



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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3 October 2014

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

Our Ref: 2014/JE/C1/IESBA/138

Subject Line: IESBA's Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients*

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountant's (the IESBA or the Board) Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* (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 concerns, 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 and 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

Independence of the auditor in fact and appearance with respect to the audit client is fundamental to the integrity of the financial reporting process and confidence in the capital markets. Auditors have a duty to act with integrity and objectivity, free from conflict with, or undue influence of, management and directors of the audit client. We believe that setting clear lines with regard to the non-assurance services that an auditor is permitted to, or prohibited from, providing to an audit client is important.



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Clear provisions can communicate what is expected of auditors when providing services to an audit client and thereby promote consistency in the application of the Code.

In this regard, while we support the Board's efforts to reconsider certain, though limited, provisions of the Code in an attempt to make the auditor independence provisions therein more robust, we are concerned that the current changes alone may not be sufficient to address existing public interest concerns regarding enforceability, clarity and the appropriateness of the threats and safeguards approach in the Code. Having said this, we recognize that the Paper is intended to focus on a narrow section of auditor independence provisions. With this in mind, we look forward to the Board's broader projects, such as the structure of the Code and revisiting the threats and safeguards approach to address these more significant concerns.

Emergency Exception

As a general principle, limiting where possible specific exemptions to the general provisions set by the Code is, in our view, a step forward in enhancing the Code. As such, we appreciate the Board proposing to exclude the "emergency [or other unusual situations] exception" provisions related to bookkeeping and taxation services based, in part, on our May 2013 response to the Board's 2014-2016 strategic review survey. We continue to believe that such an exception is not necessary and creates a self-review threat that undermines the purpose of an independent audit.

Management Responsibilities

We appreciate the Board seeking to clarify its view of management's responsibilities in relation to the performance of non-assurance services by an auditor. However, if the Board's intent is to explain what constitutes management's responsibilities then, for the purpose of completeness, management's responsibilities should involve not only "controlling, leading and directing an entity" but also the "ongoing monitoring function on behalf of the entity". Examples of ongoing monitoring related to the entity's financial reporting responsibilities may entail, among other things, activities such as monitoring compliance with internal controls or monitoring filing dates.

Further, we believe that even if management "accepts responsibility for the actions to be taken arising from the results of the services" coupled with other proposed provisions, the proposal still does not prevent situations where management simply "rubber stamps" or accepts decisions made by the auditor on behalf of the audit client, resulting in an unacceptable threat to the auditor's independence. The Board should explore ways to prevent or mitigate this potential threat to the auditor's independence.



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“Routine or Mechanical” Activities

We recognize the challenges in defining what is “routine or mechanical” with respect to administrative services and in preparing accounting records and financial statements. However, having considered the Board’s proposal regarding routine or mechanical activities, we believe that establishing the fine line between what may be acceptable and what creates a threat to the auditor’s independence may not be easily discernable and can place the auditor in a compromising position. We believe the Board should carefully weigh potential independence in appearance concerns as perceived by a reasonable and informed investor before finalizing the proposal. If a reasonable and informed investor could question the objectivity of the auditor based on the auditor’s performance of tasks outlined in the Board’s proposal, then the Board should consider prohibiting the auditor from performing such services.

We have provided further commentary below on administrative services and preparing accounting records and financial statements:

Administrative Services

The Board should revisit the purpose of the “Administrative Services” provisions in the Code. For instance, if paragraph 290.166 is intended to provide a list of acceptable services that does not compromise the auditor’s independence and objectivity then we have concerns with the contents therein. For example, we believe that certain services, such as, sending notices [on behalf of the client] for client meetings could pose a threat to independence from an appearance perspective since in such circumstances a reasonable investor could perceive the auditor to be too closely aligned to the interest of the client. Examples of other services listed, such as, “monitoring statutory filing dates” and “assisting the client in monitoring statutory filing dates” may lead to threats of intimidation of the auditor as the auditor’s failure to effectively undertake these responsibilities could have significant adverse consequences for the Company. We also believe the use of the term “little to no judgment” without more guidance leaves considerable room for interpretation and misuse by auditors as there is no basis for comparison.

Preparing Accounting Records and Financial Statements

Similar to above, we have concerns with paragraph 290.171 regarding preparing accounting records and financial statements. For example, preparing financial statements based on information in the client-approved trial balance could result in assuming a management responsibility. This is because determining how accounts within the client-approved trial balance are to be grouped is an important step in the preparation of the financial statements that should be undertaken by management.



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In addition, we have similar concerns with the auditor analyzing and accumulating information for regulatory reporting. We note that this provision is overly broad as regulatory reporting could entail significant reporting obligations that should be the responsibility of management.

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 either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions