Compilation of Advance Comments from IESBA Participants on October 21 Version of Fee-related Proposals (With Task Force's Responses)

Note to the IESBA Meeting Participants

The Fees Task Force appreciated all advance comments provided by IESBA participants on the October 21 version of the Fees text. The table below includes the compilation of the comments received, by paragraph, and the Task Force's responses to the matters raised.

The revised proposed text is set out in **Agenda Item 3-B.1.**

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
Threats Created by Fees Paid by an Audit Client			
410.4 A3	Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include: • (1) The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities. • (2) Any linkage between fees for the audit and those for services other than audit and the relative size of both elements. • (3) The extent of any dependency between the level of the fee for, and the outcome of, the service. • (4) Whether the fee is for services to be provided by the firm or a network firm.	"There does not appear to be a factor or consideration for fees for services which while not part of the audit also require independence to be maintained in order to be performed. Quarterly or semi-annual reviews, comfort letters, audits of benefit plans, assurance reports in accordance with IAASB standards, statutory audits of subsidiaries are just a few examples. These generally are audit and assurance services. It seems like they represent a category of service that would not generate the same, if any threats, as some other types of non-assurance service."	The Task Force agrees that the provision of certain services, especially audit related services, would not generate the same level of threats to independence. However, the fees paid by the audit client for these services also create self-interest threats. The level of the self-interest threats created by the fees paid by the audit client is irrespective of the type of service the fee is paid for.
		Comment to bullet point 6: "This is a new issue and while the notes below provide some context and explanation I doubt that absent this readers will understand. If included in the code, this will need some explanation."	In APESB's comment letter, there was a suggestion that the IESBA consider the inclusion of "further examples where the proportion of fees could cause threats to the fundamental principles (such as

[1] Proposals circulated to the IESBA in October 2020, with mark up to the September 29 version.

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	• (5) The operating structure and the compensation arrangements of the firm and network firms. • (6) The significance of the client or a third party referring the client, for example to the firm, network firm, partner or office. • (7) The nature of the client, for example whether the client is a public interest entity. • (8) The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity. • (9) 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 the audit and the overall level of the fees. • (10)Whether the level of the fee is set by an independent third party, such as a regulatory body. • (11) Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.		the referral of multiple audit engagements from one source)". This bullet was added to be responsive to that comment. The Basis for Conclusions will include background information about the suggestion and IESBA's rationale for including this factor in the final text. Furthermore, the Task Force will suggest that the Staff publish an FAQ on this matter.
		Comments to bullet point 6: "Disagree that a third-party who refers a clients to the firm, network, partner or office would have a bearing on self-interest threat created when the third-party is not involved in either the negotiation of the fees or the payment of the fees. The third party has no authority over the establishment of the fees between an auditor and an audit client. What self-interest threat is created between the auditor and the audit client? Keeping or retaining the audit client has no impact on the referral entity. The phrase should be removed."	The Task Force is of the view that the significance of the third party referring the client is a factor relevant to evaluating the level of threats because dependence on that source creates a self-interest or intimidation threat. The Task Force considered as an example the situation where the total fees in respect of multiple audit clients referred from one source represent a large proportion of the total fees of the firm expressing the audit opinion.
		Comment to bullet point 8: "Fees at sister entities are not fees to the entity under audit. The audit committee or board of the entity under audit has no authority over fees at the sister entity. Further, the not subject to audit provisions of the code would determine whether the service was permitted."	With this factor, the proposal acknowledges that the level of the threats created by fees paid by the audit client is lower where the service is provided to a related entity, especially a sister entity, than where it is provided to the audited entity itself. However, the Task Force is of the view that fees for services

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			provided to a sister entity still create a self-interest threat and might create an intimidation threat. It is relevant to consider sister entities in line with the overarching principle in paragraph R400.20 of the International Independence Standards.
410.4 A5	The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.	"("The requirements and application material that follow identify circumstances which might need to be further evaluated..."), is "evaluated" an appropriate term here? "considered"?"	As those circumstances might be relevant in the evaluation of the level of the threats, the Task Force believes that the term "evaluate" is a better fit in this case and is in line with the Drafting Guidelines of the Code.
Level of Fees			
410.5 A1	Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.		
410.5 A2	Factors that are relevant in evaluating self-interest and intimidation threats created by the level of the audit fee paid by the audit client include: • The firm's commercial rationale for the audit fee. • Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.		
410.5 A3	Examples of actions that might be safeguards to address such threats include: • Having an appropriate reviewer who did not take part in the audit	"This raises a timing question. "did not take part in the audit engagement" implies a post-audit timeline but by that point the fee will have been agreed with the client, so unclear how this is an effective safeguard?"	The Task Force is suggesting the following change: "Having an appropriate reviewer who does~~did~~ not take part in the audit engagement assess the

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	engagement assess the reasonableness of the fee proposed having regard to the scope and complexity of the engagement. • Having an appropriate reviewer who did not take part in the audit engagement review the work performed.		reasonableness of the fee proposed having regard to the scope and complexity of the engagement
		Comment to second bullet: "There is an interesting debate as to whether this is a safeguard against a threat to independence or a safeguard against quality (with quality and insufficient work being a consequential effect of the level of fees)."	The Task Force agrees that this safeguard ultimately links to the quality of the audit work, however the review can confirm the integrity, objectivity and professional skepticism of the firm carrying out the audit as these are concepts embedded in the definition of independence.
Impact of Other Services			
R410.7	As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings ~~that are~~ achieved as a result of experience derived from the provision of services other than audit to an audit client	"The proposed clause gives an impression as if we are only looking at the cost savings achieved. It is also possible that on account of certain ongoing assignments, the client would be able to bring some changes which would help the audit firm to reduce its costs. Can we consider modifying the clause to say…..the savings proposed to be achieved as a result of experience derived during the course of audit. Following para with suggested changes for your consideration: "As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved or proposed to be achieved as a result of experience derived from the provision of services other than audit to an audit client."	Based on the comments received, the Task Force believes that firms should only apply this exception if they can demonstrate the cost savings achieved as a result of experience derived from the provision of services other than audit. The Task Force's intention is that revised wording also allow firms to consider cost savings to be realized at a later stage of the engagement, but only if the firm can prove/demonstrate the cost saving. Cost savings "proposed to be achieved" wouldn't meet these criteria.
Contingent Fee			
410.8 A1	Contingent fees are fees calculated on a predetermined basis relating to the outcome of	"At times, the provision of law/regulations may mandate the audit fee to be dependent	The Task Force believes that the last line, and the reference to

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	a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority	on say….. assets deployed by the auditee, OR the amount of Loans advanced by the auditee Bank etc.. It is suggested that such additional areas may be covered in the last line of this clause regarding the fee as not being contingent."	"other public authority" addresses the situation when provisions of law/regulations mandate the audit fee to be dependent on certain circumstances. The main criterion firms should consider is whether the formula mandated by laws or regulations to determine audit fees allow any discretion or authority for the firm or the client to determine the level of the fees. Furthermore, the Task Force notes that if a law or regulation mandates how fees are to be charged, then based on the overarching principle in paragraph R100.3, the law or regulation prevails. The Task Force is of the view that there is no need to expand the wording in 410.8 A1 to reiterate this position, in view of the building block concept in the Code.
Proportion of Fees			
410.11 A1	The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.	"Since the provisions require evaluation of services rendered by network firms as well, practical applicability, implementation and assessment may be challenging. Can the applicability be considered only with regard to PIE's? Benchmark for fee and parameters for evaluation may be defined as this is too subjective. Some threshold may be relevant to be considered.	In developing this proposal, the IESBA considered both including a threshold as a cap and as a trigger for the re-evaluation of threats. Given that the revisions arising from the NAS project will significantly restrict the provision of NAS, and based on stakeholders' comments, the IESBA agreed that a specific fee cap or other threshold would not be warranted.

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		May be considered only in related to controlled entities not all related entities"	As the proposal does not set out a specific ratio as a cap or a threshold that would trigger re-evaluation of the threats, the Task Force believes that firms should be in a position to obtain the information about the fees (or at least the significance of the fees) for services delivered to related entities, other than controlled entities as well. The Task Force believes that if a network meets the conditions of the Code's network definition, the firm should be in a position to obtain information about the fees paid by the audit client to network firms. However, the factors in the proposal acknowledge that the level of the threats created by fees paid by the audit clients depends on whether the service is provided by the firm or a network firm and also on the structure and the operation of the firm and network firms.
Overdue Fees			
410.12 A!	Examples of actions that might be safeguards to address such a self-interest threat include: • Obtaining partial payment of overdue fees. • Having an appropriate reviewer who did not take part in the audit engagement review the audit work	"It is stated that obtaining 'partial payment of overdue fees' will be a safeguard. This should not be open to misuse as a small portion (say 15%) of recovery of overdue fees would not be a proper safeguard. The safeguard to be effective and meaningful, you may consider either saying a "substantial	Based on the conceptual framework safeguards are actions that are available and capable of reducing the threats to an acceptable level. In this specific case, the partial payment is expected to be at a level that would ensure that the payment is an effective action to be a

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		portion" or "at least 50% of the overdue fee should be recovered"."	safeguard. The Task Force does not believe that it is necessary to set out a specific amount or percentage. The Code's provisions require the firm to apply professional judgment, based on the facts and circumstances to determine the appropriate amount for the partial payment to be an effective safeguard. That amount changes on a case by case basis.
Fee-dependency of non-PIE Audit Clients			
R410.15	When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it: **(a)** Prior to the audit opinion being issued on the fifth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements review the fifth year's audit work; or **(b)** After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements or a professional body review the fifth year's audit work.	"The firm is required to get a 'review of the audit work' as a safeguard. You may consider defining the 'Scope of review to be carried out by a professional accountant who is not a member of the firm', as defined for PIE audit clients."	Unlike in case of PIE audit clients, on balance, the proposals would not require a firm to undertake a review of an equivalent objective as an engagement quality review in case of fee-dependency on a non-PIE audit client. The Task Force is of the view that the scope of the review has to be determined by the professional accountant carrying out such review taking into account the circumstances of the engagement and the objective of the review. This is considered to be part of the responsibility and professional judgement of the reviewer. The scope cannot be set out by the Code in advance. The Task Force will suggest that the Staff publish an FAQ explaining the objective of such review. The Task Force notes that the extant Code already includes having a review of the audit work

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			as a safeguard in many other provisions.
		"A review equivalent to an engagement quality review" is mentioned as a possible safeguard for PIE audits. (I agree with the change.) But looking at R410.15 for non-PIE audits, it states that "... have a professional accountant (...or a professional body) review..." and there is no mention of EQR. Is it intentional? (I do not remember if the board has already discussed this...) "	Please refer to the Task Force's response above.
Fee-dependency of PIE Audit Clients			
R410.18	When for each of two consecutive years the total fees from an audit client that is a public interest entity 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, a~~n~~ review equivalent to 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 threats to an acceptable level, and if so, apply it.	"I'm not entirely clear how the TF get to this conclusion. If you have determined that ISQM 2 requires involvement from the start (which it doesn't – it just requires "appropriate points in time") then changing the requirement here to be "equivalent to" an EQ review doesn't solve the problem as "equivalent" implies achieving the same requirements. It would need to be more loosely described, such as "similar in nature to" or else link it more explicitly to a review that is consistent with the *objective* of an EQ review."	The Task Force is proposing the following change: " When for each of two consecutive years the total fees from an audit client that is a public interest entity 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, a~~n~~ review consistent with the objective of 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 threats to an acceptable level, and if so, apply it."

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		"Although it explains in the revision notes to Transparency below that other fee-related proposals would continue to include all controlled entities, including those not consolidated, I believe that in the case of fee dependence a self-interest threat cannot be created with regard to fees received from entities that are not consolidated with the client. Therefore, propose that the following wording be added:" For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion"	The current overarching principle set out in R400.20 requires the application of the same independence framework for related entities over which the audited entity has direct or indirect control, irrespective of whether controlled entities are consolidated. However, the Task Force recognizes the potential practical difficulties regarding disclosing fee-related information of controlled entities to TCWG and to the public in the case of investment company complexes and private equity firms that are PIEs where there is no requirement for them to consolidate controlled entities.
Communication with TCWG			
410.22 A1	Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.		
R410.23	Subject to paragraph R410.24, ~~T~~the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity: **(a)** ~~The F~~fees paid or payable to the firm or network firms for the audit of the financial	Comment to "fees paid or payable" in point a): "This should be fee for the audit, regardless if paid or payable – i.e., total fees regardless of when the work is performed, or when the fee is paid or payable."	The Task Force agrees that point a) covers all fees for the audit - i.e., total fees regardless of when the work is performed, or when the fee is paid or payable. However, as fees need to be connected with

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	statements on which the firm expresses ~~issued~~ an opinion; and ~~**(b)** Any fees for the audit of special purpose financial statements and review engagements; and~~ **(b~~c~~)** Whether the threats created by the level of ~~the audit~~ those fees are at an acceptable level; and any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.		the firm and network firm, from a drafting perspective this addition is necessary
		Comment to point b): "I struggle to see understand how a firm could give practical effect to this. Might it be better just to say "reduce any identified threats to an acceptable level". The first part would then be covered (explicitly or implicitly) by the communication made."	In complying with requirement in point b) the firm should also communicate with TCWG – along with the information about the amount of the fee for the audit - whether the threats created by the level of the fees is at an acceptable level. As paragraph 410.4 A1 sets out that fees paid by the audit client create a self-interest threat, it is not necessary for the firm to provide a statement whether there are any threats identified in relation to audit fees. The firm would only be required to communicate whether those threats are at an acceptable level, and if not, whether the firm has taken or proposes any actions to reduce those threats to an acceptable level.
		"Clarity required if audit fee related to controlled entities of the audit client needs to be considered if such entities are audited by the firm or network firms, as non-audit fees considered for the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion Practical difficulties in collating the fee information related to network may be considered."	The requirement sets out for firms to disclose to TCWG the fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion. The Glossary of the Code specifies that the financial statements on which the firm expresses an opinion is the financial statement of the entity in the case of a single entity, and the consolidated financial statement in the case of a group audit. By definition, the

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			requirement only includes fees paid by entities that are included in the consolidated financial statement. Audit fees (i.e fees for review engagement or other audit services) paid by a controlled entity that is not included in the consolidated financial statement will fall under the requirement R410.25 a) if the firm knows or has reason to believe that such fees are relevant to the evaluation of the firm's independence.
410.23 A1	The objective of such communication is to provide the background and context to the ~~audit~~ fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example: • Considerations affecting the level of the fees such as: ○ The scale, complexity and geographic spread of the audit client's operations. ○ The time spent or expected to be spent commensurate with the scope and complexity of the audit. ○ The cost of other resources utilized or expended in performing the audit. ○ The quality of record keeping and processes for financial statements preparation.		

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	• Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments. • Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.		
410.23 A2	The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.		
R410.24	As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of a client that is a (directly or indirectly) wholly-owned subsidiary of another public interest entity provided that: **(a)** The client is consolidated into group financial statements prepared by that other entity; and ~~**(a)**~~**(b)** The firm or a network firm expressed an opinion on the group financial statements.	Suggestion for clarifying that the "entity" is "public Interest entity" in point a).	Please also see the proposed changes to R410.24 in Agenda Item 3-B.1.
		Question that in point b) "why expressed is past tense. Should this say "expresses"?"	The Task Force agrees and is suggesting the following changes to point b) of paragraph R410.24: "(b) The firm or a network firm expresses~~d~~ an opinion on those~~e~~ group financial statements."
		Suggestion for adding in point b) after "financial statements" the phrase "of the other public interest entity"	Please refer to proposed changes above.
		"This is a very difficult para to understand even with the explanation below. Further I think there is a flaw in the logic here. Para 23 only applies to PIEs. Most subsidiaries of PIEs are probably not considered PIE in their own right (the PIE will be the parent/group entity). Therefore, most subs won't be caught by para 23. However, to the extent that a sub is itself a PIE, then there is surely a case that the relevant communication should be made, as the sub must be a PIE for a specific reason, and will the comm of the overall group be exactly the	The Task Force notes that there are cases when the parent and its subsidiaries are both PIEs and both would be required to disclose fee-related information in relation to the single and the group financial statements. Especially in cases where there is potential for different fee-related information being communicated from the standalone entity's perspective compared to the group perspective, applying the same requirement to communicate fee-

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		same? Maybe it will, but is that universally true? Would the statutory fee for a PIE sub, for example, be included in the fee for the group audit communicated under 23(a) – probably in most cases, but maybe not the full fee. Finally, the code does not use the term "subsidiary""	related information to TCWG and to the public could create confusion. Therefore, the Task Force is proposing an exception, as an option for firms, to the communication requirement in the case of standalone financial statements of PIE parent entities and wholly-owned subsidiaries when consolidated financial statements are also published. The Task Force also notes that this exception is not extended to PIE controlled entities that are not wholly owned given the presence of minority shareholders that could result in different fee-related information. The Task Force does not intend to introduce a definition for "subsidiaries", instead the proposals will refer to "entity wholly owned by another public interest entity". Please see changes to R410.24 in Agenda Item 3-B.1.
		"Is the wording clear enough i.e. spell out that the wholly owned subsidiary is a PIE?"	The requirement in R410.23 only applies to public interest entities.
R410.25	Subject to paragraph R410.27, t~~T~~he firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:	Comment to "that are consolidated in the financial statements" in point a): "Group? For consistency as per above?"	The Task Force notes that the Glossary to the Code determines that financial statements on which the firm expresses opinion means

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	(a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;. ~~The fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services other than audit to the client which for this purpose shall include only related entities over which the client has direct or indirect control ;~~ and **(b)** As set out in paragraph in 410.11 A1, w~~W~~here the firm has identified that there is an impact on the ~~evaluation of the~~ level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of ~~such~~ fees for services other than audit relative to the audit fee: **(i)** Whether such threats are at an acceptable level; and **(ii)** If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.		the consolidated financial statements in case of group audits.
		Comment to point b): "Is this right? Is it not just identified that there is a threat? Why is self-interest an "impact on the level of" the threat but intimidation is just a "threat"?"	Paragraph 410.4 A1 sets out that when fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence. Section 410 includes circumstances, such as large proportion of fees for services other than audit to audit fees, that impact the level of the self-interest threats. However, intimidation threat is not necessarily present at each engagement when fees are paid by the audit client.
410.25 A1	The objective of such communication is to provide the background and context to the fees for other services ~~other than audit~~ to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:		

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	• The amount of fees ~~from~~ for other services ~~other than audit~~ that are required by laws and regulations. • The nature of other services provided and their associated fees. • Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees. • The proportion of fees referred to in paragraph R410.25~~4~~(a) to the aggregate of the ~~audit~~ fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.		
R410.26	The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entity over which the audit client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.	"As drafted, in what circumstance would a firm be able to conclude that the fees are not relevant to the evaluation? Is the point mainly about *relevance*, or about *knowledge* of the existence of such fees (for example those payable to another Network firm)?"	Please refer to the (updated) application material/guidance in paragraphs 410.26 A1 and 410.32 A2 in Agenda Item 3-B.1. The Task Force will seek IESBA members' views whether this should be part of the Code or better be published as part of an FAQ.
		"Other independence frameworks do not require reporting of such fees after having considered the threats versus the benefits of such approach and concluded reporting is not required. It is not clear that this clause is necessary as the entities not consolidated are in the realm of portfolio companies under private equity funds. The portfolio companies have their own boards and management with standalone fiduciary responsibility. Any services provided would be permitted	The Task Force is proposing application material/guidance to the requirement that would clarify and include examples of factors to guide the firm in establishing knowledge or reason to believe that the fee paid by a non-consolidated controlled entity to the audited entity could impact the firm's independence. Task Force will seek IESBA members' views whether this

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		services under the Code since a portfolio company is a subsidiary of a PIE, even if not consolidated. Given the strengthening of the NAS provisions, the likelihood that there are fees relevant to the evaluation of independence would be remote. The audit of the fund, which records the investment in the portfolio company at fair value, is not impacted by any service being performed at the subsidiary. So there is not a self-interest or intimidation threat. The phrase "knows or has reason to believe that such fees are relevant to the evaluation" should not mean any fee or any group of fees is relevant. I believe the concept should be clear that this is designed to be for situations where there is some very significant facts related to the services. I am not suggesting a bright line or additional criteria. I am suggesting it should be clear that the view be that the situations is such that the overarching principles of independence would not be met. Perhaps this can be expressed in the basis for conclusions."	should be part of the Code or better be published as part of an FAQ. Please see proposed paragraphs 410.26 A1 and 410.31 A2 in Agenda Item 3-B.1.
		"I agree with the change, but I am wondering how the firm can get to know it or what the firm should do to get to know it. I think some guidance (or example) would be helpful in this respect"	Please refer to the Task Force's response above.
R410.27	As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of a client that is a (directly or indirectly) wholly-owned	"Same comment as the same para above."	Please refer to Task Forces' response regarding R410.22

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	subsidiary of another public interest entity provided that: **(a)** The client is consolidated into group financial statements prepared by that other entity; and **~~(a)~~(b)** The firm or a network firm expressed an opinion on the group financial statements.		
R410.28	Where the total fees from an audit client that is a public interest entity represent or are likely to represent more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance: **(a)** That fact and whether this situation is likely to continue; **(b)** The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and **(c)** Any proposal to continue as the auditor under paragraph R410.21.	"As per the comment on R410.18, this should paragraph should be changed to include this statement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion"	Please refer to the Task Force's response regarding R410.18
Public Disclosure			
410.29 A1	In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the commercial relationships between the firm and the audit client which might reasonably be thought to bear on independence. In a wide number of jurisdictions there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.		

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
R410.30	If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee-dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity: (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate taking into account the timing and accessibility of the information, and (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.		
410.30 A1	Examples of Information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include: • Comparative information of the prior year's fees for audit and services other than audit. • The nature of services and their associated fees as disclosed under paragraph R410.31~~28~~(b). • Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.		
R410.31	After the discussion with those charged with governance as set out in paragraph R410.30~~27~~, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32 the firm shall publicly disclose:	"Clarity required regarding the basis on which such fee should be disclosed, such as on the basis of invoices raised or based on amounts recorded in the financial statements on accrual basis.	As fee arrangements and methods of payment vary widely in practice, the proposals do not explicitly specify the basis of the determination of fees. The Task Force believes that such

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
	(a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses ~~issued~~ an opinion; **(b)** Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;~~The total amount of fees charged during the period covered by the financial statements for the provision of services by the firm and network firms to the audit client, which, for this purpose, shall include only related entities over which the client has direct or indirect control, other than as disclosed under (a)~~; **(c)** Any fees, other than those disclosed under (a) and (b), charged to any other related entity over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and **(d~~c~~)** If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.	Practical difficulties in collating the fee information related to network may be considered Clarity required if audit fee related to controlled entities of the audit client needs to be considered if such entities are audited by the firm or network firms, as non-audit fees considered for the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion"	implementation questions can be addressed through FAQs.
		Comment to point c): "See all the points above in R410.26. which are reiterated here. This is not likely to be followed in many large jurisdictions as companies' legal counsel will not agree to the confidential data being breached, and in some jurisdictions it is not legal. Also, how is a reader to evaluate and use this information? If it impacted on independence the service would not have been provided. In private equity structures, the fiduciary duties of the respective board prevents them from interfering in the actions of the others. A reader is not going have disclosure of the information about the ownership and control structure and which parties have significant influence over the portfolio companies which can be a factor in services being provided (e.g. need for tax services).	Please refer to Task Force's response regarding R410.26. The Task Force also notes that where disclosing such information would be prohibited by laws and regulations due to confidentiality issues, the Code provides – based on the overarching principle in para R100.3 – that those laws and regulations prevail.

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
		The fees disclosures in and of themselves should not be a basis for asserting the auditor is not independent. This needs to be made clear if this is to be left in as the paragraphs opens the potential for litigation issues for both the portfolio company and its board, the fund and its board and the auditor. I am concerned that the code will not be adopted in total in jurisdictions where this is not required. Finally, this change would definitely require re exposure as none of this concept was in the ED."	
		Comment to point d): "See prior comments on the need to be specific on para 410.18 and 410.28. Or Add something in this paragraph that says as determined in 410.18."	See Task Force's responses regarding comments on paragraphs R410.18 and R410.28
410.31 A1	The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30~~27~~ A1.		
410.31 A2	If an audit client does not disclose the information on fees, the firm might do so in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example: • On the firm's website. • In the firm's transparency report. • In an audit quality report. • Through targeted communication to specific stakeholders, for example a letter to the shareholders.	Comment to "might": "Could this be read as diluting the above requirement i.e. might not have to disclose?"	The Task Force is proposing the following change: "When disclosing fee related information in compliance with paragraph R410.31,~~If an audit client does not disclose the information on fees~~, the firm might disclose the information ~~do so~~ in a manner deemed appropriate taking into account the timing and

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
	• In the audit report.		accessibility of the information to stakeholders, for example:" Please see paragraph 410.31 A3 in Agenda Item 3-B.1.
R410.32	As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to: **(a)** A client that is a parent entity that also prepares group financial statements provided that the group financial statements are audited by the firm or a network firm; or **(b)** A client that is a (directly or indirectly) wholly-owned subsidiary of another public interest entity provided that: **(i)** The client is consolidated into group financial statements prepared by that other entity; and ~~**(i)**~~**(ii)** The firm or a network firm expressed an opinion on the group financial statements.	"This does not make sense to me on two grounds – (i) if the PIE entity hasn't disclosed (the trigger for para 31) then neither the group, parent or sub information will have been made public and (ii) lack of clarity in 23(a) and 31(a) on what fees and financial statements precisely those requirements refer to (Group + PIE + Subs or just Group)?"	This exception applies only in instances when the client does not disclose the fee-related information in either the single entity's financial statements or the group financial statements. If there are more PIEs in the group, this provision is intended to provide an exception for firms to disclose information relevant to the single entity's financial statements, if such information would be disclosed in relation to the group financial statements either by the client or by the firm. The Task Force is proposing the following amendments to respond to the point raised and clarify this approach: As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to: **(a)** A ~~client that is a~~ parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements ~~are~~

Para #	Text of Paragraph (with Mark-up)[1]	IESBA Participants' Comments	Task Force Responses
			~~audited by the firm or a network firm~~; or **(b)** ~~A client that is a~~An entity (directly or indirectly) wholly-owned by ~~subsidiary of~~ another public interest entity provided that: **(i)** The entity ~~client~~ is consolidated into group financial statements prepared by that other public interest entity; and **(ii)** The firm or a network firm expresse~~d~~ an opinion on thos~~e~~e group financial statements. In line with that please also see changes to para R410.27.
		Suggestion for clarifying in point b) that the client is a PIE	As paragraph R410.31 is applicable only to PIEs, the Task Force believes such clarification is not necessary in this provision.
		Suggestion for adding "of the other public interest entity" to "the group financial statement "	See proposed changes to R410.32 point b) above.