



International Organization of Securities Commissions  
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04 June 2020

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

Our Ref: 2020/O/C1/IESBA/MS/63

**IESBA: Proposed Revisions to the Non-Assurance Services Provisions of the Code**

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) Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (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.



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## Overall Comments

We appreciate that the latest developments surrounding COVID 19 and its immediate consequences for accountants and audits may require the IESBA to re-prioritize its agenda. As the Board considers its path forward, we encourage the Board to remain focused on setting high-quality, globally-operable provisions for ethical standards for accountants. When providing assurance on financial statements prepared by companies, we believe the audit profession needs to meet the highest ethical standards to promote trust in the functioning of capital markets. Failure to avoid conflicts of interest and other threats without proper safeguards in carrying out independent external audits would damage the trust placed in the profession.

The IESBA's focus on auditor independence is critical to promoting this trust. We are therefore supportive of the IESBA's efforts to enhance the Non-Assurance Services (NAS) Provisions of the Code as well as the Proposed Revisions to the Fee-Related Provisions of the Code (to which IOSCO will provide a separate comment letter). We believe these proposals have the potential, if enhanced by recommendations in this letter along with other meaningful recommendations received as part of the consultation process, to strengthen the independence of auditors in fulfilling their role as gate keepers of the public interest. Having said that, we believe other areas outside of these two aforementioned proposals will need to be addressed by the Board in the future.

Currently restrictions exist in a number of jurisdictions regarding the permissibility of non-audit services that public interest entities (PIEs) can obtain from an independent external audit firm and its network. As such, IOSCO believes that whilst the proposals are a step in the right direction, the Board should acknowledge that in many jurisdictions the current rules go beyond the provisions contained in the Exposure Drafts. Defining more stringent provisions could therefore serve to achieve a more widespread acceptance of the Code and consistency of application.



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## Specific comments

### *Substantive Safeguards*

While we appreciate the Board's initiative to address the independence issues arising from the provision of NAS to assurance clients, we nevertheless strongly believe that the more commonly-used safeguards in the proposal may be inadequate.

More specifically, we believe that the following are insufficient safeguards in many circumstances:

- Using professionals who are not audit team members to perform the service and,
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed (e.g., 600.16 A3).

If the provision of a service by the audit firm or its network creates a threat to the firm's independence because it either results in the firm acting as management or creates a self-review threat, we question how having another professional within that firm or network firm can be used as an effective safeguard. Because the "firm" performed the service for its audit client, the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors.

We note that Paragraph 600.20 A1 states that:

Examples of actions that the firm might take include:

- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

We believe the above safeguards are much more effective and should be used in certain other areas within the Code where reducing the threat to independence is feasible.



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### *Self-Review and Advocacy Threats*

Paragraph R600.14 requires the firm not to provide a NAS to an audit client that is a PIE if a self-review threat will be created. We recommend that Paragraph R600.14 (or elsewhere; e.g. R601.4) be expanded to prohibit NAS that create a self-review threat for non-PIE clients as well.

Further, we see several sections where only a self-review threat is included in the requirements section when we believe an advocacy threat may also be present. We encourage the Board to determine areas in the Code where it may be appropriate to include in the requirements the consideration of the presence of an advocacy threat.

### *Related Entities*

We observe that for non-listed PIEs, paragraph R400.20 defines the term audit client to include only downstream related entities. We are concerned that audit firm relationships established at the parent of a non-listed PIE also could bear on the auditor's independence but would not be captured in the proposed requirements of the Code. We believe that heightened expectations regarding the firm's independence are required where an audit client is a PIE whether listed or not and the Code should be strengthened accordingly. To this point, IOSCO looks forward to providing further input to the IESBA's work regarding the "ED on the definition of PIE."

### *Role of those Charged with Governance (TCWG)*

In Paragraph R600.18 it is stated that for audit clients that are PIEs, before an audit firm or network accepts an engagement, it needs to provide TCWG with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's objectivity. In such cases and where local regulations permit, we believe certain responsibilities could be added to the application material such as seeking and gaining pre-approval of the services prior to the commencement of the engagement.

### *Audit Client that Later Becomes a Public Interest Entity*

It is stated in the ED that non-assurance services provided to a client, that later becomes a PIE, either currently or previously may not compromise a firm's independence when certain



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safeguards are in place. Paragraph R600.20 should recognize that some prior services will always be conflicting when a client becomes a PIE, and may impair the firm's ability to continue as the company's auditor (one example may be that an auditor installs a payroll system and then reviews it during audit; this would present a self-review threat).

#### *Valuation Services*

Once the results of the valuation services do impact the accounting records not just insignificantly, there automatically is a self-review threat. The extent thereof should be evaluated. Moreover a threat would exist if it were determined that on the basis of the valuation service, the accounting records do not need to be adjusted.

It is unclear how Paragraph R603.4 does not conflict with the prohibition of self-review threats. Valuations involving financial statement elements or disclosures in our view will mostly involve a significant degree of subjectivity.

As we have previously expressed in our comment letter of 15 May 2017, we believe that the content of the Code includes language that is too subjective and therefore difficult to enforce. Furthermore it should be noted that there is no appropriate safeguard to address the threat of self-review arising from valuation services which impact the accounting records.

#### *Tax Services*

Paragraph R604.4 needs to be formulated more strongly to acknowledge that in several jurisdictions taxation services to PIEs are already prohibited when they have a material effect on the audited financial statements.

Paragraph R604.10 seems to be unrealistic as preparing a tax calculation for current and deferred tax liabilities (or assets) for an audit client always gives rise to a certain degree of self-review threat.

We understand from reading the ED that IESBA intends a wide array of tax services to be permissible whereas in our experience, some of these services could create a conflict of interest. As such, we look forward to engaging with the Board more fully as part of its current Tax Planning and Related Services project, to see how these services can be addressed in the Code to best protect the public interest.



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### *Materiality*

With respect to certain NAS (e.g., Paragraph R604.13), we believe there should be strict provisions prohibiting audit firms or networks from providing them to clients. To establish materiality thresholds with respect to tax planning and tax advisory services may not only prove difficult to define and enforce but may also create loopholes audit firms and clients alike will exploit undermining public confidence.

### *Internal Audit Services*

With respect to internal audit, the Code of Ethics might be more explicit in whether and to what extent it would be deemed permissible to provide such services and then rely on that work as set out in ISA 620.

### *Litigation Support Services*

With respect to audit firms providing expert witness services (Paragraphs 607.8A1 to R607.9), we believe it should be forbidden, unless appointed by a tribunal or court. If such services are not forbidden, we believe the person involved should be immediately and fully withdrawn from any audit service to that client, if the firm's independence could be negatively affected.

### *Legal Services / Advocacy Threats*

Potential threats may arise when audit firms act in an advocacy role. Therefore Paragraph R608.8 should be formulated more strongly. Once an audit firm acts in an advocacy role in resolving a dispute/litigation, its independence might be impaired regardless of whether the client is a PIE.

In addition the first safeguard stated in Paragraph 608.8A1 is not robust enough. To simply assume that a self-review or advocacy threat is properly addressed by using professionals from the same audit firm or network who are not audit team members to perform the service seems to be unrealistic for the reasons described earlier.



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Thank you for the opportunity to comment on the IESBA's ongoing projects. If you have any questions or would like to further discuss these matters, please contact Michael Porth at ph. + 49[0]228 4108-4013 (email: [michael.porth@bafin.de](mailto:michael.porth@bafin.de)) or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Makoto Sonoda  
Chair, Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions