

Proposed Changes to Fee-related provisions of the Code — Summary of Significant Comments on Exposure Draft and Task Force Proposals

Note to IESBA Meeting Participants

This agenda paper contains a summary of the significant comments received on the Exposure Draft (ED), and the Task Force's responses to these comments.

While not all comments are mentioned in this paper, the Task Force reviewed all comments when developing its responses. Comments of an editorial nature or isolated comments raising general matters of clarification are presented in **Agenda Item 5-B**. The revised proposed text is set out in **Agenda Item 5-C**.

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I. INTRODUCTION

1. This section provides a high-level overview and breakdown of the comments received on the ED.
2. In January 2020, the IESBA released the ED with the comment period closing on May 4, 2020. Due to the disruption in operations many stakeholders faced due to the Covid-19 pandemic, the IESBA agreed to extend the comment deadline by a month, until June 4, 2020.
3. As stated in the Explanatory Memorandum to the ED, the proposed revisions to the Code, among other matters:
 - Articulate and address the issue of threats to independence created when fees are negotiated with

and paid by the audit or assurance client.

- Clarify that the audit fee should be a standalone fee within the spectrum of total fees from the audit client so that the provision of services other than audit does not influence the level of the audit fee.
 - Provide guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by the firm or network firms to an audit client is for services other than audit.
 - Enhance the provisions regarding fee dependency both when audit clients are public interest entities (PIEs) and when they are non-PIEs, including establishing a threshold for addressing threats in the case of non-PIE audit clients.
 - Require the firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency continue beyond a certain period.
 - Enhance transparency with regard to fee-related information for PIE audit clients to assist those charged with governance (TCWG) and the public in forming their views about the firm's independence.
 - Enhance the robustness of guidance in the Code regarding factors to evaluate the level of the threats created when fees are paid by an audit or assurance client, and safeguards to address such threats.
4. Respondents were asked for views on 15 specific questions relating to the key areas highlighted above. Part II of this paper addresses the key comments identified from responses to these questions.

A. OVERVIEW OF RESPONSES

5. As of June 2020, the IESBA had received a total of 64 comment letters with the following breakdown by stakeholder group and region (Refer to Appendix I for a list of the respondents):

Stakeholder Category	#
Regulators	10
Public Sector Organizations (PSO)	3
Preparers and TCWG	1
Independent National Standard Setters (INSS)	2
Professional Accountancy Organizations (PAOs)	33
Firms	12
Others	3
Total	64

Region	#
Global organizations	16
Asia-Pacific	16
Europe	14
Middle East & Africa	9
North America	6
South America	3
Total	64

6. Regarding the respondents:

- Two Monitoring Group members provided comments on the ED (IFIAR and IOSCO).
- The majority of the respondents were professional accountancy organizations (PAOs), including IFAC members bodies.
 - Some of the PAOs also have full, partial or shared responsibility for setting ethics standards, including independence requirements, in their jurisdictions.
- Two Independent National Standard Setters¹ (INSS) submitted comment letters to the ED (APESB and XRB).
- In the representation of mainly small practitioners, two organizations provided comments to the proposals (EFAA and IFAC SMPC).
- All 12 firms² that responded are members of the [Forum of Firms](#).
- There were no responses from investors or investor representatives, the academic community or other stakeholders.

B. MATTERS FOR IESBA CONSIDERATION

7. The key comments and the Task Force's responses are grouped by ED questions under Part II below. (Refer to **Agenda Items 5-D.1 to 5-D.18** for the respondents' comments.)

8. Following detailed consideration of the respondents' comments and suggestions, the Task Force is proposing revisions to the ED (See **Agenda Item 5-C**) to, among others:
- Emphasize the Code's principles-based approach and link the proposed requirement regarding the evaluation and re-evaluation of the threats created by fees paid by the audit client to the conceptual framework.
 - Provide further guidance on how to evaluate the level of threats to independence created by:
 - Fees for services provided by network firms to the audit client and its related entities
 - Fees for services delivered by the firm to related entities of the audit client.
 - Recognize that disclosure of fee-related information to the public by the audit client is required under existing laws and regulations in a number of jurisdictions and, to the extent relevant, these disclosures would suffice.
 - Provide a more flexible approach for the firm to achieve transparency if fee-related information is not disclosed by a PIE audit client.

¹ Independent National Standard Setters do not form part of professional accountancy organizations.

² While Nexia International submitted a comment letter at a global level, its response included views from several member firms from different jurisdictions. As the views were not internally aligned, and sometimes contradictory, the Task Force considered and included the member firms' comments in the body of this document as appropriate. The Task Force, however, did not consider the comments as a global view of Nexia International.

II. KEY COMMENTS, TASK FORCE RESPONSES AND PROPOSALS

A. Overall Comments on ED Proposals

9. Respondents generally supported the need to strengthen fee-related provisions in the Code and the direction of the proposed changes. Respondents also raised comments relevant to the overall direction and consequences of the proposed changes which the Task Force has taken into consideration in developing the revisions to the proposals. (See **Agenda Item 5-D.17 and Agenda Item 5-D.18**). The following section includes the most significant general comments raised regarding the proposals in the ED.

Ongoing Revision to the PIE Definition

10. Several commentators³ from a range of stakeholder groups pointed out that due to the ongoing IESBA project aimed at revisiting the PIE definition in the Code ([PIE Project](#)), there is a lack of certainty regarding the entities that will be covered by the provisions relating to PIE audit clients. They indicated that it is not possible for them to comment fully on the proposals in the ED as there might be issues for certain entities they cannot yet envisage.
11. It was suggested that the IESBA consider finalizing the PIE project first prior to finalizing the proposals in the Fees and Non-Assurance Services (NAS) projects, or provide the opportunity for stakeholders to provide comments based on the revised PIE definition.

Task Force Responses

12. The Task Force notes that the IESBA has committed to coordinating the effective dates of the revisions arising from the PIE, NAS and Fees projects to provide an appropriate transition for adoption and implementation of the changes.
13. The aim of the Fees project as regards PIE audit clients is to strengthen the provisions relating to certain fee-related matters so as to enhance stakeholder confidence in the auditor's independence with respect to those audit clients. For the relevant provisions, the Task Force's focus has been on the principles (and requirements) that should apply to audits of PIEs (however defined) as compared to audits of non-PIEs. The Task Force believes this is equally the case for the NAS project. It will be for the PIE project to appropriately delineate the set of entities that should be considered PIEs, having regard to the additional or more stringent independence requirements that would apply to them. It would not be appropriate for the Fees and NAS provisions to be made conditional on how a PIE is defined. If that were the case, the other International Independence Standards (IIS) would also need to be reopened for potential revision. Rather, the final provisions arising from the PIE project should be applied throughout the IIS, including the fee-related provisions.
14. Nevertheless, the Task Force believes that respondents to the forthcoming ED from the PIE project should be given the opportunity to consider the proposals in that project in the light of the final Fees (and NAS) provisions.

³ **Regulators:** IFIAR, NASBA, **PAOs:** ACCA CAANZ, AICPA, IDW, **Firms:** BDO, KPMG, **Others:** CAQ, IFAC SMPC

Moving Away from Principles-based Code

15. Some respondents⁴ noted that proposals seemed to be trending progressively away from the original principles-based approach of the Code and turning to a more of a rules-based approach. There were views that this trend could undermine the Code's global applicability and might create challenges regarding adoption and implementation.

Task Force Responses

16. The Task Force notes that the proposed changes to the IIS in the ED rely on the Code's building blocks approach and the application of the conceptual framework. Specifically with respect to the proposal regarding fee dependency in relation to audits of non-PIEs (discussed further under subsection E below), the Board agreed at the time of considering the ED that on balance specifying a threshold would better guide the consistent application of the provision. At the July 2020 meeting, the Board largely reaffirmed this view. The PIOB Observer at that meeting also supported that position, seeing the threshold as acting as an important signaling mechanism.
17. The Task Force recognizes that certain provisions in the Code are very specific, for example, cooling-off periods for key audit partners under Section 540⁵ and the 15% threshold relating to the extant fee dependency provision with respect to PIEs. The need for specificity is thoroughly deliberated at the Board, having regard to the particular issue being addressed. The Task Force does not believe that this detracts from the principles basis on which the Code fundamentally rests.

Matters for the IESBA Consideration

1. Do IESBA members agree that the fee-related proposals (including the proposed revisions) are consistent with the principles-based approach reflected in the Code?

B. Threats to Independence Created by Fees Paid by the Audit Client

ED Question 1:

Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

18. A substantial body of respondents⁶ agreed or agreed with reservations⁷ that there is a self-interest threat to independence created by the audit client payer model and that the Code should include a requirement to determine whether that threat is at an acceptable level. However, several respondents raised whether the threats from the audit client payer model are already addressed by compliance

⁴ **Regulators:** IRBA, **PAOs:** Assirevi, CNCC, IPA, IDW

⁵ International Independence Standards, Part 4A- Independence for Audit and Review Engagements, Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

⁶ **Regulators:** IRBA, NASBA, MAOB, UK FRC, **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, BICA, CPA Australia, CPA Canada, EFAA, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, KICPA, NBAAT, NYSSCPA, NBA, SAICA, **Firms:** Moore, (Nexia AR), **PSO:**AGNZ, AGSA, GAO

⁷ **Regulators:** IOSCO, **PAOs:** ISCA, IDW, MIA, **Firms:** CROWE

with regulatory requirements and professional standards, including the Code. (Refer to Appendix II regarding the balance of support for the proposals.)

Consideration of Preexisting Provisions in Professional Standards

19. Respondents generally acknowledged that a firm's independence might be perceived to be impacted because the entity being audited is also the firm's client and pays its fees. However, a number of respondents⁸ pointed out that the risks related to the audit client payer model are one of the main reasons independence standards and significant safeguards are in place to address the potential threats. It was noted that this is a model that is widely accepted by users of financial statements. They also pointed out that the Code in its entirety is essentially designed to provide a framework that addresses the potential impact arising from such "client relationship," which is not solely a fee-related issue.
20. A few respondents⁹ raised that the proposed provisions could suggest that audits are fundamentally flawed from an independence perspective for a practice that the IESBA itself recognizes as "generally recognized and accepted by intended users of the financial statements."
21. It was argued that through the audit client's corporate governance structure and the firm's compliance with regulatory requirements and professional standards, including quality management standards and the Code, the risks inherent in the audit client payer model are already adequately addressed. For this reason, some respondents¹⁰ were of the view that the self-interest threat is not a given in all cases. They suggested that the Code articulate that fees paid by the client only "might" create a self-interest threat.

Task Force Responses

22. The Task Force recognizes that the audit client's corporate governance structure and the firm's compliance with regulatory requirements and professional standards, including ethics requirements, are important factors that act to mitigate the threats created by the audit client payer model. Firms might therefore often conclude that the threats are at an acceptable level. The proposal itself also acknowledges that the intended users of financial statements generally recognize and accept the practice that fees for professional services are usually negotiated with and paid by the client. However, as further explained below, the Task Force believes that the Code should recognize the fact that there is an inherent self-interest threat related to the audit client payer model. Doing so is not intended to cause this practice to be changed or to suggest that it is inappropriate from an auditor independence perspective but to raise firms' awareness that the self-interest threat exists, and to provide guidance on how to evaluate and address it when it is not at an acceptable level.
23. The Task Force also agrees with the comments above to the effect that the inherent risk related to the audit client payer model is part of a broader issue of the "firm–audit client" relationship and it is not exclusively a fee-related issue.
24. Consequently, the Task Force believes that this matter of the inherent threats arising from the client relationship is outside the remit of the Fees project and might be addressed under a separate project.

⁸ **PAOs:** AE, ISCA, WPK, IDW, Ibracon, AICPA, **Firms:** BDO, EY, DTTL, KPMG, Mazars, PWC, **Others:** IFAC SMPC

⁹ **PAOs:** CNCC, **Firms:** KPMG

¹⁰ **PAOs:** CAI, WPK, **Firms:** BKTI, BDO, RSM, **Others:** IFAC SMPC

At the July 2020 IESBA meeting, the Board supported the Task Force's preliminary view and agreed that the Fees project should continue to address the matter of threats created by fees paid by the audit client.

25. With respect to the comments that the Code articulate that fees paid by the client only "might" create a self-interest threat, the Task Force notes that this issue was subject to extensive Board deliberation during the development of the ED. The Board had recognized that while professional standards and regulatory requirements assist in mitigating the threats arising from the audit client payer model, they do not eliminate the fact that a self-interest threat is created. The provision in the ED merely recognized that fact. The Task Force has not seen any comments from respondents that invalidates it and, as indicated above, there was considerable support for the approach reflected in the ED.

Role of Those Charged with Governance

26. Some respondents¹¹ raised that the role of TCWG in appointing auditors and negotiating fees already provides "checks and balances" to the audit client payer model and mitigates the self-interest threat. They were of the view that TCWG are best placed to determine whether an audit fee is adequate, taking into account the complexities of the business and to ensure a quality audit.
27. Similarly, a Monitoring Group respondent¹² suggested that instead of stating in the general provisions that "fees for services are usually negotiated with and paid by the client and might create threats to independence," the provisions should include a reference to the involvement of TCWG in appointing the auditor and agreeing fees. The respondent also suggested deletion of the statement that the payment of fees by the audit client "is a generally recognized practice and accepted by intended users of financial statements" as it could be seen as supporting behaviors that potentially enhance threats to the auditor's independence.
28. A few respondents¹³ suggested that the IESBA consider including specific guidance for professional accountants in business (PAIBs) who are members of TCWG on how they should fulfil their role in making judgements and assessments in relation to auditor independence and fees, and to ensure that fees are sufficient and reasonable to enable the auditors to comply with professional standards, including independence requirements.

Task Force Responses

29. The Task Force notes that the ED proposals addressing the communication of audit fee-related matters to TCWG of PIE audit clients were intended to assist TCWG in assessing the independence of the firm in the context of the fees, including audit fees, paid by the audit client. The Task Force agrees that TCWG are well placed within their role to oversee the setting of the audit fee.
30. The ED proposals acknowledge that the involvement of TCWG in appointing the auditor and agreeing fees is a relevant factor in evaluating the level of threat created by the audit client payer model (ED paragraph 410.4 A2).
31. However, the Task Force acknowledges that for non-PIEs, especially in the case of smaller entities, there may not be formal corporate governance arrangements to provide comprehensive checks in

¹¹ **PAOs:** MICPA, CNCC, Ibracon, MIA, **Firms:** BDO, PWC

¹² **Regulators:** IOSCO

¹³ **PAOs:** ACCA CAANZ, MIA

relation to fee negotiations. Nonetheless, the Board had recognized that regardless of the degree of formality in the role of TCWG, if there are PAIBs within TCWG, they have a responsibility under Section 270¹⁴ of the Code not to exert undue pressure on other professional accountants to provide professional services at a fee that does not allow for sufficient and appropriate resources to perform the services in accordance with technical and professional standards.¹⁵

32. With respect to the suggestion that the IESBA develop guidance for TCWG who are PAIBs on how to assess (a) auditor independence with respect to fees, and (b) the sufficiency and reasonableness of fees, the Task Force suggests that the Board may wish to consider the former as a potential initiative after the completion of this project. With regard to the latter, the Task Force does not believe that this would be within the Board's remit. As paragraph 410.5 A1 of the ED stated, determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm.

Matters for the IESBA Consideration

2. Do IESBA Members agree with the Task Force's views?

ED Question 2:

Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:

- (a) Before the firm accepts an audit or any other engagement for the client; and
(b) Before a network firm accepts to provide a service to the client?

ED Question 3:

Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?

33. As set out in Appendix II, a substantial number of respondents agreed¹⁶ or agreed with reservations¹⁷ to include a requirement for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level.

¹⁴ Section 270, *Pressure to Breach the Fundamental Principles*

¹⁵ Paragraph 270.3 A3 in the ED

¹⁶ **Regulators:** IRBA, IFIAR, IOSCO, NASBA, MAOB, **INSS:** XRB, **PAOs:** ACCA CAANZ, BICA, CNCC, CPA Australia, CPA Canada, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, JICPA, MIA, MICPA, KICPA, NBAAT, NYSSCPA, SAICA, **Firms:** BKTI, CROWE, GTIL, Mazars, RSM, (Nexia SA, Nexia AR), **PSO:** AGNZ, AGSA, GAO

¹⁷ **Regulators:** UK FRC, **INSS:** APESB, **PAOs:** IPA, ISCA, CAI, IDW, WPK, **Firms:** Moore, PWC, **Others:** IFAC SMPC

Pre-existing Provisions in Professional Standards

34. Regarding the requirement to determine the level of the threat created by fees proposed to the audit client, several respondents¹⁸ observed that the extant Code already includes requirements regarding evaluating threats. Therefore, it was argued that a specific requirement related to determining the level of threats to independence created by the fees proposed to an audit client is not necessary. A few respondents¹⁹ were of the view that the costs and the documentation related to this requirement are not justified by any additional benefits.
35. In line with their views on Question 1, some respondents²⁰ believed that the inherent self-interest threat is already addressed by professional standards, including the Code. Therefore, they felt that firms should not be required to make the proposed determination in respect of all audit engagements. They suggested that such determination should instead be undertaken only when triggered by specific factors that, when present, would increase the level of the threat.

Task Force Responses

36. The Task Force recognizes that the proposed requirement in paragraph R410.4 of the ED for the firm to determine the level of the threat created by fees is effectively already established in paragraph R120.7, which requires the evaluation of threats as part of the conceptual framework. Therefore, the Task Force agrees that removal of the proposed requirement and inclusion of application material that appropriately references the requirements in the conceptual framework would achieve the same effect. (See paragraph 410.4 A2 in **Agenda Item 5-C.**)
37. In line with the Task Force's response to comments raised to Question 1, the Task Force believes that fees paid by the audit client creates a self-interest threat and might create an intimidation threat. Therefore, firms have to evaluate whether the level of the threats is at an acceptable level when fees are proposed by the firm or network firms to an audit client. However, as noted above, the Task Force believes that through compliance with professional standards, firms might often conclude that the level of the threats is at an acceptable level. Thus, the evaluation should not create a significant burden for firms.
38. Furthermore, the Task Force notes that the general documentation provision²¹ in the Code with respect to audit and review engagements requires documentation in particular when (a) safeguards are applied to address a threat, or (b) when a threat required significant analysis and the firm concluded that the threat was already at an acceptable level. The Task Force therefore does not believe that the proposed provisions regarding threats created by fees paid by the audit client will create an undue documentation burden.

Other Matters Raised Regarding the Proposed Requirement

39. A few respondents²² suggested that the IESBA explicitly require that firms decline or discontinue an engagement when threats related to the fees proposed cannot be eliminated or reduced to an

¹⁸ **PAOs:** AE, AICPA, EFAA, WPK, Ibracon, **Firms:** DTTL, EY, KPMG, Nexia S,

¹⁹ **PAOs:** AE, **Firms:** DTTL, EY

²⁰ **PAOs:** IDW, CAI, **Firms:** BDO, **Others:** IFAC SMPC

²¹ Paragraph R400.60

²² **Regulators:** UK FRC, **INSS:** APESB

acceptable level. A few other respondents²³ suggested providing guidance as to what circumstances would trigger the need to re-evaluate the threats and the matters the professional accountant should document when this situation arises.

40. Some respondents²⁴ noted that it would be impracticable for network firms (which are independent of other network firms and do not operate in an integrated or highly centralized network) to be expected at the acceptance stage to have obtained sufficient information about fees from the audit client from all other network firms. It was felt that there might be possible implementation implications (especially in an international context) regarding the appropriate processes to identify and resolve, for all audit clients, the precise timing and engagement acceptance issues.
41. One respondent²⁵ questioned the appropriateness for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level before a network firm accepts an engagement to provide a service to the audit client's parent and sister entities, if the audit client is a listed entity. The respondent explained that it is practically difficult for a firm to implement such requirements as it might not have visibility of all the audit or other engagements to be provided by its network firms to the audit client's parent and sister entities, especially when the nature of the services provided to the parent and sister entities is price sensitive and confidential. The respondent further commented that the erosion in operational effectiveness and efficiency resulting from the significant additional efforts required may not justify the proposed requirement.
42. Some regulatory respondents, including two Monitoring Group members, suggested that the IESBA consider the following regarding the proposed requirement:
 - That the assessment be completed before firms or network firms submit a proposal to an audit client as threats need to be taken into account when the firm is determining the fee that it will propose, and not only after the fee has been determined and proposed to the client.²⁶
 - That the term "acceptable level" be further defined through examples and guidance, and strengthened so as to exclude even "elevated threats."²⁷

Task Force Responses

43. Regarding the suggestion to explicitly require firms to decline or discontinue an engagement when threats related to the fees proposed cannot be eliminated or reduced to an acceptable level, the Task Force notes that under the conceptual framework, if threats are not at an acceptable level and the firm cannot address them in any other ways, the firm is already required to decline or end the engagement.
44. With regard to the suggestion to provide guidance on the circumstances that would trigger a need to re-evaluate threats, the Task Force did not believe that should be necessary as, under the conceptual framework, these would be circumstances specific to each engagement.

²³ **INSS:** APESB **PAOs:** ACCA CAANZ

²⁴ **PAOs:** MIA, CPA Canada, IPA, **Firms:** Moore, Nexia AR

²⁵ **PAOs:** ISCA,

²⁶ **Regulators:** IFIAR, UK FRC

²⁷ **Regulators:** IOSCO, MAOB, **PAOs:** SAICA, **Firms:** Nexia S

45. Regarding the threats created by fees paid by the audit client for services provided by network firms, the Task Force acknowledges that the level of the threats created is usually lower. Based on the application of the conceptual framework, firms can consider all the relevant circumstances, including the type of the network. The Task Force proposes to include as a factor whether the fees are paid for services provided by the firm or a network firm to the audit client, and the operating structure and compensation arrangements of the firm and network firms. Based on firms' quality management systems, especially given the new ISQM 1, the Task Force is of the view that fees proposed within a firm's network for services to an audit client should be available without major difficulty or significant burden.
46. The Task Force also proposes adding a factor for firms to have regard to the relationship to the audit client of the related entities for which the services other than audit are provided, as the level of threats that might be created by fees for services provided to a controlled entity could differ from that to a sister entity. This factor has been proposed in the ED in relation to the evaluation of threats created by the proportion of fees for audit and services other than audit. However, the Task Force believes that the factor also applies to the other subsections throughout this section. (See paragraph 410.4 A3 **Agenda Item 5-C.**)
47. Regarding the suggestion for more guidance on what is an acceptable level, the Task Force notes that the Code already includes application material with respect to the determination of what is an "acceptable level."²⁸
48. With regard to the comment that the assessment be completed before firms or network firms submit a proposal to an audit client, the Task Force notes that establishing a fee to propose and evaluating the level of the associated threats is a dynamic process and the evaluation cannot be completed until a fee has been determined.

Factors to Evaluate Level of Threats

49. Respondents generally supported the proposed factors relevant to the evaluation of the level of threats created by fees paid by the audit client. A number of respondents suggested some clarification or further factors (and conditions, policies and procedures) for the IESBA's consideration – see **Agenda Item 5-B.**
50. Apart from the proposed factors, the IESBA asked whether respondents would see the benefit of recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence. Many respondents had concerns²⁹ about or did not support³⁰ including the existence of such a committee as an example of relevant conditions, policies and procedures. Many respondents also were of the view that recognizing such an independent committee would not support the Code's scalability and implementing it would create a high operational cost for small and medium practices (SMPs).³¹

²⁸ Paragraph 120.7 A1

²⁹ **Regulators:** UK FRC, AGSA, **INSS:** APESB, **PAOs:** ACCA CAANZ, CPA Australia, CPA Canada, EFAA, MIA, SAICA, Moore

³⁰ **Regulators:** NASBA, **PAOs:** AE, AICPA, BICA, CAI, CNCC, HKICPA, Ibracon, ICAG, ICPAU, IDW, IMCP, JICPA, KICPA, NBAAT, NYSSCPA, WPK, **Firms:** BKTi, BDO, CROWE, DTTL, EY, KPMG, Mazars, RSM, **Others:** IFAC SMPC

³¹ **INSS:** APESB, **PAOs:** MICPA, ACCA CAANZ, CPA Australia, CPA Canada, EFAA, HKICPA, ICPAU, **Firms:** BKTi, Mazars, **PSO:** AGSA, **Others:** IFAC SMPC

Task Force Response

51. Respondents' comments and suggestions along with the Task Force's views and proposed revisions are presented in **Agenda Item 5-B**. The Task Force also notes that the requirements and application material that follow the evaluation of the level of threats created when fees for an audit or any other engagement are paid by the audit client in Section 410 identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, the factors proposed for evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client are also applicable, and application material includes examples of additional factors that might be relevant in such circumstances. The Task Force is proposing revisions to the factors throughout Section 410 for consistency.
52. The Task Force believes that recognizing "the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence" as an example of conditions, policies and procedures should not create an extra burden or cost for firms as it would simply be a fact that firms can consider when evaluating threats, if such a committee exists. There would be no expectations that firms should have such committees as part of their corporate governance structure. However, given respondents' general concerns, the Task Force proposes not to include this example as part of the fee-related provisions.

Matters for the IESBA Consideration

3. Do IESBA Members agree with the Task Force's views?
4. Do IESBA Members agree with the proposed revisions in paragraphs 410.4 A2, 410.4 A3 and 120.12 A3 in **Agenda Item 5-C**?

C. Impact of Services Other than Audit Provided to an Audit Client

ED Question 4:

Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

53. Respondents generally agreed with the proposition that the audit fee should be a standalone fee, and that it should not be considered as part of a spectrum of fees that might be charged to an audit client. A significant body of the respondents agreed³² or agreed with reservations³³ with the proposed requirement in the ED. However, a number of respondents had concerns or disagreed with the proposed wording of the requirement. (Refer to Appendix III regarding the balance of support for the proposals.)

³² **Regulators:** MAOB, UK FRC, **INSS:** XRB, **PAOs:** AE, BICA, CAI, CNCC, CPA Australia, EFAA, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IDW, IMCP, IPA, ISCA, JICPA, KICPA, NBAAT, MIA, SAICA, WPK, **Firms:** BKTi, CROWE, GTIL, Mazars, Moore, RSM, (Nexia SA, Nexia UK, Nexia AR), **PSO:** AGNZ, AGSA, GAO, **Others:** IFAC SMPC

³³ **Regulators:** NASBA, IRBA, IOSCO, **INSS:** APESB, **PAOs:** ACCA CAANZ, Assirevi, CPA Canada, MICPA, **Firms:** BDO, EY, PWC

54. Those who disagreed or had reservations mainly raised the issue that the requirement could be challenging to operationalize and enforce since many factors go into the determination of fees.³⁴ Therefore, several respondents argued that it would be difficult to assess whether the provision of certain services “influenced” the audit fees as there would be too much subjectivity and it would be difficult to demonstrate compliance.³⁵ Some respondents pointed out that such uncertainty could cast doubt on the robustness of this requirement. It was suggested that the IESBA consider providing some guidance or examples regarding how a firm can demonstrate that the level of the audit fee has not been influenced by other services provided to the audit client.³⁶ A few respondents also questioned how compliance with this requirement could be documented.³⁷
55. Some respondents³⁸ were of the view that there is a contradiction between paragraphs 410.6 A1 and A2. They read A1 as saying that the provision of other services should not influence the determination of audit fees while they noted that A2 recognizes that the provision of other services can generate cost savings for the audit.
56. A Monitoring Group member³⁹ also suggested that the IESBA consider strengthening the requirement by elevating the second sentence of paragraph 410.6 A1 of the ED so it would read as follows: *“The provision of other services to the audit client shall not be a consideration in determining the audit fee.”*

Task Force Responses

57. The Task Force is of the view that the requirement sets a clear principle that firms should be mindful of when setting the level of audit fees. Respondents largely agreed. Consistent with this principle, the Task Force does not believe it is necessary to revisit the use of the term “influence.” The extant Code already contains 77 instances in which that term is used. Regarding the concerns about documentation, see the discussion in paragraph 38 above.
58. With respect to the comments from the few respondents who perceived a contradiction between paragraphs 410.6 A1 and A2, the Task Force notes the lengthy Board deliberations on the issue. The Board's view has been that realizing any cost savings through the experience derived from the provision of services other than audit to the audit client does not constitute such undue influence, but it is part of the firm's normal business operations. Therefore, the Task Force does not believe there is a contradiction between the two paragraphs. Nevertheless, to better link the application material allowing a firm to take the cost savings from other services into consideration in the proposed requirement, the Task Force suggests that A2 be presented as an exception instead. (See paragraph R410.7 in **Agenda Item 5-C.**)
59. Regarding the suggestion that the requirement should include a prohibition for firms to consider the provision of services other than audit in determining the audit fee, the Task Force believes that this would achieve the same effect as the principle in paragraph R410.6 proposed in the ED, which is

³⁴ **Firms:** KPMG

³⁵ **Regulators:** NASBA, IRBA, **INSS:** APESB, **PAOs:** ACCA CAANZ, CPA Canada, Ibracon, Assirevi, MICPA, **Firms:** BDO, KPMG, PWC

³⁶ CPA Canada

³⁷ **Regulators:** IRBA, **INSS:** APESB, **PAOs:** Assirevi

³⁸ **Regulators:** IRBA, **PAOs:** CNCC, IPA, Ibracon, **Firms:** RSM

³⁹ **Regulators:** IOSCO

already clear. Accordingly, the Task Force does not believe that 410.6 A1 should be further modified as it would duplicate what is already in R410.6.

Matters for the IESBA Consideration

5. Do IESBA Members agree with the Task Force's views?
6. Do IESBA Members agree with the proposed revisions in paragraph R410.7 **Agenda Item 5-C**?

D. Proportion of Fees for Services Other than Audit to Audit Fees

ED Question 5:

Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- (a) Charged by both the firm and network firms to the audit client; and
- (b) Delivered to related entities of the audit client?

60. Overall, respondents agreed that a large proportion of fees for services other than audit to audit fees could create a threat to independence. Respondents agreed⁴⁰ or agreed with reservations⁴¹ with the proposed guidance. Respondents, apart from some regulators,⁴² supported the Code not to include an exact threshold for what would be determined to be a large proportion, but allow firms to determine such proportion on a case by case basis, based on the factors provided. (Refer to Appendix IV regarding the balance of support for the proposals.)

Threshold Regarding the Determination of Proportion of Fees

61. Some regulatory respondents⁴³ (including a Monitoring Group member) expressed concerns regarding not including an explicit threshold in the Code relative to the determination of the proportion of fees. In their views, not providing such a threshold could result in inconsistent application. It was suggested that the IESBA consider a threshold, either as a cap limiting the provision of further services other than audit, or as a trigger for a re-evaluation of the threats to independence. Given the disclosure requirements in the case of PIE audit clients, a Monitoring Group respondent⁴⁴ raised that determining the ratio should not mean extra administrative burden.
62. While not proposing inclusion of an exact threshold, some respondents⁴⁵ were of the view that the proposed changes do not provide enough guidance on what constitutes a "large proportion." They

⁴⁰ **Regulators:** NASBA, **INSS:** APESB, **PAOs:** BICA, CPA Australia, CPA Canada, EFAA, HKICPA, Ibracon, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, KICPA, NBAAT, MICPA, NBA, SAICA, **Firms:** BDO, CROWE, PWC, RSM, (Nexia SA, Nexia AR), **PSO:**AGNZ, AGSA, GAO

⁴¹ **Regulators:** IRBA, MAOB, **INSS:** XRB, **PAOs:** AE, ACCA CAANZ, Assirevi, CAI, CNCC, ISCA, IDW, MIA, WPK, **Firms:** BKTI, DTTL, GTIL, KPMG, Mazars, Moore, **Others:** IFAC SMPC

⁴² **Regulators:** MAOB, IRBA, CEAOB, IAASA, UK FRC, IFIAR

⁴³ **Regulators:** MAOB, UK FRC, IFIAR, IRBA

⁴⁴ **Regulators:** IFIAR

⁴⁵ **Regulators:** CEAOB, IAASA, **PAOs:** IPA, **Firms:** BKTI, EY

suggested that the Code include guidance or examples as to what would amount to a “large proportion of fees.”

Task Force Responses

63. In developing this proposal, the IESBA considered both including a threshold as a cap and as a trigger for the re-evaluation of threats. As noted in paragraph 40-41 in the Explanatory Memorandum to the ED, at the four global roundtables⁴⁶ organized in relation to the NAS project, participants, with the exception of some regulatory participants, expressed little or no support for establishing fee caps in the Code. For this reason as well as those set out below, the IESBA agreed at the time when considering the ED that a fee cap would not be appropriate in a global Code.
64. Within the Fees project, the IESBA explored whether to use a threshold not as a limit to the further provision of NAS, but as a trigger for a re-evaluation of the threats to independence. As the proportion of fees would be determinable also at a network level, the calculation of the exact ratio of fees for services other than audit to the audit fee would be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.
65. Furthermore, the IESBA considered that the proposed requirements regarding transparency of fees for services other than audit would mitigate the threats to independence created by a large proportion of fees for services other than audit to audit fees. Therefore, the IESBA took the view that a specific fee cap or other threshold would not be warranted. Given that respondents across the spectrum of stakeholder categories largely agreed with this view, the Task Force does not believe that there is a compelling reason for the Board to revisit this position.

Nature of Services Other than Audit

66. Regarding the computation of the proportion of fees, many respondents⁴⁷ raised that the determination of fees for services other than audit is not granular enough. They suggested that the IESBA consider introducing the term “audit-related services” in the Code. They also noted that the proposal did not recognize that depending on the nature of the service the level of the self-interest threat to the auditor’s independence might be different. It was therefore argued that it could be misleading including all services other than audit in the computation of the proportion of fees.
67. Several respondents⁴⁸ noted that the provision of certain audit-related services, such as those that are mandated or where it is common practice for the auditor to provide them, do not create the same level of threats to independence. They were of the view that those services should be exempted from the determination of the proportion of fees.

Task Force Responses

68. The Task Force is of the view that from the perspective of the self-interest threat created by a high proportion of fees for services other than audit, any type of fee is relevant to the computation of fees,

⁴⁶ The IESBA’s roundtables were held in Washington, DC, U.S.A.; Paris, France; Tokyo, Japan; and Melbourne, Australia in June/July 2018.

⁴⁷ **Regulators:** IRBA, **INSS:** XRB, **PAOs:** MICPA, AE, CNCC, ICAS, WPK, ICAS, ISCA, IDW, **Firms:** DTTL, EY

⁴⁸ **Regulators:** IRBA, **INSS:** XRB, **PAOs:** AE, ISCA, WPK, ICAS, **Firms:** DTTL, EY

even fees for audit-related services. Furthermore, it would be impracticable to specify which services are audit-related services at a global level.

69. The Task Force notes that the proposed factors for the evaluation of the level of the self-interest threats created already include the “nature of the service.” However, the Task Force proposes further clarifying that factor, and make a reference to whether the service other than audit is mandated by law or regulation to be performed by the auditor. (See paragraph 410.11 A2 in **Agenda Item 5-C.**)

Fees for Services Provided by Networks Firms / Provided for Related Entities

70. Several respondents raised that there might be practical and implementation challenges in complying with the provision at a network level as processes may not exist to capture fees for services other than audit charged by network firms for all audit clients and related entities.⁴⁹ Some of those respondents noted that the level of threats to independence arising from fees paid for services other than audit provided by network firms is usually very low as the network’s arrangements do not routinely include profit sharing arrangements.⁵⁰
71. Given these perceived challenges, a few respondents⁵¹ questioned whether the determination of the proportion of fees for all audit clients should be required at a firm level, similar to the EU Regulation.⁵² As an alternative, it was also raised whether only firms performing audit services for the audit client in the network should be subject to this requirement.⁵³
72. Concerning fees for services delivered to related entities, a few respondents⁵⁴ noted that further explanation is necessary regarding how to determine the relevant related entities, even if it is only a reference to paragraph R400.20. They were of the view that it is currently not clear that the determination should include the related entities as set out in the Code.
73. A few respondents⁵⁵ also shared concerns regarding the challenges in determining the proportion of fees at a group level. With regard to the scope of the related entities to be accounted for, some⁵⁶ suggested that this determination should only include related entities which are actually controlled by the audited entity, or over which the latter can exercise a significant influence. Being more specific, some respondents⁵⁷ also suggested that the determination should be limited to entities included in the scope of the consolidated financial statements. They felt that services rendered to entities which are not in the scope of the consolidated financial statements would rarely threaten a firm’s independence.

⁴⁹ **PAOs:** ACCA CAANZ, CPA Australia, ICAEW, MIA, IDW, **Firms:** EY, Moore, Nexia AR, **Others:** IFAC SMPC

⁵⁰ **PAOs:** CAI, IDW, KICPA, **Firms:** BKT, KPMG, **Others:** IFAC SMPC

⁵¹ **Regulators:** CEAOB, IAASA, **Firms:** DTTL

⁵² 537/2014 EU Regulation

⁵³ **Firms:** GTIL

⁵⁴ **PAOs:** ICAS, NBA, MIA

⁵⁵ **PAOs:** ICAEW, KICPA, IDW

⁵⁶ **PAOs:** Assirevi, BICA, ISCA **Firms:** PWC, EY

⁵⁷ **PAOs:** Assirevi, CNCC, **Firms:** GTIL, Mazars

Task Force Responses

74. The IESBA agreed that the level of threats created in the case of fees for services provided by network firms or delivered to related entities, other than “downstream” related entities, is usually lower and that this should be taken into account in the determination of whether the proportion of fees is high. For this reason, the proposed factors included:
- “The relationship to the client of the related entities to which the services other than audit are provided, for example when the related entity is a sister entity;” and
 - “The operating structure and the compensation arrangements of the firm and the network.”⁵⁸
75. Nevertheless, given the feedback from respondents, the Task Force proposes including, within the general section relevant to evaluation of threats created by fees paid by the audit client, these and further factors in order to provide guidance relating to the evaluation of the threats in the case of fees for services provided by network firms or at a group level. (See paragraph 410.4 A3 in **Agenda Item 5-C.**)
76. Regarding the scope of the related entities in the proposed provisions on the proportion of fees, the Task Force notes that the determination of related entities should follow the application of the overarching principle in paragraph R400.20. 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 can 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. Regarding the comments that in the case of controlled entities, the determination should be limited to entities included in the scope of the consolidated financial statements, refer to paragraph 164 below.

Matters for the IESBA Consideration

7. Do IESBA Members agree with the Task Force’s views?
8. Do IESBA Members agrees with the proposed revisions to the factors in paragraphs 410.11 A2 and 410.4 A3 in **Agenda Item 5-C**?

E. Fee Dependency on Non-PIE Audit Clients

ED Question 6:

Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

ED Question 7:

Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

⁵⁸ Based on the proposed revisions, these factors are revised and now removed to factors that are relevant in evaluating the level of the threats created by fees paid by the audit client and applicable through the entire Section 410.

77. A significant number of respondents had comments or concerns regarding the proposed threshold in the requirement or disagreed with the proposal. Some of the commentators questioned whether it is necessary to set out an exact ratio in the case of non-PIE audit clients as the burden created for firms (i.e. requiring an external review) may outweigh the benefit from the perspective of the public interest. Others suggested that the proposed threshold is too high and could create the perception that such level of fee-dependency is acceptable up to 5 years. (Refer to Appendix V regarding the balance of support for the proposal.)

Appropriateness of the Proposed Threshold

78. Many respondents⁵⁹ were of the view that in the case of non-PIE audit clients, there is no need for the Code to include a bright line to require a re-evaluation of threats. They were of the view that the introduction of a threshold may harm public perception and would convey the message that up until a certain threshold, threats created by fee dependency are at an acceptable level. Some felt that the proposal could have unintended consequences. They suggested that the IESBA consider reverting to a principles-based approach.
79. Regarding the proposed threshold, some respondents⁶⁰ questioned whether the IESBA can provide any evidence that such level will be appropriate. A number of respondents⁶¹ raised that the proposed 30 percent threshold in conjunction with the 5-year period is too high, mainly because this would give the impression that threats created up to 30 percent are at an acceptable level. They suggested a range of thresholds. Some respondents⁶² suggested that the threshold for non-PIE audit clients be consistent with the approach for PIE audit clients. Some respondents also suggested 3 years instead of 5, for example, with criteria considering whether the firm is new and growing or established and mature.⁶³
80. There were some respondents⁶⁴ who were of the view that the proposed threshold might be too low with regard to the fact that non-PIEs have minimal impact on the public interest. They suggested the threshold be further loosened, such as 35 or 50 percent.
81. A representative of SMPs⁶⁵ commented that the Board's proposed adoption of a 30% threshold for firms to address threats created by fee dependency is inconsistent with a principles-based Code. The respondent, however, was of the view that the proposed threshold is appropriate for a non-PIE client on the basis that it is already in place in some jurisdictions.
82. Some respondents suggested⁶⁶ that the IESBA consider reviewing the appropriateness of the threshold after a certain period of implementation.

⁵⁹ **INSS:** APESB, **PAOs:** Assirevi, IDW, CNCC, ACCA CAANZ, AICPA, CPA Australia, Ibracon, JICPA, ICPAU, **Firms:** DTTL, BKTi, KPMG, Mazars, BDO, RSM, Nexia J, **PSO:** GAO

⁶⁰ **PAOs:** KICPA, ICAG, MICPA, **Firms:** BKTi, PWC

⁶¹ **Regulators:** IRBA, IAASA, UK FRC, **INSS:** APESB, XRB, **PAOs:** ICAS, IPA, BICA, MICPA, ACCA CAANZ, ICAEW, **Firms:** Nexia UK

⁶² **INSS:** APESB, XRB, **PAOs:** NYCSSCPA, NBA, ICAEW, **PSO:** AGNZ

⁶³ **PAOs:** CPA Canada, IMCP, ICAEW, **Firms:** PWC

⁶⁴ **Regulators:** UK FRC, **PAOs:** HKICPA, ICAB, IMCP

⁶⁵ **Others:** IFAC SMPC

⁶⁶ **PAOs:** EFAA, HKICPA, ISCA, CPA Canada, **Others:** IFAC SMPC

83. Apart from the proposed threshold, some respondents⁶⁷ questioned whether, even for non-PIEs, it is appropriate that a firm may continue to provide audit services on an indefinite basis where there is significant fee dependency.

Task Force Responses

84. Regarding the threshold, the fact-finding activities leading up to the Fees project provided no empirical evidence as to what it should be. Therefore, taking into account feedback from stakeholders, including the IFAC SMP Committee, the IESBA agreed to include the proposed 30 percent threshold in conjunction with 5 years.
85. The Task Force is of the view that the proposal should aim to create a consistent approach regarding the expectations in the case of non-PIE audit clients as applies to PIEs, while allowing greater latitude in the threshold and safeguards adopted than those applying in the case of PIEs. The Task Force believes that the proposed 30 percent threshold in conjunction with the 5-year horizon achieves some scalability, taking into account the different level of public interest in non-PIEs, and allows enough time for newly established firms to deal with fee dependency as they grow their practices.
86. The Task Force also notes that under the extant provisions addressing fee dependency with respect to all audit clients, firms are required under the conceptual framework to evaluate the level of the threats even before the fifth year (or the second year in case of PIEs), as appropriate, and take actions to reduce the threats to an acceptable level. If that is not possible, the conceptual framework requires them to end the engagement.
87. At the July 2020 IESBA meeting, IESBA members considered whether to revert to the extant Code's principles-based approach or keep the proposed threshold. The IESBA broadly supported retaining the approach proposed in the ED and agreed on balance that the 30 percent threshold for non-PIE clients would promote consistent application. Importantly, the Task Force noted the PIOB Observer's view that the 30 percent threshold and 5-year period together act as an important signaling mechanism which would allow firms ample time to prepare for any necessary actions as they neared those thresholds.
88. Regarding the question as to whether it would be appropriate that a firm may continue to provide audit services on an indefinite basis even in the case of non-PIE audit clients, the Task Force notes that the IESBA strongly supported that the approach took into consideration the different level of public interest in non-PIE audit clients, and that it provided appropriate scalability. Therefore, the Task Force believes that, unlike in the case of PIE audit clients, there is no need for the Code to set out a specific threshold for ending the engagement. Nevertheless, the Task Force notes that firms have to evaluate the level of the threats and determine whether any of the proposed safeguards can reduce the threats to an acceptable level each year after the fifth year.
89. With regard to the suggestion that the IESBA consider reviewing the appropriateness of the threshold after a certain period of implementation, the Task Force agreed that while there would be merit in such a review, it should desirably be undertaken in accordance with a framework for post-implementation reviews of standards more generally. Development of such a framework is outside the remit of the Fees Project. The Task Force therefore proposes that this be subject to separate Board consideration.

⁶⁷ **Regulators:** IAASA, UK FRC, **PAOs:** BICA, **Firms:** PWC

Appropriateness of Proposed Actions Required

90. Regarding the proposed safeguard of having a professional accountant, who is not a member of the firm, review the audit work before or after the audit opinion on the fifth year's financial statements is issued, a number of respondents⁶⁸ were of the view that requiring an external review in the case of non-PIEs would create a significant burden, especially for SMPs. It was also noted by a few respondents⁶⁹ that a review performed by a professional outside of the firm could raise a confidentiality issue in certain jurisdictions.
91. A few⁷⁰ respondents felt that the introduction of two alternative courses of action – a pre- and a post-issuance review – adds unnecessary complexity and risks an inconsistent application of safeguards. They suggested that the Code provide guidance as to when each type of review might be appropriate.
92. A few other respondents,⁷¹ however, argued that, just like in the case proposed for PIE audit clients, only a pre-issuance review performed by a professional accountant would be an appropriate safeguard to reduce the threats at such a level of fee dependency. There were some questions⁷² regarding the appropriateness of having a professional body review the audit work as, depending upon the jurisdiction, a professional body's review might not be a possible option everywhere.
93. Several respondents⁷³ raised the need for clarification regarding the proposed external review. They felt it was unclear whether it is an engagement quality review (EQR) such as is required in paragraph R410.17 in the case of PIEs. If not, they wondered about the timing, scope, format of the review and qualifications, including objectivity, of the reviewer.
94. Some commentators⁷⁴ suggested that the IESBA clarify whether safeguards other than an independent review are also available and could be applied. If there are no other safeguards, some respondents⁷⁵ were of the view that the Code should clarify how a firm might deal with a situation where neither a pre- nor a post-issuance review is capable of reducing the threats to an acceptable level.
95. The Code does not preclude a review by a professional accountant outside of the firm be performed by a professional from within the firm's network. Some respondents⁷⁶ argued that the Code should articulate that an "appropriate reviewer who is not a member of the firm" could be a professional accountant from a network firm. A few respondents,⁷⁷ – including a Monitoring Group member – made the same suggestion in the case of fee dependency on PIEs, when the individual carrying out the review is required to be outside of the firm as well. Further, a respondent⁷⁸ had concerns whether a

⁶⁸ **PAOs:** MICPA, CNCC, ACCA CAANZ, ISCA, EFAA, IDW, HKICPA, SAICA, **Firms:** Mazars, RSM, Nexia UK, **Others:** IFAC SMPC

⁶⁹ **PAOs:** KICPA, **Firms:** Mazars, Nexia UK

⁷⁰ **PAOs:** ACCA CAANZ, Moore

⁷¹ **Regulators:** UK FRC, **PAOs:** CPA Canada, NBA

⁷² **PAOs:** CPA Canada, ISCA, CPA Australia, SAICA

⁷³ **Regulators:** UK FRC, **INSS:** XRB, **PAOs:** ICAS, ISCA, MIA, **Firms:** BKTi, Mazars, EY

⁷⁴ **Regulators:** IAASA, **PAOs:** KICPA, ICPAU, MIA, JICPA, **PSO:** GAO

⁷⁵ **Regulators:** IAASA, IFIAR, **INSS:** APESB, XRB, **PAOs:** CPA Australia

⁷⁶ **Regulators:** IFIAR, **PAOs:** MIA, **Firms:** EY, BKTi

⁷⁷ **Regulators:** IFIAR, **PAOs:** Assirevi

⁷⁸ **Regulators:** IRBA

review performed by an individual within the network could adequately reduce the threat to an acceptable level.

96. Some respondents⁷⁹ had concerns that a joint audit – both for PIE and non-PIE audit clients – cannot replace the proposed external review. A commentator⁸⁰ felt that the Code may need to clarify that this option is appropriate only in the case of true “joint audits,” i.e. when both firms sign the audit report jointly.

Task Force Responses

97. In the case of non-PIE audit clients, the IESBA had proposed a model for addressing the threats similar to the Code’s existing fee dependency model for PIE audit clients but allowing greater latitude in the threshold and safeguards adopted. The IESBA considered this would be a reasonable approach bearing in mind the nature of the threats, the special considerations relating to SMPs, and the public interest. Therefore, the IESBA agreed to leave the options of a post-issuance review performed by a professional accountant outside of the firm or by a professional body available for the firm to determine whether any of these actions might be a safeguard to reduce the threats to an acceptable level. The Task Force does not believe that confidentiality should be an issue because if confidentiality laws are a barrier, this safeguard would not be available and the firm would need to address the threats in other ways stipulated under the conceptual framework.
98. For the same reasons, the IESBA did not propose that the review performed by a professional accountant prior to the issuance of the audit report should be equivalent to an EQR. The extant Code already includes a review of audit work performed as a safeguard in many other circumstances. In this case, however, given the level of fee dependency and the length of time it has persisted, the IESBA believed that the review should be performed by a professional accountant outside of the firm. The Task Force believes this continues to be a proportionate response.
99. With respect to the suggestion for guidance as to when each type of review might be appropriate, the Task Force considers that the firm should make the determination regarding which option (either pre- or post-issuance review) to use applying appropriate judgment based on the facts and circumstances. If the firm determines that neither a pre- nor a post-issuance review is an appropriate safeguard, the firm should apply the conceptual framework.
100. The Task Force believes that the Code’s overarching approach is clear regarding the application of the terms “firm” and “network,” and that reference to a “firm” does not include “network firms.” Therefore, the Task Force does not believe it is necessary to add that “a professional accountant outside of the firm” can be a professional accountant from a network firm.
101. Regarding “joint audit” as an equivalent to a pre-issuance review, the Task Force notes that it is only an option for firms in case there are two or more firms engaged to conduct an audit of the client’s financial statements. It was not the intention of the IESBA to introduce or define the term “joint audit” in a global Code. If firms meet the condition set out of the Code, they are not required to apply the pre-issuance review in the case of fee dependency. The IESBA was also of the view that this option

⁷⁹ **Regulators:** CEAOB, IAASA, **PAOs:** CPA Australia, **Firms:** DTTL

⁸⁰ **Firms:** Moore,

only applies if the auditors have joint responsibility. Therefore, this option can only work if each firm performs sufficient work to take full individual responsibility for the audit opinion.

Matters for the IESBA Consideration

9. Do IESBA Members support the Task Force's views, particularly regarding keeping the proposed threshold?

F. Fee Dependency on PIE Audit Clients

ED Question 8:

Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

ED Question 9:

Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

ED Question 10:

Do you support the exception provided in paragraph R410.20?

102. A large number of the respondents⁸¹ supported or supported with reservation⁸² the enhanced proposed provisions regarding fee dependency in the case of PIE audit clients. Many respondents supported⁸³ or supported with reservations⁸⁴ the proposed requirement for the firm to cease to act as auditor if fee dependency continues beyond a specified period. However, several respondents raised that including a definite period in a global Code could have unintended consequences and create implementation challenges. Some commentators suggested that TCWG have a more prominent role in the assessment of the firm's independence and the actions taken in such a case. (Refer to Appendix VI regarding the balance of support for the proposals.)

⁸¹ **Regulators:** NASBA, MAOB, **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, Assirevi, BICA, CPA Canada, HKICPA, IAA, Ibracon, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, NBAAT, MIA, SAICA, **Firms:** CROWE, DTTL, EY, GTIL, Moore, PWC, KPMG, **PSO:**AGNZ, AGSA, GAO

⁸² **Regulators:** CEAOB, IAASA, IFIAR, IRBA, **PAOs:** AE, CAI, CPA Australia, ISCA, EFAA, IDW, KICPA, MICPA, WPK, BDO, EFAA, **Firms:** Nexia SA, Nexia AR, **Others:** IFAC SMPC

⁸³ **Regulators:** IRBA, **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, AE, CAI, CPA Canada, IAA, ICAEW, ICAG, ICAS, ICPAU, ISCA, IDW, KICPA, NBAAT, SAICA, WPK, **Firms:** BKTI, EY, Moore, Nexia SA, **PSO:**AGNZ, AGSA

⁸⁴ **Regulators:** UK FRC, MAOB, **PAOs:** Assirevi, BICA, ICAB, ICPAU, IMCP, MICPA, **Firms:** DTTL, PWC

Enhanced Provisions Regarding Fee Dependency

103. Some respondents⁸⁵ pointed out the difference between the requirement regarding fee dependency in the Code and the EU regulation.⁸⁶ In the EU Regulation, firms are required to take actions in case of fee dependency only in the third year of the engagement, whereas in the Code it is in the second year.⁸⁷ They suggested that the IESBA align the requirements with the relevant EU rules. Furthermore, some respondents⁸⁸ were of the view that – similar to the EU Regulation – the proposal should ensure the involvement of the audit committee in any decision in such situations.
104. Several respondents⁸⁹ felt that the proposed EQR performed by a professional accountant who is not a member of the firm as the only possible safeguard is not practical. They were of the view that firms might not be able to find an external independent reviewer in the constrained deadlines in which the audit of PIE clients is often conducted. It was felt that this would be costly, especially for SMPs. Two Monitoring Group members⁹⁰ had concerns that the proposal only includes one possible action as a safeguard. A few respondents⁹¹ suggested that the IESBA provide further examples of possible safeguards. In this regard, a few commentators suggested that the IESBA include the option of the review being performed by a professional body,⁹² or that the review is performed after the audit opinion has been issued (“post-issuance review”).⁹³
105. There were some questions⁹⁴ regarding the role of the “pre-issuance review equivalent of an EQR” alongside the EQR required for the audit of listed entities in the proposed ISQM 1⁹⁵ that is normally performed by a professional accountant from the same firm. They questioned whether these two should be separate reviews.
106. Some respondents⁹⁶ argued that the Code should clarify or include a direct requirement that firms should end the engagement if the proposed safeguard is not appropriate to reduce the threats to an acceptable level.

Task Force Responses

107. Regarding the comments raised about the difference between the requirement in the Code and in the EU Regulation, the Task Force notes that the proposal does not change the provision of the extant Code which already requires firms to take actions from the second year of the engagement in the

⁸⁵ **Regulators:** CEOB, IAASA, **PAOs:** AE, WPK, ICAEW, **Firms:** Nexia AR

⁸⁶ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC Text with EEA relevance, Article 15

⁸⁷ It was also suggested by MICPA and Nexia AR, but not in relation to EU Regulation.

⁸⁸ **Regulators:** CEOB, IAASA, **PAOs:** AE, IDW, WPK, CNCC, **Firms:** Mazars

⁸⁹ **Regulators:** IFIAR, **PAOs:** ACCA CAANZ, CNCC, HKICPA ISCA, IDW, CPA Australia, ICPAU, **Firms:** Mazars, **PSO:** GAO

⁹⁰ **Regulators:** IFIAR, IOSCO

⁹¹ **PAOs:** ICPAU, **Firms:** Nexia AR; **PSO:** GAO

⁹² **PAOs:** EFAA, **Firms:** RSM, **Others:** IFAC SMPC

⁹³ **PAOs:** CNCC, **Firms:** BDO, RSM

⁹⁴ **PAOs:** ISCA, MIA, CAI, **Firms:** BKT, EY, Nexia SA

⁹⁵ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁹⁶ **Regulators:** IFIAR, **INSS:** APESB, XRB, **PAOs:** CPA Canada, IPA, **Firms:** BDO

case of fee dependency on a PIE audit client. During the fact-finding activities, the Task Force did not identify any issues that would indicate that the current provision is not appropriate in this regard.

108. Furthermore, regarding the comments to draw out more prominently the role of TCWG in the assessment of auditor independence, the Task Force notes that the extant Code (R410.5) already includes a requirement for the firm to discuss the matter of fee dependency with TCWG of a PIE audit client. The IESBA did not withdraw this requirement in the ED, but instead moved it under the new section regarding communication of fee-related information to TCWG for PIE audit clients (paragraph R410.24 of the ED).
109. Concerning the safeguards available in the case of fee dependency on PIE audit clients, the extant Code includes both the pre-issuance review and the post-issuance review performed by an external professional accountant or, in the case of the latter, by a professional body. During the development of the ED, IESBA members largely agreed that if fee dependency continues in the second year of the audit engagement, a review performed after the issuance of the audit opinion on the second year's financial statements would no longer be a sufficiently robust safeguard. The IESBA also agreed that a review performed by a professional body is unlikely to be practical given timing issues and the liability risk that the professional body would likely assume in such circumstances. Furthermore, the Task Force believes that the proposed pre-issuance review performed by a professional accountant outside of the firm, which is already a safeguard in the extant Code, is an appropriate safeguard. The Task Force has identified no issues during the fact-finding activities in relation to the application of this safeguard. The Task Force believes that given the level of fee dependency, i.e., 15 percent for two consecutive years, the proposed pre-issuance review is the only safeguard available and capable of reducing the threats to an acceptable level.
110. Regarding the interaction between the proposed pre-issuance review and an EQR performed as part of the audit, the Task Force notes that these serve different objectives and are not performed by the same individuals. Further, the pre-issuance review is already specified as a safeguard in the extant Code and, as noted above, the Task Force is not aware that there have been difficulties with its application in practice.
111. Regarding the comments to include a direct requirement that firms should end the engagement if the proposed safeguard is not appropriate, the Task Force notes that based on the application of the conceptual framework, if a firm determines that the proposed pre-issuance review is not appropriate to reduce the threats to an acceptable level, the firm is required to end the engagement.

Fee Dependency Continuing for an Extended Period

112. In relation to setting out a specific period in the Code after which there is no safeguard capable of reducing the threats created by fee dependency on PIE audit clients to an acceptable level, the following comments or concerns were raised by respondents.
113. Several respondents⁹⁷ felt that in this case, the Code should recognize that TCWG should have a role as well in the assessment of the threats and the decision on ending the engagement. As an alternative, it was suggested by a few respondents⁹⁸ that firms should ask for the approval of TCWG to continue the engagement.

⁹⁷ **Regulators:** CEAOB, **PAOs:** CNCC, WPK, Ibracon, **Firms:** GTIL, KPMG, RSM, **Others:** CAQ

⁹⁸ **Firms:** KPMG, Mazars

114. Some commentators⁹⁹ were of the view that setting up a “cap” like this in the case of fee dependency is a jurisdictional, market-specific issue. They argued that such an inflexible requirement at a global level could have unintended consequences to the local audit market and create a potential burden for SMPs. A respondent raised¹⁰⁰ the issue, as an example, that firms and network firms might face challenges where they have PIE audit clients in smaller markets or specialized industries. In these situations, they would be required to cease being the auditor and there may not be many firms that have the specific expertise to service these audit clients in these markets. A few respondents¹⁰¹ suggested that the IESBA reconsider such a requirement until there is evidence to support its inclusion.
115. Several respondents¹⁰² were of the view that, if a firm can successfully implement safeguards to reduce the threat to an acceptable level in the first year and each subsequent year, there is no reason to require the firm to cease being the auditor. They suggested that the IESBA consider a more principle-based approach, such as adding an RITP test¹⁰³ if firms reach the 15 percent threshold.
116. A few respondents¹⁰⁴ were of the view that the proposal can result in a mandatory audit firm rotation. A few other respondents¹⁰⁵ pointed out that it might be challenging implementing such a requirement due to the different pre-existing mandatory firm rotations and partner rotations in many jurisdictions. A few respondents¹⁰⁶ also suggested that the Code include guidance on how to reconcile national laws and regulations regarding resignation of auditors and the proposed requirement.
117. Regarding the 5-year period, some respondents¹⁰⁷ were of the view that fee dependency should not be allowed to continue that long. Some respondents suggested that this period be 3 years instead¹⁰⁸ of 5 years or that the requirements should be in line with the provisions regarding partner rotation and include 7 years.¹⁰⁹

Task Force Responses

118. The Task Force notes that the proposal sets out¹¹⁰ for firms to communicate with TCWG not only the fact of the fee dependency and the safeguards put in place but also whether there is any proposal to continue as the auditor after the fifth year. The enhanced provisions on transparency to TCWG are intended to ensure that TCWG have sufficient information to be able to make an informed decision in the case of fee dependency.

⁹⁹ **PAOs:** ACCA CAANZ, MIA, JICPA, BDO, **Preparers & TCWG:** JASBAMA, **Others:** IFAC SMPC

¹⁰⁰ **Firms:** GTIL

¹⁰¹ **PAOs:** AICPA, JICPA

¹⁰² **PAOs:** EFAA, HKICPA, Ibracon, NYSSCPA, **Firms:** GTIL, RSM, Nexia AR, **Others:** CAQ

¹⁰³ **PAOs:** EFAA, IFAC SMPC

¹⁰⁴ **PAOs:** AICPA, CPA Australia, HKICPA

¹⁰⁵ **PAOs:** ICAI, ICPAU, **Firms:** DTTL

¹⁰⁶ **INSS:** APESB, **PAOs:** ICPAU, ICAS

¹⁰⁷ **Regulators:** UK FRC, MAOB, **PAOs:** BICA, IPA

¹⁰⁸ **PAOs:** IMCP, **Firms:** PWC

¹⁰⁹ **PAOs:** MICPA

¹¹⁰ Paragraph R410.24 c) in the ED

119. The Task Force acknowledges that in some circumstances, relevant to some market-specific issues, ending the engagement after the fifth year in the case of fee dependency could cause difficulties for the client that cannot be resolved, and which therefore would not be in the public interest. Recognizing such cases, the IESBA had proposed an exemption to this requirement¹¹¹ such that the firm can continue being the auditor even after the fifth year if there is a compelling reason and the conditions set out in the proposals are all met. The Task Force therefore believes the concerns raised by the respondents are appropriately addressed.
120. The IESBA strongly supported the premise of the proposed requirement that fee dependency on an audit client that is a PIE cannot continue indefinitely. This is because after a certain period of time, the fee dependency would become so persistent and fundamental that no safeguards would be capable of reducing the threats to an acceptable level. Therefore, the Task Force does not agree with the suggestions that the Code should not include a specific period in the case of fee dependency on a PIE audit client.
121. In relation to the concerns that the requirement would create a mandatory firm rotation, the Task Force notes that the firm is expected to have the option of reducing the extent of services other than audit and hence reduce the amount of total fees from the audit client. As the firm is likely to have other options than cease to be the auditor, the Task Force does not believe that the proposed requirement amounts to mandatory firm rotation.
122. Regarding the specific 5-year period, the IESBA believed this period is an appropriate time frame, even for a newly established firm, to address the issue of the fee dependency. The Task Force believes that it provides a reasonable and balanced element to the approach to addressing the threats created by fee dependency at the PIE level, also recognizing the broad support from most other respondents. The Task Force additionally notes that the 5-year period harmonizes with similar requirements already in place in some jurisdictions.

Exceptions to Fee Dependency Continuing for an Extended Period

123. A significant number of respondents – subject to whether they supported that the Code limit the number of years of fee dependency – agreed¹¹² or agreed with reservations¹¹³ to include an exception to the proposed requirement for firms to cease to be the auditor after 5 consecutive years if fee dependency exceeds the designated level. Concerns raised were as follows.
124. A few respondents¹¹⁴ noted that there is no such exemption to the similar requirement in the EU Regulation. A few other respondents¹¹⁵ questioned whether the exception is necessary as a period of five years should be a sufficient time to reduce the 15% threshold. Another respondent¹¹⁶ was of the view that there will be no circumstances where there is only one viable firm that could carry out an audit of a particular PIE in the public interest. The respondent raised that if it is possible to find an

¹¹¹ Paragraph R410.20 in the ED

¹¹² **Regulators:** NASBA, **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, AE, CAI, BICA, CPA Australia, CPA Canada, EFAA, HKICPA, IAA, ICAEW, ICAG, ICAS, IDW, ISCA, JICPA, NBAAT, MIA, MICPA, SAICA, WPK, **Firms:** BKT, EY, GTIL, KPMG, Moore, PWC, Nexia SA, Nexia AR, **PSO:** AGNZ, AGSA, **Others:** IFAC SMPC

¹¹³ **Regulators:** IRBA, **PAOs:** Assirevi, ICAB, KICPA, **Firms:** BDO, DTTL

¹¹⁴ **Regulators:** CEAOB, IAASA

¹¹⁵ **Regulators:** IRBA, **PAOs:** IPA

¹¹⁶ **Regulators:** UKFRC

appropriate independent engagement quality reviewer who is not a member of the firm, it should be possible to find another firm that could undertake the engagement.

125. A few respondents¹¹⁷ suggested that consultation with TCWG would be more suitable instead of the firm being required to consult with an independent regulatory body or professional body. To ensure a more prominent role for TCWG in this matter, a respondent raised that the firm should consult first with TCWG and if they are satisfied with the auditor's independence, then the firm could consult an independent regulatory body or a professional body.¹¹⁸
126. A few commentators¹¹⁹ suggested that the proposal include additional guidance for jurisdictions where there is a lack of independent regulatory or professional institutions.

Task Force Response

127. The IESBA's rationale for including such exemption allowing fee dependency to continue for an extended period is explained above. The Task Force believes that it is necessary for a global Code to include such exemption to allow for market specificities in different jurisdictions. Importantly, the Board had noted during the development of the ED that jurisdictions that have these rare market specificities are relatively few.
128. The Task Force also notes that the proposals include a requirement for firms to communicate with TCWG not only the fact of the fee dependency and the safeguards put in place but also whether there is any proposal to continue as the auditor after the fifth year. The requirement is intended to ensure that the firm and TCWG discuss the matter of the fee dependency and whether it would be in the public interest for the firm to continue being the auditor even after the fifth year. However, beyond the consultation with TCWG, the Task Force believes that consultation with and concurrence of the regulatory or professional body are also necessary as these bodies have the requisite knowledge and understanding of the market specificities. At the same time, they should have the authority to provide concurrence.
129. The Task Force believes that the proposals should continue to include both the regulatory and professional bodies as possible bodies the firm can turn to for consultation and concurrence as the availability, operation and competences of these bodies vary across jurisdictions.

Matters for the IESBA Consideration

10. Do IESBA Members agree with the Task Force's views?

G. Transparency of Information Regarding Fees for Audit Clients that are PIEs

ED Question 11:

Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement

¹¹⁷ Firms: BDO, RSM, EY

¹¹⁸ PAOs: CNCC

¹¹⁹ PAOs: AE, ISCA

and taking into account the related application material, do you have views about the operability of the proposal?

ED Question 12:

Do you have views or suggestions as to what the IESBA should consider as:

- (a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and
- (b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

130. Respondents generally supported that enhanced transparency of fee-related information of PIE audit clients can serve to better inform the views and decisions of stakeholders about the auditor's independence. Many respondents – including regulators¹²⁰ and a Monitoring Group member¹²¹ – supported the proposals. However, a significant number of the respondents raised concerns or comments¹²² or disagreed with the proposals,¹²³ particularly in relation to public disclosure by the auditor. (Refer to Appendix VII for the balance of support on this topic.)

Communication of Fee-related Information of PIE Audit Clients with TCWG

131. Respondents generally did not raise comments regarding the enhanced provisions on communication of fee-related information of PIE audit clients with TCWG. Furthermore, both Monitoring Group respondents¹²⁴ highlighted that the enhanced transparency of information regarding fees for audit clients that are PIEs makes the communication between the auditor and TCWG more active and effective, which they felt contributes to the improvement of audit quality.

132. A few respondents noted¹²⁵ that ISA 260 (Revised)¹²⁶ already requires that in the case of listed entities, firms provide information to TCWG regarding audit fees and non-audit fees. A Monitoring Group member¹²⁷ suggested close coordination between the IESBA and the IAASB to align their communication requirements. Another respondent¹²⁸ also noted that as TCWG are already provided with fee-related information and the level of interest from TCWG differs from one entity to another, firms should be required to communicate only essential information that will be used by TCWG.

¹²⁰ **Regulators:** BFRC, MAOB, IRBA, IFIAR, CMASA

¹²¹ **Regulators:** IFIAR

¹²² **Regulators:** UK FRC, **PAOs:** Assirevi, ICAEW, ICAG, IMCP, IPA, IDW, ISCA, JICPA, KICPA, **Firms:** GTIL, Moore, **PSO:** AGNZ, AGSA

¹²³ **INSS:** APESB, XRB, **PAOs:** MICPA, CNCC, ACCA CAANZ, AE, AICPA, CPA Australia, CPA Canada, Ibracon, MIA, WPK, **Firms:** BKTi, BDO, DTTL, EY, KPMG, Mazars, PWC, RSM, Nexia S, Nexia AR, **PSO:**GAO, **Others:** CAQ

¹²⁴ **Regulators:** IFIAR, IOSCO

¹²⁵ **Regulators:** IFIAR, **INSS:** XRB

¹²⁶ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹²⁷ **Regulators:** IFIAR

¹²⁸ **PAOs:** AE

133. A few respondents¹²⁹ – including two Monitoring Group respondents – were of the view that TCWG should be informed of the fees and the independence assessments, whether the audit client is a PIE or a non-PIE.
134. Regarding the timing of the communication, some respondents¹³⁰ suggested that the IESBA should clarify the meaning of “timely manner.” A few respondents¹³¹ – including a Monitoring Group member – suggested that the Code 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, or at least, at the conclusion of the engagement.¹³²
135. A few commentators¹³³ questioned whether the communication with TCWG on the “level of the audit fee” means fees for solely with respect to the firm or also with respect to network firms, or whether it covers the whole cost of the audit.
136. A few respondents¹³⁴ – including a Monitoring Group member – noted that the proposal in the ED requiring firms to disclose 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 only includes fees for services delivered to related entities over which the client has direct or indirect control. The respondents argued that the scope of the proposal is too narrow. They felt that not only downstream entities but also any related entity could exert undue pressure on the firm or network firms undertaking the audit.
137. With respect to the communication about fees for services other than audit, particularly about the nature of the services and their associated fees, a respondent¹³⁵ suggested that the IESBA consider the interaction of this proposal with the requirement proposed in the NAS ED on the communication about the provision of NAS. The respondent felt that such consideration would help provide clarity and consistency in communications to TCWG as well as their timing and the scope of services communicated. (See also paragraph 164 below.)

Task Force Responses

138. The Task Force notes that one of the issues the IESBA identified for coordination with the IAASB was that the pre-existing requirement in ISA 260 (Revised) on communication of independence matters, including fee-related information, is applicable only for listed entities whereas the IESBA's proposal covers PIEs. The IAASB agreed that once all the relevant IESBA projects, i.e., the Fees, NAS and PIE projects, have been finalized, it would consider whether any revisions to the communication requirement in ISA 260 (Revised) would be warranted.
139. Regarding the suggestion for extending the scope of the proposed requirement regarding communication of fee-related information to non-PIE audit clients as well, the Task Force is of the view that considering the level of public interest and the role of TCWG in the case of non-PIE audit

¹²⁹ **Regulators:** IOSCO, IFIAR, IRBA

¹³⁰ **Regulators:** IFIAR, IRBA, **PAOs:** ICAS, **Firms:** DTTL, BDO

¹³¹ **Regulators:** IFIAR, IRBA

¹³² **PAOs:** ICAS

¹³³ **PAOs:** ICAS, **Firms:** DTTL, **PSO:** AGNZ

¹³⁴ **Regulators:** IOSCO, UK FRC

¹³⁵ **Firms:** DTTL

clients, it would not be proportionate to require the communication of the same fee-related information as in case of PIEs. The Task Force notes that the provisions¹³⁶ of the extant Code already encourage the communication of information that enables TCWG to consider the firm's judgment in evaluating threats and how the threats have been addressed when they are not at an acceptable level.

140. Concerning the timing of the communication, the proposals set out a flexible approach for firms to determine how best to achieve the objective of transparency, exercising appropriate judgment as to the precise timing of the communication based on the facts and circumstances but guided by the principle of timeliness. Therefore, the Task Force does not believe that it is necessary or possible to prescribe precise timing for such communication.
141. In accordance with the changes proposed regarding public disclosure of audit fee-related information, the communication of audit fee-related information to TCWG is intended to cover the fees paid to the firm and network firms for the audit.
142. The proposals include guidance for firms to evaluate the level of the threats created by a high proportion of fees for services other than audit to audit fees. The firm has to include the amount of fees for services other than audit provided to related entities of the audit client (including controlled and other related entities) in determining the proportion of fees, as this could also create threats to the firm's independence. However, in considering these disclosure proposals, the IESBA was mindful of the practicalities of disclosing such information. In particular, for confidentiality or other reasons, it might not be feasible to disclose information in relation to entities that are not controlled by the audit client. Accordingly, the disclosure provision does not include such related entities.

Public Disclosure of Fee-related Information

143. While most respondents supported the proposals for enhanced transparency regarding fee-related information, many commentators¹³⁷ were of the view that providing such transparency is the responsibility of the client and/or legislatures or regulators. They considered transparency of fee-related information as a corporate governance issue that should not be imposed on the auditor through the Code. They felt that this matter is outside the remit of the Code. Some respondents¹³⁸ encouraged the IESBA to raise this issue with the International Accounting Standards Board (IASB) for their consideration.
144. Several respondents¹³⁹ also had concerns regarding how the proposed requirement would interact with pre-existing national laws and regulations. They¹⁴⁰ raised that the firm, as the auditor, should not be required to disclose information that the entity itself is not required to disclose by national laws and may not even have consent to disclose. Consequently, a few respondents felt¹⁴¹ that clarification is needed regarding the interaction with laws and regulations, especially how a refusal by the client to disclose information should be dealt with.

¹³⁶ Paragraph 400.40 A1 and A2

¹³⁷ **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, AE, AICPA, CPA Australia, CPA Canada, CNCC MICPA, WPK, Ibracon, MIA, **Firms:** BKTi, BDO, DTTL, KPMG, EY, Mazars, RSM, PWC, Nexia AR, **PSO:** GAO, **Others:** CAQ

¹³⁸ **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, **Firms:** BKTi, Mazars

¹³⁹ **INSS:** APESB, XRB, **PAOs:** ACCA CAANZ, Assirevi, MIA, **Firms:** DTTL, EY, KPMG

¹⁴⁰ **Regulators:** NASBA, **INSS:** XRB, **PAOs:** ACCA CAANZ, Assirevi, MIA, **Firms:** DTTL, EY, KPMG

¹⁴¹ **PAOs:** ICAS, CPA Canada, SAICA

145. Several respondents¹⁴² provided comments about disclosing fee-related information in the auditor's report. They were of the view that the audit report is not appropriate¹⁴³ for such disclosure and it could create the perception that there is an implicit relationship between the firm's opinion on the financial statements and the fees earned from the client,¹⁴⁴ or the audit itself is not of a high quality if the fees appear to be inadequate to the user.¹⁴⁵ It was also raised that the auditor's report is not intended as a "collection point" for all types of peripheral information because this would detract from its primary purpose.¹⁴⁶
146. Regarding the proposed guidance relating to disclosure of fee-related information in the audit report, some respondents¹⁴⁷ suggested the IESBA coordinate with the IAASB to address the implications on existing auditing standards. A Monitoring Group member¹⁴⁸ also observed that the option to include fee-related disclosures in the audit report, which has been discussed and agreed with the IAASB, is not yet reflected in ISA 700 or, if applicable, in the respective local auditing standards.
147. There were a few suggestions – also from a Monitoring Group member – for the IESBA to consider the transparency report¹⁴⁹ or the website¹⁵⁰ of the firm as a possible location for the disclosure of fee-related information. A few respondents¹⁵¹ also proposed that the IESBA consider the reporting of fee-related information to audit regulators as an alternative appropriate channel.
148. Regarding the disclosure of the amount of the fees, a few respondents¹⁵² noted that information focused solely on the amount of the fees will not provide enough information to stakeholders. They suggested that the Code set out specific requirements or guidance regarding what other information should be disclosed so that all stakeholders can make informed conclusions about auditors' independence.
149. Regarding the type and nature of the information proposed to be published to the public, several respondents¹⁵³ suggested to include more granular information about fees based on the types of services such as "audit-related services," "other assurance services", "tax services", "other services," and "compulsory services".
150. Concerning including the actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement relative to the disclosure of the amount of the audit fees, a number of commentators¹⁵⁴ raised that the fees paid to other firms cannot impact the auditor's independence. Some felt that there would be a significant burden to obtain this information, even if

¹⁴² **PAOs:** IDW, MIA, ISCA, **Firms:** BDO, EY, BKT, DTTL, **Others:** CAQ

¹⁴³ **Firms:** BDO

¹⁴⁴ **PAOs:** ISCA

¹⁴⁵ **Firms:** EY, CAQ

¹⁴⁶ **PAOs:** IDW, MIA, **Firms:** BKT, DTTL

¹⁴⁷ **PAOs:** AICPA, IDW, HKICPA, **Others:** IFAC SMPC

¹⁴⁸ **Regulators:** IFIAR

¹⁴⁹ **Regulators:** CMASA, IFIAR, IRBA

¹⁵⁰ **Regulators:** IFIAR, IRBA

¹⁵¹ **PAOs:** MIA, **Firms:** Nexia AR

¹⁵² **Regulators:** UK FRC, AICPA, **Others:** CAQ

¹⁵³ **Regulators:** UKFRC, **INSS:** APESB, XRB, **PSO:** AGNZ, **PAOs:** KICPA, ISCA, WPK

¹⁵⁴ **PAOs:** CNCC, Assirevi, Ibracon, JICPA, KICPA, WPK, **Firms:** DTTL, EY, GTIL, KPMG, Mazars, Moore, RSM

possible. It was also pointed out by a few respondents¹⁵⁵ that national laws and regulations setting out audit fee disclosure by the client do not include the fees charged by other firms. A few respondents¹⁵⁶ had concerns that this may lead to an adversarial relationship if the auditor tried to convince the entity to report more than what is required, and if the entity was not convinced, the auditor ending up disclosing the information in the auditor's report.

151. Regarding the exception provided in paragraph R410.26 of the ED for cases when the firm is not able to obtain or provide an estimate of the audit fees paid or payable to other firms, a few respondents¹⁵⁷ argued that the exception provided is overly complex compared with the relevance such data related to the "other firms" could have for stakeholders. Furthermore, a few respondents¹⁵⁸ pointed out that firms will be unable to explain the qualitative significance of fee information of which they are not in fact aware.
152. Concerning the disclosure of information about fees for services other than audit provided to related entities, which for this purpose only includes controlled entities, a respondent¹⁵⁹ questioned the operability of the disclosure requirement in the case of private equity complexes. The respondent pointed out that when the PIE audit client is a private equity that controls portfolio companies which are not consolidated, it might not be feasible to obtain information regarding the services and fees provided to such portfolio companies. Another respondent¹⁶⁰ argued for paragraph R410.23 to be made consistent in scope with the requirement for obtaining the concurrence of TCWG for the provision of non-audit services. The respondent argued that including entities over which the audit client has "direct or indirect control" in the scope of the disclosure (and pre-approval) is not consistent with other regulations (namely those of the SEC and the EU Audit Legislation); and that reporting requirements should extend only to entities over which TCWG will have decision-making or corporate governance responsibilities, that is, consolidated entities.
153. Several respondents¹⁶¹ questioned whether it is necessary to require firms to disclose information about fee dependency on a PIE audit client. There were comments that it can be counterproductive and result in increased pressure on the firm.¹⁶² Furthermore, it was felt that such disclosure might cast doubt on the independence of the auditor without allowing the disclosure of the safeguards applied.¹⁶³ A few respondents¹⁶⁴ also suggested that the IESBA consider making the disclosure of the information on fee dependency to TCWG not after the second year but after the third year. They felt that it would be reasonable for TCWG to consider what actions to take in advance of wider disclosure.

¹⁵⁵ **PAOs:** AE, **Firms:** EY, CAQ

¹⁵⁶ **PAOs:** AE, **Firms:** KPMG

¹⁵⁷ **PAOs:** Assirevi, **Firms:** Moore, DTTL

¹⁵⁸ **PAOs:** CPA Canada, **Firms:** Moore, DTTL

¹⁵⁹ **Firms:** EY

¹⁶⁰ **Firms:** DTTL

¹⁶¹ **PAOs:** CNCC, CPA Australia, JICPA, ICAEW, ICAG, **Firms:** BDO, Mazars

¹⁶² **PAOs:** ICAEW

¹⁶³ **PAOs:** CNCC, **Firms:** BDO

¹⁶⁴ **PAOs:** ACCA CAANZ, ICAEW, CPA Australia

154. Some respondents¹⁶⁵ questioned whether non-disclosure of audit fee information by the audit firm would constitute a breach of independence requirements. They were of the view that it would be erroneous to link the fee disclosure to the independence of an auditor.

Task Force Responses

155. The Task Force agrees with the comments that disclosure of fee-related information would be best presented by the audit client. The proposals are intended to support this position and require the disclosure by the auditor only in cases when it is not disclosed by the client. Therefore, if the fee-related information is not disclosed by the client, the first step the firm should take is to discuss this situation with the client. The Task Force proposes changes to the proposal to emphasize this approach and clarify that the firm is expected to discuss the benefit to the client's stakeholders of the client making such disclosures. (See paragraphs 410.26 A1 and R410.27 in **Agenda Item 5-C.**)
156. During the July 2020 IESBA session, the Task Force asked for Board members' views whether transparency could be achieved at a global level by ways other than through modifications to the Code. The Task Force asked whether the IESBA should convey to the IASB and IOSCO the feedback from commentators that requiring the disclosure of fee-related information in financial statements would improve the transparency and consequently the value of financial reporting. The majority of the Board members agreed that enhanced transparency of fee-related information, including public disclosure, is an important element of the structure of the proposals as transparency can impact perceptions of auditor independence. Therefore, the Board broadly supported promoting global transparency at earliest time possible. With regard to the suggestions to approach the IASB and IOSCO, the Task Force considers that in the former case, disclosure of fee-related information is unlikely to be seen as a financial reporting issue. In the latter case, there is a limitation in the fact that IOSCO's remit is focused only on listed entities. Nevertheless, the Task Force believes there is merit in raising the matter with IOSCO for its consideration.
157. The Task Force also recognizes that several jurisdictions already have laws and regulations in place regarding public disclosure of fee-related information. In those instances, consistent with the overarching provision in paragraph R100.3 of the Code, laws and regulations prevail. In case laws and regulations do not prohibit or even require disclosure of fee-related information by the client, the proposal would encourage firms to have a discussion with the client first on the disclosure of fee-related information by the client.
158. Regarding the concerns raised that the disclosure by the firm could create an adversarial relationship when the client is not required to disclose the fee-related information and also refuses to do so, the Task Force notes that the Code permits the disclosure of information to comply with professional standards, including ethics requirements.¹⁶⁶ In the event that the firm has concerns that the disagreement might give rise to an intimidation threat to independence that is not at an acceptable level, the Code requires the firm to address the intimidation threat by eliminating the circumstances, applying safeguards or declining or ending the specific professional activity.
159. The Task Force acknowledges the concerns raised regarding unintended consequences through disclosure in the audit report. After reflection, the Task Force is proposing a more flexible approach regarding how to achieve transparency by the firm. The Task Force is proposing that firms could

¹⁶⁵ PAOs: MIA, AICPA, Firms: DTTL, EY

¹⁶⁶ Paragraph 114.1 A1(c)(iv)

disclose fee-related information in a manner deemed appropriate for the circumstances. In this regard the Task Force proposes examples as possible locations for such disclosure in line with the [IAASB's latest proposals regarding communication with external parties about the firm's system of quality management](#) in the proposed ISQM 1.¹⁶⁷ Those examples include the firm's website and publications such as a transparency report, audit quality report, audit report and other targeted communication to specific stakeholders. The Task Force proposes that the audit report be included in this list. Further, the Task Force suggests that the Board commission Staff to develop Frequently Asked Questions (FAQs) outside the Code to address more detailed considerations regarding these different avenues of disclosure, including highlighting the important considerations of accessibility and timeliness. (See paragraph 410.28 A2 in **Agenda Item 5-C.**)

160. The Task Force notes that the IESBA had engaged in coordination with the IAASB regarding public disclosure of fee-related information in the audit report in those instances when the firm considers the audit report as a suitable location for these disclosures. In this regard, the Task Force suggests that an FAQ, as mentioned above, explain which part of the audit report would be the appropriate place for such disclosure, in line with input received from the IAASB in that regard.
161. Regarding the suggestion of reporting the fee-related information to audit regulators as an alternative appropriate channel, the Task Force does not believe this would meet the IESBA's objective of requiring the disclosure within an appropriate timeframe given the need for audit regulators around the world to first agree to set up the appropriate infrastructure to collect and disclose the information. Further, it is within the remit of audit regulators and not the IESBA to require firms to make such disclosures publicly within the bounds of local laws and regulations.
162. The Task Force notes the view of a few respondents that the disclosure of information solely about the amount of the fees will not provide enough information for stakeholders to make an informed judgment about the firm's independence. During the discussions that led to the Fees ED, the IESBA was seeking to strike a reasonable balance between the extent of the requirements proposed and the need for judgment to be applied in the circumstances of the engagement. In this regard, the IESBA had proposed some examples of further information that the firm might also discuss with the client in terms of whether disclosure of such information might enhance the users' understanding of the fees paid or payable and how they might influence the firm's independence (see paragraph 410.25 A5 in the ED). Such examples of further information, among others, include the nature of services provided and their associated fees.
163. Regarding the public disclosure of audit fee-related information, the Task Force discussed the arguments raised concerning the practical difficulties in obtaining information about actual or estimated fees paid or payable to other firms that have performed audit procedures on the engagement. In the light of these comments, the Task Force is proposing that the Code not require disclosure of audit fees outside of the network. (See paragraph R410.28 (a) in **Agenda Item 5-C.**)
164. The Task Force considered the comments regarding the scope of related entities to be covered in the requirement on fee disclosure. While the Code sets out 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, 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

¹⁶⁷ Agenda Item 5-D of June 2020 IAASB Meeting

there is no requirement for them to consolidate controlled entities. The Task Force will seek Board members' views regarding the disclosure of fee-related information in these cases and will coordinate its proposal with the NAS Task Force concerning the scope of communication with TCWG about the provision of NAS to an audit client.

165. Regarding the disclosure of information about fee dependency on a PIE audit client to the public, the Task Force was not persuaded that such disclosure might cast doubt on the firm's independence and give incomplete information that may mislead the public. The Task Force notes that the application material in paragraph R410.25 A5 of the ED provides examples of further information that the client, or the firm, might consider disclosing, including the safeguards applied when the total fees from the client represent or are likely to represent 15% of the total fees received by the firm. Furthermore, recognizing the role of TCWG in addressing possible fee dependency issues, the proposals require firms to disclose to and discuss with TCWG if total fees received from a client exceeds – or likely to exceed – 15 % of the total fees even in the first year of the engagement. Thus, TCWG can consider and take actions after the first year to address the fee dependency, while the public disclosure of such information is only required in the second year of the engagement.
166. With respect to the comments pertaining to breaches of independence requirements, the Task Force is of the view that non-disclosure of audit fee information could affect the firm's independence, particularly independence in appearance. Therefore, such non-disclosure would constitute a breach of the independence provisions of the Code.

Matters for the IESBA Consideration

11. Do IESBA Members agree with the Task Force's views?
12. Do IESBA Members support the proposed revisions to proposals regarding public disclosure of fee-related information of PIE audit clients in paragraphs 410.26 A1 to 410.28 A2?
13. IESBA members are asked for views regarding the disclosure of fee-related information in the case of private equity complexes.

H. Consequential and Conforming Amendments

ED Question 14:

Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

ED Question 15:

Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

Comments on Section 905

167. Respondents – subject to their comments on the proposed revisions to Part 4A – generally supported the proposed conforming and consequential amendments in the ED. Respondents raised comments

for the IESBA's consideration mainly in relation to the proposed conforming changes to Section 270¹⁶⁸ and Section 330¹⁶⁹ of the Code. The significant comments alongside the Task Force's proposed responses are presented in **Agenda Item 5-C**.

168. Respondents raised no other areas within the Code that may warrant further conforming changes.

Input to Topic of Overdue Fees During an Assurance Engagement

169. In the ED, the IESBA specifically asked for stakeholders' views as to whether they generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement. Many¹⁷⁰ of those respondents who provided input indicated that they would expect the overdue fees to be paid before the issuance of the assurance report. Some respondents¹⁷¹ were of the same view; however, they suggested that the Code should not specifically address this issue. Other commentators¹⁷² responded that they would only expect the payment of overdue fees before the issuance of the assurance report if it is material, or not trivial or inconsequential.

Task Force Response

170. Based on the input received, the Task Force proposes reinstating in the Code as application material that it is generally expected that the firm obtain payment of overdue fees before the assurance report is issued.

I. Other Issues

171. Apart from the issues raised on the specific questions, respondents also provided comments on other proposals set out in the ED. Those comments, together with the Task Force's responses, are presented in the section below. Additional comments are dealt with in **Agenda Item 5-B**.

Contingent Fees

172. In the ED, the IESBA did not propose any significant changes to the current provisions on contingent fees. However, some respondents¹⁷³ – including two Monitoring Group members – suggested that contingent fees for the provision of NAS to an audit client should not be permissible in any event. They were of the view that even immaterial contingent fees for NAS could impair the firm's independence as it results in an alignment of the firm's interest with the client's.

173. A Monitoring Group member¹⁷⁴ also suggested that the determination of the contingent fee should reflect that any service or product a firm or network firm provides for a commission directly or indirectly should be prohibited, as these could also be a threat to the auditor's independence.¹⁷⁵

¹⁶⁸ Part 2 – Professional Accountants in Business, Section 270, Pressure to Breach the Fundamental Principles

¹⁶⁹ Part 3 – Professional Accountants in Public Practice, Section 330, Fees and Other Type of Remuneration

¹⁷⁰ **Regulators:** NASBA, MAOB, IRBA, **PAOs:** IMCP, ACCA CAANZ, CPA Canada, ICAB, ICAG, ICPAU, ISCA, **Firms:** BKT1, GTIL, Mazars, **PSO:** AGNZ, GAO

¹⁷¹ **INSS:** APESB, **INSS:** XRB, **PAOs:** Ibracon, ICAEW

¹⁷² **Regulators:** UKFRC, **PAOs:** AE, CAI, ICAS, MIA, SAICA

¹⁷³ **Regulators:** IFIAR, IOSCO, UK FRC, IRBA

¹⁷⁴ **Regulators:** IFIAR

¹⁷⁵ IFIAR proposed including the following situation to the determination:

Task Force Responses

174. The Task Force notes that proposed changes in the NAS ED will result in changes to the extent of permissible NAS services to the audit client. The Task Force believes that if the provision of the NAS is not prohibited by Section 600 and the contingent fee does not meet any criteria that would result in a prohibition according to paragraph R410.9 (a) – (c) of the ED, the conceptual framework will apply in addressing the self-interest threat created..

Terminology

175. A few respondents¹⁷⁶ – including a Monitoring Group member – raised that using the concepts of “significance” (e.g. paragraphs R410.9 (b), R410.12 and 410.13 A3 of the ED), “appropriate reviewer” (e.g. paragraphs 410.5 A3 and 410.9 A3 of the ED) and “external review” (paragraph 410.4 A2 in the ED) could impair the effectiveness of the provisions. The respondents suggested that the IESBA provide descriptions, explanations and/or give examples to help users apply the provisions to ensure consistent application.
176. A Monitoring Group member¹⁷⁷ was of the view that there is a lack of clarity in the definition of the firm. The respondent queried whether the 15% threshold applies to the firm as a legal entity or to the way the firm operates in the market (for example, while firms in some jurisdictions provide tax or legal services as separate legal entities, they are perceived as one (audit) firm providing services to the client).
177. Another Monitoring Group respondent¹⁷⁸ noted that throughout the ED, the terminology addressing the auditor sometimes refers to “the (audit) firm or network firm” and sometimes to “the firm” only. The respondent suggested that language should be consistent to always refer to “the firm or network firm” unless the IESBA believes a specific provision impacts only the firm and therefore limits the provision to just the individual firm and not to the network.
178. A respondent¹⁷⁹ argued that the term “audit” should not include “review” in general. As a result of this provision in the IIS, the respondent commented that in the current proposals the reference to “audit of the financial statement” as “audit” only could be confusing if the reader misses paragraph 410.3.A3 of the ED and therefore interprets audit of the financial statements as meaning audit and review of the financial statements.

Task Force Responses

179. The Task Force notes that the concept of “significance” is used throughout the Code in line with the principles-based approach and believes that it is already an established and well-recognized concept in the Code, requiring the exercise of appropriate professional judgment. Regarding the concept of

*“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.”*

¹⁷⁶ **Regulators:** IFIAR, IRBA

¹⁷⁷ **Regulators:** IFIAR

¹⁷⁸ **Regulators:** IOSCO

¹⁷⁹ **Regulators:** UK FRC

an “appropriate reviewer,” the Task Force notes that the extant Code already describes the concept in paragraph 300.8 A4.

180. With respect to the concept of a firm, the Task Force notes that it is defined holistically in the Code¹⁸⁰ and it should be applied as defined. Regarding the proposals addressing network firms, the IESBA included network firms in a specific provision only if the provision impacts both the firm and its network firms.
181. Finally, with respect to the use of the term “audit,” the Task Force notes that the Board had discussed at length during the Structure of the Code project the use of that term in the IIS to refer also to “review.” It is beyond the scope of the Fees project to reopen this matter for deliberation.

Matters for the IESBA Consideration

14. Do IESBA Members agree with the Task Force’s views?

III. Other Matters

A. Anti-Trust Issues

ED Question 13:

Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

182. In the ED, the IESBA had asked for stakeholders’ views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national competition laws.
183. Respondents were generally of the view that the proposals would not give rise to anti-trust or anti-competition issues in their respective jurisdictions. A respondent,¹⁸¹ however, noted that the proposed requirement for firms to cease to be the auditor if fee dependency on a PIE audit client continues for a certain period of time might be against the national competition laws.
184. A few respondents¹⁸² commented that obtaining and publicly disclosing confidential and competitively sensitive fee-related information of firms which are not members of the audit firm’s network might raise questions under the competition laws in certain jurisdictions.

¹⁸⁰ (a) A sole practitioner, partnership or corporation of professional accountants;
(b) An entity that controls such parties, through ownership, management or other means; and
(c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively

¹⁸¹ **PAOs:** JICPA

¹⁸² **PAOs:** AE, CNCC, **Firms:** DTTL

185. A few respondents¹⁸³ had concerns that certain proposals in the ED could create a barrier for SMPs to enter the PIE audit market and could potentially impact free competition and lead to greater market concentration.

Task Force Responses

186. The Task Force notes that during the June 2020 executive session, the Board was briefed on the legal advice it had commissioned from Cravath, Swaine & Moore (“Cravath”) following some concerns that the ED proposals might be regarded as anti-competitive under US laws. In summary, having duly considered the ED proposals, Cravath’s advice was that it is highly unlikely that the proposed revisions would be found to be anti-competitive in the US.
187. Cravath will review the provisions once finalized to determine whether any adjustments are needed to its analysis. A summary of the final advice will be included in the Basis for Conclusions accompanying the issuance of the final pronouncement.
188. Given that respondents have generally not flagged specific anti-competition issues the proposals might create in their jurisdictions, and furthermore, that national standard setters will in any event need to undertake their own due process in adopting the revised provisions, the Task Force does not believe there are sufficient grounds to alter the course the Board is pursuing on the proposals.

Matters for the IESBA Consideration

15. Do IESBA Members agree with the Task Force’s views?

¹⁸³ PAOs: CNCC, IDW, Firms: RSM

List of Respondents to Fees ED

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (64)	Region
Regulators and Oversight Authorities, Including MG members (10)			
1.	BFRC	Bangladesh Financial Reporting Council	AP
2.	CEOAB	Committee of European Auditing Oversight Bodies	EU
3.	CMSA	Capital Market Authority – Saudi Arabia	MEA
4.	IAASA	Irish Auditing & Accounting Supervisory Authority	EU
5.	IRBA	Independent Regulatory Board for Auditors	MEA
6.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
7.	IOSCO	International Organization of Securities Commissions	GLOBAL
8.	NASBA	National Association of State Boards of Accountancy (US)	NA
9.	MAOB	Malaysian Audit Oversight Board, Securities Commission	AP
10.	UKFRC	United Kingdom Financial Reporting Council	EU
Public Sector Organizations (3)			
11.	AGNZ	Office of the Auditor General of New Zealand	AP
12.	AGSA	Auditor General of South-Africa	MEA
13.	GAO	United States Government Accountability Office	NA
Preparers and Those Charged with Governance (1)			
14.	JASBMA	Japan Audit & Supervisory Board Members Association	AP
Independent¹⁸⁴ National Standard Setters (2)			
15.	APESB	Accounting Professional & Ethical Standards Board (Australia)	AP
16.	XRB	New-Zealand Auditing & Assurance Standard Board	AP
Professional Accountancy Organizations (PAOs) (33)¹⁸⁵			
17.	ACCA CAANZ δ	Joint Submission -- Association of Chartered Certified Accountants/Chartered Accountants Australia and New Zealand	GLOBAL

¹⁸⁴ NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as “Independent National Standard Setters.”

The IESBA has a liaison relationship with a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, the UK, and the US.

¹⁸⁵ For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. **PAOs that have full, partial or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a “δ”.**

Summary of Significant Comments on Exposure Draft and Task Force Proposals
 IESBA Meeting (September 2020)

#	Abbrev.	Respondent (64)	Region
18.	AE	Accountancy Europe	EU
19.	AICPA PEEC δ	American Institute of Certified Public Accountants Professional Ethics Executive Committee	NA
20.	ASSIREVI	Association of the Italian Audit Firms	EU
21.	BICA δ	Botswana Institute of Chartered Accountants	MEA
22.	CAI δ	Chartered Accountants of Ireland	EU
23.	CNCC δ	Compagnie Nationale des Commissaires aux Comptes	EU
24.	CPAA	CPA Australia	AP
25.	CPAC δ	Chartered Professional Accountants Canada Public Trust Committee	NA
26.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
27.	FAR δ	Institute for Accountancy Profession in Sweden	EU
28.	HKICPA δ	Hong Kong Institute of Certified Public Accountants	AP
29.	Ibracon	Instituto dos Auditores Independentes do Brasil	SA
30.	IAA	Inter-American Accounting Association (IAA)	SA
31.	ICAB δ	Institute of Chartered Accountants of Bangladesh	AP
32.	ICAEW δ	Institute of Chartered Accountants in England and Wales	EU
33.	ICAG δ	Institute of Chartered Accountants Ghana	MEA
34.	ICAI δ	The Institute of Chartered Accountants of India	AP
35.	ICAS δ	The Institute of Chartered Accountants of Scotland	EU
36.	ICPAU δ	Institute of Certified Public Accountants of Uganda	MEA
37.	IDW δ	Institut der Wirtschaftsprüfer (Germany)	EU
38.	IMCP δ	Mexican Institute of Public Accountants	SA
39.	IPA δ	Institute of Public Accountants (Australia)	AP
40.	ISCA δ	Institute of Singapore Chartered Accountants	AP
41.	JICPA δ	Japanese Institute of Certified Public Accountants	AP
42.	KICPA	Korean Institute of Certified Public Accountants	AP
43.	NBAAT	National Board of Accountants & Auditors – Tanzania	MEA
44.	MIA δ	Malaysian Institute of Accountants	AP
45.	MICPA	Malaysian Institute of Certified Public Accountants	AP
46.	NYSSCPA	New York State Society of CPAs	NA
47.	NBA δ	Royal Netherlands Institute of Chartered Accountants	EU
48.	SAICA δ	South African Institute of Chartered Accountants	MEA
49.	WPK δ	Wirtschaftsprüferkammer (Germany)	EU

Summary of Significant Comments on Exposure Draft and Task Force Proposals
IESBA Meeting (September 2020)

#	Abbrev.	Respondent (64)	Region
Firms (12)¹⁸⁶			
50.	BKTI*	Baker Tilly International	GLOBAL
51.	BDO*	BDO International Limited	GLOBAL
52.	CROWE*	Crowe Global	GLOBAL
53.	DTTL	Deloitte Touch Tohmatsu Limited	GLOBAL
54.	EY *	Ernst & Young Global Limited	GLOBAL
55.	GTIL*	Grant Thornton International Limited	GLOBAL
56.	KPMG*	KPMG IFRG Limited	GLOBAL
57.	Mazars	Mazars Group	GLOBAL
58.	Moore*	Moore Global Network Limited	GLOBAL
59.	NEXIA ¹⁸⁷	Nexia International	GLOBAL
60.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
61.	RSM*	RSM International Limited	GLOBAL
Others (3)			
62.	CAQ	US Center for Audit Quality	NA
63.	IFAC SMPC	IFAC Small and Medium Practices Committee	GLOBAL
64.	PP	Porus Pavri	MEA

¹⁸⁶ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on and use the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics as the basis for their audit methodologies.

¹⁸⁷ Nexia submitted a comment letter compiling individual responses of member firms from Singapore, South Africa, UK and Argentina.

Appendix II

Question 1: Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?					
	Reg (10)	INSS (2)	PAO/NSS (33)	Firms (11)¹⁸⁸	Others (7)
Agree (31)	IRBA, NASBA, MAOB, UK FRC,	APESB XRB	ACCA CAANZ, BICA, CPA Australia, CPA Canada, EFAA, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, KICPA, NBAAT, NYSSCPA, NBA, SAICA	Moore (<i>Nexia AR</i>)	PSO ¹⁸⁹ : AGNZ PSO: AGSA PSO: GAO
Agree with reservations (5)	IOSCO		IDW, ISCA, MIA	CROWE (<i>Nexia UK</i>)	
Disagree (17)			AE, AICPA, CAI, CNCC, Ibracon, MICPA, WPK	BKTI, BDO, DTTL, EY, GTIL, KPMG, Mazars, PWC, RSM, (<i>Nexia S, Nexia SA,</i>)	<i>Others</i> ¹⁹⁰ : IFAC SMPC
No comment (10)	BFRC, CEAOB, CMASA, IAASA, IFIAR		Assirevi, FAR ¹⁹¹	(<i>Nexia J</i>)	TCWG ¹⁹² : JASMBA <i>Others</i> : CAQ <i>Others</i> : PP

¹⁸⁸ Nexia submitted a comment letter compiling individual responses of member firms from Singapore (Nexia S), South Africa (Nexia SA), UK (Nexia UK), Japan (Nexia J) and Argentina (Nexia AR). Those responses have been considered in this summary separately.

¹⁸⁹ Public Sector Organizations

¹⁹⁰ Others, Including Academics

¹⁹¹ The Institute for Accountancy Profession in Sweden (FAR) has indicated in its comment letter that the FAR has taken part of the drafted response of the IFAC SMP Committee and made no separate comments to the proposals. Therefore, FAR is not shown separately in this table.

¹⁹² Preparers and Those Charged with Governance

Question 2: Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:					
(a) Before the firm accepts an audit or any other engagement for the client; and					
(b) Before a network firm accepts to provide a service to the client?					
	Reg (10)	INSS (2)	PAO/NSS (33)	Firms (11)	Others (7)
Agree (35)	IRBA, IFIAR, IOSCO, NASBA, MAOB	XRB,	ACCA CAANZ, BICA, CNCC, CPA Australia, CPA Canada, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, JICPA, MIA, MICPA, KICPA, NBAAT, NYSSCPA, SAICA	BKTI, CROWE, GTIL, Mazars, RSM, (Nexia SA, Nexia AR)	PSO: AGNZ PSO: AGSA PSO: GAO
Agree with reservations (10)	UK FRC	APESB	CAI, IPA, IDW, ISCA, WPK	Moore, PWC	Others: IFAC SMPC
Disagree (8)			AE, AICPA, EFAA, Ibracon	BDO, DTTL, EY, KPMG, (Nexia S)	
No comment (10)	BFRC, CEAOB, CMASA, IAASA,		Assirevi, FAR, NBA ¹⁹³	(Nexia UK, Nexia J)	TCWG: JASBMA Others: CAQ, PP Others: PP

¹⁹³ NBA indicated that they aligned with the comments of AE in those cases they did not provide additional comments.

Appendix III

Question 4 : Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?					
	<u>Reg (10)</u>	<u>INSS (2)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (37)	MAOB, UK FRC	XRB	AE, BICA, CAI, CNCC, CPA Australia, EFAA, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IDW, IMCP, IPA, ISCA, JICPA, KICPA, NBAAT, MIA, SAICA, WPK	BKTI, CROWE, GTIL, Mazars, Moore, RSM, (Nexia SA, Nexia UK, Nexia AR)	PSO AGNZ, PSO: AGSA, PSO: GAO, Others: IFAC SMPC
Agree with reservations (11)	IRBA, IOSCO, NASBA,	APESB,	ACCA CAANZ, Assirevi, CPA Canada, MICPA	BDO, EY, PWC	
Disagree (3)			Ibracon	DTTL, KPMG, (Nexia S)	
No comment (12)	BFRC, CEAOB, CMASA, IAASA, IFIAR,		AICPA, FAR, NYSSCPA, NBA ¹⁹⁴	(Nexia J)	TCWG: JASMBA Others: CAQ Others: PP

Appendix IV

Question 5: Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:					
(a) Charged by both the firm and network firms to the audit client; and					
(b) Delivered to related entities of the audit client?					
	<u>Reg (10)</u>	<u>INSS (2)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (30)	NASBA	APESB,	BICA, CPA Australia, CPA Canada, EFAA, HKICPA, Ibracon, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, KICPA, NBAAT, MICPA, NBA, SAICA	BDO, CROWE, PWC, RSM, (Nexia SA, Nexia AR)	PSO: AGNZ PSO: AGSA PSO: GAO
Agree with reservations (19)	IRBA, MAOB,	XRB	AE, ACCA CAANZ, Assirevi, CAI, CNCC, ISCA, IDW, MIA, WPK,	BKTI, DTTL, GTIL, KPMG, Mazars, Moore	Others: IFAC SMPC
Disagree (5)	CEAOB, IAASA, UKF FRC, IFIAR,			EY	
No comment (9)	BFRC, CMASA, IOSCO,		AICPA, FAR, NYSSCPA	(Nexia S, Nexia UK, Nexia J)	TCWG: JASMB Others: CAQ Others: PP

Appendix V

Question 6: Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?					
	<u>Reg (10)</u>	<u>INSS (2)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (17)	MAOB		AE, CAI, EFAA, HKICPA, IAA, ICAG, ICAI, ISCA, KICPA, NBAAT, MIA, WPK	CROWE, EY, GTIL, (Nexia SA, Nexia AR)	PSO: AGSA
Agree with reservations (17)	IAASA, IRBA, UK FRC,		BICA, CPA Canada, CPA Australia, ICAB, ICAS, IMCP, IPA, NYCSSCPA, NBA,	BKTI, PWC, (Nexia UK)	PSO: AGNZ Others: IFAC SMPC
Disagree (18)		APESB, XRB	ACCA CAANZ, AICPA, Assirevi, CNCC, Ibracon, ICAEW, ICPAU, IDW, JICPA, MICPA,	BDO, DTTL, KPMG, Mazars, RSM, (Nexia J)	PSO: GAO
No comment (12)	BFRC, CEAOB, CMASA, IFIAR, IOSCO, NASBA,		FAR, SAICA,	Moore, (Nexia S)	TCWG: JASMBA Others: CAQ Others: PP

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Question 7 Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?					
	<u>Reg (10)</u>	<u>INSS (2)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (26)	NASBA, MAOB,	APESB, XRB	Assirevi, BICA, CPA Australia, IAA, Ibracon, ICAB, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, NBAAT, MIA, WPK	CROWE, DTTL, GTIL, KPMG, (Nexia AR),	PSO: AGNZ PSO: AGSA PSO: GAO
Agree with reservations (14)	IAASA,		AE, CPA Canada, EFAA, HKICPA, ISCA, KICPA, NBA SAICA	BDO, EY, Moore	Others: IFAC SMPC
Disagree (12)	IRBA, UK FRC,		ACCA CAANZ, CNCC ICAEW, IDW, JICPA, MICPA	BKTI, Mazars, RSM, PWC, (Nexia SA, Nexia UK)	
No comment (12)	BFRC, CEAOB, CMASA, IFIAR, IOSCO		AICPA, CAI, FAR, NYSSCPA,	(Nexia S, Nexia J)	TCWG: JASMBA Others: CAQ Others: PP

Appendix VI

Question 8 : Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?					
	<u>Reg (10)</u>	<u>INSS (4)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (32)	NASBA, MAOB	APESB, XRB	ACCA CAANZ, Assirevi, BICA, CPA Canada, HKICPA, IAA, Ibracon, ICAEW, ICAG, ICAI, ICAS, ICPAU, IMCP, IPA, JICPA, NBAAT, MIA, SAICA	CROWE, DTTL, EY, GTIL, Moore, PWC, KPMG,	PSO: AGNZ, PSO: AGSA, PSO: GAO,
Agree with reservations (16)	CEAOB, IAASA, IRBA, IFIAR, IOSCO		AE, CAI, CPA Australia, ISCA, EFAA, IDW, KICPA, MICPA, WPK	BDO, (Nexia SA, Nexia AR)	Others: IFAC SMPC
Disagree (6)	UK FRC,		CNCC, ICAB,	BKTI, Mazars, RSM,	
No comment (9)	BFRC, CMASA		AICPA, FAR, NYSSCPA, NBA	(Nexia S, Nexia UK, Nexia J)	TCWG: JASMBA Others: CAQ Others: PP

Question 9 : Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?					
	<u>Reg (10)</u>	<u>INSS (4)</u>	<u>PAO/NSS (30)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (22)	IRBA	APESB, XRB	ACCA CAANZ, AE, CAI, CPA Canada, IAA, ICAEW, ICAG, ICAS, ISCA, IDW, KICPA, NBAAT, SAICA, WPK	BKTI, EY, Moore (Nexia SA)	PSO: AGNZ, PSO: AGSA
Agree with reservations (10)	UK FRC, MAOB		Assirevi, BICA, ICAB, ICPAU, IMCP, MICPA	DTTL, PWC,	
Disagree (19)			AICPA, CNCC, CPA Australia, EFAA, HKICPA, Ibracon, ICAI, IPA, JICPA, MIA, NYSSCPA,	BDO, GTIL, KPMG, Mazars, RSM, (Nexia AR)	TCWG: JASMBBA Others: CAQ Others: IFAC SMPC
No comment (12)	BFRC, CEAOB, CMASA, IAASA, IFIAR, IOSCO, NASBA,		FAR, NBA	CROWE, (Nexia S, Nexia UK, Nexia J)	PSO: GAO, Others: PP

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Question 10: Do you support the exception provided in paragraph R410.20?					
	<u>Reg (10)</u>	<u>INSS (4)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (33)	NASBA	APESB, XRB	ACCA CAANZ, AE, BICA, CAI, CPA Australia, CPA Canada, EFAA, HKICPA, IAA, ICAEW, ICAG, ICAS, IDW, ISCA, JICPA, NBAAT, MIA, MICPA, SAICA, WPK	BKTI, EY, GTIL, KPMG, Moore, PWC, (<i>Nexia SA, Nexia AR</i>)	<i>PSO: AGNZ, AGSA, Others: IFAC SMPC</i>
Agree with reservations (6)	IRBA,		Assirevi, ICAB, KICPA	BDO, DTTL	
Disagree (10)	CEAOB, IAASA, MAOB, UK FRC		CNCC, Ibracon, IMCP, IPA,	RSM, Mazars	
No comment (14)	BFRC, CMASA, IFIAR, IOSCO,		AICPA, ICPAU, ICAI, NYSSCPA, NBA	Crowe, (<i>Nexia S, Nexia UK, Nexia J</i>)	<i>PSO: GAO, TCWG: JASMBBA Others: CAQ Others: PP</i>

Appendix VII

Question 11: Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?					
	<u>Req (10)</u>	<u>INSS (2)</u>	<u>PAO/NSS (33)</u>	<u>Firms (11)</u>	<u>Others (7)</u>
Agree (18)	BFRC, CMASA, IRBA, IFIAR, MAOB,		BICA, CAI, EFAA, HKICPA, IAA, ICAB, ICAS, ICPAU, NBAAT, SAICA	(Nexia SA)	Others: EFAA, Others: IFAC SMPC TCWG: JASMBA
Agree with reservations (14)	UK FRC		Assirevi, ICAEW, ICAG, IPA, IDW, IMCP, ISCA, JICPA, KICPA,	GTIL, Moore	PSO: AGNZ, PSO: AGSA
Disagree (22)		APESB, XRB	ACCA CAANZ, AE, AICPA, CPA Australia, CPA Canada, CNCC, Ibracon, MIA, MICPA, WPK	BKTI, BDO, DTTL, EY, KPMG, Mazars, PWC, RSM, (Nexia S, Nexia AR)	PSO: GAO Others: CAQ
No comment (10)	CEAOB, IAASA, IOSCO, NASBA,		FAR, NYSSCPA, NBA, ICAI	CROWE, (Nexia UK, Nexia J)	Others: PP