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working world

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Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

16 July 2018

Dear Mr. Siong:

Proposed Strategy and Work Plan, 2019 - 2023

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, is pleased to comment on the proposed IESBA Strategy and Work Plan (the “SWP”) for the four year period 2019 through 2023.

We welcome the opportunity to contribute to the further development of the IESBA Code of Ethics for Professional Accountants (the “Code”) and we continue to support robust ethics standards that will reinforce the integrity and objectivity of auditors worldwide. While developments and trends in technology are rapidly transforming business models, processes, and capabilities, and as well the manner in which enterprises interact with the market and other stakeholders, we continue to view the Code to be of fundamental importance to the future of the accounting profession and the benchmark for ethics and independence standards across the profession. As such, we fully agree that the Code must stay relevant and applicable, and must be responsive to an ever-changing environment. Accordingly, we are particularly supportive of the efforts that the Board will undertake to advance the Code’s relevance and impact, deepen and expand the Code’s influence, and expand the Board’s perspectives and inputs.

Four specific questions were identified on which the Board welcomed respondents’ views and we have organized our response accordingly. Our comments are set out below.

Request for Specific Comments

1. Do respondents agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

Yes, we agree that the proposed criteria are a reasonable basis for guiding the Board’s decisions on actions and priorities over the strategy period.

2. Do respondents support the actions that have been identified with respect to each strategic theme? If not, please explain why.

Strategic Theme: Advancing the Code's Relevance and Impact

Sub-theme: Maintaining a global Code fit for purpose in the evolving environment

Trends and developments in technology
We support the Board's proposal to explore the issues around new technologies and their impact on ethical requirements. While we do not believe that this will result in significant new requirements, it is important that the Board consider the impact of digitalization on the activities undertaken by professional accountants whether in public practice or business. Particularly, with advancements in technology-based solutions and the licensing arrangements for these solutions, there can be uncertainty in distinguishing between whether the arrangement results in a business relationship or a professional service. We would note that we have found the principles-based approach of the Code and the related fundamental principles suitable for addressing emerging issues as they arise. This is true of cyber-security services or data analytics as well as new types of social interaction. In short, while circumstances may change with new technologies and societal behavior, the fundamental principles remain relevant and provide a framework to address ethical issues deriving from such new circumstances.

However, we do see an opportunity to revisit terminology, definitions and examples in the Code to reflect more closely the digital transformation business and society are undergoing. For example, what is the definition of "office" in a virtual work environment or the meaning of "routine and mechanical" in a highly digital environment?

We would also like to reiterate a point from our response to the Strategy Survey with regard to Section 140 on "Confidentiality" as an area of focus for the Board. Through services related to Big Data and Data Analytics, professional firms are now collecting vast quantities of data and this raises the question of how such data can be used responsibly by professional accountants in the provision of other services without infringing the requirements of confidentiality.

Emerging or newer models of service delivery
We support the Board's proposal to explore the issues around new service offerings and new models of service delivery. However, as with new technologies, we do not believe that this will necessarily result in new requirements.

In our experience, the principles-based approach in the Code and the fundamental principles provide a sound basis for assessing the ethical issues associated with such new services. Accordingly, we do not believe specific new guidance is needed. Rather, as with the prior question, there is an opportunity to refresh terminology and examples in the sections relating to non-audit services to audit clients. For example, in the sections relating to management responsibilities, internal audit and IT systems services.

In addressing this topic, the Board should clarify the meaning of terms such as "managed services". In our experience, these terms are often used as new "jargon" to describe existing services.

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Sub-theme: Further raising the bar on ethics

Tax planning and related services

Though we recognize that there has been public attention on what some call "aggressive tax avoidance" transactions, we still have concerns about the Board trying to define such transactions. In trying to do so, the result could be equating (whether implicitly or explicitly) "aggressive tax avoidance" with tax evasion.

As public accountants, we have a responsibility to act in the public interest, and that is reflected in the Code. Public accountants have an obligation to provide advice consistent with professional standards and in compliance with national and international laws. In doing so, they assist taxpayers in complying with the tax rules in the countries in which they operate.

Tax planning that results in the avoidance or reduction in tax is often the specific desired outcome of the tax legislation. Thus, both the definition of "aggressive" and the consequences of that designation is fraught with challenge.

With the various transparency initiatives (e.g., common reporting standard, country-by-country reporting, Standard Audit File for Tax (SAF-T), and the EU's mandatory transparency rules for intermediaries and taxpayers) and tax legislative and regulatory changes, we believe that the Board should evaluate over time the effect these initiatives will have on "aggressive tax avoidance" transactions.

Definition of Public Interest Entity and Listed Entity

The existing definition of PIE was established with the revised Code in 2009. The question of whether financial institutions should be mandated as PIEs was discussed by the IESBA at that time and it was determined that such classification should be the prerogative of national regulators or standard-setters given the differences that exist between jurisdictions in the way the financial services industry is structured, organized, and regulated. We believe that such considerations are still valid and, based on our experience in applying the existing definition, do not see a compelling reason to make the definition more prescriptive.

With respect to the term "recognized stock exchange", we believe being listed on such an exchange should remain the primary criterion for defining a listed entity. It recognizes that there are exchanges that are formally constituted but are not as tightly regulated as a "regulated stock exchange" as defined, for example, by the EU. Given the ability of the investing public to invest in such less-regulated exchanges in the same way that they may invest in a more regulated exchange we do not believe that it would serve the public interest to exclude such entities from the more stringent requirements that related to PIEs.

However, given the new forms of capital raising (e.g., crowd funding) and developments in capital markets we believe it would be useful for the Board to provide some examples of what constitutes a "recognized stock exchange".

Materiality

Materiality is a concept well understood by professional accountants and, in particular, auditors. Guidance exists in ISA 320 and we support the Board's recent initiative to include new application material that references ISA 320 when considering materiality in connection with non-audit services. We would also support developing application guidance to other areas of auditor independence, such as personal financial interests and business relationships. However, we would caution extending to other areas of the Code unrelated to auditor independence. In these other areas qualitative considerations are more relevant and the Code already contains the "reasonable third party" test which addresses qualitative aspects appropriately.

Strategic Theme: Deepening and Expanding the Code's Influence

We strongly support this initiative and agree with the actions that the Board has identified. In particular, we believe stakeholder outreach and the tracking and reporting of the progress in global adoption of the Code are particularly important if we are to achieve consistent and widespread adoption of the Code. Focus should be on outreach to the G20 countries and other important jurisdictions that have the capacity to influence other countries.

We also support the Board's initiative to develop an e-Code. We believe this will make the Code easier to use and will support the outreach initiatives.

Strategic Theme: Expanding the IESBA's Perspectives and Inputs

We strongly support this initiative and agree with the actions that the Board has identified.

3. Recognizing that this proposed SWP is ambitious, do respondents believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.

We generally agree with the prioritization and proposed timelines of these work streams.

4. Do respondents have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

We have no further comments.

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We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tone.maren.sakshaug@no.ey.com) or John Neary (john.neary@de.ey.com).

Yours sincerely,

Ernst + Young Global Limited