



The Future of International Standard Setting for the Accountancy Profession

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ICAP CFO Conference
April 2018



Agenda

1. IFAC and the Current Model for International Standard Setting
2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting
3. IFAC's Reaction and Proposals for Reform
4. Conclusions

1. IFAC and the Current Model for International Standard Setting (1/4)

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- 1970ies Globalization of Business, Deregulation of Financial Markets
⇒ need for International Standards
- 1973 International Accounting Standards Committee (today: IASB)
- 1977 International Federation of Accountants
- International Standards on Accounting
 - International Education Standards for Accountants
 - Ethics code for Professional Accountants
- ⇒ initiatives by Professional Accountancy Organizations 63 from 51 Countries (today: 175 from 135 Countries)
- ⇒ to develop high-quality Standards that can be understood and applied globally so that users can rely on the work of professional Accountants, in particular cross border
- ⇒ principles based standards, covering the whole financial reporting supply chain

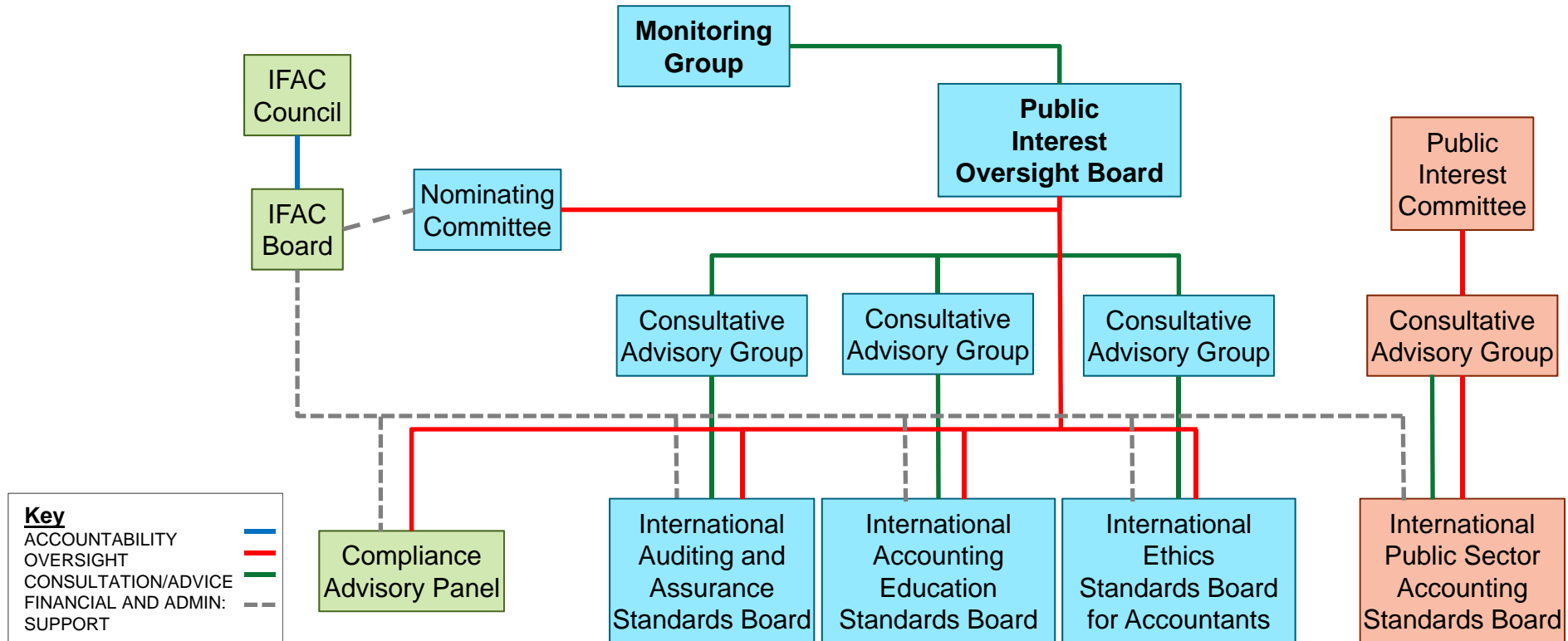
1. IFAC and the Current Model for International Standard Setting (2/4)

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- 2000s Major Accounting Scandals triggered Governance Reforms
- ⇒ external Audit Oversight Bodies, independent from the Profession
 - ⇒ end of self-regulation in many Jurisdictions
- 2001 IASC restructured, IASB independent from Professional Accountancy Organizations
- 2003 IFAC Reforms:
- Monitoring Group (Members as of today):
IOSCO, BCBS, IAIS, FSB, World Bank, EC, IFIAR
 - ⇒ to strengthen the standard-setting process
 - ⇒ to enhance investor confidence
 - ⇒ to ensure that the profession is responsive to the Public Interest
- Public Interest Oversight Board
- 2005 Global Financial Crisis
- 2008 ⇒ global call for more and stricter rules, more effective oversight of Financial Markets, including Auditors

1. IFAC and the Current Model for International Standard Setting (3/4)

- 2009 IAASB revised ISAs (“Clarity Project”)
- 2010 IAASB Revision of ISA 700 to enhance transparency in the Auditor’s Report, including “Going-Concern-Issues”
IESBA Revision of the Code of Ethics to address NOCLAR including Fraud and Corruption
- 2015 Monitoring Group proposed Governance Reforms of Standard Setting to address perceived “undue influence of the Profession”
IFAC supported some, but not all proposals
- 2016 PIOB Strategy Consultation with a view to expand its mandate
- 2017 MG Public Consultation on “Strengthening the Governance and Oversight of the Audit-Related Standard Setting Board in the Public Interest”

1. IFAC and the Current Model for International Standard Setting (4/4)



2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting (1/5)

Key Concerns by Monitoring Group:

- (1) Adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession
 - a) IFAC manages the nomination process of SSBs and directly funds, provides support and staffing for the SSBs
 - b) Audit Firms and Professional Accountancy Organizations provide a majority of Board Members and their technical advisors
- (2) Partly because of undue influence, there is a risk that standards are not developed fully in the public interest
- (3) Relevance and timeliness of Standards: SSBs not responding in a timely way to calls for revision from the regulatory community

2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting (2/5)

Topic	MG Proposals
Overarching Principle	The Public Interest (to be defined)
Independence of Standards Setting Boards	<ul style="list-style-type: none">– no one stakeholder group should be able to exert undue influence;– SSBs, Working Groups and PIOB should reflect diversity of key stakeholders– no role for IFAC
Standard Setting Boards	<ul style="list-style-type: none">– one single Board for ISAs and Ethics Standards for all types of Audits (IFAC may continue with Ethics for PAIB and with Education Standards)– membership reduced to 12– focusing more on strategic work than drafting– multi-stakeholder Representation (Users, Regulators, Auditors)– appointments by PIOB (using a skills matrix)– SSB Members to be remunerated (3 full time, 9 part time)

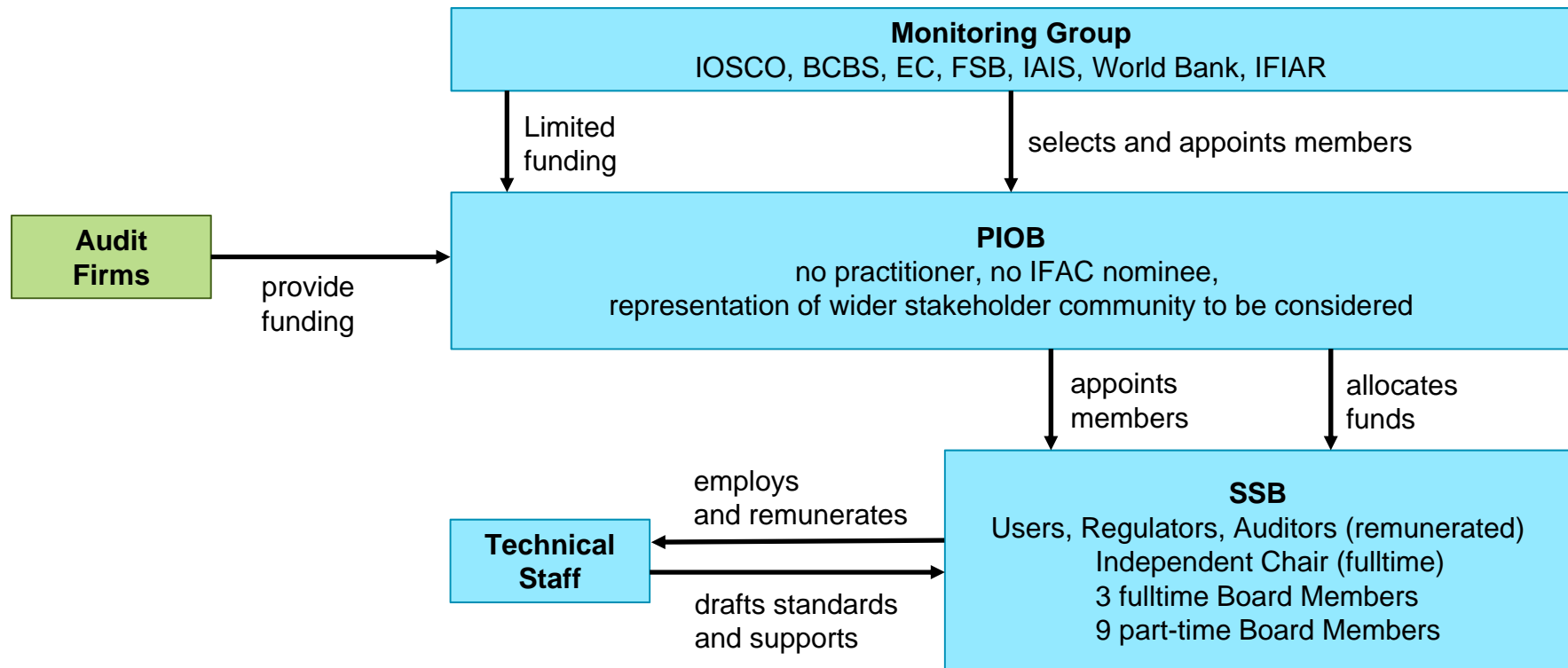
2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting (3/5)

Topic	MG Proposals
Nomination Process	<ul style="list-style-type: none">– interim: Independent Chair of NomCom plus 3 PIOB Members and 3 IFAC Nominees– longer Term: 100% PIOB
PIOB Role	<ul style="list-style-type: none">– to to develop a public interest framework for assessing standard setting process and evaluating standards– to hold the SSB and its chair to account– to approve the SSB's strategy and work plan– to collect and allocate the funds– accountability to the MG
PIOB Composition	<ul style="list-style-type: none">– no IFAC nominee, technical expertise to be provided by IFIAR– appointments to be made by MG (using a skills matrix)– multi-stakeholder composition to be considered

2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting (4/5)

Topic	MG Proposals
SSB Staff	<ul style="list-style-type: none">– significant increase in permanent technical staff– to be employed by the SSB (or PIOB)– no more contribution in-kind by Audit Firms or IFAC Members
Timeliness	<ul style="list-style-type: none">– multiple process streams, focus on emerging issues– adopting Standards on the basis of a simple majority vote
Funding	<ul style="list-style-type: none">– to be increased significantly (remunerated SSB Members, additional technical staff)– collected by PIOB directly from Audit Firms via “contractual levy”– IFAC to continue funding for an interim period of time

2. Monitoring Group Proposals for Strengthening the Governance of International Standard Setting (5/5)



3. IFAC's Reaction and Proposals for Reform (1/3)

IFAC supports:

- “Public Interest” to be defined
- a multi-stakeholder composition of SSBs
- consideration of smaller size of SSBs (note: diversity and representation issues)
- a multi-stakeholder composition of the PIOB
- a review and clarification of the roles and responsibilities of the PIOB
- an independent Chair of the Nominating Committee for the selection of SSB Members
- consideration of ways to make the SSBs more effective and more efficient

3. IFAC's Reaction and Proposals for Reform (2/3)

IFAC is concerned about:

- significant deficiencies of the MG Consultation Paper, including false statements about the current model and lack of evidence
- the debatable assumption, that only regulators can “act in the public interest” and “acting in the public interest” may require standards to be adopted, even if not all stakeholders agree
- MG moving away from a shared public-private model of setting standards in the public interest to a regulatory model, where regulators can exercise undue influence
- the risk that more rules-based, prescriptive standards will be produced in order to remove professional judgement and to promote compliance-type audits, easy to monitor and enforce
- the significant risk that several Jurisdictions may revert to National Standards
- that Standard Setting might not keep pace with disruptive technological changes
- the significantly more costly and less cost-effective Model

3. IFAC's Reaction and Proposals for Reform (3/3)

IFAC does not support:

- the merger of IAASB and IESBA for audit related Standards
- the bifurcation of Ethics Standards for Professional Accountants (Auditors vs. all other Professional Accountants)
- the PIOB acting as the NomCom for SSB Membership
- funding via contractual levy on audit firms (would heighten perception issues of undue influence by the audit profession)
- the staged approach to reforms where the definition of “public interest” and procedural aspects of the “final model” will be developed later

4. Conclusions (1/3)

CFOs are key elements in the financial reporting supply chain

⇒ should have a voice in the debate

One single set of Ethics Standards for PAIBs and Auditors is in the Public Interest

MG proposals characterize regulatory reaction to crisis:

- the pendulum swinging back from deregulation to (over-)regulation
 - from principles-based standards to prescriptive rules
 - regulators take over control of the standard setting while at the same time being responsible for oversight and enforcement
- ⇒ self-regulation of the Accountancy Profession no longer accepted

4. Conclusions (2/3)

While IFRS require more and more judgement by preparers, Regulators tend to eliminate professional judgement from the audit and to strictly enforce compliance with rules.

Potential Consequences:

- a shift in mindset of Auditors from professional judgement to compliance
- combined with potentially more automated audit processes
- the Auditing Profession becoming less relevant
- a decline in interest by young talent

Risk of unintended adverse effects:

- some Jurisdictions might revert back to National Standards.
- nationalism might create new barriers to international trade and capital markets.

4. Conclusions (3/3)

IFAC maintains a dialogue with the MG on behalf of its Member Bodies representing almost 3 Million Professional Accountants worldwide, the majority of them being Professional Accountants in Business

IFAC will continue promoting quality and credibility along the entire financial reporting supply chain in the public interest.



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