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Stellungnahme im Rahmen der Konsultation der Monitoring Group zu den Vorschlägen zur Reform der internationalen Standardsetzung

Die WPK hat mit Schreiben vom 9. Februar 2018 gegenüber der Monitoring Group zu den Vorschlägen zur Reform der internationalen Standardsetzung wie nachfolgend wiedergegeben Stellung genommen.

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Consultation Paper (CP). WPK as a professional accountancy organization with mandatory membership for all public accountants in Germany supports any appropriate and proportionate activities aimed at enhancing the public trust in financial audits and in the audit profession in general. We also support the intention of the MG to enhance the world-wide acceptance of the standard-setting process.

WPK is competent for its more than 21,000 members throughout Germany especially in the areas of licensing, registration, disciplinary oversight, conduct of quality assurance procedures and professional rules in the form of the professional charter. WPK and the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) are founding Members of IFAC and have ever since supported the work of the standard-setting boards as well as the structural reforms that took place over the last decades.

Before we reply to selected questions of the CP in section B, we would like to provide some general comments on the CP in section A.

A. General Remarks

Positive Considerations of the CP

The audit is an essential element for the functioning of the capital markets. Besides investors various market participants with no stake in capital markets, such as customers, suppliers, employees and tax authorities have a strong interest in high-quality audits. This general public places trust in the auditors' reports on the companies' financial statements. The auditors' reports are based on the particular expertise and knowledge of the auditors, as well as on the compliance with the strict regulations governing the exercise of the profession, determined in professional law and corresponding professional and ethics standards, such as the ISAs and the Code of Ethics.

Against this background the standard-setting process as well as the standards themselves must meet this public trust. Consequently, if legitimate concerns about the credibility of the standards or the standard-setting process exist, such deficiencies must be eliminated.

In our view, some of the CP's considerations seem basically suitable for reducing a possible perception of undue influence of individual stakeholders. This includes the following:

- Introduction of an appropriate remuneration system for the members of the standard-setting board(s)
- Stronger involvement of the general public in the nomination process for the standard-setting board(s), and
- Strengthening the strategic role of the standard-setting board(s).

Critical Considerations of the CP

Nevertheless, other measures in the CP seem to be critical, notably due to possible negative effects on the quality and the acceptance of the standards. This is particularly true for the following aspects:

Quality of the Standards

The aspect of quality of the standards including applicability and proportionality of the provisions seems not to be in the focus of the CP. Likewise, the CP seems to lack considerations about the necessary measures required to achieve this quality. However, only high-quality, practical standards are capable of bringing about high quality of the audit and other services rendered, respectively. High quality also increases the acceptance and trust of the public into the provisions.

In this context, we question the considerations of the CP to accelerate the standard-setting process. Acceleration for the sake of acceleration only, runs the risks of a decrease in the quality of the standards. Against this background it is important to strike a balance between quality and pace of the standard-setting. Furthermore, one prerequisite for the worldwide acceptance of the standards is – nevertheless time-consuming – adequate consultation procedures for exposure drafts on a global level.

The proposal of the MG to reduce the participation of the profession in the standard-setting process (primarily by reducing the number of seats for the profession in the standard-setting board(s)) bears the risk that the professional expertise would no longer be sufficiently taken into consideration in the process of the (technical) development of the standards. However, the practical experience of how an audit is carried out as well as the knowledge of the nature, the scope and the limitations of an audit are prerequisites for the development of high-quality standards. Hence it is in our view extremely important to take into account the special technical and practical expertise of the profession during the standard-setting process.

Acceptance and Credibility of the Standards and the Standard-Setting Process

The present ethical and technical standards of IESBA and IAASB do have an outstanding characteristic: world-wide acceptance. This acceptance contributes to the functioning of the international capital markets. Above all, it leads - beyond the capital markets - to a quicker initiation and processing of transactions by establishing unified qualitative requirements for auditors.

The essential determinants for the acceptance of standards – apart from a high quality of the provisions – are a broad, diversified composition of the standard-setting board(s) as well as a transparent standard-setting process which involves all relevant stakeholders.

A reduction of the number of members of the standard-setting board(s) might be detrimental to the necessary diversification and expertise and might significantly diminish the standards' acceptance. Likewise, reducing the involvement of the public in the standard-setting process (e.g. in the form of roundtables, outreach activities, consultations) for the sake of accelerating the standard-setting process might result in lower acceptance of the standards.

The acceptance of standards also significantly depends on the credibility of and the trust in the competence as well as in a multi-stakeholder composition of the standard-setting boards, whereby no single stakeholder can exercise undue influence. If the PIOB or another oversight body, respectively had a right to co-determination or even to veto standards, the allocation of tasks and responsibilities would become unclear. We strongly encourage not mixing the responsibilities for oversight on the standard-setting process on the one hand and the

development of the standards on the other hand. Otherwise the credibility into the functioning and the competence of the standard-setting board could be severely damaged. A right to veto might also be understood as an option of one stakeholder-group to exert undue influence.

Funding

We consider the proposed funding model in the CP as very critically in the context of reducing a possible perceived undue influence of the profession. An almost 100% financing of the standard-setting process by the profession or – even more critically – by the big audit firms, respectively, might uphold a perception of undue influence.

In the public interest, the funding of the standard-setting process needs to be based on a broad foundation that guarantees an appropriate participation of all relevant stakeholders.

Standard-Setting beyond Auditing

The CP does not answer the questions how to deal with extant standards and who will be responsible for future standards outside of the scope of audit, such as review engagements, other assurance engagements, agreed-upon procedures, compilation engagements.

The same applies to the general ethical principles that are equally to be considered by all professional accountants irrespectively of the nature of the engagement (both assurance and non-assurance services) or the type of professional practice (Professional Accountants in Business or Professional Accountants in Public Practice), whereas independence requirements can differ depending on the individual engagement.

It is impossible to finally answer questions such as to the number of boards (combined board or separate boards), the number of board members and their qualifications without having a clear understanding of the responsibilities.

Lack of Empirical Data

We are quite surprised that the CP lacks adequate empirical evidence about the alleged perceived undue influence and insufficient consideration of the public interest in the standard-setting process. The CP mentions 29 interviews with current and former standard-setters, IFAC PIOB and GPPC conducted by an MG Working Group. However, given the tremendous impact of the reform plans, we would have expect profound and detailed empirical evidence for the criticism in the CP, rather than a quite limited number of interviews. The standard-setting process has been subject to the oversight of PIOB in the previous years. We are not aware of fundamental instructions by PIOB related to the standard-setting process during this time.

In this context we would have appreciated questions in the CP if this fundamental and far-reaching criticism of the MG with regard to the standard-setting model is shared by the general public. Eventually, the pronouncements of IAASB and IESBA are being applied in over 120 jurisdictions. The CP does not present any evidence for a lack of (contentual) quality of the existing IAASB and IESBA pronouncements. On the contrary, the Feedback Statement and PIOB Strategy 2017-2019 Paper explicitly emphasizes the high quality of the mentioned pronouncements. There are also no indications for such shortcomings resulting from our oversight activities on the German profession.

Overall, the considerations of the MG are far-reaching and would lead to fundamental changes to the extant commonly applied and globally accepted standard-setting model. Not only the changes by themselves, but also the discussion about changing the standard-setting model might harm the trust in the extant high-quality standards of IAASB and IESBA. Furthermore, the world-wide acceptance of the standards as well as the efforts for a further development of a single set of globally accepted standards could be jeopardized. We would also like to point out that an extensive regulation of the profession rather enhances a market concentration process. Particularly small- and medium-sized practices might be put at a disadvantage by extensive bureaucratic requirements.

We believe that the objectives of the MG-reforms might be achieved by less extensive measures to the extant standard-setting model. We strongly recommend to consider this as an option in the further discussion.

