

**EXECUTIVE DIRECTOR**

Julie Bell Lindsay

**GOVERNING BOARD**

*Governing Board Chairman*  
**Kelly Grier**  
U.S. Chairman and Managing  
Partner, Americas Managing  
Partner  
EY

*Governing Board Vice Chairman*  
**Wayne Berson**  
US CEO and Global Chairman  
BDO USA LLP

**Joe Adams**  
Managing Partner and CEO  
RSM US LLP

**Brian P. Anderson**  
Corporate Director

**Jeffrey R. Brown**  
Professor of Business and Dean  
University of Illinois at  
Urbana-Champaign  
Gies College of Business

**Lynne M. Doughtie**  
U.S. Chairman and CEO  
KPMG LLP

**Barry C. Melancon**  
CEO, Association of International  
Certified Professional Accountants  
President and CEO, American  
Institute of CPAs

**James L. Powers**  
CEO  
Crowe LLP

**Bradley J. Preber**  
CEO  
Grant Thornton LLP

**Timothy F. Ryan**  
US Chairman and Senior Partner  
PricewaterhouseCoopers LLP

**Mary Schapiro**  
Vice Chair for Global Public Policy  
and Special Advisor to the  
Founder and Chairman  
Bloomberg LP

**Joseph B. Ucuzoglu**  
Chief Executive Officer  
Deloitte US

June 4, 2020

International Ethics Standards Board for Accountants  
529 5<sup>th</sup> Avenue  
New York, New York 10017

**Re: *Proposed Revisions to the Fee-related Provisions of the Code***

Dear Mr. Ken Siong, Senior Technical Director:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA). This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ believes auditor independence is foundational to audit quality. Being independent is a core part of the auditor's role, and thus maintaining and enhancing independence are top priorities for the auditing profession. As such, we appreciate the opportunity to share our views and provide input on the International Ethics Standards Board for Accountants' (Board or IESBA) Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code* (Proposed Revisions or proposal). The CAQ firmly believes that auditor independence requirements play a critical role in helping to protect the reliability and integrity of financial statements. We are committed to helping ensure that revisions to the Board's International Code of Ethics for Professional Accountants (Code) are designed to continue enhancing investor protection.



**CENTER FOR AUDIT QUALITY**  
1155 F Street NW, Suite 450  
Washington, DC 20004

(202) 609-8120  
[www.thecaq.org](http://www.thecaq.org)



As it relates to the proposal, the following observations are for the Board's consideration:

1. *Timing of the PIE Definition Project - We suggest the Board complete the public interest entity (PIE) definition project before moving forward with approval and issuance of the fee-related disclosure standard.*

We agree with the Board's view that stakeholders of PIEs have heightened expectations regarding the audit firm's independence and, similarly, we agree with the provision of independence standards specific to PIEs.

The definition of PIE is integral to consideration of the proposed revisions to the fee-related disclosure provisions of the Code. There is uncertainty as to whether the current project to revisit the definition of a PIE will result in a revised definition that includes a broader array of entities. We recommend that the Board complete the PIE definition project before moving forward with approval and issuance of the fee-related disclosure standard. This will enable stakeholders to consider the proposal in the context of a potentially expanded PIE definition.

Notwithstanding our recommendation above, our comments herein are based on, and should be considered by the Board solely in the context of our understanding of PIEs as they would be determined under the extant Code.

2. *Requiring Auditors to Disclose Fees to the Public – We observe such a requirement in the US is typically a company requirement.*

We support a fee disclosure model similar to what is required in the US. In the US, market regulators require public companies to disclose fees paid to the principal auditor. Such disclosures are included in the company's proxy statement to assist stakeholders in understanding the nature of fees paid and the audit committee's oversight role.<sup>1</sup> When fees are required to be disclosed, it is important to provide appropriate context. Disclosing the information in the auditor's report would not allow for this important context from companies and Those Charged with Governance (TCWG).

In addition, the Proposed Revisions could result in inconsistency as to where fees are disclosed, which could be confusing for users. Disclosure of fees in the auditor's report poses the risk that users of this information would make inappropriate inferences among audit fees, auditor independence, and audit quality.

Further, the proposed requirement to disclose fees of firms outside the principal auditor's network may be problematic to implement. This requirement is inconsistent with current SEC rules.

---

<sup>1</sup> In the US, the Securities and Exchange Commission (SEC) and exchange listing entities require such disclosures.

# CAQ

3. *Fees – Relative Size – We do not support requiring the auditor of a public interest entity audit client to resign without consideration after five consecutive years if the total fees received from the client and its related entities represent more than 15% of the total fees received by the firm.*

We support the requirement of the extant Code to disclose to TCWG of the audit client if total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client for two consecutive years.<sup>2</sup> We agree it is important for TCWG and audit firms to evaluate and address self-interest or intimidation threats that may be created in this circumstance.

We do not agree with the Board's view that the relative size of fees from an audit client in relation to the total fees to the firm cannot continue indefinitely. The Board states in paragraph 58 of the Explanatory Memo, "after a certain period of time, the fee dependency would become so persistent and fundamental that no safeguards would be capable of reducing the threats to an acceptable level. Therefore, the IESBA is proposing that the Code should require the firm to cease to be the auditor if the fee dependency continues for more than five consecutive years. (See paragraph R410.19)." We believe the individual circumstances should be evaluated and discussed with TCWG.<sup>3</sup>

The Board acknowledges local laws and regulations might prohibit firms from resigning as auditor from the client relationship. Similar to the rationale of local regulators, TCWG of PIEs should make the determination whether to retain their auditor. There may be valid reasons such as limited availability of expertise or competition for why TCWG decide to continue with the auditor.

\*\*\*

---

<sup>2</sup> Extant Code paragraph R410.4.

<sup>3</sup> We appreciate the Board has provided an exception for firms to continue as auditor if there is a compelling reason with regard to the public interest, provided that certain criteria are met in accordance with paragraphs R410.20 and 410.20 A1. However, this exception requires consultation with an independent regulatory body or professional body in the relevant jurisdiction. As noted above, such a decision should be made by TCWG.



We appreciate the opportunity to comment on the proposal. As the Board and Staff gather feedback from other interested parties, we would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum ([vteitelbaum@thecaq.org](mailto:vteitelbaum@thecaq.org)) or Catherine Ide ([cide@thecaq.org](mailto:cide@thecaq.org)).

Sincerely,

A handwritten signature in black ink that reads "Catherine Ide".

Catherine Ide  
Vice President, Professional Practice  
Center for Audit Quality

cc:

SEC  
Sagar Teotia, Chief Accountant  
Marc A. Panucci, Deputy Chief Accountant

IAASB  
Thomas R. Seidenstein, Chairman