

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?

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

5. Independent Regulatory Board for Auditors (IRBA)

Yes We are supportive of the proposed R410.19. We would also suggest that this be closely monitored with TCWG on a year-to-year basis to allow for changes in audit firms, as required.

While there is a concern about firms that are new or growing, five years seems like a sufficient time to grow the fee base so as not to breach the 15% threshold. We would caution against extending this time period beyond the five-year period, as it would have compatibility issues with other legislative requirements such as Mandatory Audit Firm Rotation

Public Sector Organizations

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

The proposal in paragraph R410.19 seems to be appropriate, although we hope a firm would never have to face that situation. Our observation is that a firm must monitor the fee dependency threat well before the 15% threshold is reached to avoid the very serious consequences for the firm and the entity it is auditing once that threshold is reached.

12. Auditor General of South-Africa (AGSA)

We agree that after a certain period of time, the fee dependency would become so persistent and fundamental and the application of a pre-issuance review will not be an effective safeguard if the fee dependency continues beyond five years.

This provision should be applied prospectively to limit the effect on firms.

It is unlikely that fee dependency will result in a threat to the independence of a SAI [*Supreme Audit Institution*], due to the number of auditees the SAI is mandated to audit. Where the audit of public sector institutions is however performed by private firms, these firms should also cease to be the auditor after a consecutive 5 year period.

Independent National Standard Setters

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

APESB is supportive of the requirement for a firm to cease being the auditor of a PIE audit client if fee dependency continues after 5 consecutive years.

In relation to the operability of this provision, there are specific requirements in Australian legislation that restrict the ability of an auditor to resign from a public company. The auditor must seek approval from the

regulator, the Australian Securities and Investments Commission (ASIC), to be able to resign. This existing obligation would appear to fit within the exception in proposed paragraph R410.20, specifically part (a), however, APESB believes it would add clarity to the provision if this paragraph specifically referred to the firm needing to meet the requirements of applicable laws and regulations.

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

The NZAuASB agrees with the proposal to require a firm to cease to be the auditor if fee dependency continues after five consecutive years for an audit client that is a public interest entity.

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 support the proposal to require a firm to cease to be the auditor if fee dependency continues after five consecutive years in the case of a PIE. We believe transparency is in the public interest and this requirement will ensure a firm remains independent and maintains its objectivity. However, we have concerns about unintended consequences arising from the requirement to resign and the operability of the proposed exception in some jurisdictions, as this could be burdensome for the auditors of smaller PIEs and the audited entities concerned.

18. Accountancy Europe (AE)

Yes, we agree with this proposal. The EU Audit Regulation already requires an audit firm to cease to be the auditor of a PIE client if the perceived fee dependency continues for five consecutive years.

22. Chartered Accountants of Ireland (CAI)

We agree with the proposal in this paragraph

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

We agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after 5 consecutive years in the case of a PIE audit client.

30. Inter-American Accounting Association (IAA)

Yes, we agree that the auditor ceases to perform an audit client, who is PIE, after issuing his opinion for the fifth year, if the fee reliance provided in paragraph R410.17 continues for five consecutive years, with the exceptions provided in R410.20.

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

Yes, we support both the requirement and the exception. In the audit of a public interest entity, perception is of critical importance and, in the absence of extenuating circumstances, we do not believe that an extended period of perceived dependence is tenable.

The exception in R410.20 seems to cover necessary circumstances, though in stating that we are assuming that reasonable transitional provisions would be applied by the Board on initial application of these new requirements.

33. Institute of Chartered Accountants Ghana (ICAG)

We agree since beyond 5 years this fee dependency would become so persistent and fundamental that no safeguards would be capable of reducing the threats to an acceptable level. Therefore, the only solution would be to resign from the engagement. Specific concerns about the operability of this paragraph we can think of include the fact that worldwide there might be varying situations relating to national anti-competition or anti-trust laws. This will definitely factor in the operability of this provision .

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

Yes – we agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues in the case of a PIE audit client after 5 consecutive years.

Further we note that paragraph 59 of the Explanatory Memorandum states the following: “In relation to this proposed requirement in paragraph R410.19, the IESBA noted that in some jurisdictions, laws or regulations might prohibit firms from resigning as auditor from a client relationship. The IESBA agreed that the Code already addresses such a circumstance in the overarching requirement in Section 100 to the effect that the Code cannot override laws and regulations. Therefore, if laws or regulations prohibit a firm from ending the audit engagement after five years, the firm must continue to be the auditor for such period as required under those laws or regulations.”

The local laws and regulations override is not mentioned in paragraph R410.19. However, we believe that it would be more helpful to users if R410.19 did specifically address this matter. We note that there is a specific paragraph in the proposed new provisions in IESBA’s Exposure Draft: “Proposed Revisions to the Non-Assurance Services Provisions of the Code”, which states: “600.6 A1 Paragraphs R100.3 to 100.3 A2 set out a requirement and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.”

We suggest the following wording for R410.19:

“R410.19 Subject to paragraphs R100.3 to 100.3 A2 and paragraph R410.20, if the circumstances described in paragraph R410.17 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

40. Institute of Singapore Chartered Accountants (ISCA)

We agree with the proposal to require an audit firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client as stated in paragraph R410.19. We believe that this proposal will mitigate situations in which fee dependency on a PIE audit client become persistent and no safeguard could be applied to reduce the self-interest and intimidation threats to an acceptable level.

We question the operability of this proposal if it is expected to be applied on the network firms. If this proposal applies to network firms, it raises the question on whether the network firm is able to continue as the statutory auditor of the related entities in other jurisdictions when the threshold of fee dependency is crossed, i.e. when the total fees from audit client and its related entities exceed 15% of the total fees of the firm expressing the audit opinion on the financial statements.

37. Institute der Wirtschaftsprüfer (Germany) (IDW)

We agree with this given the public interest connotations attaching to PIE audits.

42. Korean Institute of Certified Public Accountants (KICPA)

If circumstances of fee dependency continue beyond a certain period, it could create a threat to independence. In case of audit clients that are PIEs, the level of relevant threats would be substantial. If circumstances of fee dependence continue for five consecutive years, it is likely that fee dependence on the client is persistent, thereby increasing the possibility of lacking safeguards that could reduce the threats to an acceptable level. Given this, we support the proposals in the paragraph 410.19, and as for its operability, we have no particular concerns.

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

We do support the proposal but more guidance should be provided on action plans on what a firm can be doing to reduce the prescribed dependency period.

We recommend that fee dependency ceasing period of five years to be as proposed but room should also be given for jurisdictions to determine the time period.

48. South African Institute of Chartered Accountants (SAICA)

SAICA supports the proposal and in our view we believe 5 years is sufficient time to address the dependency issues. Given that these are public interest entities the requirement is reasonable.

We suggest that the Engagement Quality Control Review (EQCR) is performed as a mandatory requirement for each year after the second year where the 15% is occurring, up to and including the final year before rotation requirements apply.

49. Wirtschaftsprüferkammer (Germany) (WPK)

We agree with the proposed paragraph R410.19 to require a firm to cease to be the auditor if the perceived fee dependency continues after consecutive 5 years in the case of a PIE audit client. This requirement is in line with the EU Audit Regulation (No 537/2014, Art. 4 paragraph 3).

Firms

50. Baker Tilly International (BKT)

Yes, we agree with the proposal in R410.9, subject to R410.20, that firm rotation would be the most appropriate course of action in this situation to overcome the self-interest threat in this situation.

54. Ernst & Young Global Limited (EY)

We agree in principal with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues in the case of a PIE audit client.

58. Moore Global Network Limited (MOORE)

We broadly support this approach in safeguarding independence in the public interest.

However, again we feel that in this period of economic recession now is not the time to be making such changes

2. Support with reservations

Regulators and Oversight Authorities, Including MG members

10. United Kingdom Financial Reporting Council (UKFRC)

Such a dependency should not be permitted to continue for as long as 5 years.

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

IESBA should consider defining a shorter period (i.e. less than 5 years) for a firm to cease to be the auditor if fee dependency continues in the case of a PIE audit client in order to mitigate threats to independence.

Professional Accountancy Organizations (PAO's)

20. Association of the Italian Audit Firms (ASSIREVI)

Assirevi regards as remote the circumstance identified in paragraph R410.19, where reference is made to a particularly long-lasting situation of fee dependency (5 years). In such cases, under the EU and Italian legal framework, TCWG are already expected, well before the end of the above period, to assess whether the audit firm can continue to perform the statutory audit, on the ground of valid reasons. TCWG should carefully evaluate the threats to independence, on the one side, and the impact of the decision to terminate early the audit engagement, on the other hand.

21. Botswana Institute of Chartered Accountants (BICA)

Five year provided in paragraph R410.19 is too long for a PIE. In any case, most PIEs tend to bid to change auditors every three or five years. This would mean an audit firm that is not being retained, would have exceeded the threshold for the entire duration of the relationship with the client. Engagement Quality Review notwithstanding, the period should be adjusted to three years.

This aspect is important as it brings into consideration whether audit firms taking up PIE audit may be too small to audit PIEs. If a firm goes for more than two years with fees of a single PIE exceeding 15% of total firm fees that would signify risk of fee dependency and that the firm may even lack capacity to assume new clients and therefore too small for the PIE.

31. Institute of Chartered Accountants of Bangladesh (ICAB)

The definition of PIE in the proposed Code termed as “entity of significant public interest”, discussed in paragraph 18 of this Explanatory Memorandum. In the local context the definition of PIEs was made so widened that most of the business entities will be categorized under PIEs. So, there are differences between the definition of PIE stated in the Code and the local definition of the same. So, we believe that the definition of PIE also needs further clarity for determining such fee dependency.

However, assuming the meaning of PIE as “entity of significant public interest”, we agree with the IESBA’s approach to the revisions in proposed paragraph R410.19 which stated that a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client. We agree with the IESBA’s view that fee dependency on an audit client that is a PIE cannot continue indefinitely, 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. We believe that this proposed procedure will enhance the accountability and objectivity of the firms.

It is also noted that in some jurisdictions, laws or regulations might prohibit firms from resigning as auditor from a client relationship. The IESBA agreed that the Code already addresses such a circumstance in the overarching requirement in Section 100 to the effect that the Code cannot override laws and regulations. Therefore, if laws or regulations prohibit a firm from ending the audit engagement after five years, the firm must continue to be the auditor for such period as required under those laws or regulations.

But we have concerns about the proposed revision stated in paragraph R410.19 mainly due to the differentiation in definition of PIE by local authorities. The insight of this provision may be impacted if the local authorities define PIE so widely and not in line with IESBA’s indication.

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

ICPAU support this proposal. ICPAU is aware that in number of jurisdictions including Uganda, there are mandatory audit rotational terms for a number of PIE audit clients that that are shorter than the five year period. ICPAU proposes that guidance be included in this paragraph for a firm to cease to be an auditor of PIE client if fee dependency continues after a period prescribed by an independent regulatory body or professional body in the relevant jurisdiction. ICPAU envisages that a period shorter than 5 years will be more acceptable in some jurisdictions.

38. Mexican Institute of Public Accountants (IMCP)

Yes, but we propose to reduce the number of consecutive years to 3, instead of 5, as it is currently proposed

45. Malaysian Institute of Certified Public Accountants (MICPA)

We understand that the proposal of consecutive 5 years is to follow the existing rules in Europe. We are of the view that the 5 years may not be suitable to many other countries. In view of this, it is recommended to use consecutive 7 years, following the 7 years partner rotation period, in order to cater a wider group of users of the Code.

Firms

53. Deloitte Touch Tohmatsu Limited (DTTL)

We have concerns about the operability of the requirements in R410.19 given the different laws that exist around the world with respect to audit resignations – even though the Board recognizes that the Code cannot override laws and regulations and has provided exceptions in R410.20, such as consultation with a regulator, which seems an appropriate safeguard.

The provisions should be clear that while the Code may require resignation as there is no alternative safeguard in this situation, it does not imply it is because the audit firm is no longer independent. If the audit firm cannot cease under law or there are compelling reasons not to do so, it should specifically be stated that such audit firm is not in breach of the Code, its objectivity is not impaired, and it can continue as auditor. It is not clear in such a situation whether the firm is required to continue applying the same actions in the following years as it has in the prior five years, so we suggest this be clarified.

60. PricewaterhouseCoopers International Limited (PWC)

We regard a “5 year” requirement as overly generous and, given the threats to independence, suggest that the Board consider reducing this to say 3 years.

Again, an exception might reasonably be included where a firm is acting as a component auditor of a large group audited by the Network, given that it is in the public interest for the financial statements to be audited for group reporting purposes and since the request to perform the work is coming from another firm in the Network.

3. Does not support

Preparers and Those Charged with Governance

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

This Exposure Draft calls for resignation of the auditor when fee dependency on an audit client that is a PIE exceeds 15% for 5 consecutive years. However, this provision would become a factor in large companies avoiding to request audit services to small and medium-sized auditing firms, thereby creating the concerns over the promotion of oligopoly. Moreover, from the perspective of ensuring a wide range of auditor choices for small-scale listed companies in rural areas and companies seeking to be listed, the existing restrictions can be considered appropriate.

Professional Accountancy Organizations (PAO's)

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

We believe the mandatory firm rotation called for in R410.19 may act as a barrier for some firms to providing audit services to PIEs. Accordingly, we recommend the IESBA eliminate the mandatory rotation until there is evidence to support its inclusion.

23. Compagnie Nationale des Commissaires aux Comptes (CNCC)

We do not support the introduction in the Code of this new proposal which sets an obligation to cease the engagement without offering any possible safeguard. It is excessive. Here again, the issue should be first discussed with those charged with Governance who are ultimately responsible to judge whether they are satisfied with the independence of the auditor.

24. CPA Australia (CPAA)

While CPA Australia understands the intent of the IESBA to improve public perceptions regarding the independence of the auditor where fee dependency issues exist, CPA Australia does not support a requirement which takes the form of Mandatory Audit Firm Rotation (MAFR). The requirements of R410.19 may practically result in there being no option for a firm, other than to resign from the engagement. Depending on the particular circumstances of the client, the complexity of their business, the geographical location and the availability of practitioners with the appropriate skills to accept the engagement, MAFR may not be in the public interest.

CPA Australia is concerned that the requirements of R410.19 may be inconsistent with the IESBA's views on MAFR over the past decade.

The IESBA would need to be clear in its intention given; the sensitive nature of MAFR; the potential negative impact on SMP audit firms; and the approach previously taken by the IESBA when addressing issues of rotation elsewhere in the Code

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

We agree with this in principle.

We do, however, have concerns as to whether it can be effectively operationalized. IESBA is a standard setter, not regulator, and should avoid superseding the authority of those who currently have the right to appoint auditors, typically shareholders. Transparency of public disclosure on fees is designed to enable those charged with appointing auditors to make an informed decision in the best interest of the audited entity.

Furthermore, we understand that the evidence of a relationship or association between fee dependency and auditor independence / audit quality is not conclusive. The IESBA might wish to instead have a principles-based provision that requires the firm, when total fees from an audit client exceed 15%, to consider whether a reasonable and informed third party would likely reach the conclusion that there is fee dependence.

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

While we support rotation mechanism of audit partner or firm would act as a safeguard to address independence issue, there is little basis to impose an arbitrary mandatory rotation time period with limited empirical basis. Certain jurisdictions may already impose audit rotation rules, it may create unnecessary burden for firms to keep track observe the requirements for local requirement and global Code. We consider the requirement for a mandatory rotation of firm should be regulated by the local authority. As the Code is for global application, it is more appropriate to for the Code to provide guidance/application materials that how the audit client and auditors should assess and perform in order to maintain Independence of mind and Independence in appearance or recommend the timing to consider rotation of firm, but not a rigid requirement.

We would suggest the IESBA to provide further clarification in circumstances where there are local laws and regulations governing mandatory firm rotation.

29. Instituto dos Auditores Independentes do Brasil (Ibracon)

We recognize that fee dependency might be a significant threat to the auditor independence. However, the Code establishing an obligation to cease the audit might bring some legal issues for certain jurisdictions where the auditor resignation is complex. Therefore, the Code could present safeguards to be applied every year and enhancements on those safeguards for every year that the fee dependency is raised, regardless of the five years-period. Concurrence with the client's governance should also be considered to reduce the threats in an acceptable level.

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

In India, there are statutory provisions for the individual professional accountant in practice to undergo mandatory rotation in five years. The corresponding provision for rotation in case of Firm is 10 years.

Additionally, we have incorporated the compliances with regard to partner rotation as stipulated in IESBA Code of Ethics.

We are therefore not in agreement with this proposal as laws in our Country have already dealt with the issue.

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

A simpler approach would be for non-assurance services to be banned and therefore the issue of fee dependency would not arise.

The proposal adds another degree of complexity for audit firms, and another rule.

Furthermore, we disagree with the proposed five-year term and consider that two year-term would be more appropriate.

41. Japanese Institute of Certified Public Accountants (JICPA)

We do not agree.

As the JICPA commented in the opinion it submitted on July 10, 2018 in response to the request for comments on the IESBA Consultation Paper "Proposed Strategy and Work Plan, 2019-2023," when developing the Code of Ethics we believe it is important to set evidence-based standards (i.e. to set standards based on appropriate research and evidence concerning issues to be addressed). We also believe it is important that the burden of changing the Code and merit brought to the public interest are fully analyzed, and that the details and results of these analyses are disclosed in exposure drafts and basis for conclusions. IESBA itself recognized the importance of evidence-based standard setting, in paragraphs 32 and 33 of the "Strategy and Work Plan, 2019-2023" published in April 2019.

According to paragraph 58 of the explanatory memorandum in the Exposure Draft, IESBA noted that no safeguards would be capable of reducing the threats to an acceptable level in the cases where fee dependency exceeds 15% for more than five consecutive years. With regard to this conclusion, we believe it

is necessary for IESBA, as the standard-setting body, to take a step to confirm that the current rules are no longer functioning effectively.

On this point, we believe that this step has not been executed appropriately in relation to the proposed revision, and that rational grounds for the necessity of changing the current rules have not been presented to those involved in audit services.

Because Japan has a relatively high number of listed companies, and audits for PIEs are carried out by a large number of small and medium-sized audit firms, we expect resignation clauses to be applied in some cases. We understand that it is important to maintain independence (including independence in appearance) in order to ensure the credibility of the audit, but because this is a change in provisions that would have a significant impact on companies and auditors, we believe that a judgment should be made on whether to proceed with the amendment, based on a implementation review of the current rules at least and after which the understanding of the companies and auditors who would be affected by this revision should be sought.

In addition, in paragraph R410.25 (c), the firm is required to disclose information about fee dependency. Disclosure of this information will assist stakeholders (such as TCGW, shareholders, and investors) in making their judgments about independence (including independence in appearance) of the auditor. We believe that, rather than a means of requiring an auditor to resign, entrusting the judgment to stakeholders is an effective measure that is to serve the public interest.

44. Malaysian Institute of Accountants (MIA)

We do not agree with the proposal because it is prescriptive and may not be practicable in emerging and developing markets.

46. New York State Society of CPAs (NYSSCPA)

We do not understand why fee dependency would be acceptable for five years, but become an insurmountable obstacle in the sixth year. We understand that five years has been put forward in Europe and elsewhere as the period of time after which a client needs to send an audit engagement out to bid. Fee dependency is a threat to an auditor's independence. That threat is assessed anew each year through the engagement continuance process. Accordingly, the threat does not accumulate over time. We believe that five and six years is an artificial time constraint. If a firm is able to successfully implement safeguards to reduce the threat to an acceptable level in the first year and each subsequent year, there is no reason for IESBA to require the firm to cease being the auditor. On the other hand, if the firm's safeguards are not able to reduce the fee dependency threat to an acceptable level in the first year, the firm should be required to cease being the auditor immediately rather than waiting five additional years.

Firms

51. BDO International Limited (BDO)

We do not agree that the proposed requirement R410.19. should be included in the IESBA independence standards. Such an inflexible requirement at a global level could have unforeseen and unintended consequences to the local audit market.

The appropriateness of mandatory firm rotation due to fee dependency should take into account local jurisdictional facts and circumstances and be dealt with by national standard-setters or local regulators.

55. Grant Thornton International Limited (GTIL)

GTIL does not agree with the proposal in paragraph R410.19 requiring a firm to cease to be the auditor if fee dependency continues after 5 years for a PIE audit client.

We believe there are safeguards that could be utilized by the firm to sufficiently mitigate any threats, such as: requirements in professional standards and jurisdictions regarding disclosure of fees to the audit committee/Those Charged With Governance (TCWG), including a discussion of any threats to independence that way arise as a result of fees and the safeguards applied to mitigate those threats, requirements in professional standards and in jurisdictions regarding disclosure of fees in the audit report, performing pre-issuance reviews of the audit engagement, including the audit engagement in the firm's list of engagements that require inspection under proposed ISQM1 when the audit fees from the engagement exceed 15% of the total fees received by the firm, and firm rotation requirements in certain jurisdictions

Furthermore, we believe firms and network firms will face challenges where they have PIE audit clients in smaller markets or specialized industries and are required to cease being the auditor after five years because of fee dependency. This will be problematic, as there may not be many firms that have the specific expertise to service these audit clients in these markets, having a direct impact on audit quality. Additionally, firms that could provide quality audits may be conflicted out for providing non-assurance services.

Accordingly, we believe in these circumstances where fees exceed 15% of total fees received by the firm from a PIE audit client, the audit committee/TCWG should make the determination based on the relevant facts whether the firm can continue to perform the audit of the PIE.