Requirements of a reformed standard-setting model

Regardless of a possible final design of the standard-setting model the following principles shall be taken into consideration in the further reform discussion:

- It is absolutely necessary to have a common understanding of public interest among all relevant stakeholders

From this common understanding of public interest clear and transparent requirements for standards, the standard-setting process and possible amendments must be derived.

Changes to existing requirements and development of new requirements for the standard-setting board(s) or the standard-setting process must not be justified by permanently referring to a currently vague and ambiguous concept of public interest.¹ Hence the development of a public interest framework is urgently needed.

¹ P. 4 Discussion Paper, second-last Bullet Point: '...ensuring that the views of those with the greatest concerns about and commitment to the public interest...are properly considered.'

- It is necessary to ensure that **no** stakeholder-group (users, auditors, regulators) can exert undue influence on the standard-setting process. The focus must not be unilaterally placed on auditors, only.
- The standard-setting must still follow a principles-based approach. The expertise of the profession needs to be taken adequately into consideration during the process of the technical development of the standards.
- The standard-setting process should also encompass the aspects of quality and acceptance.

The final product, i. e. the technical and ethical standards must be high-quality ones and contribute to high-quality of audits or rather other content of the standards. They also need to be globally accepted. The funding of the standard-setting process must be based on a broad, robust foundation that meets the public interest. A funding of the standard-setting process exclusively by the profession does not achieve the MG's intention to prevent the perception of undue influence by the profession.

The MG reform plans refer to all audit engagements and therefore do not make a distinction between the audit of listed and non-listed entities. Nevertheless the key focus of the reform seems to be on listed entities due to the particular public interest of the capital markets. However, a standard-setting model primarily aimed at addressing the needs of capital market participants runs the risk of bringing about too complex and impractical standards for the audit of non-listed entities. The requirements and needs of SMPs when auditing SMEs would remain unconsidered.

Additionally, it might become increasingly difficult to develop a single set of auditing standards that equally apply for audits of non-listed entities and listed entities. Likewise, the possibilities to develop scalable auditing standards come to their limits given the increasingly complex business models, transactions and developments.

Against this background the development of a set of basic standards for all audit engagements including general ethical principles could be considered. These basic standards may form a basis upon which the development of audit standards and, where appropriate, independence requirements for the audit of listed entities could rest. In this case separate responsibilities for separate standard-setting boards and standardsetters might be considered. Contemplations regarding separate responsibilities for listed and non-listed entities will impact various answers to the questions below (e.g. number of boards, skills and attributes required of board members, role and responsibilities of oversight body, funding).

B. Answers to selected questions

Section 1: Key Areas of Concern in the current Standard-Setting Model

1. *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?*

The perception of undue influence can pose a threat to the acceptance and credibility of the standard-setting process as well as to the standards themselves. Basically, it is necessary to ensure that **no** stakeholder-group (users, auditors, regulators) actually can or is perceived to exert undue influence on the standard-setting process.

However, we are not aware of any indications for undue influence of the profession on the standard-setting process. The CP lacks of empirical data for such an assumption, too.

According to our understanding, it has been up to the PIOB to ensure that the public interest was sufficiently taken into consideration in the standard-setting process. In this regard, any considerations to reform the current standard-setting model must also cover the role and operation of the future oversight body (cf. our remarks under question 15). To begin with, the development of a common understanding of public interest and a corresponding public interest framework is essential.

Actions aimed at enhancing the relevance and timeliness of standards are appreciated unless they negatively affect the quality or the acceptance of the standards. In addition, a broad involvement of the public in the standard-setting process by means of consultations and round tables needs to be secured. While those activities are time-consuming, they are urgently required to reach a global acceptance of the standards. As the International Accounting Standards Board (IASB) illustrates good standard-setting requires a reasonable period of time.²

In addition, we may refer to our general comments.

Section 2: Guiding Principles

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

Basically we agree with the overarching and supporting principles for the standard-setting process. However, we would like to point out the following:

² In this context we would like to point out to IFRS 9 Financial Instruments. Its development was conducted by a step-by-step approach and took several years. Likewise, the discussion about a revision of IAS 37 Provisions, Contingent Liabilities and Contingent Assets took place also over many years with open results.

- *Public interest:* We see the need for a clear and common understanding of the term public interest. From this understanding as a starting point clear and transparent requirements for the standards and the standard-setting process are to be derived. In this context the development of a public interest framework is urgently required.
- *Independence:* The standard-setting process must be free from undue influence of any stakeholder. Any perceived undue influence should be eliminated, too. However, an un-specific request for independence does not seem sufficient.
- *Credibility:* The technical expertise of the profession must be adequately taken into consideration during the standard-setting process.
- *Relevance:* The standard-setting process must not focus on audits of listed entities, only. Otherwise, the standards bear the risk of being too complex and hardly practical for non-listed entities as well as not being accepted by SMPs and SMEs.
- *Transparency:* Standard-setting must be transparent and comprehensible through a clear due process. The tasks and responsibilities of the parties involved must be clearly defined and complied with. The oversight on the standard-setting process must be separated from the 'technical' development of the standards.
- *Accountability:* The accountability of the standard-setting board(s) must exist first and foremost towards the general public and not towards the regulators, only.

Moreover, the overarching principles should be supplemented by a quality aspect. The standard-setting process secure that the final products, i. e. the technical and ethical standards, are of high quality and contribute to a high quality content of the subject matter. The quality aspect encompasses also proportionality and practicability of the provisions.

The overarching and supporting principles should be valid for the whole process, comprising not only the standard-setting by the relevant standard-setting boards, but also the governance/oversight.

3. *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?*

We support the development of a public interest framework. This framework must establish a clear and common understanding of the term public interest. From this understanding as a starting point clear and transparent requirements for the standards and the standard-setting process are to be derived. Based on this framework possible future needs for amendments to the standards and the standard-setting process are to be identified and deduced.

Finally, it is also important that the standard-setting process strikes a balance between quality, applicability and enforceability.

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

4. *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.*

The CP does not answer the question of the responsibility for standards outside of the scope of audit, such as review engagements, other assurance engagements, agreed-upon procedures, compilation engagements, and with a view to auditing standards for listed and non-listed entities. The same is true for the general ethical principles as opposed to independence requirements. It is impossible to finally answer the questions about the adequate number of boards without having a clear understanding of the responsibilities.

In any case, we consider it absolutely necessary to have a broad, diversified composition of the standard-setting board(s) in place (multi-stakeholder approach, cf. question 10).

We may refer to our general comments for further explanations.

5. *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?*

and

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

The general ethical principles equally apply to all professional accountants irrespectively of the nature of the engagement (both assurance and non-assurance services) or the type of professional exercise (professional accountants in business (PAIB) and professional accountants in public practice (PAIPP)). The general ethical principles should continue to be set uniformly and consistently. A separation of ethical standards for PAIB and PAIPP is not appropriate.

The Code of Ethics defines differing independence requirements for professionals depending on the individual engagement (assurance, review, other assurance engagement on the hand, other services on the other hand). These areas might be, where appropriate, separately regulated by separate boards.

7. *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.

8. *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. The standard-setting board(s) should have a more strategic focus. The ‘technical’ development of the standards should be shifted to qualified staff.

We also support a remuneration of the board members. In our view, this would enhance and illustrate the (perceived) independence of the board members towards the public. In addition, an appropriate remuneration might enhance the attractiveness of the board membership and therefore result in a wider pool of potential candidates.

However, the increase in the number of staff as well as the remuneration of board members can only be implemented if the standard-setting model is simultaneously based on a solid funding which – in the public interest – guarantees an appropriate participation of all relevant stakeholders (cf. our comments to question 24).

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

The standards should not be adopted on the basis of a majority vote in order to avoid an unnecessary prolongation of the standard-setting process.

