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Dear Eddy

RE: 2017-2109 PIOB Strategy – Public Consultation Paper

It was good to meet with you and Gonzalo recently and on behalf of the Investment Association, I welcome the opportunity of responding to your consultation on the PIOB's strategy for 2017 to 2019. The Association represents the UK's investment management industry and has over 200 members that manage more than £5.5 trillion for clients internationally, helping them to achieve their financial goals. Our aim is to make investment better for clients, companies and the economy so that everyone prospers.

In managing assets for both retail and institutional investors, our members are major investors in companies whose securities are traded on regulated markets. Therefore, as users of these companies' accounts they have an interest in the requirements governing the audit and the auditor's report.

We believe that the main purpose of accounts is to provide investors, the holders of ordinary shares, with the information they need for the purposes of deciding to buy, sell or hold their shares and fulfilling their responsibilities as owners. High quality audits are pivotal to this and for ensuring that markets value and investors have confidence in the information reported.

We support the PIOB's aim of ensuring that the standards set under its oversight in the areas of audit, assurance, ethics and education respond to the public interest and that the respective Standard Setting Boards (SSBs) are balanced, represent all stakeholders and are free from undue influence from any one stakeholder. We also appreciate the PIOB consulting on the present structure and possible improvements that may help it fulfil its

mandate and particularly welcome the enhancements being developed by the Monitoring Group¹.



In this context, we note that there is a three tier governance framework under which standards for the audit/accounting profession are set comprising the SSBs; an independent oversight body, the PIOB; and the Monitoring Group that monitors this structure and to which the PIOB is accountable. The governance framework for setting international accounting standards similarly has three tiers comprising: the International Accounting Standards Board (IASB) that sets the standards; the trustees, the IFRS Foundation, which ensures that there are appropriate governance arrangements; and the Monitoring Board which acts to “provide a formal link between the trustees and the public authorities”. The latter ensures the trustees discharge their duties and approves their appointment.

Given that accounting and auditing are largely complementary to each other, we believe consideration should be given to better aligning these governance structures over the long term so that both the SSBs and the IASB operate under the same governance framework. Ultimately this should help achieve economies of scale.

As regards the matters highlighted in the paper, we set out our main observations below.

Identification of threats to the public interest. Whilst the PIOB has a process to identify risks to the public interest, we support it seeking to develop a more structured methodology in its interactions with the SSBs and the Consultative Advisory Groups (CAGs), and organising regular public interest workshops with the CAGs’ and Monitoring Group’s representatives (question 1).

Better representation of investors on the SSBs and CAGs. As it currently stands each SSB is made up of eighteen members of which only three are Public Members² and could be considered independent of the profession. Whilst Public Members may have trained at an audit firm they are different from the other members in that they have experience of roles outside the profession. This is important in ensuring a broader perspective is brought when addressing the public interest (question 4). We particularly consider, given the importance of audit to the investor community, it is vital that there is better representation of investors, asset managers and analysts, in the current standard setting process, both on the CAGs and the SSBs.

Payment of expenses and remuneration. Under the current arrangements the SSBs’ members are not remunerated (except for the IAASB and IESBA Chairs). Thus candidates either have to be financially independent or have sponsorship of some kind such that their time commitment and travel expenses are funded. To facilitate wider, more international representation it would be helpful if, at a minimum, travel expenses were reimbursed. The introduction of a remuneration scheme, as suggested in the consultation paper, would further enhance the ability of the SSBs and CAGs to attract Public Members.

In the context of who should pay for this, we firmly believe that for the standards to have credibility, they need to be developed by SSBs that are fully accountable and that have sustainable funding that does not infringe on their independence. Full accountability and monitoring needs to be built clearly and firmly into the governance framework. In this context, we draw your attention to the framework established by the IFRS Foundation

¹ Page 21 of the Consultation Paper.

² Public members may in the past have had accountancy training, been employed by Audit firms or been active professional accounting practitioners, but they have broader experience of acting in the public interest in other roles and can therefore be perceived to be independent of the profession

which in general is financed either by a levy on companies or through publicly supported financing (question 5).



Nominating Committee chaired by a Public Member. We are concerned about the Nominating Committee's independence from IFAC in that it sources, selects and nominates all candidates for the SSBs, including the Chairs and Public Members. Moreover the Committee is chaired by IFAC's President and comprises the President and Deputy President ex-officio, and at least four additional members appointed by the IFAC Council as recommended by the IFAC Board. The PIOB only approves the non-ex-officio members. We believe the independence of the Nominating Committee would be enhanced if it were to be chaired by a Public Member (question 3).

Timeline to complete standards. We recognise that developing standards takes time in that it is important due process is followed and there is adequate consultation. However, it is a concern that the current timeframe involves many years in that the SSBs would not be able to respond in a timely manner if changes are needed urgently. The SSBs need to consider how they can operate more efficiently to improve this whilst still respecting due process (question 9).

I trust that the above is self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Liz Murrall', written over a light grey rectangular background.

Liz Murrall

Director, Stewardship & Reporting