56. KPMG IFRG Limited (KPMG)

For PIE audit clients, we have concerns about the proposal requiring termination of the audit relationship if the fee dependency circumstance described in R410.17 continues for five consecutive years. We believe this requirement in certain cases could impact audit quality, especially where TCWG have a better line of sight to auditor independence concerns and can make informed decisions on the need for a firm to rotate off the audit engagement.

57. Mazars Group (MAZARS)

We do not agree with the proposal to force a firm to resign as auditors of a PIE client if fee dependency continues for five consecutive years. A better approach would be to require the formal approval of the appointment by TCWG/Audit Committee as they best qualified to consider auditor independence in relation to a specific entity.

61. RSM International Limited (RSM)

No, we do not support this. We do not understand why, having been able to apply safeguards in years one to five, it would not be possible to apply safeguards in year six. The matter should be discussed with those charged with governance to determine whether safeguards can be applied to allow the firm to continue as an independent auditor

Others

62. US Center for Audit Quality (CAQ)

We support the requirement of the extant Code to disclose to TCWG of the audit client if total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client for two consecutive years. We agree it is important for TCWG and audit firms to evaluate and address self-interest or intimidation threats that may be created in this circumstance.

We do not agree with the Board's view that the relative size of fees from an audit client in relation to the total fees to the firm cannot continue indefinitely. The Board states in paragraph 58 of the Explanatory Memo, "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 IESBA is proposing that the Code should require the firm to cease to be the auditor if the fee dependency continues for more than five consecutive years. (See paragraph R410.19)." We believe the individual circumstances should be evaluated and discussed with TCWG.

The Board acknowledges local laws and regulations might prohibit firms from resigning as auditor from the client relationship. Similar to the rationale of local regulators, TCWG of PIEs should make the determination whether to retain their auditor. There may be valid reasons such as limited availability of expertise or competition for why TCWG decide to continue with the auditor.

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

It appears that this proposal might over-extend the IESBA's authority to set up rules for global application. As a standard-setter, IESBA's proposal may end up stepping into the authority currently vested in those who have the right to appoint auditors, usually on an annual basis (in many jurisdictions, it is usually the shareholders, but not always). For example, in France, this proposal may not be in alignment with local legislation regulating the appointment and resignation of auditors. The reason for the transparency of public disclosure on fees, in our view, is to enable stakeholders and TCWG to make a better decision based on the

information as disclosed. We consider that stakeholders can be expected to act in the best interest of the entity and hence, can be seen as an effective safeguard in such a situation.

As mentioned earlier in this letter, we believe that this is a matter of perception that is being dealt with using a rule based rather than a principles-based approach, a departure of what IESBA has been committed to pursue in the restructured Code. As highlighted in our NAS response, we are concerned that the Code is slowly being seen as becoming overly prescriptive as it moves away from being principles based. This in itself creates a risk to the profession.

The SMPC is also concerned that the new rule being proposed could result in unintended consequences and that the undue cost of introducing this proposal will highly exceed the benefit of which it is still unclear. There is also the possibility of increased market concentration of larger firms because of the foreseeable barrier for newly set-up firms to enter the PIE audit market.

On a separate note, should IESBA consider it appropriate to proceed, the SMPC would like to urge the Board to consider the flexibility that can be accorded. In the Board paper of June 2019, there was a proposal that “when determining whether the total fees received from an audit client that is a public interest entity substantially exceeds 15%, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would likely to reach the same conclusion...”. It is much preferable than a “bright line” of 15%. While we will not be debating whether this should belong in a principles-based Code in the first place, we believe that such flexibility may merit some consideration. In our mind, this should not be dealt with in such a way that borderline cases will result in fee pressure to keep the fee below the limit – just to be in compliance with the Code.

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)**
- 4. Irish Auditing & Accounting Supervisory Authority (IAASA)**
- 6. International Forum of Independent Audit Regulators (IFIAR)**
- 7. International Organization of Securities Commissions (IOSCO)**

Public Sector Organizations

- 13. United States Government Accountability Office (GAO)**

Professional Accountancy Organizations (PAO's)

- 27. Institute for Accountancy Profession in Sweden (FAR)**
- 47. Royal Netherlands Institute of Chartered Accountants (NBA)**

Firms

- 52. Crowe Global (CROWE)**

Others

- 64. Porus Pavri (PP)**