



INTERNATIONAL REGULATORY COOPERATION

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ICAEW welcomes the opportunity to comment on International regulatory cooperation for a global Britain published by the department for Business, Energy and Industrial Strategy on 2 September 2020, a copy of which is available from this [link](#).

International regulatory cooperation is of vital importance to the accountancy profession. For the largest businesses, capital markets are global and it is therefore crucial that standards for corporate reporting and audit are internationally comparable. Multinational businesses need a coherent global approach to corporate tax. To be successful, the fight against money laundering and economic crime has to be coordinated internationally.

In this response we outline a number of areas of business regulation relevant to the work of ICAEW chartered accountants. It is crucial that international cooperation and a commitment to international standards continues in these areas. Indeed, we encourage the government to seek opportunities to extend and deepen the UK's cooperation and influence. Possible opportunities are outlined in this response.

Question 1: What is the name of your organisation?

The Institute of Chartered Accountants in England and Wales

Question 2: What type of organisation are you?

A: Regulator, standards body or similar type of organisation

Question 3: Please provide some brief background on the role, remit or purpose of your organisation.

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regulators and businesses and it leads, connects, supports and regulates more than 186,500 chartered accountant members and students around the world. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

Amongst ICAEW's regulatory responsibilities it is;

- the largest Recognised Supervisory Body (RSB) and Recognised Qualifying Body (RQB) for statutory audit in the UK, registering approximately 2,600 firms and 7,000 responsible individuals under the Companies Act 2006;
- a Prescribed Accountancy Body (PAB) and Recognised Accountancy Body (RAB) for statutory audit in Ireland, registering approximately 40 firms and 250 responsible individuals under the Republic of Ireland's Companies Act 2014;
- the largest recognised supervisory body (RSB) for local audit in England. It has eight firms and over 90 key audit partners registered under the Local Audit and Accountability Act 2014;
- the largest single insolvency regulator in the UK licensing some 800 of the UK's 1,600 insolvency practitioners as a Recognised Professional Body (RPB) under the Insolvency Act 1986;
- a Designated Professional Body (DPB) under the Financial Services and Markets Act 2000 currently licensing approximately 2,000 firms to undertake exempt regulated activities under that Act;
- a Supervisory Body recognised by HM Treasury for the purposes of the Money Laundering Regulations 2007 dealing with approximately 11,000 member firms;
- designated an Approved Regulator and Licensing Authority for probate under the Legal Services Act 2007 (the Act) currently accrediting approximately 300 firms to undertake this reserved legal activity.

KEY POINTS

1. The UK has historically had a strong presence in the international forums where these standards are developed, indeed ICAEW has been a founding member of some of them. We hope the UK's strong presence can be sustained and enhanced outside of the EU. The UK's relationship with the bodies covered in this response has been shaped by our membership of the EU and in some cases our representation on them is through the EU. It is important that our commitment to these relationships is strengthened and that efforts are made to avoid our voice being diminished.
2. This response is grouped around those key relationships.

Financial reporting

3. International Financial Reporting Standards (IFRS) are developed by the International Accounting Standards Board (IASB), which is the standard setting board of the IFRS Foundation. The work of the IASB is overseen by the IFRS Foundation trustees and the Monitoring Board. The IFRS Foundation and the IASB are headquartered in London.
4. IFRS must be followed in preparing the consolidated accounts of EEA listed companies on regulated markets. Following transition, the UK will continue this requirement and the government is establishing a UK Endorsement Board within the Financial Reporting Council (FRC) to replicate the endorsement functions of the EU, in a UK context. The UK Endorsement Board has a clear remit both to contribute to the development of IFRS and to ensure the suitability of individual IFRSs for adoption in the UK. It is vital that it is equipped with the capacity and continuing mandate to engage with the IASB as a leading stakeholder.

5. The UK has historically played a strong role in the development of IFRS, but we are conscious the financial reporting community will need to continue to up its game in contributing to the development and sharing of accounting thinking and practice. A unique global standard setting partnership has emerged from the widespread adoption of IFRS and by aiming to be a leading member of this the UK can seek to sustain its global influence. The UK Endorsement Board has a crucial role to play in this regard and will benefit from government's ongoing attention and support.
6. Attention should also be given to representation of the UK within the governance of the IFRS Foundation. The constitution of the IFRS Foundation provides for geographical representation within the Board of Trustees; of the 22 trustees, six can be from Europe and at present there is one UK national. However, the UK does not have a seat on the Monitoring Board. The current members of the Monitoring Board are
 - IOSCO,
 - the European Commission,
 - the Financial Services Agency of Japan,
 - the US SEC,
 - the Brazilian Securities Commission,
 - the Financial Services Commission of Korea, and
 - the Chinese Ministry of Finance.

In due course the UK authorities should make the case for UK participation on the Monitoring Board, given the status of the UK as a major IFRS jurisdiction and global capital market. The UK FRC has recently become a member of the IASB's Accounting Standards Advisory Forum and we welcome this development.

7. Ultimately it is the IASB that sets IFRS standards and makes key decisions in this regard. Appointments to the IASB are made by the IFRS Foundation trustees, on the recommendation of their nominating committee. There is geographical representation on the IASB, with two members from Europe. One of the members is a former member of the UK Accounting Standards Board.

Audit

8. The UK FRC as a Recognised Supervisory Body for audit, is required by the Companies Act 2006 to have to have rules and practices about the technical standards to be applied in company statutory audit work and the manner in which those standards are to be applied in practice. It therefore sets technical standards for the professional ethics, internal quality control and the work of statutory auditors. The FRC bases its standards for quality control and audit work on international standards issued by the International Audit and Assurance Standards Board (IAASB). Although the FRC augments the international standards with UK specific requirements, it tries to ensure that UK standards (ISAs (UK)) are consistent and do not conflict with international standards. As such, conducting a UK statutory audit in accordance with ISAs (UK) does not preclude the auditor from being able to assert compliance with International Standards on Auditing issued by the IAASB. For more details see [FRC: Scope and Authority of Audit and Assurance Pronouncements](#).
9. This is important as it is crucial to confidence in capital markets that market participants can be sure that audits are conducted to high standards and that audits in different jurisdictions are at least as rigorous as the international standard. Sir John Kingman's recent review of the FRC did not identify major concerns in relation to the FRC's standard setting activities and did not make recommendations in this area. Nevertheless, as part of the transition to the new Audit, Reporting and Governance Authority, it could be examined whether the FRC's commitment to international standards is sufficiently well defined.
10. That might include consideration of the extent to which the FRC's authority to set technical standards allows international standards to be augmented with additional material, or permits deviation from them. ICAEW was one of the founding bodies for international auditing and ethical standards and due to our membership of the International Federation of Accountants (IFAC) we continue to have a formal commitment to adopt these standards and must report

annually to IFAC on adoption status in the UK. Although standard setting powers have transferred to the FRC over the years, these formal commitments to international standards have not been replicated and it might be considered whether this may now benefit from clearer definition.

11. It is also important that standards continue to develop to keep pace with changing circumstances and technology and to this end the UK needs to maintain a strong voice in the IAASB and its governance bodies.
12. The IAASB was established as an independent standard setting body by the International Federation of Accountants and is headquartered in New York. It has 18 members, selected on the basis of 'the best person to do the job', with geographical representation being one relevant factor. At present two of the 18 members are from the UK.
13. The IAASB's Consultative Advisory Group (CAG) is an integral and important part of its formal process of consultation. The membership of the CAG is comprised of international organisations with an interest in the work of the IAASB. The UK government might explore the possibility of membership or observer status for a UK body on the CAG.
14. The standard setting activities of the IAASB are overseen by the Public Interest Oversight Board (PIOB) and the Monitoring Group. The Monitoring Group has recently completed a review of the governance of the PIOB and IAASB and has concluded that new criteria should be introduced for selecting IAASB members, although additional funding for the proposed changes has not yet been secured. Going forward all members will be nominated by the PIOB through an open call and appointed using a skills matrix to be developed for each Board that 'prioritizes the public interest and fosters leadership, expertise, and diversity of thought and geography'.
15. The PIOB was established by the Monitoring Group to provide independent oversight of the standard setting process. It is headquartered in Madrid. The PIOB has 10 members, selected by the Monitoring Group to serve three year terms, with geographical diversity being one factor for selection. At present none of the PIOB members is a UK national.
16. The role of the Monitoring Group is to provide a formal link between the PIOB and public authorities, in order to protect the PIOB from undue influence. The UK government may therefore wish to review its representation and influence in the international bodies sitting on the Monitoring Group. The Monitoring Group has these members:
 - The International Organization of Securities Commission
 - The Basel Committee on Banking Supervision
 - The International Association of Insurance Supervisors
 - The World Bank
 - The European Commission
 - The Financial Stability Board
 - The International Forum of Independent Regulators
17. Ethical standards for professional accountants are set internationally by the International Ethics Standards Board (IESBA), an independent board established under the auspices of the International Federation of Accountants. The Monitoring Group's changes would also affect the setting of these international ethical standards, as applied by auditors. However, the FRC has already established its own UK ethical standard for the audits that it regulates. ICAEW bases the ethical standards for its members on IESBA's standards. Similar to the IAASB, the UK government might explore the possibility of membership or observer status for a UK body on IESBA's CAG.
18. In terms of audit enforcement, the UK is one of 55 members of the International Forum of Independent Audit Regulators (IFIAR) and has a place on the current board, being represented by the FRC. The forum acts as a coordinating body to share knowledge of the evolving audit environment and the practical experience of independent audit regulatory activity, promote collaboration and consistency in regulatory activity and provide a platform for dialogue with other international organisations interested in audit quality. As the UK moves to develop its

adequacy and equivalence recognitions for audit regulation, the intelligence gained by being a member of this forum will assist in the formulation of those assessments.

Non-financial reporting

19. Rapid progress is being made toward international standards for environmental, social and governance matters to assist measurement of progress against the UN's sustainable development goals and toward targets for carbon emissions. There are a number of international bodies and initiatives involved in the development of standards and protocols for reporting against these metrics and UK nationals and the UK government is involved in several of these in various ways. Nevertheless, unlike financial reporting and auditing standards, none of these standards yet has the force of law.
20. That is set to change rapidly. At present, the EU non-financial reporting directive (Directive 2014/95/EU) requires large companies to disclose certain information on the way they manage their social and environmental impact, but gives considerable discretion about how they do this. UK reporting requirements currently go beyond the basic requirements in EU law; since 2019, large companies have had to disclose how their directors have had regard to wider stakeholder needs when performing their duties under s172 of the Companies Act 2006 to 'promote the success' of the company. Guidance from the FRC on the strategic report assists directors in making these disclosures. The Companies Act 2006 also requires large companies to disclose greenhouse gas emissions and energy consumption and DEFRA provides guidance on how to do this.
21. The European Commission is in the process of extending and strengthening the non-financial reporting (NFR) directive. As part of this, work is rapidly progressing on European NFR standards. A European Corporate Reporting Lab has been established under the auspices of the European Financial Reporting Advisory Group (EFRAG - the body charged with making recommendations to the European Commission regarding the endorsement of IFRS for use in the EEA). The Lab's steering group has formed a project task force, and this is rapidly progressing preparatory work for possible EU NFR standards.
22. The governance for these standards will be developed as part of the project. UK stakeholders have a keen interest in these developments, which may prove influential in the UK in various ways. However, EFRAG's constitution precludes UK representation now it is outside the EU.
23. Nevertheless, we welcome the UK's decision to join the EU sponsored International Platform for Sustainable Finance and we hope the UK government will continue to seek opportunities to collaborate with and support the EU globally in its climate initiatives.
24. Meanwhile, Rishi Sunak announced on 9 November that Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures would be made mandatory across the UK economy by 2025. The TCFD was established by the Financial Stability Board.
25. TCFD is a framework for disclosure which leaves some latitude for companies to design disclosures to match their circumstances. ICAEW has supported this more market led approach, which paves the way toward greater consistency in NFR standards internationally. As disclosures mature, there will be a need to build on the TCFD framework with more specific NFR standards. The IFRS Foundation trustees are currently consulting on the creation of an international board for NFR standards, to sit alongside the IASB.
26. ICAEW supports this initiative to bring much needed consistency to NFR. We welcome the UK government's recent statement of support to the IFRS Foundation in this new initiative and its pledge to take forward domestic proposals 'in a manner which will inform, and be consistent with, international standards'. We hope the UK government will take a leading role in supporting the development of these standards, including by sharing UK expertise and experience. Commitment to this outcome may act as an added incentive to accelerate innovation by UK companies. We also hope that this commitment will lead to, in due course, consideration of the case for adoption of international NFR standards in UK law, should the IFRS Foundation be successful in establishing the new board.

27. Nevertheless, UK adoption alone will not be sufficient to ensure progress toward international consistency. As well as demonstrating its own commitment, the UK government could play an important role in promoting international adoption of the standards and cooperation in their development. For example, it could use its influence to encourage 'equivalence' between international standards and those being developed by the European Lab.

Tax

28. The OECD's tax base erosion and profit shifting (BEPS) project is a key international initiative seeking to reduce opportunities for tax avoidance and improve the coherence of international tax rules. The UK has played a leading role in BEPS, with both HMRC and HM Treasury providing significant resources to support it. Key BEPS outcomes around exchange of information have played an important role in coordinating action internationally to address tax avoidance. BEPS has also been exploring how a coordinated approach could be taken to the taxation of digital services. Although in the absence of international agreement, the UK and France have moved ahead unilaterally with a digital services tax, progress at OECD level remains important. Moving towards some level of OECD consensus on the taxable base would be a welcome development, but with different political imperatives, agreement remains elusive. The UK government should remain committed to encouraging progress towards a consensus international solution.

29. The UK is one of 135 members of the OECD/G20 inclusive framework on BEPS. Outside the EU, the UK has greater flexibility in how it applies BEPS. Key BEPS actions have been implemented in EU law, including through the Anti-Tax Avoidance Directive. These include a general anti-abuse rule, and rules in relation to 'controlled foreign companies', exit tax, corporate interest restriction and 'anti-hybrids'. These are already part of UK law.

30. One area where there have been recent changes is Action 12 on mandatory disclosure. The UK has for some time had rules for the Disclosure of Tax Avoidance Schemes (DOTAS), but the EU has now implemented union-wide disclosure rules in the Directive of Administrative Cooperation 6 (DAC 6) which has been adopted in the UK, although the first reporting under the Directive has been deferred due to COVID-19. DAC 6 differs somewhat in scope to the existing UK rules and may require considerably greater disclosure, possibly of the same transaction by multiple parties. The rules are very widely drawn and therefore it is generally accepted that some benign arrangements with no tax avoidance motive will be caught. Any advisers or organisations which are involved in transactions which touch the EU in any way will need to consider whether these rules might apply to them.

31. These developments are of considerable importance to UK businesses and we hope the UK government will continue to play a leading role in contributing to the development of BEPS, as well as being mindful of implications for the UK of EU implementation of BEPS actions. The outcome of DAC 6, described above, emphasizes the importance of a strong UK voice such that comparable future developments take better account of UK circumstances.

Economic crime

32. Effective international collaboration on efforts to combat money laundering and terrorist financing is very important to the accountancy profession. The UK is one of 39 members of the Financial Action Task Force (FATF). FATF standards for combatting money laundering and terrorist financing are reflected in the EU's Anti-Money Laundering Directives (AMLD), the most recent of which, the fifth AMLD came into force in the UK on 10 January 2020. The FATF's most recent mutual evaluation report for the UK concluded that in general the UK provides a broad range of timely and constructive international co-operation. However, FATF has noted that the 'overwhelming majority' of UK co-operation is with EU member states and we hope this is sustained after transition. International co-operation on anti-money laundering and counter terrorist financing is vital given the UK's status as a global financial centre and this area will need continued attention.

Insolvency

33. INSOL International is a world-wide federation of national associations of accountants and lawyers who specialise in turnaround and insolvency. There are currently over 44 Member Associations with over 10,500 professionals participating as members of INSOL International. Individuals who are not members of a member association join as individual members. The UK plays a significant part in the role of this organisation and has four members on the board and its offices are headquartered in London. INSOL focuses on improving restructuring and insolvency solutions where cross-border issues dominate. Those activities often include sharing knowledge and ideas that will further commercial objectives, developing networking contacts through facilitating cross-border business opportunities, and helping support the global economy.

Financial and securities markets

34. We have co-operated with the European Securities and Markets Authority (ESMA). Previous participation has included membership of expert groups eg Consultative Working Group (CWG) for the Corporate Reporting Standing Committee (CRSC). We have also had informal engagement and soundings (eg on proposed ICAEW guidance for preparers of PFI). Following transition we would hope that ESMA departments will continue to operate an open door to cooperation. ESMA and AFME will remain important bodies for UK constituents.

35. ICAEW has also co-operated with the Association for Financial Markets in Europe (AFME) on debt and equity market issues. For example, AFME has provided input to help ICAEW in developing its guidance on financial position and prospects procedures and ICAEW provided input to AFME for its initiative developing an agency for business lending.

Electronic reporting

36. XBRL is an open international standard for digital business reporting. It is already widely adopted as a standard for company reporting and its use is being extended. For several years HMRC has required UK companies to use XBRL tagging in tax filings. Companies House operates an XML Software Filing Service for transferring company accounts data electronically. ESMA has recently implemented a 'Technical Standard' requiring issuers listed on EU regulated markets to prepare their annual financial statements using the 'European Single Electronic Format', which incorporates the use of XBRL tags. This requirement is due to be incorporated in the UK listing rules, but has been deferred due to COVID. ESEF will extend the level of granularity of tagging and make it mandatory for listed companies to file accounts in this format.

37. XBRL is managed by a global not for profit consortium, XBRL International. There is one UK national on the Board of Directors of XBRL International. XBRL International encourages the development of local consortia called Jurisdictions. The UK jurisdiction, XBRL UK Limited, is hosted by ICAEW.

38. As detailed above, the UK has at times been a pioneer in implementing electronic reporting using the international XBRL standard. Government should continue to monitor developments in this area and seek for the UK to play a leading role.

ANSWERS TO SPECIFIC QUESTIONS

39. Because international regulatory cooperation affects the accountancy profession in a variety of areas, there are issues relevant to questions 4, 5 and 6 in a number of different technical areas. To help structure our answer, we have combined comments relating to questions 4, 5 and 6 in the key points above.

Question 4. What international regulatory cooperation initiatives, if any, does your organisation undertake?

40. Regulatory cooperation initiatives relevant to the accountancy profession are outlined in our key points above.

Question 5. In your experience, what are the challenges for regulators, standards bodies and similar organisations in engaging in international regulatory cooperation initiatives?

41. There are a number of challenges, which are outlined in our key points above.

Question 6. How can the government support regulators, standards bodies and similar organisations in undertaking international regulatory cooperation through the development of a strategy?

42. There are a range of measures that government should take to continue to support the accountancy profession in its international regulatory cooperation. These are outlined in our key points above.