Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017

July 16th, 2018

Re: IESBA Consultation Paper on its Strategy and Work Plan 2019-2023

Dear Mr Siong

Introduction

We[1] appreciate and thank you for the opportunity to comment on the IESBA's proposed Strategy and Work Plan 2019-2023.

Comments on Vision for the Code and Strategic Themes

We support the Board's continued efforts and believe that the Board has articulated an appropriate vision of its role in enhancing a Code of Ethics (the "Code") for the profession which is fit for purpose in an evolving business environment and which is designed to enhance the public's trust in the profession. This is essential to support the profession's vital role in the financial reporting supply chain. We support the three strategic themes as a basis for the Board's plans.

[1] This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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We continue to encourage the Standard Setting Boards to work closely together and agree that there should be an enhanced level of strategic and technical coordination with the International Auditing and Assurance Standards Board in particular.

We encourage the Board to be more ambitious in its proposed timescales.

In broad terms, we support the proposals outlined in the plan but comment by exception on certain matters below.

Detailed comments

We consider that there is an urgent need to bring stronger **collaboration and coordination** between those with responsibility for ethics standards and those with responsibility for audit and assurance standards. This has not been achieved to date but we recognise that both the IESBA and IAASB are making efforts to enhance the degree of cooperation and collaboration on key Standards. ISQC1, ISQC 2 and ISA 220 are prime examples of where there is a need for close co-ordination to ensure that the Standards developed by the IAASB reflect the IESBA's view point and are consistent with the Code, where appropriate. There are others such as the impact of evolving technologies, consideration of service delivery models, the definition of listed entities and the post implementation review of NOCLAR. We encourage the Board to pursue this effort.

We agree that there is merit in the Board considering the topic of **technological developments** but the Board should be mindful to focus on the ethical implications of these developments. This could be best achieved by developing a clear link to the relevant fundamental principles, notably objectivity, professional competence and due care, and confidentiality, illustrated by examples. The fundamental principles should be used as a basis to determine if and how behavior is expected to be influenced and what changes to the Code might therefore be warranted.

In general terms, we recognise that the provisions in Section 290 of the extant Code relating to **non-assurance services (NAS)** were largely developed some twelve years ago and that there have been some significant changes in the range of services that firms are providing to clients today (e.g. digital solutions) and in the way that those services are delivered (e.g. using service delivery centres, centres of excellence, and use of third parties). Accordingly, there is scope for updating the Code in this area so that it is fit for purpose in today's environment. That said, we remain supportive of the principles approach to evaluation of threats to compliance with the fundamental principles, and independence, and encourage the Board to avoid rules that do not provide flexibility to handle the current and future developments in service offerings and delivery models. It is evident that rules that are not clearly articulated themselves result in uncertainty and risk inconsistent interpretation and application. Further, we encourage the Board to continue to develop its own thinking on what NAS prohibitions are appropriate in the International Independence Standards, applying the conceptual framework approach, rather than aligning with the views of any particular regulatory framework.

As regards the proposed activity on **tax planning and related activities**, we commented in our response to the 2017 questionnaire that the purpose of tax planning by companies is to manage their compliance obligations and tax risks, and also one of their most significant costs of doing business, and it is therefore consistent with management's responsibilities as stewards of corporate resources. Related to this is also recognition of the long-term importance of the integrity of tax systems around the world. Professional advisers that understand both of these fundamentals play an important role in advising their clients, helping them to understand their obligations and to make informed business decisions on tax issues.

There can be significant challenges for tax professionals undertaking this role in an environment in which tax rules and the interpretations of those rules are subject to continuous change and wider stakeholder interest. In particular, there has been an unprecedented volume of change in the international tax arena in recent years, with US tax reform, ongoing competition between countries and regions, and the debates on the tax treatment of digital business all contributing to an evolving international system that - notwithstanding the efforts of the OECD - is in a state of flux and carries uncertainty and the risk of ongoing disputes between countries.

One important focus of the OECD Base Erosion and Profit Shifting measures has been to address how certain international activities should be taxed, in particular mismatches between country tax systems such as hybrid entities and hybrid instruments. However the BEPS measures do not resolve the ongoing debate around the question of where such taxation should arise. This challenge is exacerbated by the changing nature of many business models with the increasing emphasis on digital activities.

Ethical principles and/or Codes of conduct can play an important part in guiding professional judgements that are made. They can therefore be part of a holistic solution to public interest concerns but only a part, given that those concerns are inherently a combination of (a) concerns about the systems themselves (whether the rules put in place by Governments around the world are fit for purpose) and (b) concerns about perceived behaviour of those operating within the systems (i.e. taxpayers, tax advisors, and tax authorities).

Other parts of a holistic approach would include reviews of relevant parts of the tax system and greater transparency on the policy reasons driving the introduction of particular reliefs, both at a domestic country level and internationally.

Given the breadth of this topic, we would suggest that any review is undertaken in collaboration with other bodies to bring together different experiences and perspectives. To this end, we can see merit in the suggested “discussion paper or a thought piece to stimulate discussion on the topic among stakeholders from the perspective of a professional accountant's overarching obligation to comply with the fundamental principles". We would encourage sufficiently wide stakeholder engagement in the development stage of such a paper, not only after its publication.

We also agree, as noted in the plan, that this topic is relevant for, and impacts, both Professionals in public practice and Professionals in business (we would add to that Professionals working in tax authorities) and thus would need to be considered from all of these perspectives. Indeed this seems entirely appropriate given the importance of the tri-partite relationship between tax authorities, taxpayers and advisers in the effective implementation of a tax system that aims to build compliance, sustainability and trust.

As mentioned in our response to the 2017 questionnaire, we do not believe that a focus on **materiality** as used in the Code should be a priority. We are not aware that the absence of guidance on the use of materiality considerations, outside of the provisions relating to NAS, is giving rise to practical issues or concerns and there is already broad and consistent understanding within at least the Forum of firms on how to apply the concept.

As regards communication with **those charged with governance** (including audit committees), we believe that further guidance in the Independence Standards on the types of issues and matters that should generally be discussed with audit committees might be helpful, including the form and timing of such communications.

The independent audit committee plays an important role in supervising the extent and nature of any services provided by audit firms to audit clients and in overseeing the compensation firms receive for such services.

The role of the audit committee in supervising the engagement of the audit firm for audit and non-audit services, and the internal consultation arrangements in audit firms, reduce the opportunity for any intimidation or commercial incentivisation of the auditor by the company's management.

We are of the view that threats to independence can be managed by a mix of:

- Enhanced oversight by the audit committee of auditor independence, and
- Additional disclosure in corporate reports about the nature and level of fees from other services.

The Board should remain mindful that this is a Code of Ethics for professional accountants, including International Independence Standards, and yet we observe that the recent Board discussion paper on **Fees** suggests that the Board might consider the following matters:

- Fee caps on Non-assurance services (NAS) provided to audit clients
- Pre-approval of NAS by TCWG, and even
- Business models adopted by firms.

We believe that these, together with any additional disclosure requirements, are matters for local law and regulations related to corporate governance or independence related standards established by the relevant regulator and are not matters for a professional Code of Ethics. We also note that any steps the Board might consider taking in these areas may be anti-competitive and an inappropriate potential restraint of trade.

We accept, for example, that the ratio of audit to non-audit fees is something that an audit committee may well wish to consider in its oversight of auditor independence and that the Code may usefully include some general considerations in relation to such an issue.

It could be helpful to add application material in Part 2 of the Code dealing with the PAIB's responsibilities in acquiring and overseeing the provision of services (assurance or otherwise) to the entity (recognizing the limitation that TCWG may not be professional accountants and therefore not subject to the Code).

Specific request for comments

Q1 Do you agree with the proposed criteria for IESBA to determine its actions and priorities over the Strategy period?

In general, we agree. However, we believe that consideration should also be given to whether a particular issue is really a matter to be addressed in a Code of Ethics, which should be designed to influence behaviour rather than extending into issues that are more correctly the jurisdiction of local regulators, especially where the matter pertains to the responsibilities of corporates and may be a restraint on trade. See, for example, our comments on fees above.

We also agree with the comment early in the paper that Standard Setting should be evidence based and recommend that this too be encapsulated in the criteria (i.e. is there persuasive evidence that an issue needs to be considered by the Board?).

Q2 Do you support the actions that have been identified with respect to each strategic theme?

Please see comments above.

Q3 Do you think the IESBA should accelerate or defer any particular work stream?

As noted above we suggest that the work on materiality is not a priority and should not be included in the SWP.

The Board anticipates that projects may take 3-4 years. We are concerned at the long lead times for many of the projects and observe that this is a criticism that led in part to the Monitoring Group proposals. While we acknowledge that due process has to be followed, we feel that efforts should be made, in general, to bring forward time-lines and for the Board to be more ambitious in its planning.

For example, to indicate that the work on communications with TGWC cannot be completed until 2025, 6 years away, is in our view far too long. There are clear overlaps here with the work stream on NAS (and perhaps fees) and we recommend that these subject matters be aligned and dealt with in tandem so that this work can also be completed by 2021. This would be more responsive to the interest of stakeholders.

Q4 Do you have any other comments?

No further comments.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me, at jan.e.mccahey@pwc.com.

Yours sincerely

Jan McCahey
Global Public Policy Leader