



16 November 2016

Chairman  
Public Interest Oversight Board  
Madrid  
Spain

Email: [Piob-strategy@piob.org](mailto:Piob-strategy@piob.org)

**Attention:** Mr Eddy Wymeersch

Dear Mr Wymeersch

**Public Consultation Paper: 2017-2019 PIOB Strategy**

**Introduction**

1. The External Reporting Board (XRB) of New Zealand is pleased to make this submission on the Public Consultation Paper: *2017-2019 PIOB Strategy* on the oversight of the standard-setting bodies (SSBs) under the Public Interest Oversight Board (PIOB).
2. The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issuance of both accounting<sup>1</sup> and auditing & assurance standards in New Zealand.
3. New Zealand's auditing & assurance standards are based on, and are substantially identical to, the standards issued by the International Auditing and Assurance Standards Board (IAASB) and the ethical standards for assurance practitioners in New Zealand (issued by the XRB) align with the Code issued by the International Ethics Standards Board for Accountants (IESBA).
4. The work of the PIOB is therefore highly important to the XRB. It is critical to us that the PIOB continues to be an independent oversight body. The XRB is required under New Zealand law to ensure affected constituents have been consulted before standards are adopted in New Zealand. As our standards are based on international standards, it is important that the activities of the SSBs, particularly those of the IAASB and the IESBA, are subject to robust, transparent and independent due process oversight. The international due process, which we actively participate in, contributes significantly to our local due process requirements.

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<sup>1</sup> The Accounting Standards Framework in New Zealand is based on a multi-sector, multi-standards approach. For-profit entities use standards that are effectively International Financial Reporting Standards (IFRS Standards). Public benefit entities (comprising public sector entities and not-for-profit entities) use standards that are based on International Public Sector Accounting Standards (IPSASs) that are issued by the International Public Sector Accounting Standards Board (IPSASB).

## Summary of Comments

5. In this letter, we comment on the three specific matters. The Appendix to this letter comments on these matters in greater detail. These three matters are:
  - *Extension of the PIOB's involvement in the SSBs' work, including greater involvement in overseeing the work of the working groups and/or task forces* – We do not support the extension of the PIOB's role to cover oversight of the working groups and/or task forces. Involvement at such levels heightens the risk the PIOB will go beyond its independent oversight role and be involved in the technical content of standards. More importantly, it risks the PIOB being perceived to be part of the standards development process, rather than as an independent oversight body. From a due process and public interest perspective, the value and importance of PIOB lie in it being an oversight body that is independent, thereby lending credibility to the standard setting process and the standards.
  - *Having more non-practitioners and non-technical members on SSBs* – While we support the PIOB improving, where appropriate, the balance of representation on the SSBs, we would be wary of increasing the number of non-practitioners or non-technical members. This is because members of the SSBs need to have the necessary technical competence, skills and experience to be able to understand and debate the issues under discussion and have the appropriate interest and skills in standard setting.
  - *Removal of the prerogative of IFAC to nominate a PIOB member for consideration* – We do not consider it necessary to remove the prerogative of the International Federation of Accountants (IFAC) to nominate a PIOB member for consideration by the Monitoring Group (MG). It is unclear to us how the removal of IFAC's prerogative to nominate will necessarily strengthen the independence of the PIOB. The PIOB may also be unduly risking the withdrawal of the funding from IFAC if it removes IFAC's prerogative to nominate a PIOB member given that approximately 50% of PIOB's funding comes from accountancy bodies through IFAC.
6. We have not responded separately to the questions raised in the Consultation Paper. However, where relevant, we have cross-referenced our comments to specific questions raised in the Consultation Paper.
7. If you have any queries or require clarification on any matters in this submission, please contact Lay Wee Ng ([laywee.ng@xrb.govt.nz](mailto:laywee.ng@xrb.govt.nz)) or myself.

Yours sincerely



Graeme R Mitchell  
Chairman  
External Reporting Board

## APPENDIX: SPECIFIC COMMENTS

### ***Extension of the PIOB's involvement in the SSBs' work, including greater involvement in overseeing the work of the task forces and working groups***

#### *Possible extension of the PIOB's role*

8. The PIOB asks in Question 7 whether there is any benefit in the PIOB being involved at an earlier stage of the standard setting process by overseeing working groups and/or task forces who undertake the technical work on a standard under development.
9. The PIOB's current role (as set out in Annex 1 to the Consultation Paper) is extensive and, in our view, adequate. Therefore, we do not see the need for the PIOB to further expand its mandate or oversight role (or further complicate the oversight structure) by getting more involved in activities of the SSBs' working groups and/or task forces.
10. We are concerned the PIOB's role as an independent oversight body may be compromised if it becomes more involved in the work of the working groups and/or task forces. This is because the line between oversight and involvement with the technical content of the standards may be unclear at the initial stage of standards development. It is not desirable for the working groups and/or task forces, or SSBs, to be subject to further oversight that would inhibit initial discussion and debate or hinder the manner in which they operate as independent standard setters.
11. The PIOB's involvement at such levels heightens the risk the PIOB will go beyond its independent oversight role and be involved in the technical content of standards. This may be seen to duplicate the roles of the working groups/task forces. More importantly, it risks the PIOB being perceived to be part of the standards development or standard setting process, rather than as an independent oversight body, thereby undermining the PIOB's independence. It may also put at risk the independence of those members of the PIOB (and MG) who are regulators when enforcing the standards.
12. As such, we do not support the PIOB being involved at earlier stages of the standard setting/development process by overseeing working groups and/or task forces. We therefore strongly recommend against the extension of the PIOB's role to cover oversight of the working groups and/or task forces.

#### *PIOB's role in encouraging adoption and implementation of international standards*

13. The PIOB asks in Question 12 what else it could do to encourage adoption and implementation of international standards.
14. We do not consider the PIOB has a direct role, as an oversight body, to be involved in encouraging adoption and implementation of standards. The PIOB plays an indirect, but crucial, role in encouraging adoption and implementation through its independent oversight of the SSBs and the standard setting process, thereby ensuring standards are set in the public interest and in a manner that enables global adoption and implementation. More jurisdictions may be encouraged to adopt, implement and comply with the standards if they have confidence in the standard-setting process and the quality of the standards.

*Length of time taken for standards development*

15. We note the PIOB's concern about the length of time taken to develop standards (p. 15 of Consultation Paper and Question 9).
16. We are concerned that greater involvement by the PIOB may further increase the length of time it takes for the SSBs to develop and finalise the standards.
17. The process of standard setting, by its nature of requiring consideration of technical content plus consultation and due process, takes time. The complexity of a particular subject matter may determine the time required to develop a standard. We would prefer the SSBs have sufficient time to consider issues and to engage and/or consult with stakeholders. Giving stakeholders sufficient time to be consulted and to respond to proposed standards is one important aspect of due process and setting standards in the public interest. Moreover, we would be concerned if shortening the length of time taken in standards development results in national standard setters not being given sufficient time to carry out their own consultation and engagement with their local stakeholders.

*Clarifying public interest issues*

18. We note, notwithstanding its current extensive oversight function, the PIOB still has reservations about the standard setting structure and is of the view that "*given the current standard setting system, due process may not guarantee outcomes in the public interest*" (p.13 of Consultation Paper). The PIOB also asks in Questions 1, 8 and 14 for suggestions to improve the identification of risks to the public interest, fill gaps in the PIOB's oversight and to improve the understanding of PIOB's role as a defender of the public interest.
19. We support the PIOB's proposal "*to develop a more structured methodology for identifying public interest issues and for reflecting these in interactions with the SSBs and the CAGs*" (p.10 of the Consultation Paper). We consider it important, in the interests of transparency and accountability, for the PIOB to have this structured methodology for identifying public interest issues. This is because it is not always clear to us from the Consultation Paper what the PIOB means by "responsive to the public interest". For example:
  - What does "responsive" mean – Does it include any or all of the following: Timeliness of standards? Adequacy of consultation? Identifying potential problems on a timely basis? Ability of the SSB members to identify the relevant issues?
  - Whose interest is the PIOB responding to or protecting – Who are the stakeholders in relation to each SSB? What aspect of public interest is the PIOB responding to or protecting?
20. We recommend the PIOB clearly articulates, and communicates, what it means by the term "responsive to the public interest" and how it assesses the standard setting work of each SSB as being responsive, or not responsive, to the public interest. Clear criteria for such assessment will go some way to ensuring each SSB has a common understanding of the PIOB's view (and criteria) for being responsive to the public interest in their particular context. It will also be helpful for the PIOB to link matters raised by the PIOB with each SSB in relation to responsive to public interest to the pre-set criteria, with explanations of why and how those matters impact public interest.

### ***Having more non-practitioners and non-technical members on SSBs***

21. We note the PIOB's desire to have more public members who are perceived to be independent of the profession in SSBs (p. 11 of the Consultation Paper). The PIOB also asks in Questions 2 and 4 whether there are any other stakeholders who merit further representation in the standard setting process and whether Public Members bring perspectives on the public interest different from those of the accounting profession.
22. Currently, a SSB is made up of eighteen members including the Chair, with no more than nine members being practitioners (p.24 of Consultation Paper). We support the PIOB improving, where appropriate, the balance of representation and perspectives on the SSBs. We agree it is important for SSB members to have diversity of thought and perspectives. However, we are aware standard setters worldwide have difficulty in finding non-practitioners and non-technical board (public) members with appropriate interest and skills in standard setting.
23. We also note, by its nature, standard setting (particularly auditing and assurance standard setting) requires sufficient representation of members who have the necessary technical competence, skills and experience to be able to understand and debate the issues under discussion.
24. In our experience, about half of the SSB's members, in conjunction with staff resources, are well-placed to undertake the technical aspects of the SSB's work. We are concerned that if the "technical-core" of the SSB is further reduced, it may impact negatively on the length of time taken for setting the standards and the quality of the standards. In addition, it is also important for practitioners to be involved in standard setting to ensure the standards are capable of being implemented globally in practice by the affected practitioners.

### ***Removal of the prerogative of IFAC to nominate a PIOB member for consideration***

25. Section 3.1 of the Consultation Paper (p.21) sets out the *PIOB Vision 2019 and Beyond*. It sets out the matters the MG is currently discussing with IFAC, including the following proposal on enhancements of standard setting governance:  
*"Strengthening the (perceived) independence of the PIOB by not extending IFAC's prerogative to nominate a PIOB member"*.
26. We do not consider it necessary to remove IFAC's prerogative to nominate a PIOB member. IFAC's prerogative is one of nomination only, not of appointment — the MG appoints the PIOB members (p.33 of the Consultation Paper). It is not clear to us how the removal of IFAC's prerogative to nominate one candidate (out of a total of ten PIOB members) will necessarily strengthen the independence of PIOB, given that once appointed, PIOB members are required to serve in the interests of the public as a whole, not in the interests of their nominating body, in an independent and unbiased manner (pp.12-13, IFAC Reform Proposals 2003).
27. On the contrary, we consider it important for IFAC to be able to nominate a member for consideration by the MG as this will ensure the continued support of the accountancy profession for the standards it has to apply and implement. The role of IFAC and its members, the national accountancy bodies, are critically important in the area of adoption and implementation of standards, as is the role of regulators and policy makers. Retaining IFAC's prerogative to nominate a PIOB member may further ensure the standards set by the SSBs can be better promoted to the national accountancy bodies

who, in turn, have a role to play in ensuring adoption and implementation of the standards.

28. Importantly, the IOB receives approximately 50% of its funding from the accountancy bodies through IFAC. This is not an atypical situation whereby a regulated industry funds its own regulation. With IFAC meeting about 50% of the IOB funding, this appears to be an effective way of collecting from the industry. As the IOB states in the Consultation Paper, its functioning is dependent on the contributions of sponsoring organisations (p.8). We consider the IOB may be unduly risking the withdrawal of the IFAC funding if it removes the prerogative of IFAC to nominate a IOB member to the MG for consideration.