



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017

27 February, 2014

Re: IESBA Consultation paper: Proposed Strategy and Work Plan, 2014-2018

Dear Mr Siong

Introduction

We appreciate and thank you for the opportunity to comment on the IESBA's Consultation paper on its "Proposed Strategy and Work Plan, 2014-2018".

This response is submitted on behalf of the PricewaterhouseCoopers global network of firms; PricewaterhouseCoopers ("PwC") refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Principal comments

We remain strongly supportive of the principles based approach adopted in the Code of Ethics (the "code") and support the Board's mission of setting ethical standards in an international context and, in particular, the objective of facilitating the convergence of international and national ethics standards.

We set out below our overriding comments on the broader issues and the overall plan and provide some more detailed comments on some of the specific matters in the attachment. Some of the comments duplicate comments we made more informally in response to the Board's early 2013 Strategy Survey. We hope that these observations will be helpful to the Board as it further develops its thinking and plans.

Need for a clear vision and framework for further development of the Code of Ethics

We believe that it would be very helpful to the Board, and indeed stakeholders, if the Board could develop a clear articulation of its vision and objectives, including the development of a framework, or set of principles, against which to make decisions about future activity and in particular regarding

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areas of the code which might need to be re-considered. This would provide a necessary “rudder” or “compass” for the Board as it deliberates its action plans and help in discussions with stakeholders.

The Board should be clear on the purpose of its standard setting and what it is trying to achieve, recognising that the code is an international standard whose primary aim should surely be to assist the proper functioning of the capital markets and to meet the expectations, as far as is possible, of stakeholders collectively. With major jurisdictions and certain regions setting their own independence standards consideration needs to be given to whom the intended audience for the code is.

It is unclear where the Board wishes to set or position its “standard” of ethical behaviour. There is reference to “high-quality ethical standards” but this provides no indication of the level at which the Board wishes to set the standard. “High-quality” could just mean well written. Para 4 makes reference to a “leading set of ethical standards for the global profession”. What is not clear, at least in relation to independence, is whether IESBA is aiming for the toughest standard (which would likely require constant benchmarking and reaction to regulatory enhancements which raise a particular bar in a jurisdiction and could well prove difficult in practice given debate about whether a threats and safeguards approach is tougher or not than explicit prohibitions), the “lowest common denominator” (as some have, we understand, unfairly referred to the code as) or, perhaps, a common foundation standard of independence that is to be expected of an external auditor to meet the public expectation that independence in fact and appearance is not compromised, recognising that individual jurisdictions may go further depending on their local circumstances.

Need to manage further changes to the code and ensure there is persuasive evidence and rationale for considering new projects

Whilst we appreciate a desire to be “dynamic” and “flexible” and to be alert to new developments, we have the sense that the addition of new workstreams tends to be responsive primarily to comments and observations the Board receives from individual stakeholders, notably regulators, as opposed to being driven by persuasive evidence that there is something inherently wrong with the current standard or that something needs fixing. The current review of the provisions on partner rotation would seem to be an example of this. Furthermore, a new regulatory requirement in a particular jurisdiction is not of itself evidence of a need for change to the international code.

We believe that the Board should be very careful in managing or reacting to perceptions. Reacting to specific concerns from stakeholders regarding their perceptions runs the risk:

- that the code moves away from the principles (which are entirely appropriate for an international code) towards more of a rules based approach (which, if necessary, should be the purview of national regulators),
- that the framework develops over time as a patchwork rather than a coherent set of principles, and
- that changes to the code results in cost and disruption to stakeholders, including companies and IFAC member bodies, out of proportion to the likely benefits.



2013 saw the introduction of three changes to the code, all with different application dates, of which two were significant changes (relating to breaches and conflicts of interest). This, taken together with future action plans, gives the impression that the Board is frequently changing the code, sometimes without a clear articulation of the merits and benefits of doing so, at a time when key stakeholders, including member bodies, have argued for a period of stability at least as regards the independence provisions. This has the potential to undermine the credibility of the code.

The current code has only been effective since 2011 and thus there has been relatively little time to assess its effectiveness. We are not aware of any empirical evidence that the code is it not effective. As an example, key audit partners may only just be completing a required two year rotation cooling off period for PIE audits, and yet the Board is already considering changes to the requirements. We strongly believe that changes should be made only once the Board has undertaken a post implementation review of the current standard. We urge the Board to properly allow the current independence provisions to settle in and to be vocal in support of its current standard.

Efforts should be focused on convergence rather than change

The Board has established a sensible and robust independence standard, including significant prohibitions, and we recommend that efforts are expended on promoting the code and seeking greater convergence. Any further proliferation of regional or national differences in ethical requirements can only undermine market confidence in the assurance product.

It is important that the Board works closely with Compliance Advisory Panel to seek timely and consistent adoption by member bodies of the code to achieve consistency, to avoid national differences as far as possible and to achieve a level playing field around the world.

As the Board has discussed in the past, we encourage the Board to liaise with member bodies (and others) with a view to them adopting independence provisions that would, at least, recognize compliance with the IESBA code outside their jurisdiction in relation to multi-national audits. This would limit of impact of increasingly diverse national standards, something we do not regard as in the interests of investors and others as it raises uncertainly and confusion about what independence standards have been applied and suggests that there can be more than one acceptable level of independence.

In summary

We believe that a clear articulation of the “vision¹” or “mission”, recognising the purpose of standard setting, and development of a supporting framework, on which the Board might reasonably seek input from the Consultative Advisory Group, would assist the Board in:

¹ Compare the current objective stated as “The IESBA’s objective is to serve the public interest by setting high-quality ethics standards for professional accountants and by facilitating the convergence of international and national ethics standards, thereby enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession.”



- Positioning the standard and supporting the Board in pursuing its convergence objectives.
- In achieving a common understanding within the Board of its role and objectives as a standard setter.
- Making decisions about new workstreams or areas of focus and in providing a sound basis for assessing if there is a real problem to solve and if, and when, there is a need to “strengthen the code”
- Discussions with stakeholders, including but not limited to regulators, about any concerns they have with the code as it would provide a clear and consistent set of principles that the Board could follow, thereby avoiding unnecessary or inappropriate reactions to positions that others might take.

We believe that it is important that the Board continues to focus on the bigger picture. It is entirely possible that continuing to strengthen the code in specific areas may be counter-productive unless it takes into account its interaction with changes in other areas and external developments. For example, any changes in relation to rotation requirements for key audit partners needs to be considered in light of the fact that a number of jurisdictions and the European Commission are introducing rules on audit firm rotation or audit re-tendering so as to avoid undue complexity and unintended consequences.

Other matters

There is a need for strong linkage between the ISAs and the code in relation to current and future projects (e.g. as regards Non-compliance with Laws and Regulations). We believe that there needs to be a better coordination process that ensures that there is early thought given by each Board to the possible implications of changes to one standard on standards issued by the other Board. We do not believe that everything needs to go through both Boards but it would require agreement on which Board has primary responsibility. The latest proposals which the Board has been debating relating to the NOCLAR project has implications for ISA 250/240 which do not seem to have been recognised and we strongly encourage the Board to work with the IAASB on this before any further proposals are considered more widely by stakeholders. Given the overlap and the need to amend the ISAs it would seem sensible that there are joint exposure drafts.

We acknowledge that the Board is taking steps to build relationships with key stakeholders. We support this ambition and recommend that the Board seeks to have appropriate outreach to all stakeholder groups including the business community and the profession. We recognise that the Board seeks regular input, in terms of due process, from the Consultative Advisory Group. This group is predominantly drawn from the regulatory and oversight community, which can result in the Board receiving input and advice from a subset of stakeholders only. We encourage IFAC and the Board to consider how it might better seek views of those affected by the Board’s proposals, including the business community and the profession, not least to understand the practical implications of matters under consideration and to potentially assist the development of proposals. While there are various ways to obtain business and profession views, we note that a common practical method used by



standard setters includes establishing a specialist advisory group comprising those with specialist skills and knowledge geared toward the particular standard under development.

We recommend that the IESBA place greater emphasis on outreach activities and dedicate a clear element of its budget to such important activities. Awareness of the code is not high outside of the profession and we believe that the Board should increase efforts in this area; it is important that stakeholders, including regulators and users of financial statements, understand the robustness of the standards established in the code.

Where a particular standard-setting project has attracted significant opposition from a range of stakeholders, as was the case recently with the Illegal Acts project, we consider it important for the independence and credibility of IFAC and the Board that there be a mechanism by which lessons are learned. This could allow enhancements to be made to the standards development process that will improve future standards.

