



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/64

IESBA: Proposed Revisions to the Fee-related 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 Fee-related 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 are aware that the latest developments surrounding COVID 19 and its immediate consequences for accountants and auditors may require the IESBA to re-prioritize its agenda. While we support this approach, we encourage the Board to maintain its focus of setting high quality, globally operable ethics standards for accountants. Considering its role in contributing to the reliability of the financial statements prepared by companies, we believe the profession needs to meet the highest ethical standards to promote trust in high quality financial reporting which supports the functioning of capital markets. Functioning in this capacity and level also is necessary for the pivotal role auditors play for a wide array of stakeholders, ranging from present to future investors, creditors, employees, and taxpayers.

To act in the public interest, the IESBA's focus on auditor independence remains key. Failure of auditors to employ proper safeguards against conflicts of interest in carrying out independent external audits would ultimately damage the trust placed in the profession. As such, we are supportive of the Paper, assuring that standards for auditors are set in a way as to prevent any lack of independence in fulfilling their role. At the same time we encourage enhancing the Non-Assurance Services Provisions of the Code (for which we are providing a separate comment letter).

IOSCO believes that whilst the proposals are a step in the right direction, the IESBA should acknowledge that in many jurisdictions the current regime goes beyond the provisions contained in the Exposure Draft.

Because IOSCO brings together the world's securities regulators, our remit focuses on listed companies. Therefore, our specific comments focus primarily on application of the ethics code with respect to PIE assurance clients. Nonetheless, we encourage the Board to determine whether these comments are also applicable to non-PIE entities as well. Where aspects of the Code related to PIE assurance clients are not applied to non-PIE entities, we believe the Board should make it clear in the Code why a fee dependency might be permissible for a non-PIE but is not permissible for a PIE.

To reduce threats to independence a greater interaction between the firm or network firm and audit committees or those charged with governance (TCWG) could be envisaged as



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illustrated in *IOSCO's Report on Good Practices for Audit Committees in Supporting Audit Quality*.¹

Lastly we note that throughout the Paper (as illustrated in Paragraph R410.4, sentence 1 vs. sentence 2) the terminology addressing the auditor sometimes refers to “the (audit) firm or network firm” and sometimes to “the firm” only. In our view, the language should be consistent to always refer to “*the firm or network firm*” unless the Board believes a specific provision impacts only the firm and therefore limits the provision to just the individual firm and not to the network.

Specific comments

General

In Paragraph 410.3 A1 it is stated that “fees for professional services are usually negotiated with and paid by the client and might create threats to independence.” In fact, Paragraph 410.4 A2 bullet 3 which states “The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of audit and the overall level of fees” better captures the role of TCWG and should be moved to the requirements section.

Moreover, the final sentence in Paragraph 410.3 which states “This practice is generally recognized and accepted by intended users of financial statements” should be deleted as it could be seen as supporting behaviors that potentially enhances threats to the auditor’s independence.

Identifying and Evaluating Threats

Paragraph R410.4 requires a firm or network firm to evaluate whether the threats to independence are at an acceptable level before it accepts an audit or any other engagement for an audit client. Perhaps the term “acceptable level” could be strengthened as to exclude even “elevated threats”. In addition the last sentence should read: “The firm shall also re-evaluate

¹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD618.pdf>, see page 13.



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such threats where appropriate during the engagement period for the audit if the facts or circumstances change.”

Level of Audit Fees

Paragraph 410.5 A2, second bullet should read “Whether *undue* pressure has been or is being applied by the client to reduce the audit fee.”

Paragraph R410.6 should be expanded to read: “A firm shall not allow the audit fee to be *established, adjusted for or* influenced by the provision by the firm or a network firm of services other than audit to the audit client.”

The second sentence of Paragraph 410.6 A1 should be moved to the requirements section and be strengthened to read: “The provision of other services to the audit client *shall not be* a consideration in determining the audit fee.”

Contingent Fees

We observe that Paragraph R410.9 does allow contingent fees for non-assurance services (NAS) to be charged to audit clients unless specific conditions are met. We believe that even immaterial contingent fees for NAS could impair the appearance of independence of the auditor. We recommend that for PIE audit clients (including when there is a PIE in the company structure) contingent fee arrangements for NAS should be prohibited.

Audit Clients that are Public Interest Entities

Paragraph R410.17 states that when for each of two consecutive years the total fees from an audit client that is a PIE represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year’s financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements (“pre-issuance review“) might be a safeguard to reduce the threat to an acceptable level, and if so, apply it. An analogue to Paragraph R410.14 should be the responsibility of the firm to develop a suitable safeguard to deal with the situation if this safeguard is unsuitable or not available. If this is not possible, the firm shall cease to be the



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auditor of that client. In addition the audit firm should document the sufficiency of the safeguard and monitor or re-assess the situation periodically.

Transparency of Information Regarding Fees

Communication by the firm of fee-related information (for both audit and non-audit services) with TCWG assists them in their assessment of the firm's objectivity. We believe that TCWG, should be informed of the fees and independence assessments whether or not the audit client is a PIE.

Fees for Services other than Audit

In Paragraph R410.23 it is stated that “for audit clients that are PIEs, the firm shall communicate in a timely manner with TCWG the fees charged during the period by the firm or network firm of services other than audit to the client which shall include only related entities over which the client has direct or indirect control to assess the impact of the fees on the firm's objectivity”. In such cases and where local regulations permit we believe certain responses could be added to the application material such as seeking and gaining pre-approval of the services prior to the commencement of the engagement.

In addition, Paragraph R410.23 (a) speaks only of related entities over which the client has direct or indirect control. We believe the scope here is too narrow, as not only downstream entities should be focused on, but any related entity to which the client has a relationship (such as parent entities), since those, such as relationship partners, serving parent entities could exert undue pressure on the audit firm or network undertaking the audit.



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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) 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