

PIOB Monitoring of Comment Letters submitted by MG/IFIAR/CEAOB Members to the IESBA ED "Proposed revisions to the Fee related provisions of the Code" (published in January 2020)



As of October 2020

#	Respondent	Group	Issue	MAIN Issues/Recommendations Description	SSB's Disposition of Comment
International Organizations of Securities Commissions (IOSCO)					
1	IOSCO	MG	Stricter provisions in local jurisdictions	IESBA 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.	
2	IOSCO	MG	Clarification of PIE vs non-PIE fee dependency	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.	
3	IOSCO	MG	Role of TCWG	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. Paragraph 410A A2 bullet 3 ["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. Delete final sentence in paragraph 410.3 which states "This practice is generally recognized and accepted by intended users of financial statements".	
4	IOSCO	MG	Prohibition of Contingent fees	Even immaterial contingent fees for NAS could impair the appearance of independence of the auditor. Recommended that for PIE audit clients (including when there is a PIE in the company structure) contingent fee arrangements for NAS should be prohibited.	
5	IOSCO	MG	Sufficiency of safeguards - Pre-issuance review	It should be the responsibility of the firm to develop a suitable safeguard to deal with the situation where the "pre-issuance review" safeguard is unsuitable or not available. If this is not possible, the firm shall cease to be the auditor. The audit firm should document the sufficiency of the safeguard and monitor or re-assess the situation periodically.	
6	IOSCO	MG	Communication with TCWG of non-PIEs	TCWG should be informed of the fees and independence assessments whether or not the audit client is a PIE.	
7	IOSCO	MG	Communication with TCWG of PIEs	Where local regulations permit, certain responses could be added to the application material related to para. R410.23 such as seeking and gaining preapproval from TCWG of the services prior to the commencement of the engagement.	
8	IOSCO	MG	Related entities - revise scope for PIEs	Paragraph R410.23 (a) speaks only of related entities over which the client has direct or indirect control. 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).	

International Forum of Independent Audit Regulators (IFIAR)

1	IFIAR	MG	Definition of PIEs	We welcome the coordination efforts between the different standards-setting organizations. Of particular importance is the alignment of the IESBA and the IAASB provisions relating to the difference in scope for fee-related communication to TCWG. We further understand that the definitions of PIE and listed entity (as per IESBA) are currently under review and are being closely coordinated with the IAASB. Our assessment of the proposed changes in this exposure draft might change depending on the outcome of that project and its alignment to extant regulations across the member states of IFIAR.
2	IFIAR	MG	Assessment of threats to independence	Paragraph R410.4 requires firms or network firms to assess whether the threats to independence are at an acceptable level before accepting an audit or any other engagement for an audit client. We are supportive of this provision. We further suggest including, as application guidance, that this assessment could be completed before firms or network firms submit a proposal to an audit client.
3	IFIAR	MG	Factors to evaluate threats	The exposure draft includes factors that are relevant for the auditor in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client. One of those factors relates to the “significance” of the audit client to the audit firm. However, no indication about how to assess the qualitative and quantitative significance of the client is provided in the Code. We believe more specific descriptions are needed to reach a consistent application of this concept and to prevent abuse. The same difficulty has been identified in relation to what is considered to be “significant” or “a long time” when assessing the self-interest threat in cases where fees are overdue.
4	IFIAR	MG	Terminology	The concept of “significance” (e.g. R410.9 (b), R410.12 and 410.13 A3), “appropriate reviewer” (e.g. 410.5 A3, 410.9 A3) or “external review” (410.4 A2) could impair the effectiveness of the provisions. We propose that IESBA provide descriptions, explanations and/or give examples to help users apply the provisions in the Code. Without further explanation of these terms, consistent application of the Code will be difficult to achieve.
5	IFIAR	MG	Contingent fees	In the current draft, certain contingent fees are prohibited for Non-Audit Services (NAS) if they meet the criteria set out in R410.9 (a). We disagree with this approach, as even immaterial contingent fees to the firm for NAS could impair independence as it results in an alignment of interests. In addition, the use of the term “significant” in paragraph. R410.9 (b) is unclear. We strongly recommend that contingent fees for NAS should not be permissible in any instance. We further recommend that the description of contingent fee be revised to include the following situations, which we believe are also threatening situations to auditor independence relative to contingent fees: Any fee (1) established for the sale of a product or the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or (2) in which the amount of the fee is otherwise dependent upon the finding or result of such product or service.
6	IFIAR	MG	Proportion of fees	We question the argument in the explanatory memorandum (paragraph 41) that audit practitioners might not be able to determine the exact ratio of fees for services other than audit to the audit fee in a timely manner. Given the disclosure requirements, this should be even less of an issue for firms that provide professional services to PIEs.

7	IFIAR	MG	Safeguards	<p>410.13 A4 proposes, "Having an appropriate reviewer who is not a member of the firm review the work" as a safeguard example. We understand from the explanatory memorandum (footnote 16 to paragraph 52) that the review to address self-interest and intimidation threats could be performed by a member of a network firm. This should be clearly articulated in the Code.</p> <p>Similarly, "a professional accountant, who is not a member of the firm expressing the opinion on the financial statements", shall conduct the engagement quality review in R410.17 and the reviews described in R410.14. We encourage the Board to add specificity to the description recognizing that a member of a network firm is eligible as a reviewer. We do not believe it would be a sufficient safeguard alone to have a professional accountant, who is not a member of the firm review the work. Accordingly, we strongly suggest including additional safeguards and provisions on the appropriate reviewer concerning the reviewer's independence from the firm as well as from the audit client and the audit client's related entities.</p>
8	IFIAR	MG	Safeguards	<p>R410.17 provides for one potential safeguard. However, if this is deemed unsuitable, no further actions are required by the firm. We believe that, if the firm determines that this safeguard is not appropriate, they should be required to develop a suitable safeguard to address the threat.</p>
9	IFIAR	MG	Communication to TCWG	<p>We support IESBA's proposal for specific disclosure of fee-related information both to TCWG and the public to mitigate independence threats in relation to PIEs. 26. We note that no specific reference to timing of the initial involvement of TCWG is made ("timely manner"). We propose to require communication of fee-related information to TCWG before any request for approval by TCWG of the appointment of the auditor to perform the audit engagement. This should also cover how the firm addresses threats to independence.</p>
10	IFIAR	MG	Guidance on fee-related disclosures	<p>We encourage the Board to add more guidance on how to disclose fee-related information as required under 410.25 A3. For example, means of communication by which such information could be made public could include the transparency report or the website of the audit firm. It is acknowledged that 410.25 A4 introduces the option to include fee-related disclosures in the Audit Report which has been discussed with the IAASB however is not yet reflected in ISA 700 nor, if applicable, in the respective local auditing standards. We suggest aligning communication requirements to TCWG of audit fees and fees for services other than audit for PIEs and Non-PIEs. Should there be TCWG identified for a Non-PIE, we believe they should be informed and assess threats independence like for PIEs. However, requirements or guidance in this regard should be developed in close coordination with the IAASB.</p>
Capital Market Authority- Saudi Arabia (CMA)				
1	CMA	IFIAR Member	Technology	<p>Suggestion to consider the use of current-time AI and statistics tools, to develop an estimate of what a reasonable fee for audit engagements is. Possibly, such fee can be linked to the size of revenue, total assets, or any other indicator.</p>
2	CMA	IFIAR Member	Overdue fees	<p>Suggests prohibiting engaging with PIE clients where over-due fees exist.</p>

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3	CMA	IFIAR Member	Transparency report	Suggests adding the transparency report as one of the communication channels where the fees can be disclosed.
4	CMA	IFIAR Member	Definition of terms - applicability	Paragraph 330.3 A2 indicated that the level of fee can create self-interest threat if the fee quoted is "so low". Suggest adding some explanatory material to try define what a "low level" of fee can be.
Independent Regulatory Board for Auditors (IRBA)				
1	IRBA	IFIAR Member	Different approach of Fees vs NAS	Noted a significant difference in approach between the two projects, NAS and Fees, that may require reconsideration. The IESBA NAS Project distinguishes between assurance and non-assurance services, while the IESBA Fees Project refers to audit and non-audit services.
2	IRBA	IFIAR Member	Practical implementation	IESBA implementation guidance that accompanies the final provisions will require a consideration of the practical implications. Some examples: - the concepts of "significance" (e.g. R410.9 (b), R410.12 and 410.13 A3), "appropriate reviewer" (e.g. 410.5 A3, 410.9 A3), "external review" (410.4 A2) and the significant complexity and judgement involved in the calculations could impair the effectiveness of the provisions. - the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision of services other than audit requires practical consideration and clarification.
3	IRBA	IFIAR Member	Sufficiency of safeguards	Clarify that the "external review of the quality of the firm's audit work" may be performed by an individual from either within or outside the network. IRBA questions, however, whether this is a sufficiently appropriate safeguard, whether an individual within the network firm adequately reduces the threat to an acceptable level.
4	IRBA	IFIAR Member	Prohibition of Contingent fees	Encourage the IESBA to strengthen R410.9 relating to contingent fees by enforcing a prohibition of contingent fees on non-assurance services to an audit client.
5	IRBA	IFIAR Member	Proportion of other fees to audit fees	Encourage that a threshold approach is used for the threat to independence in the firm's consideration of the proportion of fees for services other than audit to audit fee.
6	IRBA	IFIAR Member	Proportion of other fees to audit fees	In South Africa, many regulated entities require the auditor to perform assurance services and agreed-upon procedure engagements. If these are the only services provided to the client, the audit firm will still be subjected to an evaluation. This information may be misunderstood and give the wrong impression when presented to TCWG.
7	IRBA	IFIAR Member	Fee dependency for Non-PIEs	The proposed threshold for non-PIE clients is subjective and complex and different to the construct for PIEs. This may prove a challenge in application and understandability. Additionally, the high threshold of 30% make it less likely to bring about the change envisioned. The time period (5 years) envisioned is too long.
8	IRBA	IFIAR Member	Feependency for PIEs	Would appreciate further consideration of the wording "are likely to represent" (R410.17) as it allows for an unreasonable level of subjectivity.
9	IRBA	IFIAR Member	Disclosure of fee information: alternatives	Supportive of the inclusion in the auditor's reports as well as in the firm's transparency report. An additional method may be disclosure on the firm's website.
Irish Auditing & Accounting Supervisory Authority (IAASA)				
1	IAASA	IFIAR Member	Definition of PIEs	It is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context in order to facilitate application of the IESBA Code in EU/EEA Member States.

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2	IAASA	IFIAR Member	Proportion of fees	The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a "large proportion of fees". This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.
3	IAASA	IFIAR Member	Network Fees	We understand that the scope of the Code is different from the EU Regulation, including the fees charged by the network firms, but not taking into account, for non-listed PIEs, the fees charged to the audit client's parent undertaking. In fact, in the EU regulation this calculation is performed at the level of the audit firm or the statutory auditor in relation to its audit client and we believe that it is the right level to address the self-interest threat in order to set a threshold beyond which the provision of NAS is not allowed. We invite the Board to reconsider ED paragraph 410.10.A1 to clarify the scope and consequences of the evaluation.
4	IAASA	IFIAR Member	Fee dependency for PIE audit clients	ED paragraph R410.17 applies to audit clients that are PIEs and pursues the same goal as article 4 (3) of the EU Regulation N°537/2014, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Europe and could lead to confusion for auditors when deciding which provisions should be applied. Differences: The reference period is different, two years for the Code and three years for the EU Regulation. The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the Audit regulation for the calculation of the threshold only applies to the PIE itself and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation's scope but not the other and vice versa. In the Code, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard. The Code requires only one potential safeguard, being the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the review, where appropriate.
5	IAASA	IFIAR Member	Fee dependency for PIE audit clients	ED paragraphs R.410.20 and R.410.24 (c) are not applicable in the EU context as, even in exceptional circumstances, the EU rules do not permit authorisation for an audit firm to continue as an auditor after 5 consecutive years if the total fees received each year from a PIE audit client exceed 15% of the total fees received by the firm.
6	IAASA	IFIAR Member	Fee dependency for non-PIE audit clients	The current proposals could be further enhanced by noting in Paragraph 410.14 that, where appropriate, safeguards other than an independent review should also be applied. We request the Board to re-consider the 30% fee dependency limit specified in Paragraph R410.14 of the ED with regards to audit clients that are not PIEs, as this represents a significant proportion of a firm's income. Further, we do not consider it appropriate that a firm may continue to provide audit services on an indefinite basis where there are significant fee dependency issues, as would appear to be permitted by Paragraph R410.15.
7	IAASA	IFIAR Member	Safeguards	We request the Board to consider the insertion of application material to clarify how a firm might deal with a situation where no appropriate safeguards are available.
8	IAASA	IFIAR Member	Fee dependency - all audit clients	In addition to the possible safeguards listed in paragraph 410.13.A7 to address fee dependency, the firm could re-allocate the engagement to another partner, office or part of the firm.
Malaysia Audit Oversight Board, Securities Commission (MAOB)				
1	AOB Malaysia	IFIAR Member	Definition of terms - applicability	The term "acceptable level" in para. R410.4 should be further defined by the IESBA. It would be beneficial to provide examples and guidance on this matter.

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2	AOB Malaysia	IFIAR Member	Consistent application - ratio of fees	The Code should define the permissible ratio of fees for services other than audit to the audit fee to ensure consistent application across audit firms (para. 410.10 A1).
3	AOB Malaysia	IFIAR Member	Fee dependency of PIEs - period of threat to independence	IESBA should consider defining a shorter period (i.e. less than 5 years) for a firm to cease to be the auditor if fee dependency continues in the case of a PIE audit client in order to mitigate threats to independence.
4	AOB Malaysia	IFIAR Member	Overdue fees	A firm must obtain full payment of all overdue fees from its audit or assurance clients before a report is issued in order to safeguard the independence of the firm.
United Kingdom Financial Reporting Council (UKFRC)				
1	UK FRC	IFIAR Member	Overarching	We are concerned that IESBA's proposals do not go far enough to address the threats created by proportionately high levels of fees for non-audit services; to enhance the transparency of such fees for stakeholders; or to address the risk of audit fees being set at too low level to support a high quality audit. IESBA could go further in strengthening the revised requirements and related application material it is proposing.
2	UK FRC	IFIAR Member	Threats	There should be a more explicit requirement that an audit, or other engagement for an audit client, is not accepted where the fees would give rise to unacceptable threats to independence. It should be made clearer that the ability to perform an engagement to an appropriate (high) standard should not be compromised by fees that are too low.
3	UK FRC	IFIAR Member	Resources	We recommend that IESBA introduce a requirement that the firm shall be satisfied and able to demonstrate that the engagement has assigned to it sufficient partners and staff with appropriate time and skill to perform the engagement in accordance with all applicable engagement and ethical standards, irrespective of the engagement fee to be charged. With regard to the proportion of fees other than audit, if IESBA does not want to establish a cap, there should be more emphasis on evaluating the threats where the ratio is more than 1:1.
4	UK FRC	IFIAR Member	Proportion of fees	We recommend stronger guidance that when the ratio is more than 1:1 the firm give specific consideration to whether the threats to independence of the firm, or any member of its network where relevant, are at a level where independence is not compromised or, if necessary, put in place appropriate safeguards such that independence is not compromised, which may include the firm or member of its network not providing the non audit service. This would not establish a cap but would help ensure appropriate attention is given to the threats.
5	UK FRC	IFIAR Member	Fee dependency and safeguards	There should be stronger restrictions on fee dependency on a single client. There are no safeguards that can reduce the threats to an acceptable level where a firm has an ongoing fee dependency on a single client. Some relief in relation to non-PIE clients may be given for a new firm seeking to establish itself, but not exceeding two years.
6	UK FRC	IFIAR Member	Contingent fees	There should be an outright prohibition on a firm and any of its network firms providing any non-assurance service to an assurance client, wholly or partly, on a contingent fee basis. Providing non- assurance services on a contingent fee basis, can give rise to a perception that the firm's interests are so closely aligned with the entity that the integrity, objectivity and independence of the firm could be, or seen to be, compromised.
7	UK FRC	IFIAR Member	Safeguards	We are concerned that the guidance in paragraph 410.10.A3 that a safeguard might be a review of the audit work by a reviewer who was not involved in the audit or non-audit service. Such review is unlikely to address the concerns of stakeholders, particularly when the reviewer comes from the same firm. If this guidance is retained, it need to make clear that such an assessment should be considered from the perspective of an objective, reasonable and informed third party.

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8	UK FRC	IFIAR Member	Fee dependency	We do not believe there any safeguards that can reduce the threats to an acceptable level where a firm has an ongoing fee dependency on a single client. A review by a professional accountant, with appropriate experience, who is not a member of the firm expressing the opinion on the financial statements may be an appropriate safeguard for a new firm that is seeking to establish itself, but we would still limit exceeding the threshold to a period of not more than two years.
9	UK FRC	IFIAR Member	Fee dependency for PIE audit clients	The requirement in paragraph R41 0.17 is too weak in allowing the firm expressing an opinion on the financial statements to determine whether an engagement quality review, performed by a professional accountant who is not a member of the firm, might be a safeguard to reduce the threats to an acceptable level. If the threats are not at an acceptably low level the firm should not act as the auditor. We do not believe there are any safeguards, including a review by an external reviewer, that can reduce the threats to an acceptable level where a firm has an ongoing fee dependency on a PIE client.
10	UK FRC	IFIAR Member	Transparency	Greater transparency is required in the auditor's report where the information is not given in the financial statements, about the nature of, and fees for, particular non-audit services. Disclosing just the total amount of fees only provides stakeholders with information that may help them understand the self-interest threat in relation to high levels of fees but no information that may help understand other threats or the nature of the relationship the auditor has with the client. IESBA should disclose information that would help stakeholders obtain an understanding of fee and service-related threats to the auditor's independence. That should be the default position with an exception only where national law or regulation prohibits disclosure. Failing that, IESBA should at least elevate paragraph 410.25.A5 to a requirement for such a discussion with the client.
11	UK FRC	IFIAR Member	Disclosure of fees	For TCWG, the auditor should disclose the nature and related fees of all non-audit services provided by the firm and members of its network to the audited entity and its related entities. That is information that will assist TCWG form their own assessment of the threats to the auditor's independence. The requirement in paragraph R410.23 focuses only on the amount of such fees - the matters that are identified in paragraph 410.23.A 1 as "might" be communicated should also be required to be communicated unless such communication is prohibited by law or regulation. Information regarding services provided to a parent entity should also be disclosed to TCWG where relevant to understanding threats to the auditor's independence.
12	UK FRC	IFIAR Member	Anti-trust and anti-competition issues	We do not believe these proposals would give rise to anti-trust and anti-competition issues. We are concerned that IESBA has gone too far in seeking to avoid such issues and consequently proposed requirements that are not as robust as they should be.
13	UK FRC	IFIAR Member	Application	The same independence requirements should be applied to other public interest assurance engagements as are applied to audit engagements.
14	UK FRC	IFIAR Member	Overdue fees	We would not require payment of all overdue fees as a condition of issuing an assurance engagement report. However, where the overdue fees cannot be regarded as trivial we would require the firm to consider whether it can accept or continue an engagement or whether it is necessary to resign. Our ethical standard includes a requirement to that effect. Where a firm does not resign, appropriate safeguards should be applied such as review by a partner with relevant expertise who is not involved in the engagement.

