



National Association of State Boards of Accountancy

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May 6, 2020

Via email: [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org)

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

Attention: Ken Siong, IESBA Senior Technical Director

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

Dear IESBA Members and Staff:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the IESBA Exposure Draft on *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which covers 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 comments on the Exposure Draft.

### **General Comments**

Since IESBA has recently initiated a project to reconsider the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (the Code) definitions of "public interest entity" (PIE) and "listed entity," the timing of that project places interested parties in the rather difficult position of commenting on more stringent independence provisions for PIEs or listed entities without actually knowing which entities will be categorized as such. We recommend that IESBA delay action on this proposal and the *Proposed Revisions to the Fee-Related Provisions of the Code 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*. In our responses below, for simplicity "PIEs" include both PIEs and "listed entities."

## **Responses to Specific Questions**

### ***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?*

NASBA supports the proposal to establish a self-review threat prohibition as proposed in R600.14 for PIEs.

*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?*

NASBA believes further clarification would be helpful. For example, is the proposed application material intended to capture tax compliance services?

### ***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 A 2, sufficiently clear and appropriate, or is additional application material needed?*

NASBA agrees that the proposed application material is sufficiently clear and appropriate.

### ***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.*

Of specific concern is the potential severe consequences of a PIE definition that includes smaller governments units, not-for-profit entities such as hospitals, privately owned utilities, and other authorities that issue marketable bonds.

### ***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 removal of the eight additional NAS items that were previously subject to materiality qualifiers for PIEs, as proposed.

*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)?*

We believe that the conditions noted above would be very rare and support the proposal. However, it is not clear how to apply the term “has doubt”, and we would suggest guidance be provided as to the meaning of this phrase.

### ***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)?*

NASBA agrees with the proposals to improve firm communications with those charged with governance (TCWG), including, in the case of PIEs, a requirement to discuss proposed non-assurance services with TCWG and obtain their concurrence that the services proposed comply with applicable independence provisions.

### ***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?*

NASBA agrees with the proposal to move the above-cited for the reasons stated in the Exposure Draft.

*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?*

NASBA supports the proposal to elevate the provision to assess multiple non-assurance services in the aggregate, from application material to a requirement in the Code.

***Proposed Revisions to Subsections***

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

- The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?*

NASBA is concerned about including the last bullet of 601.4A 1, i.e., “preparation of financial statements,” in the list of activities described as “routine and mechanical.” Preparing financial statements, particularly the notes, often will not fit such description, as there will likely be significant judgement in the classification and / or characterization of items and amounts in the financial statements themselves, the drafting of notes to the financial statements, and certain assumptions such as asset impairments and the going concern concept. We suggest that IESBA more directly address the matter of preparing financial statements and related disclosures in the proposed provision, but separately from the list describing routine and mechanical services.

- 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?*

We support withdrawal of the exemption as described for PIEs although we do believe further consideration may be warranted in emergency situations in areas of the world where there may not be alternative sources willing to provide services.

- 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)?*

NASBA agrees with this in concept, but suggests the provision be clarified to more clearly describe what is meant by “likely to prevail.” For example, in U.S. federal tax practice, the terms “reasonable basis”- 20 percent, “relative possibility of success”- 33 percent, “substantial authority”- 40 percent, or “more likely than not”- better than 50 percent likelihood that the tax authority will accept a tax position are used. It is not clear how these percentages would relate to the “likely to prevail” provision in the proposed standard.

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- *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?*

NASBA supports the new prohibitions to act as an expert witness for PIEs.

***Proposed Consequential Amendments***

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

NASBA supports IESBA's other amendments to conform the Code to the proposed changes in the Exposure Draft.

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

NASBA is not aware of any other conforming changes that should be made.

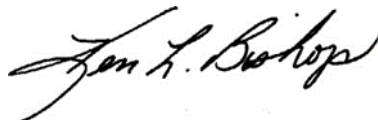
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Thank you for the opportunity to comment on the IESBA Exposure Draft on *Proposed Revisions to the Non-Assurance Services Provisions of the Code*.

Very truly yours,



Laurie J. Tish, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO