

May 20, 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017

Submitted via: [Submit a Comment](#) link at ethicsboard.org

Re: IESBA Exposure Draft – *Proposed Revisions to the Fee-related Provisions of the Code*

Dear Mr. Siong:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 23,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure.

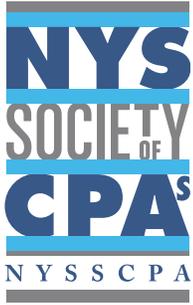
The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Jo Ann Golden, Chair of the Professional Ethics Committee, at (212) 719-8300, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink that reads "Ita M. Rahilly". The signature is written over a faint, semi-transparent watermark of the NYSSCPA logo.

Ita M. Rahilly
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**IESBA EXPOSURE DRAFT – *PROPOSED REVISIONS TO THE FEE-RELATED
PROVISIONS OF THE CODE***

May 20, 2020

Principal Drafters

**Steven J. Leifer
Victoria L. Pitkin**

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New York State Society of Certified Public Accountants

Comments on

IESBA Exposure Draft – *Proposed Revisions to the Fee-related Provisions of the Code*

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to provide comments on the *Proposed Revisions to the Fee-related Provisions of the Code* of the International Ethics Standards Board for Accountants (IESBA).

Evaluating Threats Created by Fees Paid by the Audit Client

We concur with IESBA's conclusion that fees negotiated with and paid by an audit client create a self-interest threat to an auditor's independence. However, we are of the opinion that such fees do not necessarily create a *de facto* intimidation threat to the auditor. We believe that while the self-interest threat is an inherent threat created by the system of client-paid fees, the existence of an intimidation threat is driven by facts and circumstances. Accordingly, we believe that the auditor should be required to implement safeguards to reduce the self-interest threat to an acceptable level and consider the potential effects of the intimidation threat. We believe that auditors would benefit from improved guidance to assist them in making the intimidation threat assessment.

We agree with IESBA's position that threats to independence created by the fees proposed in an audit should be assessed before the firm accepts the engagement or the network firm accepts to provide services to the client. In addition, the firm should also ensure it has appropriate safeguards in place to reduce the threat to an acceptable level prior to the acceptance of the client. IESBA has proposed an independent committee to advise the firm on governance matters that might impact the firm's independence. Such a committee is only likely to exist at the largest of firms, which do not make up the majority of firms world-wide. Accordingly, the application of such a governance advisory committee is in our view impractical as it is highly unlikely firms will allow outsiders into their pricing and governance considerations.

Fee Dependency for Non-PIE Audit Clients

IESBA has established a fee dependency threshold of 30% on non-public interest entity (non-PIE) audit clients. We recognize that a 30% threshold might be appropriate for a newly formed firm but believe that if an established firm has one client whose audit fees represent 30% of the firm's revenue, the self-interest threat is too high to be overcome by the application of safeguards. Accordingly, we believe that the fee dependency threshold should be significantly lower for established firms, perhaps 10% or 15%. Furthermore, we do not believe that the characterization of an audit client as a public interest entity (PIE) or non-PIE should not have any bearing on the ability of a safeguard to reduce a threat to an acceptable level. If two years is the appropriate period at which time a firm

should have a third-party review for a PIE client, we believe the same criteria should be applied to non-PIE clients. Having a third-party review for non-PIE clients only after five years increases the possibility that bankers, financial institutions and other lenders are relying on financial statements audited by firms whose independence is impaired.

Fee Dependency for PIE Clients

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.