



Standard Setting in the Public Interest

Enhancements for the Future

Success with the Current Model

The current standard setting model is premised on **collaboration between private and public sectors**, recognizing that the public interest is best protected when all stakeholders cooperate and exercise their public interest obligations.

Importantly, this model has been in place for over a **decade**, and has produced high-quality standards which are widely accepted around the world.

- **More than 100 jurisdictions** have either directly adopted, or use IAASB and IESBA standards as the basis for their national standards with many incorporating them into legislation or adopting them directly as national standards.
- Checks and balances are in place, overseen by an oversight body, to ensure that no single stakeholder can exercise undue influence over the development of standards.
- Each Standard Setting Board (SSB) is composed of members with a diverse set of technical, professional and geographic backgrounds.
- Consultative Advisory Groups (CAGs), which also represent broad stakeholder groups and concerns, provide technical input into development of standards.
- IFAC provides funding and operational support to the SSBs, but carefully avoids any actions that could be perceived as influencing the strategy, work plans or content of the standards.
- IFAC's Compliance Program effectively promotes the adoption and supports the implementation of international standards in **more than 135 jurisdictions around the world**.
- Despite not being enshrined in European legislation, **26 of the 28 Member States of the European Union have adopted International Standards on Auditing (ISA)**.

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The legitimacy of standards comes from the representative composition of SSBs, the stringent, transparent, due process and the structure of the model that protects the public interest.

Enhancing the Current Model

IFAC is committed to ensuring standard setting remains relevant, innovative and responsive to meet the challenges of a digital age and supports periodic reviews of the standard setting model to assess potential enhancements that could make a good model better. When considering potential enhancements, it is important to keep in mind:

- **Understanding Impetus Behind Change.** For many stakeholders, it is not clear why the current system needs fundamental change, especially as concerns have not been verified and are focused on perceptions and not on any deficiencies in the quality of standards.
- **Consequences to Change.** Any changes to the current model must avoid unnecessary implementation risk and carefully consider the potential for unintended consequences and must have broad consensus among all stakeholders.
- **International vs. National Standards.** International Standard setting is very different from national standard setting.
 - International standard setters do not have the authority to mandate the use of standards. Instead, International standard setters create support among key stakeholder groups.
 - With no legal standing to require adoption of standards, the IAASB and IESBA work to persuade national jurisdictions through technical credibility, representativeness, and thoroughness of due process.
 - This contrasts with national standard setters who operate with a mandate under law. Any public consultation and due process undertaken is more for due diligence. Broad acceptance is desirable but not essential.
- **Serving the Public Interest.** International standards are an international public good, developed in the public interest—not just the domain of any one region. Many nations do not have resources and capability to develop their own standards and rely on the international SSBs.
- **Awareness of Risk.** Departure from the principle of a balanced multi-stakeholder model will risk all public interest elements not being appropriately considered.
- **Ensure Technical Involvement for Standards Development.** Without the appropriate involvement of the profession, standards may be developed that cannot be readily adopted and implemented, or may inappropriately and unknowingly impose greater costs, which will be passed onto companies.
- **Global Representation.** If there is reduced global representation in standard setting, there is greater potential for national-based changes, amendments, and revisions to standards, significantly reducing the benefits and relevance of globally accepted standards, adopted consistently.

IFAC Recommendations

Specifically, IFAC believes that potential enhancements should be considered under three broad topics:

Perceptions of Independence

- **Independent Governance.** To further enhance perceptions of independence, the Nominating Committee Chair should be fully independent of IFAC, the MG, and the PIOB.
- **Stakeholder Representation–NC.** The Nominating Committee (NC) must represent an equal number of nominees from the accountancy profession, and from other stakeholders. Technical knowledge is vital to effectively evaluate nominations to technical standards setting board. It is critical that members of the NC are not nominated by, or members of, the body that oversees and approves the NC due process.
- **Credibility.** The stringency of the process undertaken by the NC must be retained to ensure the credibility and legitimacy of the process.
- **Stakeholder Representation–SSBs.** To further guard against perceptions that the SSBs are dominated by the accountancy profession, their composition should be defined by the various stakeholder groups that have interest in international standard setting, including users, regulators, and the accountancy profession.
- **Funding Model Reform.** The funding model should be reformed to ensure support from all stakeholders involved. This will further mitigate potential conflicts of interest and reinforce a multi-stakeholder composition. Funding currently rests with IFAC and small contributions from the international regulatory community.

Operating Processes and Efficiencies

- **Technical Work Standards.** To ensure the continued development of high-quality, broadly adopted standards, SSB size and focus on detailed technical work must be maintained.
- **Speed of Standard Setting.** While the speed of standard setting by the IAASB and IESBA is faster than comparable SSBs, (e.g., IASB & PCAOB), improvements in due process arrangements discussed and agreed between the SSBs and the PIOB, including additional flexibility for emerging issues, will enhance speed.

Governance Arrangements

- **Due Process Oversight.** The PIOB must revert to its original mandate to focus only on due process oversight. Protecting the public interest is not the sole responsibility of just one stakeholder. The PIOB should be renamed the “Due Process Oversight Board” to clarify and reinforce its role as a true multi-stakeholder board premised on transparency, accountability and geographic diversity.
- **Transparency.** Open all meetings and agenda papers of the PIOB to the public, to provide transparency into deliberations and decision-making.