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?

The respondents' responses are divided into four groups:

1. Support with minor amendments
2. Support with reservations
3. Does not support
4. No comment

1. Support with minor amendments

Regulators and Oversight Authorities, Including MG members

9. Malaysian Audit Oversight Board, Securities Commission (MAOB)

The AOB is supportive of both proposals.

Public Sector Organizations

12. Auditor General of South-Africa (AGSA)

We support the proposal, however more guidance could be included on what constitutes the total fees (e.g. Should firms include fees from NAS when estimating the threshold?).

Professional Accountancy Organizations (PAO's)

18. Accountancy Europe (AE)

Yes, we agree that firms should monitor their fee dependency on a non-PIE audit client as well using a threshold. We observe that in some EU countries similar requirements have already been established by national legislation or standards. Overall, the appropriateness of the threshold, i.e. what is the most appropriate percentage, will depend on the circumstances of the jurisdiction.

22. Chartered Accountants of Ireland (CAI)

Yes, we are supportive of this proposal.

Yes, we are supportive of the proposed threshold.

26. European Federation of Accountants and Auditors for SMEs (EFAA)

We support the proposal to include a threshold and support the proposed threshold.

We urge the IESBA to conduct a post-implementation to determine the threshold's effectiveness.

28. Hong Kong Institute of Certified Public Accountants (HKICPA)

We support the Board's adoption of a threshold for firms to address threats created by fee dependency on a non-PIE audit client. We fully understand that the proposed threshold is simply an arbitrary threshold. Our local stakeholders, particularly the SMPs, consider the engagements for non-PIE audit clients have minimal public interests impact and the threshold could be further loosened (e.g. 35%). We considered it is also important for the IEBSA to review the appropriateness of the threshold after a certain period of implementation.

30. Inter-American Accounting Association (IAA)

Yes, we support the proposal in paragraph R410.14 because if in any year, not just in each of the five consecutive years, the total fees of an audit client is or is not a public interest entity represent more than 30% of the firm's total fees would imply an excessive dependence on that client and the possible loss of this client would generate a financial problem that could jeopardize the firm's resources to fulfill satisfactorily with the other orders it has, for Therefore, we agree with the proposal in paragraph R410.14, including the established threshold.

33. Institute of Chartered Accountants Ghana (ICAG)

Yes, we agree as this is guidance for a wide range of practice firms, some common objectively determined means should be used to trigger an evaluation of the threat. There is no guidance provided as to how this exact percentage was determined and therefore I cannot comment on the appropriateness of this number.

There is the need to explain how the 30% benchmark was arrived at and its impact on self-interest and intimidation threats created by fee dependency on a non-PIE audit client.

34. The Institute of Chartered Accountants of India (ICAI)

We are in agreement with the inclusion of threshold for firms to address threats created by fee dependency on a non-PIE audit client. However, the percentage and other conditions may be subject to deliberation.

40. Institute of Singapore Chartered Accountants (ISCA)

Paragraph R410.14 proposes that when total fees from a non-PIE audit client exceed 30% of the total fees received by the audit firm for each of 5 consecutive years, the audit firm shall determine whether a pre-issuance or post-issuance review on the fifth year's financial statements might be a safeguard to address the threats created by fee dependency on a non-PIE audit client, and if so apply it.

We note that the proposal in R410.14 mirrors the existing fee dependency model for PIE audit clients with greater latitude in the threshold and safeguards applied, with the aim of creating a consistent approach to address the threats for non-PIE audit clients. IEBSA may consider reviewing the threshold after a period of implementation to assess whether any adjustments are needed.

We generally agree and support the above. However, we wish to highlight the risk that a bright line percentage threshold would direct the focus on the calculation of percentage instead of evaluation of threats. A statement to remind users of the need to observe the spirit and intent of the Code might be warranted.

42. Korean Institute of Certified Public Accountants (KICPA)

As threats are created as well by fee dependency on the non-PIE audit client, we support the proposal in the paragraph R 410.14 to include the threshold. As for the appropriateness of the thresholds of 30% of the total fees received by the firm, however, it would be necessary to identify where accounting firms at the respective jurisdictions stand in terms of fee dependency.

43. National Board of Accountants & Auditors – Tanzania (NBAAT)

We do agree support the proposed threshold.

44. Malaysian Institute of Accountants (MIA)

We support the proposal in paragraph R410.14 to address threats created by fee dependency on a non-PIE client.

However, we would like to seek clarification on the basis and appropriateness of the proposed 30% threshold.

49. Wirtschaftsprüferkammer (Germany) (WPK)

We support the proposal to introduce a 30% threshold. As you probably know, the German legislator introduced a 30% threshold for non-PIE clients quite a time ago (Section 319 Paragraph 3 Sentence 1 No 5 German Commercial Code) in order to safeguard the independence of the auditor.

<u>Firms</u>

52. Crowe Global (CROWE)

We support the proposal in R410.14. The threshold appears reasonable.

54. Ernst & Young Global Limited (EY)

We are supportive of the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependence on a non-PIE audit client, and do not take exception to using a 30 % threshold as proposed.

We do not agree with the current drafting of proposed paragraph 410 .13 A1 because it presupposes that a self-review threat already exists because the audit fees were negotiated with and paid by the audit client . We recommend that proposed paragraph 410.13 be revised as follows:

“ When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of fees from audit and other services from that client impact the evaluation of the level of the creates a self-interest threat and an intimidation threat.”

55. Grant Thornton International Limited (GTIL)

GTIL supports 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 and we support the proposed threshold in paragraph R410.14.

2. Support with reservations

Regulators and Oversight Authorities, Including MG members

4. Irish Auditing & Accounting Supervisory Authority (IAASA)

We request the Board to re-consider the 30% fee dependency limit specified in Paragraph R410.14 of the ED with regards to audit clients that are not PIEs, as this represents a significant proportion of a firm’s income. Further, we do not consider it appropriate that a firm may continue to provide audit services on an indefinite basis where there are significant fee dependency issues, as would appear to be permitted by Paragraph R410.15.

5. Independent Regulatory Board for Auditors (IRBA)

Yes, with concerns about how it can be improved. The proposed threshold for non-PIE clients is subjective and complex. The construct of this requirements is very different from R410.20(b). This may prove a challenge in application and understandability.

Additionally, the high threshold of 30% make it less likely to bring about the change envisioned. The time period (5 years) envisioned is too long, rather if there is a fee dependency by the audit firm, we would hope to see more being done in the shorter term. At 30% per annum, over a period of five years, the firm could earn at least 150% of annual fees from one client before a consideration of the threats and safeguards. More can be done to address the public interest concerns here.

Additionally, these provisions do not differentiate between the maturity of the audit firm. This requirement may create an additional burden to new audit firms, especially SMPs.

There have been questions as to whether the total fee includes all fees received by the firm, or total audit fee. As divisions within a firm are sometimes evaluated as standalone entities/departments, would it not be reasonable to evaluate the audit fee received from the non- PIE audit client against total audit fees.

Clarity is required as to whether this provision applies to the firm or network firm; and also, to understand better the reason why this is not applied at both levels.

10. United Kingdom Financial Reporting Council (UKFRC)

We agree that a threshold should be established. Our ethical standard imposes a more restrictive threshold and other conditions than IESBA is proposing, including not acting as the provider of the engagement if the threshold will be regularly exceeded (more details are given ln our response to lESBA's 2018 Fees Questionnaire).

Public Sector Organizations

11. Office of the Auditor General of New Zealand (AGNZ)

We 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. We believe that the same threshold should apply to PIE and non-PIE entities.

Professional Accountancy Organizations (PAO's)

21. Botswana Institute of Chartered Accountants (BICA)

We support including a threshold because it reduces discretion that could be applied by firms. The 30%, however, is too high and there is no indication of benchmark applied to arrive at the figure. Five consecutive years of a firm with a fee, exceeding threshold before mitigating risk is not reasonable.

The cumulative effect of a firm having its fees for one entity making up more than 30% of its total fees over five years is too much to be borne and ignored. This percentage is provided as a minimum and therefore there is likelihood that firm fees from one client could be as high as 80% of the firm total fees with no action taken given that there is no cap beyond which an engagement is prohibited.

We propose that the board applies a minimum of 20% threshold that is used as an indicator of influence in various standards such as IAS 28 Investment in Associates and reduce the period requiring action to three years. This measure would strengthen mitigations over self-interest threats and ensure that any action required is taken timely.

We also propose for establishment of a maximum threshold beyond which the relationship ought to be terminated. For this, we propose a cap of 40%.

24. CPA Australia (CPAA)

Principles-based standards ideally refrain from prescribing specific thresholds and timeframes as criteria for assessing compliance with the requirements. Allocating an arbitrary percentage and timeframe arguably detracts from the importance of exercising professional judgement and may undermine the fundamental principles of the Code.

Given, however, the inclusion of specific timeframes for auditor rotation requirements in Section 540 of Part 4A of the Code, and the proposal to specify a two-year cooling-off period to enhance the objectivity of engagement quality reviewers, CPA Australia recognises that the prescription of a threshold is consistent with the direction taken by the IESBA in other provisions of the Code.

However, there is conjecture amongst Australian professional accountants that the 30% threshold may not be appropriate in all circumstances. Perhaps consideration should be given to whether a threshold be included as guidance in application material rather than a requirement.

CPA Australia recommends that the stem to R410.14 be clearer in what is required by the Professional Accountant. Considering R410.14 is a proposed requirement, interpretation may be subjective given the current wording.

“The firm shall determine which of the following actions it will apply as a safeguard to reduce the threats created to an acceptable level:”

25. Chartered Professional Accountants Canada Public Trust Committee (CPAC)

We generally 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.

However, we did receive mixed feedback from our consultation about the proposed threshold. Some supported it as presented in the Exposure Draft while others recommended that the arbitrary amount of 30% is too high and that five consecutive years is too long and should be three years, perhaps, with criteria considering, for example, whether the firm is new and growing or established and mature.

For those seeking a lower threshold, the suggestions resulted from a general concern that fee dependency could pose a greater self- interest threat to small and medium practices regarding their non-PIE audit clients due to the potential relative impact and their capacity to sustain the sudden loss of a significant client. In suggesting a lower threshold, it was also observed that the proposals do not require that a firm resign from a non-PIE audit if fee dependency continues beyond the threshold timeframe.

As referenced in the Exposure Draft, we believe it will be beneficial that IESBA consider reviewing the thresholds ultimately chosen after a period of implementation experience and following the outcome of the PIE project to assess whether any adjustments might be appropriate.

31. Institute of Chartered Accountants of Bangladesh (ICAB)

Yes, we 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.

But it is true that there are some small or proprietorship firms who are in some cases highly dependent on specific non-PIE Audit Clients. As a non-PIE Audit client carries much less risk than that of a PIE Audit client, the proposed threshold in paragraph R410.14 may be changed to 50% instead of 30% for applying the safeguard as mentioned in that paragraph considered to reduce the threats created to an acceptable level. It should also be specified whether the fee from such a non-PIE audit client is only the audit fee or it includes other fees charged on that client.

35. The Institute of Chartered Accountants of Scotland (ICAS)

In principle we support the proposal in paragraph R410.14 and the inclusion of a threshold for firms to address threats created by fee dependency on a non-PIE audit client. We acknowledge that the 30% limit on fees received from a non-PIE audit client has been introduced where previously there was no % limit at all for non-PIE audit clients.

However, whilst we recognise that IESBA has to balance different market structures internationally, we believe, from a UK perspective, that the % limit could be lower. For example, in the equivalent provisions within the FRC's Ethical Standard there is a threshold of 15% for non-listed audit clients that are not PIEs. We also question whether a reasonable and informed third party would consider it appropriate that fee dependency can continue for a period of five years before the firm is required to determine whether a review might be a safeguard. We would suggest that a threshold of 20% and three years may be more appropriate. This would still allow for proportionality as the provisions for audit clients that are non-PIEs are still less rigorous than the provisions for audit clients that are PIEs.

We also note the following in relation to the wording of paragraphs R410.17 and R410.24 regarding fees generated at a group level in the case of audit clients that are PIEs, which could also impact paragraph R410.14 for audit clients that are not PIEs.

Paragraph 55 of the Explanatory Memorandum states:

"Regarding the fees generated at a group level, the IESBA agreed that firms should consider fees from related entities of the audit client in calculating the total fees from the client, in accordance with the related entity provision of the IIS (paragraph R400.20)."

The footnote to paragraph 55 goes on to say: "The IESBA notes that this proposal is not intended to differ from the approach taken in the extant Code, even though the extant requirement (paragraph R410.4) includes an explicit reference to "fees from the audit client and its related entities."

If, as per paragraph 55 of the Explanatory Memorandum, IESBA's intention is that that "firms should consider fees from related entities of the audit client in calculating the total fees from the client", we believe this intention could be clarified within the provisions. Similar to the comments in our response to Question 5 above, whilst IESBA's approach in the provisions is logically correct, and captures applicable related entities as per R400.20, we would highlight that it is not immediately clear to the user when considering the various requirements in this section in isolation that applicable related entities are within scope. The removal of the explicit reference in the Code might also lead the user to believe that there has been a change in the scope of the requirement.

38. Mexican Institute of Public Accountants (IMCP)

No, we propose the threshold to be set up at 40%, instead of 30%, as it is currently proposed.

39. Institute of Public Accountants (Australia) (IPA)

No, we with disagree with the 30 per cent threshold for the threat assessment and consider that that it should be a lower threshold of 10 per cent.

46. New York State Society of CPAs (NYSSCPA)

IESBA has established a fee dependency threshold of 30% on non-public interest entity (non-PIE) audit clients. We recognize that a 30% threshold might be appropriate for a newly formed firm but believe that if an established firm has one client whose audit fees represent 30% of the firm's revenue, the self-interest threat is too high to be overcome by the application of safeguards. Accordingly, we believe that the fee dependency threshold should be significantly lower for established firms, perhaps 10% or 15%. Furthermore, we do not believe that the characterization of an audit client as a public interest entity (PIE) or non-PIE should not have any bearing on the ability of a safeguard to reduce a threat to an acceptable level. If two years is the appropriate period at which time a firm should have a third-party review for a PIE client, we believe the same criteria should be applied to non-PIE clients. Having a third-party review for non-PIE clients only after five years increases the possibility that bankers, financial institutions and other lenders are relying on financial statements audited by firms whose independence is impaired.

47. Royal Netherlands Institute of Chartered Accountants (NBA)

We consider it desirable that IESBA also proposes requirements with regard to fee de- pendency of audit clients that are non-PIEs. We already do so in the Netherlands. We chose to make no distinction between PIEs and non-PIEs, except from statutory audit clients due to the EU Audit Regulation. Our provisions regarding non-PIEs are based on the provisions regarding PIEs in the current Code (threshold is 15%, safeguards required after two consecutive years). However we require the performance of a pre-issuance engagement quality review (non-PIEs and PIEs).

Firms

50. Baker Tilly International (BKTI)

We are supportive of including a requirement for firms to assess fee dependency in non-PIE audits. We do, however, note the arbitrary "non-scientific" manner in which the 30% threshold has been determined. We consider that it is unlikely that there will be many instances where a non-PIE audit exceeds 30% of fee income for a firm, even for smaller practices, and as such a hard and fast rule may not be necessary. It may, therefore, be more appropriate that this threshold be included in application guidance rather than as a requirement given the lack of a formal basis for its determination.

60. PricewaterhouseCoopers International Limited (PWC)

We agree with the need for the firm to evaluate the threat created by a high level of fee dependency on an individual client.

With regard to the 30% threshold, we note that the Code's current PIE fee dependency provision involves a 15% threshold and we welcome further dialogue with IESBA and stakeholders on the appropriate threshold for non-PIEs.

If the Board decides to retain the current proposed 30% threshold, we believe that to defer the need for safeguards to the fifth or six year to be imprudent given the level of the threat. Therefore, we recommend that IESBA give consideration to requiring safeguards prior to the issuance of the audit report on the third year's financial statements.

Others

63. IFAC Small and Medium Practices Committee (IFAC SMPC)

The SMPC notes that the Board's adoption of a 30% threshold for firms to address threats created by fee dependency is inconsistent with a principles-based Code. We are of the view that the proposed threshold is appropriate for a non-PIE client only on the basis that it is already in place in some jurisdictions while recognizing the fact that the suggested threshold is not scientifically determined. It is thus important for global application that the IESBA commits to review this threshold after a certain period of implementation to assess its effectiveness.

3. Does not support

Independent National Standard Setters

15. Accounting Professional & Ethical Standards Board Australia (APESB)

APESB appreciates that the intent of the inclusion of a fee-dependency threshold for non- PIE audit clients is to provide clarity as to when fee dependency is likely and to provide a consistent approach for all audit clients (not just to PIE audit clients).

APESB is concerned that the proposed amendments to the IESBA Code will not address the intent of consistency and that the proposed thresholds are not an accurate reflection of fee dependency levels.

APESB is of the view that the proposed threshold level of 30% to determine fee dependency for non-PIE audit clients is too high. In conjunction with the time frame to assess fee dependency (five consecutive years), it creates the possibility that the threat could be in place for a significant time before the IESBA Code would require any action to be undertaken.

If there is a concern in a specific jurisdiction as to the appropriate threshold to adopt for fee dependency, then the national standard setter or regulator of that jurisdiction could determine a different threshold.

At a time when globally, there is a focus on audit quality and independence, the perception that auditors can have 30% of their income from one client for five years could harm the public perception of the accounting profession.

APESB considers that there are two potential options in relation to this proposed measure. The first option would be to maintain the current provision but have a decreased threshold level. To be consistent with the approach for PIE audit clients, APESB suggests that the level of 15% be considered. The IESBA could consider obtaining empirical evidence as to the composition of fee dependency for non-PIE audit clients over an extended period to assess the validity of this threshold.

Alternatively, the IESBA could consider removing the threshold for non-PIE audit clients and have a principle-based approach to assess fee-dependency and to determine the action to be taken to address the threats created.

APESB notes that a similar approach is used in other sections of the Code, such as Section 540 Long Association of Personnel (including partner rotation) with an Audit Client. This approach allows for the scalability of the provisions to SMPs, and APESB would consider this the best method for addressing fee dependency in respect of non-PIE audit clients.

Australian stakeholders who attended the APESB roundtables expressed significant concern with respect to the high level of the threshold (i.e., 30%) for non-PIE audit clients and stated that they prefer to see a principle-based approach for fee-dependency for non- PIE audit clients.

16. New-Zealand Auditing & Assurance Standard Board (XRB)

The NZAuASB has concerns about the proposals in paragraph R410.14, in particular, the proposed threshold. The general reaction from the outreach performed is that five years seems long and 30% seems high. The NZAuASB recognises that there can be reasons for a high level of fee dependency, for example, when a new firm enters the market and is establishing itself. However, such a level of fee dependency would not be expected to last.

It is difficult to for the firm to maintain independence when there is a high level of fee dependency on an audit client. The NZAuASB is not convinced that setting timelines and establishing numerical thresholds is the best response to fee dependency as there may be qualitative factors that need to be considered.

If the IESBA determines that a numerical threshold is necessary, the NZAuASB recommends 15% for consistency with the requirements for public interest entities. It is the NZAuASB's view that high levels of fee dependency should be discouraged. The NZAuASB also recommends a reference back to paragraph

410.13 A4. The last three bullet points in this paragraph provide examples of ways to manage the client base.

Public Sector Organizations

13. United States Government Accountability Office (GAO)

We believe that the IESBA should take a principles-based approach for evaluating threats caused by possible fee dependency on non-PIE audit clients. In our view, a principles-based approach allows for firms to evaluate and reduce threats to an acceptable level.

Professional Accountancy Organizations (PAO's)

17. Joint Submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (ACCA-CAANZ)

We do not support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency for entities that are not PIEs. We believe that there is a risk that audit firms will focus solely on an absolute percentage threshold which would detract from the principles of the Code and adversely impact audit quality.

However, if the Board were to introduce a threshold for non-PIEs, we believe the proposed 30% in paragraph R410.14 is too high. There are significant variations in percentage fee dependency levels around the world and, in our opinion, an arbitrary threshold of 30% appears high in terms of the actual threat. Indeed, the Board acknowledges in the ED that "the thresholds proposed are not scientifically determined" and there is "no empirical evidence as to what [the threshold] should be".

We believe that if a percentage fee dependency level is adopted in the Code, it should recognise differences in market structures in other countries and take account of the risk posed by non-PIE audits in different jurisdictions. Furthermore, it should be clear in the application material that the intention is to decrease fee dependency over the time period and that high levels of fee dependency should primarily be in start-up firms.

We would urge the Board to reconsider the proposals for entities that are not PIEs. In situations where fee dependency continues for an extended period, we believe firms should simply continue to comply with the fundamental principles and apply the conceptual framework and the general provisions within the Code.

19. American Institute of Certified Public Accountants Professional Ethics Executive Committee (AICPA)

We believe a bright-line approach for determining the significance of a client (i.e., fee dependency) does not strike an appropriate balance for non-PIEs. Specifically, we are concerned that a bright- line approach for non-PIEs could (1) result in a firm failing to conduct an adequate assessment of its independence; (2) be subject to manipulation; and (3) place small firms at a disadvantage.

We recommend the IESBA instead adopt a principles-based approach for non-PIEs that would allow for the professional accountant to apply judgment to determine whether an audit client is significant to the firm, office, practice unit, or partner of the firm. Such approach could include having firms consider implementing policies and procedures to identify and monitor significant clients to help mitigate possible threats to a member's objectivity and independence.

We believe that the principles-based approach would strike an appropriate balance by providing firms flexibility in evaluating the threats created by significant clients, especially given the additional limitations to non-assurance work proposed by the IESBA NAS exposure draft. Exhibit A is an example of a principle-based approach from the AICPA Plain English Guide to Independence.

20. Association of the Italian Audit Firms (ASSIREVI)

Assirevi agrees that a consistent application of the provisions of the Code would be appropriate in carrying out the risk assessment of the self-interest and intimidation threats that may arise when the level of fees received by an audit client represents a significant percentage of the overall fees received by the auditor. However, in our opinion, neither the identification of a fixed threshold is consistent with the principle based approach underpinning the Code, nor is this responsive to any actual issues faced in practice. As a matter of fact, the application of the proposed threshold may lead to unintended consequences due to various factors, such as the existing differences in national legal frameworks, the different (and not always consistent) features of the audit, the size and operating structure of the audit firms. In fact, the largest audit firms, given the number of clients they serve and the related volume of business, have already implemented procedures and policies aimed at monitoring the fees received from their clients (sometimes setting thresholds that are even more stringent than those proposed by the Code). Conversely, medium and small audit firms could take advantage of a conceptual framework (and the principles thereof) that could represent a guide in the assessment of self-interest and intimidation threats created by fee dependency. However, also in this perspective, setting out a unique threshold for both big, small and medium audit firms would nonetheless create issues for the latter two categories.

In light on the above, it is the view of Assirevi that a different approach providing appropriate relevance to important qualitative aspects and not only to the circumstance that a fixed quantitative threshold has been exceeded, would certainly be preferable.

