

Explanatory Memorandum
April 2025

Explanatory Memorandum for the:
*Revisions to IFAC Statements of
Membership Obligations (SMOs)
1-7 (Revised 202X)*

Introduction

1. This memorandum provides a background to, and an explanation of, the proposed revisions to the IFAC Statements of Membership Obligations (SMOs). The extant SMOs were approved in 2012 and subsequently lightly revised and approved by the IFAC Board in June 2022.
2. The SMOs, which are the basis of the IFAC Member Compliance Program (MCP), assist Professional Accountancy Organizations (PAOs) in serving the public interest by supporting the (a) adoption and implementation of international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), International Public Sector Accounting Standards Board (IPSASB), International Financial Reporting Standards Foundation (IFRS Foundation), and IFAC for the International Education Standards, and (b) establishing quality assurance (QA) review systems and investigation and discipline (I&D) mechanisms. The SMOs are globally recognized benchmarks for PAOs.
3. The IFAC MCP was established in 2004 as part of IFAC reforms. The Program was launched to guide PAOs worldwide to work with their members, regulators, standard setters, and other key stakeholders to strengthen the accountancy profession by requiring specific actions outlined in the SMOs.
4. Participation in the IFAC MCP is mandatory for all IFAC members. Since 2004, the Program has been implemented in the following parts:
 - *Part 1 – Assessment of the Standard-Setting and Regulatory Framework*

Part 1, launched in 2004, was a fact-gathering exercise to determine the legal, regulatory and standard-setting arrangements.
 - *Part 2 – SMO Self-Assessment*

Part 2 was launched in 2005 and requires IFAC membership to self-assess their level of compliance with the specific requirements of the 7 SMOs, as well as the status of adoption of international standards and best practices.
 - *Part 3 – SMO Action Plans*

Part 3 was launched in late 2007 and continues to date. IFAC members develop and regularly update their Action Plans to explain how they make progress toward or continue to uphold SMO requirements.
 - *Part 4 – Dashboard Reports (DBRs)*

Introduced in 2014, Dashboard Reports are now produced by IFAC staff and regularly updated for each IFAC member organization alongside the SMO Action Plan submission to monitor progress with the SMO requirements and the global adoption of international standards and QA and I&D systems.
5. Since 2016, all IFAC member organizations have their SMO Action Plans and a jurisdictional and organizational profile (extracted from information contained in the Dashboard Report) available online

via IFAC's [International Standards Adoption Map](#) to advance public interest and transparency considerations as well as promote, monitor, and disseminate global adoption data and best practices.



Decision to review and revise the SMOs

6. It is the responsibility of the IFAC staff, reporting to the IFAC CEO, to (a) review the relevance, sufficiency, and efficacy of the SMOs on a regular basis, and (b) make related recommendations to the IFAC Board, which approves the SMOs, including any amendments (IFAC Bylaws, Para 25.1.a).
7. Under its Terms of Reference, the IFAC Membership Committee is responsible for advising IFAC staff on their recommendation to the IFAC Board regarding any changes to the membership criteria, which include the SMOs.
8. In 2021—2022, the SMOs underwent a review to make necessary conforming amendments resulting from changes in independent standard-setting boards, IFAC committees, public oversight arrangements, and changes in the international standards. IFAC consulted colleagues from various IFAC departments, the independent standard-setting boards (including the IFRS Foundation), and the IFAC PAO Development and Advisory Group (PAODAG) for input and feedback.
9. There were no changes to the fundamental principles or requirements of the SMOs at that time and the changes were approved by the IFAC Board in June 2022 with the understanding that the SMOs would be kept under review.
10. In the duration of that 2021-2022 review process, IFAC acknowledged the following:
 - A need for further engagement and experience-sharing around SMO 1-Quality Assurance and the impact of the IAASB's new and revised quality management standards before substantive requirement changes are made; and
 - A need to consider sustainability-related standards developments.

Significant Matters Considered

11. IFAC follows key principles to ensure that the SMOs:
 - Continue to be an effective and globally recognized framework for PAOs to serve the public interest by (a) supporting the adoption and implementation of international standards, and (b) maintaining adequate quality assurance & enforcement mechanisms to ensure the professional behavior of their individual members;

- Serve the public interest by reflecting the context of developments in international standards and today's regulatory environment, thereby ensuring further alignment of the SMOs with the expectations of the accountancy profession held by the public and key stakeholders;
 - Contribute to increasing the effectiveness of the MCP, thus enhancing credibility of the accountancy profession worldwide; and
 - Continue to reflect current international best practice and present the requirements in a clear, consistent, and concise manner.
12. As noted, the SMOs are recognized as international benchmarks for credible and high-quality PAOs and the MCP has served as a longstanding initiative to guide PAOs in the adoption and implementation of international standards and best practices. The SMOs are frequently referenced in World Bank's ROSC–Accounting & Auditing and the MCP was included by the OECD's Partnership of International Organizations for Effective Rulemaking as an example of an international rulemaking implementation best practice. Together, the SMOs and MCP power IFAC's ability to monitor and report on adoption of international standards.

Developments in International Standards

13. One of IFAC's [primary objectives](#) is contributing to and promoting the development, adoption and implementation of high-quality international standards. IFAC's continued role in promoting global adoption, convergence, education, implementation, and compliance to ensure that professional accountancy organizations comply with their membership obligations was [recognized in the Monitoring Group recommendations](#) in 2020.

Quality Management

14. In December 2020 IAASB released three new and revised standards for quality management, which became effective December 15, 2022:
- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*
 - International Standard on Quality Management 2, *Engagement Quality Reviews*
 - International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*
15. The standards strengthen and modernize the audit firm's approach to quality management. This includes directing firms to improve the robustness of their monitoring and remediation, embed quality into their corporate culture and the "tone at the top", and improve the robustness of engagement quality reviews. The standards mark a significant evolution from the previous quality control standards and therefore require an update to SMO 1, Quality Assurance which sets out the requirements for IFAC member organizations with respect to quality assurance reviews.

ISA for LCE

16. The *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (the ISA for LCE) is a standalone global auditing standard designed specifically for smaller and less complex businesses and organizations – recognizing their unique needs. The standard was

published in December 2023 and is effective for audits beginning on or after December 15, 2025, for jurisdictions that adopt or permit its use. The standard provides the same level of assurance as an audit performed under the ISAs: reasonable assurance and promotes the consistent application of auditing standards to LCEs, which reduces the risk of jurisdictional divergence by driving consistency and comparability globally. IFAC has received inquiries regarding the expectations and obligations of member organizations around the ISA for LCE and has added an encouragement for its members to evaluate its use in the jurisdiction in SMO 3, covering the IAASB standards. As part of its mandate to promote the adoption and implementation of high-quality international standards, IFAC will track and assess the adoption of ISA for LCE, but it will be treated separately from adoption assessments of ISAs.

Sustainability Standards

17. Sustainability-related standards are being developed and issued in reporting (corporate and public sector), assurance, ethics, and education. Accordingly, IFAC must consider how to appropriately incorporate the standards into the SMOs, while acknowledging the context of the regulatory environment (which has changed significantly in major jurisdictions in early 2025) and expectations of the accountancy profession and public stakeholders.
18. In the proposed revisions, at this time, IFAC has only included amendments in SMO 7 to address the IFRS Sustainability Disclosure Standards (also known as ISSB Standards). This is because the global ecosystem is still at a very early stage in the sustainability reporting and assurance journey. Only the ISSB standards — *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures* — have been available in their final issued form to the market since June 2023 and are effective for annual reporting periods beginning on or after 1 January 2024. The IFRS Foundation have reported that [more than 20 jurisdictions](#) (representing nearly 55% of global GDP) have decided to use or are taking steps to introduce ISSB standards in their legal or regulatory frameworks.
19. Meanwhile, the IAASB and IESBA sustainability-related standards (International Standard on Sustainability Assurance (ISSA) 5000 and International Ethics Standards for Sustainability Assurance (including International Independence Standards (IESSA)) were only approved in September and December 2024 respectively, with an effective date beginning on or after December 15, 2026 and the IPSASB Sustainability Reporting Standard (SRS) 1, Climate-related Disclosures only recently closed for public comment on the exposure draft.
20. For these and other sustainability-related standards, IFAC is taking a phased approach to permit time to assess the expectations and impact on the accountancy profession. IFAC will use the tentative following timeline:

Standard (and related SMO)	Effective Date	Proposed SMO consultation	Proposed SMO Effective Date
IFRS Sustainability Disclosure Standards (SMO 7)	Periods beginning on or after 1 January 1, 2024	April – August 2025	January 1, 2026

International Standard on Sustainability Assurance (ISSA) 5000 (SMO 3)	Periods beginning on or after December 15, 2026	March – May 2027 (TBD)	January 1, 2029 (TBD)
International Ethics Standards for Sustainability Assurance (including International Independence Standards (IESSA) (SMO 4)	Periods beginning on or after December 15, 2026	March – May 2027 (TBD)	January 1, 2029 (TBD)
International Education Standards (SMO 2)	July 1, 2026	March – May 2027 (TBD)	January 1, 2029 (TBD)
IPSASB Sustainability Reporting Standard (SMO 5)	TBD – exposure draft consultation closed in February 2025	TBD	TBD
SMO 1 – scope of Quality Assurance reviews for mandatory sustainability assurance information	N/A	March – May 2030 (TBD)	January 1, 2031 (TBD)

21. The above timeline includes the new and revised developments for international sustainability-related standards as well as the potential future revision to SMO 1, Quality Assurance to expand the scope of quality assurance review systems to include mandatory sustainability assurance information.

Framework for PAOs to serve the public interest

Flexible entry requirements

22. There are a multitude of opportunities and challenges associated with becoming an accounting professional in today's world. Assessments and educational requirements are crucial in that journey to becoming a professional accountant; however, the shortage of accountants globally is a pressing issue and one that is fundamental to the public interest.
23. The International Education Standards (IES) are principle-based standards that provide IFAC member organizations flexibility in determining the entry points and pathways to develop the required level of technical competence, professional skills, and professional values, ethics, and attitudes. The implementation of the IES includes significant consideration of the local context, flexible entry points and professional development pathways, and a focus on developing a consistent baseline for professional accountants. This serves the public interest by providing IFAC member organizations options in developing professional accountants to meet market demand, while maintaining a consistent global baseline of professional competence.
24. The proposed revisions to SMO 2 – International Education Standards reiterate what is inherent in the IES 1 (*Entry Requirements to Professional Accounting Education Programs*, 2014) and is intended to encourage IFAC member organizations to strategically evaluate the principle of allowing flexible access to professional accounting education programs while continuing to ensure quality and

that aspiring professional accountants have a reasonable chance of successful completion of professional accounting education programs.

Clarity and Presentation

25. IFAC has also considered editorial changes to enhance clarity and consistency and reduce repetition in the overall presentation of the SMOs. The editorial changes do not change the substantive requirements or expectations of IFAC member organizations with respect to adoption and implementation efforts.

Summary of Changes in the Individual SMOs

SMO 1 – Quality Assurance

Quality management: Design of the QAR Procedures, QAR Team Procedures

26. Primary changes in the section on the Design of the Quality Assurance Review (QAR) Procedures to address the quality management standards include clarifying that the QA review system assesses that the firm has a system of quality management and that the partner has managed quality at the engagement level; and that the QA review system should evaluate that the firm has established a monitoring and remediation process.
27. Primary changes in the section of the QAR Team Procedures to address the quality management standards include how QA review procedures should focus on how the firm has addressed the eight components of ISQM 1.

SMO 2 – IES

Flexible entry requirements

28. Revisions to SMO 2 include changes to encourage IFAC member organizations to evaluate flexible entry requirements and pathways to provide broad access to professional accounting education programs. The proposed revision reiterates what is outlined in the IES 1 (*Entry Requirements to Professional Accounting Education Programs*, 2014) and reflects the global need for attracting sufficient talent into the profession to meet market demands.

SMO 3 – IAASB

ISA for LCE

29. Revisions to SMO 3 include changes to clarify expectations of IFAC members regarding adoption and implementation efforts for the ISA for LCE with an encouragement to evaluate its use in the jurisdiction.

SMO 7 – IFRS

Sustainability standards

30. Revisions to SMO 7 include changes to clarify expectations of IFAC members regarding adoption and implementation efforts for all IFRS Standards, including ISSB Standards. In line with the applicability framework, IFAC member organizations are expected to use their best endeavors to advance adoption and implementation of the ISSB Standards as permitted in their respective jurisdictions.

31. Revisions to SMO 7 also include changes to the scope of companies for which IFRS Standards should be adopted in order to align with the IFRS Foundation's scope. Previously, SMO 7 referred to public interest entities whereas the IFRS Foundation uses the term and definition of publicly accountable entities. The scope in SMO 7 has been updated to refer to publicly accountable entities. All of the proposed SMO 7 revisions were done in close consultation and agreement with IFRS Foundation staff to ensure alignment.

Consultation to Date

32. Input and feedback have been sought from staff and representatives of the relevant international standard-setting boards and taskforces, representatives of IFAC member organizations and Network Partners, and IFAC's PAO Development & Advisory Group.

Project Timetable

33. Subject to public comments received on the proposed revisions, IFAC anticipates presenting the final version for IFAC Board approval in November 2025 with an effective date of January 1, 2026.

Impact on the Member Compliance Program, Adoption Reporting, and SMO Fulfillment

34. For over 20 years, the Member Compliance Program has guided IFAC members in partnering with their members, regulators, standard setters, and other key stakeholders to enhance the quality and credibility of the profession. As champions and leaders of professional quality, integrity, and the public interest, IFAC members, in due course, will report on their actions to adopt and implement new and revised standards through the Member Compliance Program and engagement with IFAC staff.

Quality management

35. Since 2021, through strategic member engagement and outreach, IFAC has been monitoring how IFAC member organizations are supporting adoption and implementation of quality management standards. Codifying changes to SMO 1, Quality Assurance ensures that IFAC member organizations continue to use their *best endeavors* to advance adoption and implementation of the quality management standards and now formally report on how quality assurance systems are being updated accordingly.

Flexible entry requirements

36. Through other means of informal yet strategic member engagement, outreach, and [thought leadership](#), IFAC has already been promoting flexible pathways amongst its membership. As the proposed revisions to SMO 2 – International Education Standards reiterate what is inherent in the IES 1 (*Entry Requirements to Professional Accounting Education Programs*, 2014) there is no change to adoption assessments of the IES. IFAC will continue to engage and encourage IFAC member organizations to strategically evaluate the principle of allowing flexible access to professional accounting education programs in their jurisdiction. IFAC will utilize its engagement with members through the Member Compliance Program to collect more global case studies that could inform additional work in this area.

ISA for LCE

37. The approach described with respect to quality management standards has also been utilized since 2023 to understand the landscape of ISA for LCE adoption across IFAC's member jurisdictions.

Sustainability standards

38. Considering the proposed phased approach to incorporating sustainability standards into the SMOs, IFAC member organizations would firstly be obliged to report on their actions and *best endeavors* to advance adoption and support implementation of the ISSB Standards as part of SMO 7. To avoid duplication of adoption monitoring efforts, IFAC will refer to the IFRS Foundation's methodology and thresholds for adoption of the ISSB Standards.
39. Through other means of informal yet strategic member engagement and outreach, IFAC will continue to monitor the planned adoption of other sustainability standards and how IFAC member organizations might be supporting these efforts. When these standards are formally incorporated into the SMOs, there will be a foundation of (a) established information and (b) expectations for IFAC member organizations.

SMO Fulfillment Framework

40. As noted on page 2, since 2016, IFAC staff produce and regularly update bespoke Dashboard Reports for each IFAC member organization. The Dashboard Report monitors both jurisdictional progress in the global adoption of international standards and systems as well as the individual organizational progress to meet and fulfill the SMO requirements. To encourage progress and drive improvements, IFAC has utilized a [framework of six possible statuses](#) in assessing an organization's fulfillment of the SMOs. IFAC is considering simplifying the possible SMO statuses to just three — similar to the framework of [three adoption statuses](#) — e.g.: *Fulfilled*, *Partially Fulfilled*, *Not Fulfilled* as outlined below:

Fulfilled	<p>The IFAC member organization maintains well-established ongoing processes to fulfill its relevant obligations. The organization reviews and improves its plans and activities related to the SMO requirements as part of an ongoing commitment to continuous improvement.</p> <p><i>Or</i></p> <p>Given the nature of its mandate, membership composition, and the legal and regulatory environment, the IFAC member organization is not involved in activities related to this area.</p>
Partially Fulfilled	The IFAC member organization is executing or defining a plan to progress its activities related to the SMO requirements.
Not Fulfilled	Given the nature of its mandate, membership composition, and the legal and regulatory environment, it is evident that the IFAC member organization has a responsibility to be involved in activities in this area and it is not actively addressing the SMO requirements.

Guidance to Respondents

41. To guide the respondents, specific revisions are discussed above, and a clean and mark-up document are provided. IFAC welcomes comments on all matters. In the mark-up document, text

highlighted in **blue** indicates the text is either the same as in the extant SMOs or lightly amended and has been **moved** (not necessarily deleted) for clarity, consistency, and/or reducing repetition in the revised document.

42. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed wording changes. When a respondent agrees with proposals in the consultation (especially those calling for modification in current practice), it is helpful for IFAC to be made aware of this view.

Requests for Specific Comments:

43. Please respond to the following questions via the response template form:
 1. Do you agree with the proposed revisions for SMO 1 regarding quality management? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 2. Do you agree with the proposed revisions for SMO 2 that encourage IFAC member organizations to evaluate flexible entry requirements and professional development pathways to provide broad access to professional accounting education programs? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 3. Do you agree with the proposed revisions in SMO 3 clarifying expectations of IFAC member organizations concerning the ISA for LCE? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 4. Do you agree with the approach of incorporating sustainability-related standards into SMO 7? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 5. Do you agree with the phased approach (shown in the tentative timeline table) on incorporating the other international sustainability-related standards into the SMOs and potentially expanding the scope of SMO 1 for mandatory sustainability assurance? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 6. Do you agree with other proposed changes to the SMO document (e.g., removing repetition from individual SMO text and consolidating to the introductory text)? If not, please provide an explanation and indicate what changes you/your organization would suggest.
 7. Do you agree with simplifying the SMO Fulfillment statuses to three levels? If not, please provide an explanation and indicated what changes you/your organization would suggest.
 8. *Other:* Are there other matters that IFAC should consider as it reviews and finalizes the proposed revisions?
44. Please submit comments using the response template form by Friday, August 8, 2025.

Exposure Drafts, Consultation Papers, and other IFAC publications are published by, and copyright of, IFAC.

IFAC does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © April 2025 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided that each copy bears the following credit line: *"Copyright © April 2025 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store or transmit this document."* Otherwise, written permission from IFAC is required to reproduce, store, transmit, or make other similar uses of this document, except as permitted by law. Contact permissions@ifac.org.