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Mr. Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue
New York, New York 10017
USA

Re: *Proposed Revisions to the Non-Assurance Services Provisions of the Code*

Dear Mr. Siong,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) Exposure Draft (ED) in respect of Proposed Revisions to the Non-Assurance Services (NAS) Provisions of the Code.

BDO is dedicated to upholding the highest ethical standards and complying with both global and firm policies and external professional standards. Independence is the cornerstone of our profession and the fundamental principle from which reliability of audit, review and other assurance reports to third parties is based. As a member of the accountancy profession, we accept the responsibility to act in the public interest. We support the Board in working to keep the IESBA Code relevant and fit for purpose.

General comments

Overall, we support the direction of this ED and include two overarching comments with regards to the timing of the Project on Definitions of Listed Entity and PIE (definitions project) and the withdrawal of the materiality qualifier in relation to certain NAS provisions.

Timing of the Definitions project (project proposal - Definitions of Listed Entity and Public Interest Entity (PIE))

We believe that alignment of the timing of this project together with the NAS and Fees projects is critical. We are pleased to see the acceleration of the definitions project.

We recommend that the finalization of the NAS and Fees projects be aligned with the definitions project. This would allow IESBA to consider if re-exposure of the NAS and Fees projects is necessary. Our views expressed herein are based on the current definition of PIEs and could change should the definition of PIE change.

Removal of the materiality qualifier in relation to self-review threat for PIEs.

We understand the rationale for making the NAS prohibition more restrictive in this respect. As such, we support removing the details of the materiality qualifier. Implicit in our support

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of this change, the evaluation of the self-review threat requires meeting the three factors included in paragraph 600.11.A2.

Specific comments

Our views in response to the specific questions posed are as follows:

Prohibition on NAS that Will Create a Self-review Threat for PIEs

- 1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?**

We support the proposal. Implicit in our support of this change, the evaluation of the self-review threat requires meeting the three factors included in paragraph 600.11.A2.

Feedback has been provided in the general comments above regarding the timing of the definitions project.

- 2. Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?**

We support the three criteria included in 600.11 A2 subject to the following comment.

In the lead-in of 600.11 A2, it states the need to consider if the provision of a non-assurance service involves ‘*determining whether there is a risk that*’ the items (a) - (c) will occur.

We believe this adds an extra level of uncertainty, as it is not clear why we are required to consider if there is a risk of the three items occurring rather than simply determining if the three items will occur.

Our recommendation is to revise the text as follows: ‘...determining ~~whether there is a risk that:~~’

Providing Advice and Recommendations

- 3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?**

We do not believe that the proposed application material relating to advice and recommendations is sufficiently clear in section 600.

Paragraph 600.12 A1 - Providing Advice and Recommendations is a new category within section 600 and it is not clear in what situations this paragraph would be applicable or distinguishable from other services and therefore, we would request clarifying examples of situations that would and would not create a self-review threat and when this service would be distinguishable from other services such as tax planning to assist with the interpretation of this new category.

Paragraph 604.12 A2 (c) - The term ‘more likely than not’ is becoming more commonly used and understood for tax purposes and we would ask IESBA to consider use of this term instead of ‘*Have a basis in tax law that is likely to prevail.*’

Project on Definitions of Listed Entity and PIE

4. Having regard to the material in section I, D, 'Project on Definitions of Listed Entity and PIE,' and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

We support the scope and approach set out in the approved project proposal for this important project. We believe that the IESBA Code should continue to focus on setting global characteristics of PIEs and leave specific requirements as to which entities should be scoped in by the definition to be determined at the local country level.

As noted in the general comments above, we recommend that the finalization of the NAS and Fees projects be consistent with this project. This would allow IESBA to consider if re-exposure of the NAS and Fees projects is necessary. This may be appropriate where the extent of changes proposed to the definitions are significant, as they may impact our (and others) response to the NAS and Fees ED.

Materiality

5. Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B 'Materiality')?

We support the proposal. Implicit in our support of this change, the evaluation of the self-review threat requires meeting the three factors included in paragraph 600.11.A2.

6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:
 - Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?
 - Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?

Yes, we support the proposal for these prohibitions.

Communication with TCWG

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

Overall, we support the proposals for improved communication with TCWG including the requirement for obtaining concurrence from TCWG for the provision of a NAS to a PIE audit client. We would recommend the inclusion of a de minimis exception to avoid an undue burden on both the auditor and the audit client if these situations were to arise. The U.S. SEC provides for such a de minimis exception under SEC Rule (c)(7)(i)(C) (*Audit committee administration of the engagement*).

Paragraph R600.19 requires the concurrence of TCWG on the firm's conclusion that any threat to independence has been eliminated or that the safeguards the firm proposes to apply will reduce such threat to an acceptable level. We would recommend a change to R600.19 (b) to include that TCWG concur with the identified threats that the firm has concluded are at an acceptable level. This would require that all threats be reported to TCWG and they concur with the conclusions reached by the firm.

Proposed text:

'The firm's conclusion that any threat to independence is at an acceptable level, or has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level'

R600.20 and 600.20 A1 - in situations where a non-assurance service is currently or was previously provided and the client becomes a PIE - in the extant code, the firm could address threats that are created that are not at an acceptable level. The revised wording requires the firm to discuss the actions with TCWG to obtain their concurrence and the two examples of safeguards provided require the engagement of another firm.

We are aware there may be circumstances where changing auditors would be a disproportionate response to the assessed risk or impact adversely on audit quality, e.g. the entity obtaining PIE status around year end. Therefore, we recommend an additional safeguard be available such as the appointment of a professional accountant within the firm who was not involved in the audit or the NAS engagement to review or re-perform the affected audit work.

Other Proposed Revisions to General NAS Provisions

8. Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

Yes, we support this proposed move.

9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Yes, we support these proposals.

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:

1. The concluding paragraph relating to the provision of services that are 'routine or mechanical' in proposed paragraph 601.4 A1?
2. The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?
3. The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?

4. The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

With respect to the specific paragraphs mentioned above:

1. We support the revision proposed in paragraph 601.4 A1.
2. We support the withdrawal of the exemption in extant paragraph R601.7.
3. We support the new prohibition in proposed paragraph R604.4. However, the wording of the paragraph is difficult to follow; we would recommend revising the paragraph to make the prohibition clearer.
 1. Within sub-section 607 - litigation support services:
 - a. We support the new prohibition related to litigation support services for a PIE audit client when there is a self-review threat in proposed paragraph R607.6.
 - b. We support the new prohibition relating to acting as an expert witness for PIE audit client unless appointed by a tribunal or court (as proposed in paragraph R607.9). However, we believe additional criteria as suggested below would enhance the application of the prohibition:
 - The client is not involved in the selection or appointment by the tribunal or court (conforming changes to 607.7 A3) and
 - An exception is added for class action lawsuits where the client is one of many participants - The AICPA Interpretation 1.295.140.04a for expert witness services could be considered as possible guidance.

We have noted the following addition items for consideration:

Tax Services Involving Valuations R604.19 - includes a prohibition for a firm or network firm performing a valuation for tax purposes for a PIE if the provision of that service will create a self-review threat. Within the proposed paragraph is an exception if certain criteria are met. We believe this could be confusing when considering the proposed overall prohibition for self-review threats in R600.14. Our suggestion is to provide the 'exception' as an example of what would not create a self-review threat.

Forensic or investigative services - While we agree that such services should be included under the examples of litigation support services, we recommend an exception be made for PIEs where the services involve an internal investigation, for example, at the direction of TCWG. The U.S. SEC allows such internal investigations or fact-finding engagements and as noted by the SEC in its Rules Release (January 2003), performing such procedures are consistent with the role of the independent auditor and should improve audit quality.

Proposed Consequential Amendments

11. Do you support the proposed consequential amendments to Section 950?

Yes, we support these changes.

12. Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

We are not aware of any other sections that warrant a conforming change as a result of the NAS project.

Other comments

In proposed paragraph 600.9 A2, one of the new factors is, '*The manner in which the service will be provided.*' We believe using the term 'manner' is not clear and therefore, could be interpreted differently by different users. We would recommend revising the term to make it clear what should be considered with this factor.

We appreciate the opportunity to comment on the ED, which has proven to be a substantial publication by the IESBA. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Chris Smith
Global Head of Audit and Accounting