



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS

IN ENGLAND AND WALES

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Your ref:

Ms. Tillie Rijk  
IOSCO General Secretariat  
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By email

Dear Ms. Rijk

**RESPONSE TO 'AN OVERVIEW OF THE WORK OF IOSCO'S TECHNICAL COMMITTEE'**

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on An Overview Of The Work Of IOSCO's Technical Committee

Please contact me or my colleague Andrew Gambier ([andrew.gambier@icaew.com](mailto:andrew.gambier@icaew.com)) should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW Representation

ICAEW REP 52/07

RESPONSE TO 'AN OVERVIEW OF THE WORK OF IOSCO'S TECHNICAL COMMITTEE'

Memorandum of comment submitted in June 2007 by The Institute of Chartered Accountants in England and Wales, in response to the consultation paper **An Overview Of The Work Of IOSCO's Technical Committee** published in March 2007.

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## **Introduction**

1. The Institute of Chartered Accountants in England and Wales (the 'ICAEW') welcomes the opportunity to comment on IOSCO's consultation on the work of its Technical Committee, issued in March 2007. We support IOSCO's decision to undertake and consult on this process.
2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

## **General comments**

4. Overall, we consider that the Consultation Report appropriately identifies areas where opportunities, market risks or regulatory failures might indicate a need for IOSCO to undertake future technical work. Therefore, in this response our main concern is to point to ways in which the ICAEW could contribute to the work of IOSCO and promote principles of good regulation. We believe that the areas in which accountants have an interest is much wider than the rather narrow scope of the areas included in the table on page 6 of the consultation document.
5. The ICAEW's technical activities involve specialist faculties of members with interests and expertise in particular areas and include: accountancy markets, accounting standards, audit, assurance, business and professional ethics, business law, corporate finance, corporate governance, corporate reporting, corporate responsibility, financial management, financial services, information technology, SME issues and tax. We aim to engage with policymakers in these areas in the public interest to stimulate debate and improve standards. Our work draws on the knowledge of our members who work across all sectors of the economy in positions of leadership and influence.
6. We set out below in more detail our views on the areas of interest you have highlighted and would welcome the opportunity to provide further input to the IOSCO Technical Committee and Secretariat in our areas of expertise.

## **Specific comment on the work of the Technical Committee**

### **A.1. Monitoring developments and the enforcement of accounting standards**

7. We have highlighted similarities and differences between US and non-US systems of corporate governance in our Dialogue in corporate governance thought leadership programme which we launched in 2005. As part of this work, we have considered the contributions that accounting and auditing processes and securities regulation make to the framework of corporate governance.

8. Our findings document, Emerging issues published in January 2007, is available from [www.icaew.com/dialogueincorp.gov](http://www.icaew.com/dialogueincorp.gov). In it we cautioned that it may not be possible to establish common principles for IFRS and US GAAP. In particular we observed that securities regulators' emphasis on consistent application of IFRS, whilst sensible in itself, must not take precedence over the primary purpose of IFRS as a principle-based set of standards for accountability. We urge the Technical Committee to prefer quality, principle-based accounting to consistent application if the price of consistent application is a significant increase in rules and complexity and the marginalisation of judgement and personal responsibility.
9. More broadly, the ICAEW supports measures to improve the transparency and efficiency of markets. In 2003, we launched a thought leadership programme entitled Information for Better Markets and have issued seven publications to date. The areas of interest covered by this programme have included financial reporting, information technology, corporate responsibility and ethics.
10. In May 2007, we published Reporting with integrity which looks at the fundamental importance of the integrity of the people and organisations who contribute to the financial reporting process. It also considers how integrity can best be promoted and safeguarded and the related roles and responsibilities of the accounting profession.
11. In November 2006, we published Measurement in financial reporting which responds to the recent perceived trend to move financial reporting away from historical cost towards a fair value basis of measurement. Our publication asks what 'measurement' in financial reporting means and considers the different measurement bases available and their strengths and weaknesses. It also views accounting standard setting as a regulatory activity that should be subject to principles of good regulation, rather than as a theoretical quest for "the right answer".
12. We believe that our work on integrity and measurement is of particular relevance to IOSCO and copies of all our Information for Better Markets publications are available from [www.icaew.com/bettermarkets](http://www.icaew.com/bettermarkets).

## **A.2. Financial and non-financial disclosure standards**

### Debt disclosure

13. We support the Technical Committee's project to review the disclosure needs of debt investors. Historically, standard setters have tended to focus on the needs of equity investors, with a general assumption that the resulting standards will also meet the needs of debt investors.

### Periodic disclosure

14. The current requirements in Europe derive from the Transparency Directive, which recognised a consensus view in the EU that mandatory quarterly reporting was not appropriate. Issuers are required to report every six months, with trading updates provided in the intervening periods. We urge any IOSCO activity in this area to reflect the strength of this consensus and the relatively short period of time since its introduction.

## Special purpose vehicles

15. We believe it is right for any review to consider both the accounting and non-financial statement requirements for special purpose vehicles. However, we stress that disclosure should not be used as a proxy for proper, rigorous financial accounting. It is difficult to conceive of a situation where an organisation has control of a special purpose vehicle yet does not consolidate its results and financial position.

### **A.3. Corporate governance**

#### Board independence and minority shareholders

16. We note with interest the review of the OECD principles and how they have been implemented in practice. Our Dialogue in corporate governance work referred to above is concerned with ensuring that high level regulatory objectives are delivered effectively in different legal and regulatory frameworks.
17. We also support the initiatives to support the role of independent directors and to identify the needs of minority shareholders, provided that any related proposals are focussed on outcomes and are fair and proportionate.

### **A.4. Credit rating agencies**

18. We welcome the activities with respect to credit-rating agencies, which perform a vital role as intermediaries. The experience of our members has led us to prefer a principle-based, framework approach to independence rather than a series of rules.

### **B.1. Monitoring developments with respect to auditing standards**

19. We believe that IOSCO should be taking a proactive role in relation to the IAASB's work. The quality of International Standards on Auditing (ISAs) is of global importance and IOSCO is ideally placed to comment on the IAASB's clarity project. We fully respect IOSCO's right to articulate its expectation for "a substantive evolution of ISAs". However, we caution IOSCO against continued deferral of endorsement of ISAs and the related standard setting process, and the continuing imposition of additional conditions for such endorsement. As a practical matter, a substantial number of IOSCO members accept that ISAs represent standards of the highest quality and therefore we urge IOSCO to show more leadership in future.

### **B.2. Non audit services**

20. We have a long history of involvement in auditor independence issues having pioneered the 'threats and safeguards' approach which forms the basis of the IFAC Code of Ethics and EU legislation in this area. We support IFAC's framework approach to independence.
21. We believe that the most effective way to ensure the reality of independence is to provide guidance built around a framework of principles rather than detailed rules that can be complied with to the letter but circumvented in substance.
22. With respect to non-audit services we believe that a blanket prohibition on the provision of non-audit services to audit clients can be inefficient for the client and

is neither necessary to ensure independence, nor helpful in contributing to the knowledge necessary to ensure the quality of the audit. Our view is that unnecessarily restricting the provision of non-audit services has an unintended, adverse effect on the underlying quality of the audit through restrictions in knowledge and skills. Thus, in summary, provided no undue overall economic dependence results from the auditor/client relationship and adequate safeguards can be implemented, we believe that companies themselves should determine whether they use auditors for non-audit services, in consultation with the profession's guidelines.

### **B.3. Audit quality**

23. The ICAEW's Audit and Assurance Faculty has been a strong advocate for audit quality for many years having issued a publication entitled *Audit Quality* in 2003 and followed this up with the hosting of the Audit Quality Forum since 2004. The Audit Quality Forum, established at the request of the Secretary of State for Trade & Industry, brings together representatives of auditors, investors, business and regulatory bodies.
24. The Forum's purpose is to encourage stakeholders to work together by promoting open and constructive dialogue and to contribute to the work of governments and regulators and by generating practical ideas for further enhancing confidence in the independent audit. It has published several publications which consider various aspects of audit quality and how it might be improved.
25. We would be delighted to discuss our work with you further to help inform your thoughts in this area. However, our experience highlights the importance of involving all stakeholders in the debate, rather than seeking solutions that rely solely on regulatory initiatives.

### **C.1.2 Multi-jurisdictional Information Sharing for Market Oversight**

26. Globalisation has increased the complexity of issues faced by national regulators. We believe that international regulatory organisations should look to the role that could be played by international financial intermediaries, such as banks, auditors, credit rating agencies and international institutional investors, in supporting regulatory objectives. Such intermediaries need internal standards for vetting companies that may complement regulatory oversight and help mitigate weaknesses in international regulatory co-ordination, compliance and enforcement.

### **D.1.1 Conflicts of interest**

27. We are interested in the consultation paper on the regulatory principles that might be used by market intermediaries to manage potential conflicts of interest. Our perspective is that approaches which focus on the fundamental concepts of integrity and trust tend to achieve better results than blanket compliance requirements. In this context, our recent report *Reporting with integrity*, referred to above, is relevant.

### **D.2.1 The impact of new technology**

28. Our 2004 publication *Digital reporting: a progress report* discussed the reasons behind the relatively slow take-up of XBRL within businesses. We identified that XBRL would be of particular use to regulators and government agencies whose

requirements are underpinned by a finite and definitive set of legally determined and binding rules. However, without clear direction from regulators, take-up amongst businesses is likely to be limited.

29. In 2006, our IT Faculty launched Making information systems work programme of thought leadership which looks at the challenges presented today by information systems. Taking a questioning and independent standpoint, this initiative engages representatives of all sectors of the economy in an increasingly important debate. Our key areas of focus are: 'value' – the economic case for IT investment, 'trust' – a secure environment for the use and transfer of information, and 'standards' – a sound technical basis for the exchange of information between parties. We believe that consideration of IT should focus not only on technological possibilities but also, perhaps more importantly, on the supporting processes to ensure that the full benefits of IT investment are realised.

### **E.1.3 Soft commissions and incentives**

30. We support the proposal to monitor the area of incentives and their impact on the integrity of markets. This links in to our work on integrity, as highlighted above.

### **E.2.1 Private equity**

31. We note with interest IOSCO's plans for a preliminary review to assess whether private equity is subject to sufficient overview by regulatory authorities. In the UK, the House of Commons Treasury Committee is undertaking an enquiry into private equity, with particular emphasis on the regulatory environment, the taxation regime and the economic context for private equity. The submission from our Corporate Finance Faculty to this enquiry argued that care needs to be taken to distinguish the systemic risk that might be caused by private equity funds generally and the regulation of specific risks in relation to individual funds.

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