing and ethics differ and, therefore, the necessary competence of the standard-setters can likewise differ. In particular, audit and attestation standard-setting requires unique technical expertise, including from current relevant audit experience and the implications of

¹⁰ See the CP, page 24.

¹¹ The CCMC also favors retaining the current structure whereby the IESBA sets ethical standards for both all types of audit engagements and professional accountants in business.

audit innovation. While promulgating ethical standards likewise involves deep knowledge and perspective, the special skills need not be the same for both auditing and ethics.

The CP also discusses reducing the size of the standard-setting board(s). In this regard, the CCMC notes that the size of the board should be large enough to meaningfully represent the global stakeholders of standards promulgated by the IAASB and IESBA. Further, each board should be large enough to ensure membership with the right compliment of technical expertise and/or access to it.

In conjunction with reducing board size, the CP contemplates significantly increasing the size of the supporting staff and shifting various responsibilities for developing and drafting standards to this permanent staff.¹² The CCMC has several concerns about moving to a “staff-based” model for audit-related standard setting. For example, a model that significantly relies on a permanent staff is unlikely to provide for involving individuals with the necessary current, relevant expertise in audit-related standard-setting. This is particularly concerning given the pace of technological change and innovation in auditing, which increases the risk that permanent staff will become obsolete for developing and drafting high quality auditing standards more quickly than ever. Further, a staff-based model is unlikely to be timelier than the current structure, especially considering the evidence from national standard-setters that use such a model.

5. Other Matters

The CP outlines an aggressive time-table for finalizing reforms. The CCMC strongly encourages the MG to avoid rushing to a conclusion to ensure a thoughtful, deliberative process with adequate time for public consultation on any and all proposals that result. This process should provide commenters with the ability to consider the reforms in total rather than piecemeal given the interdependency of the issues.

From the standpoint of implementation, the CP outlines a “staged” approach to reforming audit-related standard-setting. In our view, a staged approach would be costly and disruptive to the standard-setting processes and not in the best interest of any stakeholder. Irrespective of approach, the CCMC recommends that all intended

¹² See the CP, page 22.

reforms be clearly spelled out and well-supported by all stakeholders before proceeding to implement them.

Conclusion

Thank you for your consideration of these comments. We believe it is important for the MG to ensure that the standard setting system is independent, informed, and inclusive. As stated earlier, the problem has not been identified and the public interest has not been defined. These are two critical elements that must be addressed with public input and before the proposal is finalized. If this does not happen, the foundation of audit and assurance may be undermined with a rash of adverse consequences.

Our concerns highlight how much work is yet to be done. Accordingly, we recommend that the MG form a multi-stakeholder advisory group to study the issues and make recommendations for a path forward. This approach has been used by others such as the SEC a decade ago through its Advisory Committee on Improvements to Financial Reporting.

We hope to discuss these issues with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' with a long horizontal flourish extending to the right.

Tom Quadman