



International Organization of Securities Commissions
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30 July 2018

Senior Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2018/PK/C1/IESBA/xx

Subject Line: Proposed Strategy and Work Plan, 2019-2023

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to provide input on the International Ethics Standards Board for Accountants (the IESBA or the Board) Consultation Paper: *Proposed Strategy and Work Plan, 2019-2023* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing matters, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We welcome the Board's thoughtful approach to its 2019-2023 strategy and work plan and its attention both to emerging and existing issues. We appreciate the recent revisions and restructuring of the Code, and we are encouraged that the Board plans to continue to pursue strengthening of the Code. We also welcome the Board's focus on maintaining and improving its standard-setting process and engaging with stakeholders to increase awareness of areas needing attention.



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Appropriateness of the Threats and Safeguards Approach

We continue to believe that, in an effort to strengthen the Code, the Board should be focused on the Code's enforceability, clarity and the appropriateness of the threats and safeguards approach. To this point, we would like to re-emphasize some key points that we believe the Board should address as it focuses on these issues. They are as follows¹:

1. The Board should review and update the entire suite of safeguards throughout the Code. Such a process should seek to bring clarity to safeguards that are not clear and eliminate those that are inappropriate;
2. There should be a direct correlation between a safeguard and the threat it is intended to address; and
3. The Board's output should convey the notion that not every risk could be addressed by a safeguard.

We encourage the Board to consider whether these issues would be addressed as it progresses the Safeguards Phase 2 project or the Non-Assurance Services project.

Focus of the Board

We observe that one of the Board's three strategic themes includes "deepening and expanding the Code's influence, through increasing global adoption and effective implementation of the Code." We believe the Board should intensify its efforts on enhancing the quality of the Code, which can have the added effect of making the Code more appealing to potential adopters and increasing the Code's acceptance worldwide.

¹ See IOSCO's C1 response to the IESBA's consultation paper: *Proposed Strategy and Work Plan, 2014 – 2018* (the Paper) dated 25 March, 2014 at: http://www.iosco.org/library/comment_letters/pdf/IESBA-13.pdf



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Materiality

Paragraph 61 states that:

“The IESBA will therefore consider whether greater clarity is needed regarding how the concept of materiality should be applied in the various places where it is referred to in the Code, and not just in relation to NAS.”

While we agree with the Board’s initiative to undertake a project on materiality, we would like to emphasize the importance of both prioritizing this project and providing professional accountants with guidance on how to evaluate materiality.

In a prior comment letter², we have previously identified various shortcomings in the Code that should be addressed as part of this project. Specifically, the Board should consider whether the following arrangements should not be permitted by the Code irrespective of materiality and significance:

- (a) A firm, a member of the audit team or a member of that individual's immediate family may make or guarantee a loan to an audit client, provided the loan or guarantee is immaterial to the firm or individual and the client (paragraph 290.122); and
- (b) A firm, or a member of the audit team, or a member of that individual’s immediate family may enter into certain business relationships with the audit client or its management and hold a financial interest arising from such relationships provided the financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management (paragraphs 290.124 and 290.125).

² See IOSCO’s C1 response to the IESBA’s consultation paper: *Proposed Strategy and Work Plan, 2014 – 2018* (the Paper) dated 25 March, 2014 at: http://www.iosco.org/library/comment_letters/pdf/IESBA-13.pdf



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We continue to believe that these exemptions may lead to unnecessarily difficult judgments by auditors.

Finally, we note the Board's intent on considering a project proposal in Q1 2021. We encourage the Board to consider an earlier start date for commencing the project.

Definition of "Public Interest Entity"

We observe that the Code defines a Public Interest Entity as:

- “(a) A listed entity; and
- (b) An entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.”

We understand the IESBA set this minimum definition of "Public Interest Entity," which in turn was to be reviewed for application of the independence requirements in each jurisdiction. Some countries have accepted the minimum definition in the Code without amendment. The Code presumes that regulators can set a definition, but in many jurisdictions, regulators do not have such power. As such, we support prioritizing this project.

While retaining “(b)” of the definition of “public interest entity” noted above, we believe that the IESBA should consider aligning “(a)” with the term “public accountability” in the International Financial Reporting Standards (“IFRS”). Consistency in the approaches between the proposed Code and the accounting standards will benefit the financial reporting system by reducing complexity and possible confusion amongst auditors and audit clients in jurisdictions that permit or require use of IFRS.

Trends and Developments in Technology

We support the Board's proposal to explore issues around new technologies and emerging models of service delivery and are pleased that the IESBA's working group began its efforts in Q1 2018. However, given the expected completion date of 2022, we note that the efforts in



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this area may not lead to timely or responsive output. Alternatively, we suggest that upon identification of key emerging issues, the Board consider providing more timely, relevant and practical application guidance, based on existing provisions in the Code.

Projects Impacting Both the Board and the IAASB

As the Board has acknowledged, there are several projects on the Board's agenda that are also relevant to the work of the IAASB such as trends and developments in technology. We encourage the Board to work with the IAASB to align the projects and the outcome, where possible, relevant to each board. The work and status of such efforts should be transparent to the Board's stakeholders.

Translation Issues

Some of our member jurisdictions, such as Turkey, that have adopted the Code are using a version of the Code that was translated by the Board from English into another language. There are several instances in which the translation does not reflect the original meaning or intent of the Code. Translation issues are important areas that require the Board's consideration and prioritization in determining its work plan during the upcoming strategy period.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Doug Niven on ph. +61 2 9911-2079 (email: douglas.niven@asic.gov.au) or Nigel James at ph. + 1 202-551-5300 (email: jamesN@sec.gov).

Sincerely,

Parmod Kumar Nagpal
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions