



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ www.nasba.org ◆

May 13, 2020

International Ethics Standards Board
for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Via email: KenSiong@ethicsboard.org

Attention: Ken Siong, IESBA Senior Technical Director

Re: *IESBA Exposure Draft on Proposed Revisions to the Fee-Related Provisions of the Code*

Dear Members and Staff of the International Ethics Standards Board for Accountants (IESBA):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the *Proposed Revisions to the Fee-Related Provisions of the Code* (Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States (U.S.) and its territories which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following general suggestions in addition to responses to the requests for comment as presented in the Exposure Draft.

General Comments

In our response to *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (non-assurance services proposal)[dated May 6, 2020], we expressed our concern that IESBA recently initiated a project to reconsider the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (the Code) definition of "public interest entity" (PIE). The timing of that project means that NASBA and others are commenting on more stringent independence provisions for PIEs without knowing the full scope of the entities that will be subject to these rules. We recommend that IESBA delay action on this proposal and the non-assurance services proposal until the PIE project is concluded, so commenters may consider the ramifications of more stringent independence provisions in the Code on the audits of those entities.

Responses to Specific Questions

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

Yes. Given the infrastructure within which most assurance engagements are conducted, NASBA agrees that a self-interest threat is created and intimidation threats might arise when the assurance client negotiates and pays the firm's fees.

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

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

NASBA agrees that firms should determine, as part of their overall independence review and engagement acceptance processes, whether threats to independence created by fees proposed to an audit client are at an acceptable level before the firm or network firm accepts the engagement.

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

NASBA has no suggested additions to the factors described in 410.4 A2. Although we do not believe it would be appropriate for an independent committee to be apprised of client specific fees or other confidential information, we do believe such a committee could advise on overall governance regarding fee matters that could impact a firm's independence.

Impact of Services Other than Audit Provided to an Audit Client

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

NASBA believes audit fees should be negotiated on a standalone basis to address self-interest and intimidation threats. However, such a requirement may be challenging to operationalize and enforce as many factors go into the determination of fees. For example, paragraph 410.6 A2 already recognizes that the audit fee can be influenced by the knowledge the firm gains by

providing other services to the audit client. There is also a need to ensure that any such restrictions comply with U.S. federal and state antitrust laws.

Proportion of Fees for Services Other than Audit to Audit Fee

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

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

Yes. NASBA supports guidance that includes consideration of fees for services other than audit charged by both the firm and network firm and delivered to related entities of the audit client.

Fee Dependency for Non-PIE Audit Clients

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?

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.

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

NASBA agrees that the proposed actions in paragraph R410.14 likely would reduce threats created by fee dependency to an acceptable level.

Fee Dependency for PIE Audit Clients

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

NASBA believes that firms should evaluate threats to independence arising from fee dependency at the firm, office and individual partner levels and apply appropriate safeguards to reduce threats to an acceptable level. We do support applying an engagement quality review as outlined in the proposal.

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?

NASBA is not in position to comment as this matter has not been subject to any federal or state regulation in the United States.

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

If IESBA adopts the proposed provision, NASBA agrees that the proposed exception should be provided.

Transparency of Fee-Related Information for PIE Audit Clients

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

Auditors of issuers subject to U.S. Securities and Exchange Commission (SEC) rules are subject to such requirements today. NASBA would like to have a better understanding of the extent the proposed rules would be applied to entities currently not subject to these rules before commenting further.

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

(a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and

(b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

Disclosure to the public could be limited to the percentages of total fees paid to the auditor for assurance, assurance-related, tax and advisory services. Providing this information would give the public general information about the percentage of the auditor's non-assurance to total fees, which the public could use in judging the auditor's independence.

Anti-Trust and Anti-Competition Issues

13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments

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in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

The U.S. SEC has requirements for publicly-traded companies in place and the State Boards, as required by state law, would be legally bound to uphold those SEC rules. To the extent IESBA's standards align with those of the SEC and federal and state antitrust legal requirements, they could be adopted in the U.S. and upheld by the State Boards.

Proposed Consequential and Conforming Amendments

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

NASBA supports the consequential and conforming amendments to Section 905 and other sections of the Code. NASBA believes that overdue fees should not be older than one year at the time the audit report is issued.

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

NASBA has no suggestions for other conforming changes to the Code.

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Thank you for the opportunity to comment on the IESBA *Exposure Draft on Proposed Revisions to the Fee-Related Provisions of the Code*.

Very truly yours,



Laurie J. Tish, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO