

February 8, 2018

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

Subject: Monitoring Group Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard Setting Boards in the Public Interest

The Canadian Securities Administrators Chief Accountants' Committee appreciates the opportunity to comment on the Monitoring Group Consultation - Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest (the Consultation Paper).

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants' Committee (CAC) is comprised of the Chief Accountants from the provinces of British Columbia, Alberta, Ontario and Quebec.

General Comments

We support the overall objective of strengthening aspects of the governance and oversight of the standard-setting process, with a goal of identifying changes that can be implemented to address concerns of potential undue influence from the profession.

We agree with the Monitoring Group that the following proposals would assist in achieving that objective:

- Ensure board(s) are strategic in nature, have multi-stakeholder representation and are supported by expanded technical staff employed directly by the board(s)
- Continue having IFAC set educational standards
- Retain the concept of a Consultative Advisory Group (CAG) with its current role and focus
- Retain the standard setting board(s) nominations process that is conducted via an open call for candidates, but have that the nominations process administered solely by the PIOB
- IFAC no longer be able to propose a member of the PIOB
- Have the Monitoring Group retain its current oversight role

We have also identified key areas that would help to achieve the overall objective, which differ from those proposed by the Monitoring Group:

- We support retaining separate boards for the development of (i) auditing and assurance and (ii) ethical standards
- We recommend that ethical standards for professional accounting and business be set by the same board that sets the ethical standards for auditing and assurance
- We recommend that each board adopt standards based on an acceptance level that communicates a high level of board support, rather than a majority vote
- We believe that most members of the audit and assurance standards board should be full-time versus part-time
- We do not support the PIOB having the power to veto the adoption of a particular standard
- We recommend that the PIOB nomination process be conducted via an open call for candidates, rather than reliance on appointments or nominations from a Monitoring Group organization
- We recommend that the Monitoring Group continue to explore if there are other methods of funding that could be considered, such as an IFAC funding commitment whereby all funds are deposited in a trust and can only be accessed by the board(s)

In addition, we think that having a framework in place that assesses how the public interest is captured throughout the standard-setting process will be important when determining what reforms should be implemented. We support the issuance of a draft for public consultation, and recommend completing the framework before concluding on any changes to the governance and oversight of the standard-setting process.

Included below are detailed responses to sections of the paper for which we have comments.

Guiding Principles

We agree with the supporting principles set out in the Consultation Paper, and that there is the potential for undue influence from the profession under the current structure.

Options for Reform of the Standard-Setting Boards

We support the retention of separate boards for the development of (i) auditing and assurance and (ii) ethical standards. We are concerned that it would be difficult to identify individuals sufficiently knowledgeable about both areas to serve on a single board, particularly if the board is reduced in size. In addition, a single board could result in an insufficient focus being placed on the development of ethical standards.

We do not support IFAC continuing to set ethical standards for professional accounting and business, and instead recommend that such standards be set by the same board that sets the ethical standards for auditing and assurance. Ethics standards for the profession should be developed in a manner that considers both professionals involved in the preparation of financial information and those who provide assurance on financial information in order to avoid the potential for ethical standards that conflict between those parties.

We agree with the proposal for IFAC to continue setting educational standards.

The board(s) should be strategically focussed, but the members must be knowledgeable and have the technical skills necessary to review, scrutinize and challenge draft standards. While we agree that the board(s) need multi-stakeholder representation, we do not agree that the members must be equally represented by users, regulators and auditors. Members of the board(s) should be remunerated.

We do not agree that the board(s) should adopt standards on the basis of a simple majority vote. We believe that the ratio of votes required to adopt a standard should be high enough to communicate a high level of board support in order to maintain stakeholder confidence in the standard setting process. However, the voting ratio should not result in situations where auditor representatives have the ability to prevent the adoption or amendment of a standard.

With regards to the size, the paper does not explain why reducing the size of the board(s) will result in an improved standard-setting structure. One challenge with significantly reducing the size is that it could make it more difficult to have a membership with the necessary technical knowledge that include sufficient geographic, sector and gender representation.

We recommend that the members of the audit and assurance standards board be primarily comprised of full-time members, similar to the International Accounting Standards Board, in order to support the timely development of high-quality standards. We also believe that a majority of members of an ethics board should be full-time, but due to the nature of the work there may be an opportunity for a greater number of part-time members.

We agree with retaining the concept of a CAG with its current role and focus.

We agree with retaining a nominations process that continues to be conducted via an open call for candidates. We also agree that the nominations process be administered solely by the PIOB.

Oversight - Role of the PIOB

We agree with the PIOB developing, through public consultation, a framework that provides a mechanism for assessing how the public interest is captured throughout the standard-setting process. We also agree that a dialogue between the standard-setting board(s) and the PIOB should focus on how the public interest is best served.

We do not support the PIOB having the power to veto the adoption of a particular standard. If the PIOB has concerns with respect to whether a standard is being developed with the public interest in mind, the PIOB should discuss its concerns with the standard-setter early on in the standard-setting process. If a standard is nearing completion, and the PIOB continues to identify potential public interest concerns despite ongoing dialogue with the standard-setter, then we recommend that the PIOB be required to consult with the

Monitoring Group so that all parties determine an appropriate resolution before the issuance of a standard.

With respect to appointing PIOB members, we recommend that the nomination process be performed through an open call for candidates, rather than reliance on appointments or nominations from a Monitoring Group organization. This would allow for a broader group of candidates from the stakeholder community to apply and remove any perception that a representative has a responsibility to, or is influenced by, a member organization of the Monitoring Group.

We agree that IFAC should no longer be able to propose a member of the PIOB.

As outlined earlier, we support the retention of separate boards for the development of (i) auditing and assurance standards and (ii) ethical standards. We believe that the PIOB should oversee the work of both of these standard-setting boards.

Role of the Monitoring Group

We agree that the Monitoring group should retain its current oversight role for the whole standard-setting and oversight process.

Standard-Setting Board Staff

We agree that the work of each board should be supported by an expanded technical staff that is independent from IFAC or its members. We agree that the technical staff should be employed directly by the board(s), and that the Board should consider the use of short-term secondments from the profession in order to obtain practical input and experience, and in response to urgent projects that need to be undertaken.

Funding

We agree with the objective of trying to address the perceived influence of the profession that results from IFAC directly funding the standard-setting process. We agree that collection via a contractual levy on audit firms would remove the perceived influence of IFAC, however we are concerned that this may be difficult to administer, costly to implement, and take time and attention away from the standard-setting process.

We recommend that the Monitoring Group continue to explore if there are other ways of removing the perception of IFAC influence, such as obtaining a contractual funding commitment from IFAC whereby all funds received are deposited into a trust that can only be accessed by the standard-setting bodies.

If you have any questions about this letter, please do not hesitate to contact us.

Yours truly,

The CSA Chief Accountants Committee

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