Committee of European Auditing Oversight Bodies (CEOAB)

1	CEOAB	CEOAB	Definition of PIEs	It is important to ensure that the concepts used in the Code are consistent or at least compatible with those used in the European context in order to facilitate application of the IESBA Code in EU/EEA Member States.
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2	CEOAB	CEAOB	Proportion of fees	<p>The EU Regulation introduced a 70% fee cap for the statutory auditor or the audit firm for non-audit services relative to audit fees for PIE audits and we are of the view that such clear and enforceable rules are crucial to ensure consistent application. In contrast, the proposed changes to the Code do not provide any requirements or guidance on what is considered to be a “large proportion of fees”. This will lead to inconsistencies in how this provision is applied and challenges for regulators when enforcing compliance with the Code.</p>
3	CEOAB	CEAOB	Networks	<p>We understand that the scope of the Code is different from the EU Regulation, including the fees charged by the network firms, but not taking into account, for non-listed PIEs, the fees charged to the audit client’s parent undertaking. In fact, in the EU regulation this calculation is performed at the level of the audit firm or the statutory auditor in relation to its audit client and we believe that it is the right level to address the self-interest threat in order to set a threshold beyond which the provision of NAS is not allowed. We invite the Board to reconsider ED paragraph 410.10.A1 to clarify the scope and consequences of the evaluation.</p> <p>ED paragraph R410.17 applies to audit clients that are PIEs and pursues the same goal as article 4 (3) of the EU Regulation N°537/2014, as both require that no more than 15% of total fees should be received from a single client. However, there are some differences that could raise difficulties in application of the proposals in Europe and could lead to confusion for auditors when deciding which provisions should be applied. Differences: The reference period is different, two years for the Code and three years for the EU Regulation. The scope of the Code is broader than the EU Regulation as the definitions of audit client and/or firm in the Code include their related entities, whereas the provision of the Audit regulation for the calculation of the threshold only applies to the PIE itself and the statutory auditor or the audit firm. This could lead to situations where the 15% threshold would be exceeded based on one calculation’s scope but not the other and vice versa. In the Code, the firm is required to determine whether an engagement quality review could be a safeguard to reduce the threats to an acceptable level, whereas, in the EU Regulation, the audit committee has also to evaluate that safeguard. The Code requires only one potential safeguard, being the engagement quality review, whereas the EU Regulation provides for a range of safeguards to be applied. Auditors should be required to apply further safeguards beyond the review, where appropriate.</p>
4	CEOAB	CEAOB	Fee dependency	<p>ED paragraphs R.410.20 and R.410.24 (c) are not applicable in the EU context as, even in exceptional circumstances, the EU rules do not permit authorisation for an audit firm to continue as an auditor after 5 consecutive years if the total fees received each year from a PIE audit client exceed 15% of the total fees received by the firm.</p>
5	CEOAB	CEAOB	Fee dependency for PIE audit clients	<p>ED paragraphs R.410.20 and R.410.24 (c) are not applicable in the EU context as, even in exceptional circumstances, the EU rules do not permit authorisation for an audit firm to continue as an auditor after 5 consecutive years if the total fees received each year from a PIE audit client exceed 15% of the total fees received by the firm.</p>