Given the heterogeneous composition of the board(s), i. e. users, regulators and auditors, we favour a qualified majority of the votes so that it is guaranteed that none of the stakeholder-groups of the board(s) can be overruled. This might also lead to a greater acceptance of the standards as opposed to a simple majority vote.

10. *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?*

The composition of the board(s) shall focus on a broadly diversified participation of all relevant stakeholders (multi-stakeholder approach) and take sufficiently into consideration social and technical aspects of diversification (jurisdiction, cultural area, nationality, regionality, industry expertise and experience related to different company sizes).

The adequate number both of the boards and their members as well as their members’ competencies depend on the nature and the quantity of the standards to be developed by the board(s) (cf. question 4).

An inappropriate reduction of the number of members of the standard-setting board(s) might be particularly detrimental to the necessary diversification as well as the technical expertise required for the standard-setting and might thereby impair the standards' acceptance.

Moreover, reducing the participation of the profession too extensively would bear the risk that the required technical expertise is no longer sufficiently available for the development of the standards. Practical expertise of how to conduct an audit as well as knowledge of the nature, scope and limitations of an audit are vital for the development of high-quality standards. Hence it is essential in our view to adequately take the practical and technical expertise of the profession into consideration during the standard-setting process.

However, we question the proposed distinction between full time and part time members. This could lead to an imbalance in the importance of certain members due to more intense engagement, information advantages, more frequent participation in meetings, etc.

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

We refer to our comments to questions 10 and 21.

12. *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?*

We see no need for CAGs provided that

- a broad diversified participation of all relevant stakeholders in the standard-setting board(s) and the oversight body(ies) is guaranteed,
- an appropriate due process of the standard-setting with clear tasks and responsibilities has been implemented, and
- the technical expertise of the profession is adequately taken into consideration during the standard-setting process.

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

The *tasks* and responsibilities of the task forces are not sufficiently explained in the CP.

Where necessary task forces should be held accountable to the standard-setting boards, and accordingly be subject to the public interest framework to be developed. The task forces should be comprised of only few members to enable sufficient flexibility. However, the members should have special expertise related to the topics concerned.

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

A greater involvement of the general public in the nomination process for the composition of the standard-setting board(s) seems to be an adequate means for increasing the perceived independence of the standard-setting process from the profession.

Prerequisite for transferring the nomination process into the responsibility of an oversight body is the establishment of a clear understanding of tasks and responsibilities as well as a broad participation of all relevant stakeholders in this oversight body (multi-stakeholder approach).

Section 4: Oversight – Role of the PIOB

15. *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?*

It has been the responsibility of the PIOB, among other things, to guarantee that the public interest is adequately considered during the standard-setting process and that no single stakeholder may exert undue influence. From our point of view PIOB's role does not comprise the development of an own concept of *public interest* and to intervene – based on this concept – in the standard-setting process.

Against this background some of the proposed measures in the CP as to the role of the PIOB quite surprise us. While the CP proposes a risk-oriented assessment of threats to the public interest, the development of framework for assessing the public interest in the standard-setting process as well as the implementation of an open and transparent dialogue between the PIOB and the standard-setting board(s), we would have expected the PIOB to have used these instruments in the past already.

The MG's proposals illustrate that an explicit and transparent understanding of public interest in terms of a public interest framework needs to be developed. In addition, clear and understandable criteria need to be established that enable the assessment if both the standard-setting process and the standards themselves adequately consider the public interest.

It is vital to determine clear and transparent tasks and responsibilities of the oversight body. In particular, we strongly encourage not mixing the responsibilities for oversight on the standard-setting process on the one hand and development of the standards on the other hand.

The acceptance of standards significantly depends on the credibility of and the trust in the competence as well as in a multi-stakeholder composition of the standard-setting boards, whereby no single stakeholder may exercise undue influence. If the PIOB or another oversight body respectively had a right to co-determination or even to veto standards, the allocation of tasks and responsibilities would become unclear. We strongly encourage not mixing the responsibilities for oversight on the standard-setting process on the one hand and the development of the standards on the other hand. Otherwise the credibility into the functioning and the competence of the standard-setting board would be severely damaged. A right to veto might also be understood as an option of a certain stakeholder to exert undue influence.

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

Given the necessity of a broad representation of all relevant stakeholder-groups in the oversight body (multi-stakeholder approach, cf. question 17) the profession needs to participate in this board, too.

17. *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?*

It is vital in our view that the composition of the oversight body rests upon a broad basis that includes all relevant stakeholders (multi-stakeholder).

18. *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?*

The members of the oversight body should be appointed through an open call for nominations. We suggest a formal, transparent selection process including a nominations committee to guarantee a broad consideration of all relevant stakeholders and to ultimately meet the public interest.

19. *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?*

First of all, the definition of tasks and responsibilities of PIOB requires the development of a public interest framework as well as a clear distinction between PIOB and MG. Furthermore, questions as to competence of a single or multiple standard-setting boards need to be answered (e.g. audit standards for all kinds of audits vs. distinction between listed and non-listed audits, assurance standards for non-financial services, ethical principles vs. independence standards, ethical standards for audit and assurance services vs. ethical standards for non-assurance services). As long as these issues relating to the competence of standard-setting boards remain unsolved, the responsibilities of the PIOB cannot finally be summarized.

Section 5: Role of the Monitoring Group

20. *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?*

It would be essential to safeguard a clear and transparent allocation of tasks and responsibilities if a two-tier oversight system were necessary.

Section 6: Standard-Setting Board Staff

21. *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?*

Yes, we agree. Particularly a shift to a more strategic role of the standard-setting board(s) prompts the necessity to develop the standards by qualified staff to a greater extent than it used to be in the past.

In order to maintain the development of high quality and practical standards, both now and in the future, it is vital that the technical expertise and experience of the profession is adequately considered during the standard setting process. In addition, the technical staff as well as the members of the standard-setting board(s) must be in a position to perceive emerging issues and developments and respond to them in due time.

It would not be appropriate and not meet the public interest if auditing standards were developed by non-professionals without practical audit experience and without knowledge of the scope, nature and limitations of an audit.

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

The staff should be directly accountable to the standard-setting board(s). The question as to the body and entity, respectively with whom the staff should enter into an employment contract ultimately depends on the legal form of the board(s).

Section 7: Process Considerations

23. Are there other areas in which the board could make process improvements?

No.

Section 8: Funding

24. 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)?

The funding of a revised standard-setting model mandatorily needs to be based on a broad, robust foundation that meets the public interest. An exclusive financing of the standard-setting by the profession cannot achieve the goal of the MG to avoid a possible perception of undue influence of the profession.

This also calls for a reliable planning of the costs required by a revised standard-setting process for the fulfilment of its tasks.

Currently unclear is the question how to implement a funding that is in essence less dependent from the profession. Up to date the PIOB has hardly been capable of generating the majority of its relatively limited budget of EUR 1.5 million from sources outside of IFAC.

25. *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?*

As mentioned in our comments on question 24, we deem a nearly exclusive funding of the standard-setting by the profession as incompatible with the public interest and the prevention of a perceived undue influence of the profession.

Likewise, a contractual levy on professionals or professional accountancy organizations seems to be hard to put in place. There is no competent institution that would possess the corresponding powers to introduce a world-wide mandatory levy. Thus this would ultimately lead to a concept of a voluntary self-commitment of (parts of) the professions and professional accountancy organizations, respectively.

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

Trust and acceptance of any reform measures require a clear understanding of the timeframe of the reform.

Before a final decision on the reform is made, it is also absolutely essential in our view to carry out an impact assessment that also takes into account the expected transition costs.

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

We would like again refer to our general remarks on the factors required for a revised standard-setting model (Subsection: Requirements of a reformed standard-setting model).

We would be pleased to provide you with any further information in case you have additional questions about our response.