23. Compagnie Nationale des Commissaires aux Comptes (CNCC)

We agree with IESBA that the issue of fee dependency is important but we consider that it is properly dealt with in the extent Code. Therefore, we do not support the introduction of a threshold, especially for non-PIE audit clients,and we do not see what It brings to the issue, 30% Is arbitrary and it is discriminatory to the smaller firms. The IESBA codeis principle-based and should not set such kind of rules especially when they are so arbitrary.

We do not see any reason why the provisions of the extent Code should be changed regarding the fee dependency for non-PIE audit clients. The non-PIE audit market is still served by a number of SMPs and we believe that the introduction in the Code of the proposals in paragraph R410.14 would result In a greater concentration of the non-PIE audit market, which is not desirable.

We therefore recommend to revert to the extent provisions of the Code on that topic.

29. Instituto dos Auditores Independentes do Brasil (Ibracon)

We believe that situations related to fee dependency for non-PIE audit client should be discussed between client's governance and the audit firm. A threshold may discourage a proper threat assessment, including the application of safeguards. All threats arising from fee dependency should be evaluated under the conceptual framework, regardless of whether the audit client is a PIE or not. In addition, a threshold could limit the market for Small- and Medium-Sized Entities and Small and Medium Practices.

32. Institute of Chartered Accountants in England and Wales (ICAEW)

An international code needs to be set so as to be workable in a wide variety of jurisdictions, cultures and economies. Setting any absolute amount above or below which different actions need to be taken regardless of the circumstances, always runs the risk of failing to meet that criterion, and we understand why setting a very low threshold initially might be a problem. Nevertheless, 30% looks very high: we think the reasonable and informed third party would be likely to conclude that the prospect of losing nearly 30% of one's income in one go would constitute a significant threat to objectivity.

It may be better, in an international Code, not to have an absolute indicator if it cannot, due to practical considerations, be set at a lower level. This could be accompanied by off-Code 'persuasive' guidance indicating the thresholds already applied in various jurisdictions around the world. At the very least, at a 30% level, stronger safeguards are likely to be needed (see response to question 7 below).

36. Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the IESBA should take a principles-based approach for evaluating threats caused by possible fee dependency on non-PIE audit clients. In our view, a principles-based approach allows for firms to evaluate and reduce threats to an acceptable level.

37. Instutute der Wirtschaftsprüfer (Germany) (IDW)

We appreciate the intention is not to preclude firms from entering different markets whilst growing their client bases.

Furthermore, the proposed 5 years reflect a purely arbitrary number plucked from decisions made in relation to PIE audit clients in jurisdictions such as the European Union, and conveys the message that compromised independence – if this is really the case in fact and not only in appearance – may be acceptable for the first few years, with time lessening this acceptability. In our view, this is merely in terms of perception.

For these reasons, we appreciate the intention, but do not believe proposing an exact threshold will be a workable solution for the non-PIE audit market globally.

41. Japanese Institute of Certified Public Accountants (JICPA)

We do not disagree that, from the perspective of ensuring the credibility of the audit, independence should be maintained in the case of audit services to non-PIE clients as well as PIE clients. However, although the extent of public interest in non-PIEs is not large in comparison to that in PIEs, the number of non-PIEs is very large. Even if requirement on fee dependency were established based on one threshold value across the board, it would be impractical for the JICPA, as a self-regulated body, to monitor the state of compliance by its members, which would create concerns from the viewpoint of the effectiveness of the requirement.

45. Malaysian Institute of Certified Public Accountants (MICPA)

The proposal does not appeal to differentiate and address the need of auditors who audit large non-PIE audit clients and auditors who audit small-medium non-PIE audit clients. Small practitioners with a handful number of audit clients will easily breach such requirements proposed in the Code. It is recommended that the IESBA looks into the scalability of the proposal, such as tiered system or any other forms that address the different business models of practitioners.

With regard to the threshold, 30% is not supported by an empirical evidence. The threshold should not be set merely based on certain activities. Paragraph 63 of the Exposure Draft highlighted that these are fact-finding activities, the IESBA should disclose the details of the fact-finding activities and how 30% was derived. Without appropriate empirical evidence, the threshold of 30% can be considered as unduly high and certain stakeholders may not agree with it.

Firms

51. BDO International Limited (BDO)

While we agree that many stakeholders would be of the view that consistent fee levels at 30% of total fees would result in a high level of threat to independence, for non-PIEs, our preference is for the Code to remain principles-based rather than selecting a threshold as proposed in R410.14.

53. Deloitte Touch Tohmatsu Limited (DTTL)

We agree with the suggestion that an audit partner's or audit firm's independence might be threatened by fee dependency regardless of whether the audit client is a PIE or not, and as such, the threats should be evaluated under the conceptual framework. Though we do not see any need to change the extant position and introduce a specific threshold for non-PIEs, it is reasonable in principle to include a threshold for fee dependency on non-PIE audit clients as well. We do not object to this being a different threshold to that for PIEs, recognizing the different public interest concerns.

56. KPMG IFRG Limited (KPMG)

For non-PIE audit clients, we do not support the proposal of a specific fee dependency benchmark. We believe the Code should remain principles-based, allowing the auditor and firm to apply the conceptual framework to evaluate and address threats to independence. We have concerns that establishment of a specific fee dependency benchmark will discourage the appropriate evaluation of a threat created by fee dependency and the application of appropriate safeguards when the benchmark in the requirement is not met. We suggest that the safeguards proposed in R410.14 could be incorporated into the list of potential safeguards in 410.13 A7 to acknowledge their possibility as an appropriate safeguard for non-PIE audit clients.

57. Mazars Group (MAZARS)

We do not believe that including a threshold for addressing threats created by fee dependency for non-PIE clients is helpful or appropriate and is not wholly consistent with a principles based code. Setting such a threshold is likely to disproportionately impact smaller and newly formed firms and hence overall competition in the audit market.

61. RSM International Limited (RSM)

We do not support the introduction of a threshold for non-PIE audit clients. The IESBA code is principles based and we do not believe that IESBA should set such rules for audit clients that are not in the public interest. The non-PIE audit market is served by many small and medium-sized practices and we believe that the introduction in the Code of the proposals in paragraph R410.14 might result in a greater concentration of the non-PIE audit market, which would not be desirable.

4. No comment

Regulators and Oversight Authorities, Including MG members

1. Bangladesh Financial Reporting Council (BFRC)

2. Committee of European Auditing Oversight Bodies (CEAOB)

3. Capital Market Authority – Saudi Arabia (CMASA)

6. International Forum of Independent Audit Regulators (IFIAR)

7. International Organization of Securities Commissions (IOSCO)

8. National Association of State Boards of Accountancy (NASBA)

NASBA believes that firms should evaluate threats to independence resulting from dependency on a client's fees at the firm, office and individual partner levels. We have not conducted any studies or other research as to whether or not 30 percent is likely an appropriate threshold for requiring specific safeguards. We recommend that IESBA clarify in the provision that the firm should apply safeguards in the earlier years (i.e., prior to applying the required safeguards in year five) to effectively mitigate threats to independence.

Preparers and Those Charged with Governance

14. Japan Audit & Supervisory Board Members Association (JASBMA)

Professional Accountancy Organizations (PAO's)

27. Institute for Accountancy Profession in Sweden (FAR)

48. South African Institute of Chartered Accountants (SAICA)

Firms

58. Moore Global Network Limited (MOORE)

Given the economic crisis brought on by the pandemic we expect that reduction in audit clients will result in many firms breaching fee dependence limits, including those proposed, at least in the short term and recognition needs to be given that these are unprecedented times and that a level of tolerance may be required to allow firms to rebuild their practices following the devastating effect this pandemic is having on client numbers and fee levels. At the least the proposed implementation date should be deferred in order to give the situation time to settle down

Others

62. US Center for Audit Quality (CAQ)

64. Porus Pavri (PP)