Contact

If you would like to discuss any of the points raised in this letter, please contact Georg Kaempfer: Telephone: +49 69 9585 1333; email: georg.kaempfer@de.pwc.com:

Yours faithfully,

A handwritten signature in blue ink that reads 'Georg Kaempfer'.

Georg Kaempfer
Global leader, Public Policy and Regulatory Affairs



ATTACHMENT: ADDITIONAL COMMENTS.

The Board in particular would welcome respondents' views on the following:

Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.

While we are not persuaded that the four new projects are “in response to developments in the environment” (para.21) we understand that the first three projects are effectively underway, and that progress has been made in drafting a project proposal relating to a reconsideration of the structure of the code. That said;

- We are not of the view that there is evidence that the current provisions on partner rotation (which we recognise were developed separately from any discussion around firm rotation or tendering) are inadequate, although we understand concerns that the current requirements - that in principle that allow a key audit partner to serve for 14 out of 16 years on an audit - raise questions over independence in appearance. We acknowledge that the general provisions dealing with long association bear review to enhance clarity and application, so to that extent we are supportive of the project.
- Similarly we see no empirical evidence that the provisions on non-assurance services are not working and thus no strong rationale for re-opening the debate on the three particular matters of concern, although we understand that this is in part a response to requests for additional guidance on certain of those topics from small practitioners and so to that extent may be helpful. Further we understand that the Board “supported the development of a paper to, among other matters, raise awareness of the Code’s approach to NAS and of the robustness of the Code’s NAS provisions, highlight supplementary ways by which the threats and safeguards approach to independence in the Code may be enhanced, and generally increase the visibility and transparency of the relevant provisions in the Code”. The range of “issues” that the Board considered might be addressed in this paper, while some are evidently topical, seems to extend to issues way beyond this stated remit, and indeed to matters that the code could not provide standards on, such as fee caps and firm business models, or which impinge on the rights of company management to decide who best can provide services to them. We support the development of such a paper but encourage the Board to focus on the intended aim of this paper (as detailed above).
- We believe that there is merit in the “structure of the code” project if it helps to bring clarity to the reader or user regarding the intent of the code. We recommend that the Board guards against using the project to change the meaning of the code or, via the use of Plain English, to introduce vagueness of language which would work against consistent understanding and application by firms.
- However, we note that many member bodies are still working towards convergence with the current code and that significant restructuring which may result from such a project or indeed other changes to the code (such as in relation to partner rotation) would place a



burden on member bodies and may potentially hinder efforts to effectively converge with the code.

Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.

In broad terms we support the four strategic themes but we do believe that there is a strong need for the Board to define its vision and to develop a framework, or set of principles, that will help define the objectives of the Board and help position the code (and assist in identifying areas where further development may be appropriate). The strategic themes could then be checked against this vision.

Para 18 recognises a desire to forge close working relationships with stakeholders, including the profession. We would welcome this and will seek to work with the Board in an appropriate way so that, for example, the practical implications of Board considerations are identified at an early stage.

As noted above, we strongly support the importance of evidence-based standard setting and encourage the Board to enhance its processes to ensure that decisions to embark on new projects are well grounded in evidence, and that an impact analysis is conducted of the costs and benefits of proposals.

Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.

We see no strong evidence provided to warrant a comprehensive review of the safeguards in the code.

We agree that the Board should be an active participant in the debate about audit quality and that the Board should always have the “bigger picture” in mind when considering whether further enhancements to the code are appropriate.

We support a cautious approach to establishing a project on collective investment vehicles. The scope of the project and the benefits should be clearly established early on. It may be that supplementary guidance, rather than changes to the code, is appropriate in relation to applying the “related entity” definition, given the very complex structures that can be found in practice.

In relation to the proposed project on fee dependency, again we see no demonstrable evidence that the current provisions, including safeguards, are not working. Again they have only been effective for a couple of years. We recommend that the Board does not pursue such a project.

Further the issue of whether the quantum of fees for non-assurance services provided to audit clients threatens independence seems an entirely unrelated issue and it’s not clear that the two should be linked in any way – the code does not currently address this issue. We recognise that a perception concern can arise where such fees are significant in relation to the audit fee and it may be that the code can provide some useful guidance as to the threats and safeguard analysis.



Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).

None.

The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.

Please see cover letter.