

Basis for Conclusions
Prepared by the Staff of the IESBA®
April 2021

*International Ethics Standards Board
for Accountants®*

Revisions to the Fee-related Provisions of the Code



International
Ethics Standards
Board for Accountants®

About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © April 2021 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 31](#).

BASIS FOR CONCLUSIONS: REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE

CONTENTS

I. Introduction	4
II. Background	4
Development of Fees Project	4
Interaction with Other IESBA Work Streams and Coordination with IAASB	5
Fees Exposure Draft.....	6
III. Significant Matters	8
Threats Created by Fees Paid by an Audit Client	8
Inherent Self-interest Threat.....	8
Evaluation of Level of Self-interest Threat Created by Fees Paid by an Audit Client	9
Level of Audit Fees	11
Impact of Other Services on the Audit Fee as a Standalone Fee	11
Proportion of Fees for Services Other Than Audit to Audit Fee	12
Threshold vs Principles-based Approach	12
Nature of the Services Other Than Audit.....	13
Fee Dependency on PIE Audit Clients	13
Enhanced Provisions Regarding Fee Dependency on PIE Audit Clients.....	14
Fee Dependency Continuing for an Extended Period	15
Fee Dependency on Non-PIE Audit Clients	17
Appropriateness of the Proposed Threshold	17
Actions Required	18
Transparency of Fee-related Information of PIE Audit Clients	19
Communication of Fee-related Information with TCWG.....	19
Public Disclosure of Fee-related Information.....	21
Possible Ways to Effect Public Disclosure by the Firm	23
Fee-related Information to be Disclosed.....	24
Disclosure of Fee-related Information to TCWG and to the Public at Group Level.....	26
Exception to Disclosure in the Case of Certain Subsidiaries and Parent Entities.....	28
IV. Other Matters	28
Contingent Fees	28
Anti-Trust Issues	29
V. Effective Date	29

I. Introduction

1. At its December 2020 virtual meeting, the IESBA approved [the revisions to the fee-related provisions](#) of the Code with the affirmative votes of 14 out of 15 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure. It relates to, but does not form part of, the revisions to the fee-related provisions of the Code.

II. Background

Development of Fees Project

3. In its Strategy and Work Plan 2014-2018, the IESBA committed to undertaking work to further understand a number of fee-related matters raised by the regulatory community. In addition, the IESBA committed to responding to the PIOB who, in approving the IESBA's April 2015 pronouncement, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#), had asked the IESBA to revisit issues on auditor independence from a broader perspective, such as prohibited non-assurance services (NAS), related fee issues, and the role of those charged with governance (TCWG) in approving NAS.
4. Against this background, the IESBA decided to bring forward its Fees initiative and:
 - Established the Fees Working Group (Working Group) in July 2015 to undertake fact-finding;
 - Commissioned the IESBA Staff publication, [Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#), that was released in January 2016, as a first step in addressing the topic; and
 - Approved, at its March 2016 meeting, the terms of reference for the Working Group setting out the scope and focus of, and approach to, its fact-finding activities.
5. The Working Group's fact-finding activities included:
 - (a) A high-level review of the relevant fee provisions in a number of G-20 jurisdictions;
 - (b) A review of relevant academic research and other literature; and
 - (c) Outreach to stakeholders to obtain their perspectives about the fee-related matters.
6. Informed by the outcome of its fact-finding activities, at the June 2018 IESBA meeting the Working Group presented its final report ([Fees Final Report](#)). The report included the Working Group's recommended way forward with respect to the following focus areas:
 - (a) Level of audit fees for individual audit engagements (level of fees).
 - (b) Relative size of fees to the partner, office or the firm, and the extent to which partners' remuneration is dependent upon fees from a particular client (fee dependency).
 - (c) The ratio of non-audit services fees to audit fees paid by an audit client.
 - (d) The provision of audit services by a firm that also has a significant non-audit services business.¹

¹ In its communication of public interest issues during the development of the IESBA's Strategy and Work Plan 2019-2023, the PIOB had commented that the audit firm business model issue can be seen as a barrier to real independence, to the effective

(e) Fee-related safeguards in the Code.

7. On the basis of the Fees Final Report, in September 2018, the IESBA approved the [Project Proposal](#) and established the Fees Task Force (Task Force). The project involved consideration of enhancements to the fee-related provisions of the Code so that they remain robust and appropriate in enabling professional accountants to meet their responsibility to comply with the fundamental principles and be independent.²

Interaction with Other IESBA Work Streams and Coordination with IAASB

Non-assurance Services Project

8. The Fees project was linked to the [NAS project](#), which was established to address broad stakeholder concerns about auditor independence when providing NAS to audit clients. These two complementary projects resulted in revisions that strengthen [the International Independence Standards](#) (IIS) with the introduction of new or revised requirements and enhanced guidance. Furthermore, while the business model issue was outside the scope of the Fees and NAS projects, the IESBA believes that the changes to the Code arising from these projects will contribute towards responding to some of the concerns about the multi-disciplinary business model of firms.
9. The IESBA has coordinated the proposals of the Fees and NAS projects, particularly in relation to the topics of (a) the proportion of fees for services other than audit to audit fees, and (b) enhanced transparency of fee-related matters to TCWG. In addition, the timelines for the NAS and Fees projects were aligned.

PIE Project

10. As part of its Strategy and Work Plan 2019-2023, the IESBA committed to revisit the extant definitions of public interest entity (PIE) and listed entity in the Code. As the NAS and Fees projects advanced, however, it became apparent that the timeline for the review of these definitions needed to be accelerated to provide clarity about the scope of entities that would be impacted by the proposed changes. Accordingly, in December 2019 the IESBA approved a project to review these definitions ([PIE project](#)). The IESBA also agreed to coordinate its work on this new project closely with the International Auditing and Assurance Standards Board (IAASB), given that concepts that underlie the definition of a PIE in the Code are also relevant to the description of an entity of significant public interest in the IAASB's standards.
11. The PIE project has the objective of defining the class of entities that should be considered PIEs, having regard to the additional or more stringent independence requirements that would apply to them. The final provisions arising from the PIE project should be applied throughout the IIS, including the fee-related provisions.

implementation of professional skepticism, and to audit quality. The PIOB had therefore recommended an in-depth consideration of the issue during that strategy cycle.

² The business model issue was outside the scope of the project. As indicated in the Appendix to the project proposal, the IESBA considers that the issue of the business model is a complex, multi-faceted topic for which there is a need for robust engagement among all key players, including standard-setting boards, regulators, investors, the corporate governance community, preparers, national standard setters, firms, the academic community and IFAC member bodies.

Coordination with IAASB

12. Some of the proposed changes to the Code arising from the Fees Project related to, or overlapped with, requirements and application material set out in the IAASB's International Standards on Auditing (ISAs). Accordingly, the IESBA has engaged closely with the IAASB to ensure that the changes are consistent or otherwise interoperable with the ISAs.
13. As part of their coordination efforts, the IESBA and IAASB addressed³ the following matters:
 - Communication with TCWG regarding fee-related matters;
 - Public disclosure of audit fee-related information in the auditor's report in those instances when the firm considers the auditor's report as a suitable location for these disclosures; and
 - Public disclosure of audit fee-related information in the context of an audit of group financial statements ("group audit").

Fees Exposure Draft

14. In January 2020, the IESBA released the [Exposure Draft on Proposed Revisions to the Fee-related Provisions of the Code](#) (ED).⁴ As stated in the ED's Explanatory Memorandum, the proposed revisions, amongst other matters:
 - Articulated and addressed the issue of threats to independence created when fees are negotiated with and paid by the audit or assurance client.
 - Clarified that the audit fee should be a standalone fee within the spectrum of total fees from the audit client so that the provision of services other than audit does not influence the level of the audit fee.
 - Provided guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by the firm or network firms to an audit client is for services other than audit.
 - Enhanced the provisions regarding fee dependency for PIE and non-PIE audit clients, including establishing a threshold for addressing threats in the case of non-PIE audit clients.
 - Required the firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency continue beyond a certain period.
 - Enhanced transparency with regard to fee-related information for PIE audit clients to assist TCWG and the public in forming their views about the firm's independence.
 - Enhanced the robustness of guidance in the Code regarding factors to evaluate the level of the threats created when fees are paid by an audit or assurance client and safeguards to address such threats.

³ At its September 2019 meeting, the IAASB discussed the identified proposals of the Fees Task Force and deliberated the potential implications the IESBA's proposals might have for the ISAs.

⁴ Concurrently, the IESBA also issued an [Exposure Draft: Proposed Revisions to the Non-Assurance Services Provisions of the Code](#)

15. [Sixty-four comment letters](#) were received from respondents across a wide range of stakeholder groups, including two Monitoring Group members,⁵ other regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies and firms. Respondents generally supported the need to strengthen the fee-related provisions of the Code and the direction of the proposed changes. Respondents also raised comments relevant to the overall direction and consequences of the proposed changes.
16. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by the IESBA Consultative Advisory Group (CAG).

17. The key revisions to the ED proposals are as follows:

- Removal of the proposed requirement regarding evaluation and re-evaluation of the threats created by fees paid by an audit client, and inclusion of application material instead that appropriately references the pre-existing requirements in the conceptual framework.
- Highlighting – through inclusion of factors – that the level of the threats created by fees charged by network firms or pertaining to services delivered to related entities is generally expected to be lower.
- Clarifications regarding the demonstrability of the cost savings achieved as a result of the provision of previous services that firms are allowed to consider when determining audit fees.
- Emphasizing the benefit to the client’s stakeholders of the client making the disclosure of fee-related information and requiring firms to communicate with TCWG – as a first step – about the benefit of such disclosure.
- Narrowing the disclosure of fees for the audit of the financial statements to include only fees paid to the firm and network firms; firms are not required to disclose information about fees relating to the audit paid by the client to other firms outside of the network.
- Providing exceptions from fee disclosure where there is no requirement to consolidate all controlled entities in the group financial statements, e.g., in the case of private equity complexes.
- Providing exceptions from fee disclosure in the case of standalone financial statements of certain subsidiaries and parent entities to avoid potential confusion and duplication of effort.
- A more flexible approach for firms to achieve transparency, with more examples of a suitable location for disclosure by the firm. The possible ways of disclosure are in line with the IAASB’s approach regarding communication with external parties in ISQM 1.⁶

18. The final revisions to the fee-related provisions of the Code complement the final revisions to the NAS provisions of the Code. The revisions to the fee-related and NAS provisions were approved by the IESBA in December 2020.

⁵ International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR)

⁶ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

III. Significant Matters

Threats Created by Fees Paid by an Audit Client

19. The IESBA believes that in addition to any self-interest threat to compliance with the fundamental principles as covered in Section 330 of the Code,⁷ potential threats to independence also need to be considered when fees for professional services are negotiated with and paid by a client.

Inherent Self-interest Threat

20. While payment of fees by an audit client to a firm is a practice that is generally recognized and accepted by intended users of financial statements, such practice creates a self-interest threat and might create an intimidation threat to independence. The IESBA's view that a self-interest threat exists is based on the risk inherent whenever the party subject to an examination directly pays the examiner. The IESBA therefore proposed in the ED that the Code explicitly recognize the inherent self-interest threat in the audit client payer model.

Comments on Proposals

21. Respondents to the ED generally acknowledged that a firm's independence might be perceived to be impacted because the entity being audited is also the firm's client and pays its fees. However, a number of respondents pointed out that the risks related to the audit client payer model are one of the main reasons independence standards and significant safeguards are in place to address the potential threats.
22. It was noted that this is a model that is widely accepted by users of financial statements. Some respondents also pointed out that the Code in its entirety is essentially designed to provide a framework that addresses the potential impact of such "client relationship," which they noted is not solely a fee-related issue.

IESBA Decisions

23. The IESBA recognized that the audit client's corporate governance structure and the firm's compliance with regulatory requirements and professional standards, including ethics requirements, are important factors that act to mitigate the threats created by the audit client payer model. Therefore, firms might often conclude that the threats are at an acceptable level. The proposal itself also acknowledges that the intended users of financial statements generally recognize and accept the practice that fees for professional services are usually negotiated with and paid by the client. However, the IESBA believes that the Code should explicitly recognize the fact that there is an inherent self-interest threat related to the audit client payer model. Doing so is not intended to cause this practice to be changed or to suggest that it is inconsistent with auditor independence but to raise firms' awareness that the self-interest threat exists, and to provide guidance on how to evaluate and address it when it is not at an acceptable level.
24. The IESBA also agreed with the comments above to the effect that the inherent risk related to the audit client payer model is part of a broader issue of the "firm–audit client" relationship and it is not exclusively a fee-related issue. Consequently, the IESBA determined that this matter of the inherent threats arising from the client relationship is outside the remit of the Fees project.

⁷ Part 3 – Professional Accountants in Practice, Section 330, *Fees and Other Types of Remunerations*

Evaluation of Level of Self-interest Threat Created by Fees Paid by an Audit Client

25. Given the premise that a self-interest threat to independence is created and an intimidation threat might be created when fees are negotiated with and paid by the audit client, the IESBA proposed that the Code include a requirement for a firm to determine whether the level of such threats is at an acceptable level before the firm or a network firm accepts an audit or any other engagement. In addition, as fees charged to the audit client could change after the acceptance of the engagement and therefore affect the level of the threats, if there is such a change during the audit engagement period, the IESBA proposed that the firm be required to re-evaluate the threats.
26. To assist the evaluation of the level of the threats created when fees for an audit or other engagement are paid by the audit client, the IESBA set out guidance in paragraph 410.4 A3 with various factors to consider. Additionally, the IESBA believed that compliance with professional standards assists in mitigating the level of the threats. The IESBA therefore also proposed to explicitly recognize in Section 120⁸ the existence of a quality management system designed and implemented by the firm in accordance with quality management standards⁹ as an example of conditions, policies and procedures relevant in evaluating the level of the threats (see paragraph 120.15 A3).
27. Furthermore, the proposed revised Section 410¹⁰ identified additional circumstances, such as level of audit fees, proportion of fees, fee dependency, contingent fees and overdue fees, which firms would need to consider further when evaluating the level of the threats and determining whether they are at an acceptable level.

Comments on Proposals

28. Regarding the proposed requirements in the ED, several respondents observed that the extant Code¹¹ already includes requirements regarding evaluating and re-evaluating threats. Therefore, it was argued that specific requirements in Section 410 related to determining the level of threats to independence created by the fees proposed to an audit client and re-evaluating the level of such threats if circumstances change, are not necessary.
29. In line with the comments made in relation to the inherent self-interest threat, a few respondents felt that firms should not be required to make the proposed determination in respect of all audit engagements. They suggested that such determination should instead be undertaken only when triggered by specific factors that, when present, would increase the level of the threat. They pointed out that the costs and the documentation related to this requirement are not justified by any additional benefits.
30. Additionally, some respondents noted that it would be impracticable for network firms to be expected at the acceptance stage to have obtained sufficient information about fees from the audit client from all other network firms. It was felt that there might be possible implementation implications regarding the appropriate processes to identify and resolve, for all audit clients, the precise timing and engagement acceptance issues.

⁸ Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

⁹ ISQM 1 and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹⁰ Revised Section 410, *Fees*

¹¹ Provisions of the Code effective at the December 2020 approval of the revisions to the fee-related proposals of the Code.

31. Some respondents had concerns regarding how the revised provisions would deal with fees paid by sister entities if the audit client is a listed entity, especially given confidentiality and to other practical challenges. There was also a question about the appropriateness for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level before a network firm accepts an engagement to provide a service to the audit client's parent and sister entities.

IESBA Decisions

32. The IESBA accepted that the proposed requirement for the firm to determine the level of the threat created by fees proposed to the client is effectively already covered by Section 120,¹² which requires the evaluation of threats as part of the conceptual framework. Therefore, the IESBA agreed that a specific requirement for the determination of the level of the threats created by fees paid by an audit client is not necessary. Instead, the IESBA agreed to the inclusion of application material that appropriately references the general requirements in the conceptual framework to achieve the same effect. (See paragraph 410.4 A2.)
33. As noted above the IESBA maintained the view that fees paid by the audit client create a self-interest threat and might create an intimidation threat. However, the IESBA also reaffirmed its view that through compliance with professional standards, firms might often conclude that the level of the threats is at an acceptable level. Furthermore, the IESBA noted that the general documentation provision in the Code¹³ with respect to audit and review engagements requires documentation in particular when (a) safeguards are applied to address a threat, or (b) when a threat required significant analysis and the firm concluded that the threat was already at an acceptable level. The IESBA therefore did not believe that the provision regarding the evaluation of the threats would create an undue cost or documentation burden.
34. Concerning the comments raised about the threats created by fees paid by the audit client for services provided by network firms, the IESBA noted that based on firms' quality management systems, especially given the new ISQM 1, fees proposed within a firm's network for services to an audit client should be available without major difficulty or significant burden. Nevertheless, the IESBA agreed that the level of the threats created by such fees is usually lower than the threats created by similar fees paid to the firm.
35. In line with the overarching principle in [paragraph R400.20](#) of the IIS, the IESBA is of the view that fees for services provided to a sister entity could still create a self-interest threat and might create an intimidation threat. The IESBA therefore determined that firms should include such fees when evaluating the level of the threats created by fees paid by the audit client. However, the IESBA acknowledged that the level of threats created by fees for services provided to a controlled entity could differ from the level of threats in relation to a sister entity.
36. The IESBA also considered whether the fees paid by the audit client for the provision of different services (especially audit or assurance services) create the same level of self-interest threat. The IESBA is of the view that the level of the self-interest threat created by the fees paid by the audit client is not dependent on the type of service provided. However, the IESBA believes that whether

¹² Section 120, *The Conceptual Framework*

¹³ Paragraph R400.60

the level of the fee is appropriate in the context of the service provided could be relevant to the evaluation.

37. In light of the discussion above, the IESBA therefore agreed to add the following to the list of factors for firms to consider when evaluating the level of the threats created by fees paid by an audit client (see paragraph 410.4 A3):
- Whether the fees are paid for services provided by the firm or a network firm to the audit client.
 - The operating structure and compensation arrangements of the firm and network firms.
 - The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
 - The level of the fee in the context of the service to be provided by the firm or a network firm.

Level of Audit Fees

38. In considering the proposed revisions regarding the threats created by fees paid by the audit client, the IESBA did not intend to approach the issue of the level of the audit fees from the perspective of determining what the appropriate level is but from the perspective of highlighting that unduly low or unduly high fees can impact the level of the self-interest threat to independence. To emphasize this point, the IESBA proposed in the ED and reaffirmed in the final provisions that determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards (see also paragraph 410.5 A1).
39. That said, the level of the audit fees is a specific matter which the firm needs to evaluate *further* when determining whether the threats created by fees paid by the audit client are at an acceptable level. To assist this evaluation, the IESBA has retained the guidance on factors to consider in paragraph 410.5 A2, in addition to the guidance in paragraphs 410.4 A3-A4.

Impact of Other Services on the Audit Fee as a Standalone Fee

40. Although the revisions do not include provisions regarding the appropriate level of the audit fee, the IESBA believes it is in the public interest to make clear in the Code that the fee for an audit engagement is a standalone fee and that it should not be considered as part of the totality of fees that might be charged to the audit client. Therefore, the ED set out that the provision of other services by the firm or a network firm to the audit client should not influence the audit fee.
41. Notwithstanding the above prohibition, the IESBA proposed that the Code explicitly acknowledge no intent to prohibit appropriate cost savings achieved through the experience derived from the provision of services other than audit to the audit client.

Comments on Proposals

42. Respondents to the ED generally agreed with the proposition that the audit fee should be a standalone fee and that it should not be considered as part of the totality of fees that might be charged to an audit client. However, a number of respondents had concerns that the requirement could be challenging to operationalize and enforce since many factors go into the determination of fees. Some CAG representatives also questioned how firms could demonstrate and document compliance with the proposed requirement. It was also pointed out at the CAG that the exception could convey the

message that if cost savings can be achieved, firms could argue that the audit client should engage the firms to provide NAS and rebate the audit fee. Therefore, there was a concern about the firm's objectivity when evaluating the cost savings achieved by the provision of other services.

IESBA Decisions

43. The IESBA discussed the concerns raised and reaffirmed that the prohibition in paragraph R410.6 sets out a clear principle that aimed at guiding behavior. The IESBA envisions this principle to influence firms' policies and procedures on determining audit fees. Consequently, firms could document their approach to compliance with this requirement through such policies, including with respect to documentation.
44. In response to the comments on the exception, the IESBA also clarified that firms should only apply this exception if they can appropriately demonstrate the cost savings achieved as a result of experience derived from the provision of services other than audit. The revised wording of the exception (see paragraph R410.7) contemplates that firms can consider cost savings to be realized at a later stage of the engagement, if they can demonstrate the cost savings when determining the audit fee.

Proportion of Fees for Services Other Than Audit to Audit Fee

45. The IESBA proposed that the Code recognize that the evaluation of the level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the audit client. The IESBA also proposed guidance to assist in evaluating the impact of the proportion of fees on the level of the threats, including relevant factors to consider and potential safeguards. The IESBA made some refinements to this guidance based on the input received from respondents (see paragraphs 410.11 A1-A3).

Threshold vs Principles-based Approach

46. Overall, respondents to the ED agreed that a large proportion of fees for services other than audit to audit fees could create a threat to independence. Apart from a few within the regulatory community, respondents supported that the Code not include an exact threshold for determining what would constitute a large proportion, but allow firms to determine such proportion on a case by case basis, guided by the factors provided.
47. A few regulatory respondents, including a Monitoring Group member, expressed concerns regarding not including an explicit threshold in the Code relative to the determination of the proportion of fees. In their view, not providing such a threshold could result in inconsistent application. It was suggested that the IESBA consider a threshold, either as a cap limiting the provision of further services other than audit, or as a trigger for a re-evaluation of the threats to independence.
48. Some respondents also commented that the ED did not provide enough guidance on what constitutes a "large proportion." They suggested that the Code include guidance or examples as to what would amount to a "large proportion of fees."

IESBA Decisions

49. While developing its proposal, the IESBA had considered both including a threshold as a cap and as a trigger for the re-evaluation of threats. Based on the outcome of the fact-finding activities, including

views from stakeholders at the [four global roundtables](#)¹⁴ organized in relation to the NAS project, the IESBA concluded that a cap or an exact threshold regarding the proportion of fees would not be appropriate at a global level. The IESBA had also been cognizant of changes arising from the NAS project that would significantly restrict the provision of NAS to PIE audit clients.

50. From a practical point of view, as the proportion of fees would be determinable also at a network level, the IESBA recognized that the calculation of the exact ratio of fees for services other than audit to the audit fee could be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.
51. Given that respondents across the spectrum of stakeholder categories largely agreed with the approach proposed in the ED, the IESBA did not believe that there was a compelling reason to revisit this position.

Nature of the Services Other Than Audit

52. Regarding the computation of the proportion of fees, many respondents raised that the determination of fees for services other than audit was not granular enough. They also noted that the proposal did not recognize that depending on the nature of the service the level of the self-interest threat to the auditor's independence might be different. It was therefore argued that it could be misleading including all services other than audit in the computation of the proportion of fees. They suggested that the IESBA consider introducing the term "audit-related services" in the Code to support a finer distinction.
53. Several respondents noted that the provision of certain audit-related services, such as those that are mandated or where it is common practice for the auditor to provide them, do not create the same level of threats to independence. They were of the view that those services should be exempted from the determination of the proportion of fees.

IESBA Decisions

54. The IESBA believes that from the perspective of the self-interest threat created by a high proportion of fees for services other than audit, any type of fee is relevant to the evaluation of the level of threat, even fees for audit-related services. Furthermore, the IESBA is of the view that it would be impracticable to specify which services are audit-related services at a global level.
55. The IESBA also considered that the factors proposed in the ED (see paragraph 410.11 A2 in the final provisions) for the evaluation of the level of the self-interest threat created already included the "nature of the service." Nevertheless, in response to the comments received, the IESBA determined to further clarify that factor and included a reference to whether the service other than audit is mandated by law or regulation to be performed by the auditor.

Fee Dependency on PIE Audit Clients

56. In line with the extant Code, the ED proposed to address fee dependency as a specific circumstance that impacts the evaluation of the self-interest threat and that also creates an intimidation threat.¹⁵ As

¹⁴ The IESBA's roundtables were held in Washington, DC, U.S.A.; Paris, France; Tokyo, Japan; and Melbourne, Australia in June/July 2018.

¹⁵ As noted above, the inherent self-interest threat arising from the audit client payer model is related to the risk that the client, the party subject to examination, directly pays the examiner, the firm. Though fee dependency at a firm level can impact the level of

further discussed below, the IESBA proposed enhanced guidance regarding how to determine fee dependency and how to evaluate and address the level of the threats created. (See paragraphs 410.14 A1-A7 in the final provisions.)

Enhanced Provisions Regarding Fee Dependency on PIE Audit Clients

57. Based on the fact-finding activities that informed the Fees Final Report, the IESBA was not aware of any specific evidence that would suggest a need to revisit the current 15 percent threshold in the Code regarding fee dependency with respect to an audit client that is a PIE.
58. The IESBA remains of the view that communication with TCWG about fee dependency is an important action to mitigate threats created by fee dependency. As TCWG have an important role to play in appointing the auditor, the IESBA believes that if the total fees from the audit client will, or are likely to, exceed the 15 percent threshold, this should be communicated with TCWG even in the first year (see paragraph R410.28). Nonetheless, the IESBA did not intend to change the extant Code's model regarding requiring action to be taken to address the threats only when the threshold will be exceeded for two consecutive years. (See paragraph R410.18.)
59. If fee dependency continues in the second year of the audit engagement, the IESBA proposed to require firms to determine whether a review prior to the audit opinion being issued on the second year's financial statements (i.e., pre-issuance review) would be a safeguard and, if so, apply it. The IESBA proposed that the pre-issuance review be an engagement quality review (EQR) and be performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements.¹⁶
60. The IESBA considered that in the case of PIE audit clients, a review performed after the issuance of the audit opinion on the second year's financial statements would no longer be an appropriate safeguard to reduce the threats to an acceptable level. The extant Code also includes a pre-issuance review performed by a professional body as an alternative. The IESBA considered that while that safeguard might be effective, a review performed by a professional body prior to the audit opinion being issued is unlikely to be practical given timing issues and the liability risk that the professional body would likely assume in such circumstances.

Comments on Proposals

61. A large number of the respondents supported the enhanced provisions regarding fee dependency in the case of PIE audit clients. However, several respondents felt that the proposed EQR performed by a professional accountant who is not a member of the firm as the only possible safeguard is not practical. They were of the view that firms might not be able to find an external reviewer in the constrained deadlines in which the audit of PIE clients is often conducted. It was felt that this would be costly, especially for small and medium practices (SMPs). Some respondents, including two Monitoring Group members, had concerns that the proposal only includes one possible action as a safeguard.

such self-interest, in the case of fee dependency at the office and partner levels the situation is slightly different because it is a narrower rather than whole-firm context. Therefore, the threats created by fee dependency at the office and partner levels are not at a comparable order of magnitude compared to the threats created by fee dependency at the firm level.

¹⁶ In line with the Structure drafting guidelines for the Code, the term "firm" does not include network firms; therefore, it is permitted that the professional accountant who performs the review be a member of a network firm.

62. There were some questions regarding the role of an EQR in the Code alongside the EQR required for the audit of listed entities by quality management standards that is normally performed by a professional accountant from the same firm.

IESBA Decisions

63. In developing the ED, the IESBA had taken the view that given the level of fee dependency, i.e., 15 percent for two consecutive years, only a review performed by a professional accountant outside of the firm prior to issuance of the audit report is an appropriate safeguard. The IESBA believes that firms could take appropriate steps to implement such an action with proper planning, especially as the Code only calls for it in the second year of fee dependency. Further, the IESBA noted that ISQM 1 already contemplates that a firm could use an external individual for quality management purposes such as to perform an EQR.¹⁷ Accordingly, the IESBA did not believe that any changes to the proposal would be warranted.
64. However, based on comments raised regarding the type and scope of the review, the IESBA reconsidered whether it is possible for firms to perform an EQR (as described under ISQM 2¹⁸) as a safeguard if they can only determine the fact that the total fees received from an audit client represent or are likely to represent more than 15 percent of the total fees at a later stage of the audit engagement. To avoid the revised requirement in paragraph R410.18 being inoperable if the review does not meet all the requirements to qualify as an EQR under ISQM 2 because it is not undertaken until a later stage of the audit, the IESBA determined to amend the requirement such that the determination would be whether *a review consistent with the objective of an EQR* would be an appropriate action to reduce the threats to an acceptable level. The IESBA believes this will allow more flexibility for firms to determine the timing and extent of the review, provided that the objective of an EQR set out in ISQM 2 is met.

Fee Dependency Continuing for an Extended Period

65. In line with the extant Code, in the case of fee dependency with respect to PIEs, the proposed amendments did not require firms to apply a pre-issuance review but required a determination of whether such a pre-issuance review might be a safeguard to reduce the threats to an acceptable level. If the fee dependency continues beyond two years, the proposals required the firm to make the same determination every year. However, if the firm determined in any year that the application of a pre-issuance review is not effective as a safeguard, application of the conceptual framework would lead the firm to conclude that it should cease to be the auditor.
66. Even if a pre-issuance review continues to be a safeguard every year after the second year, the IESBA was of the view that fee dependency on a PIE audit client cannot continue indefinitely. This is because 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 proposed that the Code require the firm to cease to be the auditor if the fee dependency continues for more than five consecutive years.

¹⁷ See, for example, ISQM 1, paragraph 16(e) (definition of an engagement quality reviewer) and paragraph A105 (examples of resources from a service provider).

¹⁸ ISQM 2, *Engagement Quality Reviews*

67. In relation to this proposed requirement, the IESBA recognized that in some jurisdictions, laws or regulations might prohibit firms from resigning as auditor from a client relationship. The IESBA agreed that the Code already addresses such a circumstance in the overarching requirement in Section 100 to the effect that laws and regulations prevail in that circumstance so long as the firm complies with all other parts of the Code.¹⁹ Therefore, if laws or regulations prohibit a firm from ending the client relationship after five years, the firm must continue to be the auditor.
68. The IESBA also heard from some stakeholders during its project outreach that there could be exceptional circumstances when it would be in the public interest that the firm does not cease to be the auditor for the client. Recognizing that those situations might arise, the IESBA agreed to propose in the ED 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.
69. Specifically, to ensure that this allowance is used only on an exceptional basis, the IESBA proposed that firms consult with and receive the concurrence of a regulatory or professional body in the relevant jurisdiction. The IESBA took the view that in the particular jurisdictions, these bodies have the necessary knowledge about the specificities of the market and, at the same time, should have the authority to create procedures for providing concurrence.

Comments on Proposals

70. Many respondents supported the proposed requirement for the firm to cease to act as auditor if fee dependency continues beyond a specified period. However, several respondents raised that including a definite period in a global Code could have unintended consequences and create implementation challenges. A few respondents were of the view that the proposal could result in mandatory audit firm rotation.
71. Some respondents raised the issue that firms and network firms might face challenges if they have PIE audit clients in smaller markets or specialized industries. In these situations, it was argued that they would be required to cease being the auditor but there might not be many firms that would have the specific expertise to service these audit clients.
72. Several respondents were of the view that if a firm can successfully implement safeguards to reduce the threat to an acceptable level in the first year and each subsequent year, there is no reason to require the firm to cease being the auditor. They suggested that the IESBA consider a more principles-based approach if firms reach the 15 percent threshold.
73. Some commentators also suggested that TCWG have a more prominent role in the assessment of the firm's independence and the actions taken in such a case.

IESBA Decisions

74. The IESBA strongly supported the premise of the proposed requirement that fee dependency on an audit client that is a PIE cannot continue indefinitely for the reasons noted above. Therefore, the IESBA was not persuaded by the suggestions that the Code should not include a finite period in the case of fee dependency on a PIE audit client.
75. In relation to the concerns that the requirement would equate to mandatory firm rotation, the IESBA noted that the firm might have the option of reducing the extent of services other than audit and hence

¹⁹ Section 100, *Complying with the Code*, Paragraph R100.3

reduce the amount of total fees from the audit client. As the firm is likely to have other options than cease to be the auditor, the IESBA does not believe that the requirement amounts to mandatory firm rotation.

76. Regarding the specific 5-year period, the IESBA reaffirmed that this period is an appropriate time frame, even for a newly established firm, to address the issue of the fee dependency (see paragraph R410.20). The IESBA believes that it provides a reasonable and balanced element to the approach to addressing the threats created by fee dependency at the PIE level. The IESBA additionally noted that the 5-year period harmonizes with similar requirements already in place in some major jurisdictions.²⁰
77. The IESBA acknowledged that in some circumstances relevant to some market-specific issues, ending the engagement after the fifth year in the case of fee dependency could cause difficulties for the client that cannot be resolved, and which therefore would not be in the public interest. Recognizing such cases, the IESBA had proposed an exemption to this requirement such that the firm can continue being the auditor even after the fifth year if there is a compelling reason and the conditions set out in the proposals are all met. As respondents generally supported this proposal, the IESBA determined to retain it (see paragraph R410.21).
78. The IESBA noted that the ED set out for firms to communicate with TCWG not only the fact of the fee dependency and the safeguards put in place but also whether there is any proposal to continue as the auditor after the fifth year. The IESBA has retained the enhanced provision on transparency to TCWG, which is intended to ensure that TCWG have sufficient information to be able to make an informed decision in the case of fee dependency (see paragraph R410.28).

Fee Dependency on Non-PIE Audit Clients

79. In developing the ED, the IESBA agreed to a similar model for addressing the threats for non-PIE audit clients as for fee dependency on PIE audit clients but allowing greater latitude in the threshold and safeguards adopted. The IESBA considered this would be a reasonable approach bearing in mind the nature of the threats, the special considerations relating to SMPs, the public interest, and the IESBA's intention to revisit the definition of a PIE as part of a separate project.

Appropriateness of the Proposed Threshold

80. Regarding a threshold, the fact-finding activities leading up to the Fees project provided no empirical evidence as to what it should be. Therefore, taking into account the considerations set out in the paragraph above and feedback from stakeholders, in the ED the IESBA proposed that when total fees from an audit client that is not a PIE exceed 30% of the firm's total fee income for each of 5 consecutive years, the firm determine whether one of the following two actions might be a safeguard and, if so, apply it: (a) prior to issuing the audit opinion on the fifth year's financial statements, have a professional accountant, who is not a member of the firm, review the fifth year's audit work; or (b) after the audit opinion on the fifth year's financial statements has been issued and before issuance of the audit opinion on the sixth year's financial statements, have a professional accountant, who is not a member of the firm, or a professional body review the fifth year's audit work.

²⁰ See, for example, Article 4 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

81. On balance, unlike in the case of PIE audit clients, the IESBA did not believe that it would be necessary to require a firm to cease to be the auditor after a certain period of time, provided that the firm can determine that either of the actions above would be a safeguard to reduce the level of the threats to an acceptable level. The proposal allowed firms to make the same determination and take the same action should the fee dependency continue beyond the fifth year.

Comments on Proposals

82. A significant number of respondents had comments or concerns regarding the proposed threshold in the requirement. Some questioned whether it is necessary to set out an exact threshold in the case of non-PIE audit clients as the burden created for firms (i.e. requiring an external review) may outweigh the benefit from the perspective of the public interest. They suggested that the IESBA revert to a principles-based approach. There was also a range of proposals regarding the level of the threshold. A number of respondents raised that the proposed 30 percent threshold in conjunction with the 5-year period would be too high, mainly because this would give the impression that threats created up to 30 percent are at an acceptable level.

IESBA Decisions

83. Reflecting on the feedback from respondents, the IESBA emphasized that its intention was to create a consistent approach regarding the expectations in the case of non-PIE audit clients (as indeed is also its intent with respect to PIEs), while allowing greater latitude in the threshold and safeguards adopted than those applying in the case of PIEs. The IESBA reaffirmed that the 30 percent threshold in conjunction with the 5-year horizon achieves some scalability, taking into account the different level of public interest in non-PIEs, and allows enough time for newly established firms to deal with fee dependency as they grow their practices.
84. The IESBA also noted that firms are required under the conceptual framework to evaluate the level of the threats even before the fifth year (or the second year in case of PIEs) and take actions to reduce the threats to an acceptable level. If that is not possible, the conceptual framework requires them to end the engagement.

Actions Required

85. Regarding the proposed safeguard of having a professional accountant, who is not a member of the firm, review the audit work before or after the audit opinion on the fifth year's financial statements is issued, several respondents raised the need for clarification regarding the type and the scope of the proposed external review. A few CAG representatives also felt it was unclear whether this review was intended to be an EQR such as was proposed in the case of PIEs. It was suggested that either the Code or a staff publication provide guidance regarding such reviews.
86. Other respondents were of the view that requiring a review performed by a professional accountant external to the firm would create a significant burden in the case of non-PIEs, especially for SMPs.

IESBA Decisions

87. As mentioned above, the IESBA had proposed a model for addressing the threats similar to the Code's existing fee dependency model for PIE audit clients but allowing greater latitude in the threshold and safeguards adopted. On balance, the IESBA had agreed to provide the options of a post-issuance review performed by a professional accountant outside of the firm or by a professional

body for the firm to determine whether any of these actions might be a safeguard to reduce the threats to an acceptable level. Furthermore, the IESBA did not propose that the review performed by a professional accountant prior to the issuance of the audit report should be equivalent to an EQR. The IESBA believes this continues to be a proportionate response.

88. Regarding the type and the scope of the review, the IESBA noted that the extant Code already includes a review of audit work performed as a safeguard in many other circumstances. In this case, however, given the level of fee dependency and the length of time it has persisted, the IESBA had agreed that the review should be performed by a professional accountant outside of the firm. The IESBA also noted that the objective of this safeguard is to give confidence that the audit work has been performed satisfactorily. In line with the Code's conceptual framework, the nature and scope of the review should be determined by the reviewer, based on the reviewer's professional judgment and the facts and circumstances, bearing in mind that objective. Consequently, the IESBA did not believe that it would be appropriate to prescribe the scope of the review in advance. The IESBA believes that the Code's building blocks approach provides appropriate guidance to support judgments about the type and scope of the review contemplated in paragraph R410.15.

Transparency of Fee-related Information of PIE Audit Clients

89. One of the main objectives of the revisions arising from the Fees project is to enhance transparency of fee-related information of PIE audit clients (a) to TCWG and (b) to the public. The IESBA believes that such enhanced transparency can serve to better inform the views and decisions of TCWG and a wide range of stakeholders about the audit firm's independence. In this regard, transparency complements the other revisions to the Code's fee-related provisions.
90. While developing its proposals, the IESBA intended to require the disclosure of fee-related information that is necessary and important for TCWG and stakeholders to form a judgment on a firm's independence. In doing so, the IESBA took into account the burden that the collection of such information could create for firms and other practical concerns regarding the disclosure. On balance, the proposals focused only on the transparency of fee-related information most relevant to a firm's independence and set out a principles-based approach for firms to achieve such transparency.

Communication of Fee-related Information with TCWG

91. Building on the pre-existing provisions in ISA 260 (Revised)²¹ and the Code²² regarding communication with TCWG, the main purpose of the enhanced provisions with respect to PIE audit clients is to provide a basis for a meaningful, two-way discussion about fee-related matters to assist TCWG in assessing the firm's independence.
92. To achieve this goal, the proposed amendments set out requirements for firms to communicate not only the information about fees for audit and services other than audit in a timely manner, but also the firm's assessment of the level of the threats to independence created by such fees and any actions the firm has taken or proposes to take to reduce such threats to an acceptable level. Additionally, in the case of fee dependency for PIE audit clients, the IESBA proposed that the firm communicate that fact with TCWG, the actions taken to address the threats, and any proposal for the firm to continue as the auditor if the fee dependency continues beyond five consecutive years. In this

²¹ ISA 260 (Revised), *Communication with Those Charged with Governance*

²² Paragraphs 400.40 A1 and 400.40 A2

regard, the proposals also included application material setting out examples of matters that the firm might consider communicating with TCWG to provide appropriate background and context about the audit engagement and services other than audit provided to the client, and the related fees.

Comments on Proposals

93. Respondents generally supported the enhanced provisions. Furthermore, Monitoring Group respondents highlighted that the enhanced transparency of information regarding fees for audit clients that are PIEs makes the communication between the auditor and TCWG more active and effective, which they felt would contribute to the improvement of audit quality.
94. A few respondents noted that ISA 260 (Revised) already requires that in the case of listed entities, firms provide information to TCWG regarding audit fees and non-audit fees. A Monitoring Group member suggested close coordination between the IESBA and the IAASB to align their communication requirements. A few respondents – including Monitoring Group respondents – were of the view that TCWG should be informed of the fees and the independence assessments, whether the audit client is a PIE or a non-PIE.
95. Regarding the timing of the communication, some respondents suggested that the IESBA clarify the meaning of “timely manner.” A few respondents – including a Monitoring Group member – suggested that the Code require communication of fee-related information to TCWG before any request for approval by TCWG of the appointment of the auditor to perform the audit engagement, or at least, at the conclusion of the engagement.
96. A few other respondents – including a Monitoring Group member – also noted that the proposal in the ED requiring firms to disclose fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services other than audit to the client only covered fees for services delivered to related entities over which the client has direct or indirect control. The respondents argued that the scope of the proposal was too narrow. They felt that not only downstream entities but also any related entity could exert undue pressure on the firm or network firms undertaking the audit.

IESBA Decisions

97. The IESBA noted that one of the issues it had identified for coordination with the IAASB was that the pre-existing requirement in ISA 260 (Revised) on communication of independence matters, including fee-related information, is applicable only for listed entities whereas the IESBA’s proposal covered PIEs. The IAASB agreed that once all the relevant IESBA projects, i.e., the Fees, NAS and PIE projects, have been finalized, it would consider whether any revisions to the communication requirement in ISA 260 (Revised) would be warranted.
98. Regarding the suggestion for extending the scope of the proposed requirement in relation to communication of fee-related information to non-PIE audit clients as well, the IESBA was of the view that considering the level of public interest and the role of TCWG in the case of non-PIEs, it would not be proportionate to require the communication of the same fee-related information as in the case of PIEs. The IESBA noted that the extant Code already encourages the communication of information

that enables TCWG to consider the firm's judgments in evaluating threats and how the threats have been addressed when they are not at an acceptable level.²³

99. Concerning the timing of the communication, the proposals set out a flexible approach for firms to determine how best to achieve the objective of transparency, exercising appropriate judgment as to the precise timing of the communication based on the facts and circumstances but guided by the principle of timeliness. Therefore, the IESBA did not believe that it is necessary or possible to prescribe precise timing for such communication.
100. The revisions include guidance for firms to evaluate the level of the threats created by a high proportion of fees for services other than audit to audit fees. For this purpose, a firm has to include the fees for services other than audit provided to related entities of the audit client (i.e., including controlled and other related entities) in determining the proportion of fees, as fees from non-controlled related entities could also create threats to the firm's independence. However, in considering these disclosure proposals, the IESBA was mindful of the practicalities of disclosing such information. In particular, for confidentiality or other reasons, it might not be feasible to disclose information in relation to entities that are not controlled by the audit client. Accordingly, the disclosure proposal in the ED did not include such related entities. The same approach was proposed in relation to the disclosure of fee-related information to the public. Given the range of support from other stakeholders for the proposal and the concern from stakeholders generally for provisions that are proportionate, the IESBA did not believe that there was a compelling reason to revisit this position (see paragraphs R410.25 and R410.26).
101. For further changes relevant to communication with TCWG, see the subsection *Disclosure of Fee-related Information to TCWG and to the Public at Group Level* below.

Public Disclosure of Fee-related Information

102. In view of the public interest in the audits of PIEs, the IESBA believes that, apart from TCWG, it is beneficial for stakeholders to have visibility about the fee-related information which might reasonably be thought to be relevant to the evaluation of a firm's independence. Therefore, the IESBA proposed revisions to the Code that aimed at promoting disclosure of fee-related information to the public as well.
103. Informed by the fact-finding activities, the IESBA recognized that several jurisdictions have laws and regulations regarding the disclosure of fees for both audit and services other than audit paid and payable to the firm and network firms, and it is mainly the client's responsibility to disclose the fee-related information. Consequently, the proposals built on these pre-existing national laws and regulations regarding fee disclosure.
104. The proposals set out requirements for firms to be satisfied that the following information is publicly disclosed either by the audit client or by the firm in a timely and accessible manner:
 - (a) The fee for the audit of the financial statements;
 - (b) Fees for services other than audit provided by the firm or a network firm; and
 - (c) If applicable, the fact of fee dependency.

²³ Paragraph 400.40 A2

105. To avoid duplication of obligations in relation to public disclosure, the ED recognized compliance with such laws and regulations as compliance with the Code if those national requirements substantively satisfy the requirement in the Code.

Comments on Proposals

106. While most respondents and the CAG supported the proposals for enhanced public transparency regarding fee-related information, many commentators were of the view that providing such transparency is the responsibility of the client and/or legislatures or regulators. They considered transparency of fee-related information as a corporate governance issue that should not be imposed on the auditor through the Code. They felt that this matter was outside the remit of the Code.
107. Several respondents also had concerns regarding how the proposed requirement would interact with pre-existing national laws and regulations. They raised that the firm, as the auditor, should not be required to disclose information that the entity itself is not required to disclose by law and may not even have consent to disclose. Consequently, a few respondents felt that clarification was needed regarding the interaction of the proposed requirement with laws and regulations, especially how a refusal by the client to disclose information should be dealt with. Some respondents and a CAG representative questioned whether non-disclosure of audit fee information by the firm would constitute a breach of independence requirements. They were of the view that it would be erroneous to link the fee disclosure to the independence of an auditor.

IESBA Decisions

108. Reflecting on the comments raised, the IESBA reaffirmed that enhanced transparency of fee-related information, including public disclosure, is an important element of the structure of the revisions to the Code as transparency impacts perceptions of auditor independence. Therefore, the IESBA reaffirmed its support for promoting global transparency at the earliest time possible. To achieve this goal in light of respondents' feedback, the IESBA determined to take a more principles-based approach to public disclosure that would allow more flexibility for firms regarding how to make fee-related information available to the public, relying on their professional judgment, as further detailed below. (See paragraphs 410.29 A1, R410.30 and R410.31.)
109. The IESBA shared commentators' views that disclosure of fee-related information would be best presented by the audit client. The proposals in the ED were also intended to support this position and require the disclosure by the auditor only in cases when the information is not disclosed by the client. To better emphasize this approach, the IESBA determined to clarify in the revised provisions that the firm is required to first discuss the benefit to the client's stakeholders of the client making such disclosure (see paragraph R410.30(a)).
110. Regarding the role of national laws and regulations, the IESBA had also recognized that several jurisdictions already have laws and regulations in place on public disclosure of fee-related information. In those instances, consistent with the overarching provision in paragraph R100.3 of the Code, laws and regulations prevail. In those cases where laws and regulations do not prohibit or require disclosure of fee-related information by the client, the revised provisions require firms to have a discussion with TCWG of the client first on the disclosure of fee-related information by the client (see paragraph R410.30).
111. The IESBA also agreed to a more-flexible approach regarding whether compliance with such national laws and regulations could constitute compliance with the Code. In this regard, the revised provisions

do not prescribe how firms should determine whether laws and regulations substantively satisfy the requirement in the Code. Instead, firms should exercise professional judgment to determine whether disclosure by the audit client based on national laws and regulations would be capable of achieving transparency of fee-related information as required by the Code. Hence, compliance with existing national laws or regulations on public disclosure would not necessarily result in compliance with the Code's provisions; firms would still need to evaluate the facts and circumstances and exercise professional judgement in this regard.

112. In relation to the concerns raised by some respondents that disclosure by the firm could create an adversarial relationship when the client is not required to disclose the fee-related information and refuses to do so, the IESBA noted that the Code already permits the disclosure of information to comply with professional standards, including ethics requirements.²⁴ In the event that the firm has concerns that the disagreement might give rise to an intimidation threat to independence that is not at an acceptable level, the Code requires the firm to address the intimidation threat by eliminating the circumstances, applying safeguards or declining or ending the specific professional activity.
113. The IESBA considered how a firm should deal with a contractual agreement on confidentiality. The IESBA believes that it would not be in the public interest if firms entered into contractual agreements that would override their obligations under the Code. Further, it is a prerequisite that they are able to comply with all applicable requirements of the Code, unless prohibited by law or regulation, before accepting an engagement. Even if some jurisdictions require private agreements to be enforced as law or regulation, there are often jurisdictional protections against such contractual agreements on confidentiality.
114. The IESBA had previously discussed whether the provisions of the IIS on breaches of independence should apply to non-disclosure of fee-related information. The IESBA was of the view that non-disclosure could affect the firm's independence, particularly independence in appearance. The IESBA concluded that there were no specific reasons to regard this situation as an exception under the IIS. If there was non-disclosure of fee-related information, the firm would be required to consider whether a breach had occurred and, in compliance with the breaches provisions²⁵ of the IIS, take the necessary actions depending on the particular facts and circumstances of the non-disclosure.

Possible Ways to Effect Public Disclosure by the Firm

115. As noted above, the IESBA's main focus was to provide a flexible approach for firms to achieve transparency of the fee-related information set out in the Code in a timely and accessible manner to all stakeholders, if such information is not disclosed by the client. In the ED, the IESBA provided the audit report as an example of a suitable location for disclosure of fee-related information by the firm that would meet the "timely" and "accessible" criteria. In this regard, the IESBA had engaged in coordination with the IAASB regarding public disclosure of fee-related information in the audit report.

Comments on Proposals

116. Several respondents were of the view that the audit report is not appropriate for such disclosure. Some felt that using the audit report could create the perception that there is an implicit relationship between the firm's opinion on the financial statements and the fees earned from the client, or that the

²⁴ Paragraph 114.1 A1

²⁵ Paragraphs R400.80 to R400.89

audit itself is not of a high quality if the fees appear to be inadequate to the user. It was also raised that the audit report is not intended as a “collection point” for all types of peripheral information because this would detract from its primary purpose.

117. There were a few suggestions – including from a Monitoring Group member – for the IESBA to consider the transparency report or the website of the firm as a possible location for the disclosure of fee-related information. A few respondents also suggested that the IESBA consider the reporting of fee-related information to audit regulators as an alternative appropriate channel.

IESBA Decisions

118. The IESBA acknowledged the concerns raised regarding potential unintended consequences through providing the audit report as the sole example of a suitable location that would meet the criteria set out in the Code. The IESBA therefore determined to include further examples of possible locations for such disclosure in line with the IAASB’s approach regarding communication with external parties about the firm’s system of quality management in ISQM 1. Those examples include the firm’s website and publications such as a transparency report, audit quality report and other targeted communications to specific stakeholders. (See paragraph 410.31 A3.) Further, the IESBA agreed to commission IESBA Staff to develop Frequently Asked Questions (FAQs) to address more detailed considerations regarding these different avenues of disclosure, including explaining which part of the audit report would be the appropriate place for such disclosure, in line with input received from the IAASB in that regard.
119. The IESBA considered the potential for inconsistent ways of communication as some of the fee-related information might be disclosed by the client and some by the firm. Furthermore, the location of disclosure by the firm can vary from client to client. The IESBA acknowledged the complexity of the requirements on the disclosure and the potential for divergent approaches to disclosure. Nevertheless, the IESBA noted that its primary intention is to achieve disclosure by the client. In case the information is not disclosed by the client, the IESBA believes it is important, while having regard to the principles of timeliness and accessibility of the information to stakeholders, to provide flexibility for firms to determine the best way for targeted communications with stakeholders. Ultimately, the IESBA agreed that it was necessary to allow practice to evolve and for the market to eventually settle on what would be best practice.

Fee-related Information to be Disclosed

120. In deliberating the proposal in the ED for public disclosure of fee-related information, the IESBA noted concerns that disclosing unsolicited information to the public without providing comparable information (such as fee-related information from previous financial years) or further explanation might be misleading.
121. The IESBA’s objective with this proposal was to achieve transparency for the benefit of stakeholders in facilitating their judgments and assessments about a firm’s independence. It was not the IESBA’s intent to achieve comparability of fee information across different entities and groups. Accordingly, the IESBA believed that it should be left to firms to determine how best to fulfill the transparency objective and that the Code should not be prescriptive in that regard.
122. Consequently, the IESBA sought to strike a reasonable balance between the extent of the requirements proposed and the need for judgment to be applied in the circumstances of the engagement. In this regard, the IESBA had proposed some examples of further information that a

firm might also discuss with the client in terms of whether disclosure of such information might enhance the users' understanding of the fees paid or payable and how they might influence the firm's independence.

123. Concerning the level of the audit fee, the IESBA proposed in the ED that in relation to a group audit, a firm provide stakeholders information about the full cost of the group audit, including not only fees for audit work performed by the firm and network firms, but also fees for audit work performed by firms outside the network. The IESBA's intention was to assist stakeholders in making judgments about the independence of all those involved in the group audit and not only the independence of the firm or network firms. However, recognizing that fee information from component auditors outside the firm's network might not be readily available, the proposal specified that in relation to those component auditors, the fee information to be disclosed is the actual or estimated fees paid or payable to them. The IESBA also understood that there could be circumstances where the firm is simply not able to obtain the necessary information from a component auditor outside the firm's network in order to effect the disclosure. As an exception to this requirement, the IESBA therefore proposed that in such cases the firm be only required to be satisfied that the fee information that is available is publicly disclosed together with an explanation, to the extent possible, of the qualitative significance of the fee information which is not available.

Comments on Proposals

124. A number of respondents expressed concerns regarding the proposals on disclosure about audit fee-related information. They raised that the fees paid to other firms outside of the network cannot impact the auditor's independence. Some felt that there would be a significant burden to obtain this information, even if possible. Regarding the exception provided in the ED for cases where the firm is not able to obtain or provide an estimate of the audit fees paid or payable to other firms, some respondents argued that the exception provided was overly complex compared with the relevance of such information to stakeholders, given that this relates to the other firms outside of the network.
125. Regarding the type and nature of the information proposed to be disclosed, several respondents suggested that the IESBA consider including more granular information about fees based on the types of services (e.g., "audit-related services," "other assurance services," "tax services," "other services," and "compulsory services").
126. Several respondents also questioned whether it was necessary to require firms to disclose information about fee dependency on a PIE audit client as it is not required to be disclosed by any national laws or regulations. There were comments that it can be counterproductive and result in increased pressure on the firm. Furthermore, it was felt that such disclosure might cast doubt on the independence of the auditor without allowing the disclosure of the safeguards applied.

IESBA Decisions

127. Regarding the public disclosure of audit fee-related information, the IESBA considered the arguments raised concerning the practical difficulties in obtaining information about actual or estimated fees paid or payable to other firms outside of the network that have performed audit procedures on the engagement. After further deliberation, the IESBA acknowledged those concerns and removed the relevant provisions. The final requirements set out for firms to disclose to TCWG and to the public

the fees paid or payable only to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion.²⁶ (See subparagraphs R410.23 (a) and R410.31 (a).)

128. As noted above, IESBA intended to require the disclosure of the type of fee-related information at a global level that is essential to TCWG and the public in making informed judgements about a firm's independence. Application material sets out examples of further information that the firm might also discuss with the client in terms of whether disclosure of such information might enhance the users' understanding of the fees paid or payable and how they might influence the firm's independence. Such examples of further information include, among others, the nature of services provided and their associated fees (see paragraphs R410.30, 410.30 A1 and 410.31 A1). Given this guidance, the IESBA did not believe it would be necessary to require the disclosure of the type of services the fees are paid for in particular.
129. Regarding the disclosure of information about fee dependency on a PIE audit client to the public, the IESBA considered whether such disclosure could cast doubt on the firm's independence and give incomplete information that may mislead the public. The IESBA noted that the application material provides examples of further information that the client, or the firm, might consider disclosing, including the safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm. Furthermore, recognizing the role of TCWG in addressing possible fee dependency issues, the proposals required firms to disclose to and discuss with TCWG this information even in the first year of the engagement. Thus, TCWG can consider and take actions after the first year to address a fee dependency issue, while the public disclosure of such information would only be required in the second year of the engagement. After further deliberation, the IESBA determined to retain the provisions regarding disclosure of information about fee dependency in the Code.

Disclosure of Fee-related Information to TCWG and to the Public at Group Level

130. Given the scope of related entities for an audit client as specified in paragraph R400.20 of the Code, the IESBA had considered in the case of listed entities whether it would be appropriate to require firms to disclose the amount of fees for services other than audit provided to all related entities of the audit client (including controlled and other related entities), as would be the case when determining the proportion of fees and fee dependency. However, as mentioned above, the IESBA was mindful of the practicalities of disclosing exact information concerning such fees and therefore proposed that the disclosure only include fees from related entities over which the client has direct or indirect control (controlled entities).

Comments on Proposal

131. Apart from a few regulators, respondents generally supported the proposed approach. Nevertheless, a few commentators observed that the proposals could create a significant and undue compliance burden for firms in the case of private equity complexes (or similar investment company complexes). They pointed out that where a private equity firm is an investment holding entity, the portfolio companies are generally not consolidated into the financial statements of the private equity firm. It was also noted that

²⁶ As noted in paragraph 410.3 A3, fees for the audit of the financial statements does not include any fee for an audit of special purpose financial statements or a review of financial statements.

the funds and portfolio companies would generally be subject to corporate governance from a different group of individuals than TCWG of the private equity firm.

132. Furthermore, commentators pointed out that in some major jurisdictions such as the US and EU, law or regulation does not require private equity firms to disclose information about fees paid by their “controlled” portfolio companies that are not required to be included in the consolidated financial statements. It was suggested that the IESBA consider limiting the scope of the requirements regarding fee disclosure to only the PIE audit client and its consolidated controlled entities.

IESBA Decisions

133. The IESBA acknowledged those practical concerns and agreed that there was a need for the requirement to be proportionate, having regard to the principle that only those controlled entities over which TCWG of the audit client have governance responsibility should be captured. Accordingly, the IESBA determined that in the case of transparency of fees paid for services other than the audit of the financial statements, the scope of the communication with TCWG or disclosure to the public should extend only to controlled entities that are consolidated in the group financial statements of the PIE. (See paragraphs R410.25 (a) and R410.31 (b).)
134. Nevertheless, the IESBA believes that the Code should not rule out that depending on the facts and circumstances, the fees paid for services other than the audit of the financial statements to controlled entities not consolidated in the group financial statements could also be relevant to the evaluation of the firm’s independence. Therefore, the IESBA determined that the fees paid to such controlled entities for services other than the audit of the financial statements be included when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm’s independence (“knows or has reason to believe” test).²⁷ (See paragraph R410.26 and R410.31 (c).)
135. The IESBA noted that in the case of fees for the audit of the financial statements on which the firm expresses an opinion (which do not comprise fees for review engagements and fees for audits of special purpose financial statements), by definition²⁸ the firm would only consider controlled entities included in the group financial statements.
136. During the course of the IESBA’s deliberations, the PIOB observed that the provisions regarding evaluating whether fees from controlled entities that are not consolidated in the group financial statements are relevant to the evaluation of the firm’s independence might not be sufficiently clear. The PIOB was concerned that such a limitation on the fees to be disclosed may weaken the premise of the requirement on public disclosure. In response to those comments, the IESBA determined to provide further guidance that would assist firms when determining whether the fees from non-consolidated related entities, individually and in the aggregate, are relevant to the evaluation of the firm’s independence (see paragraphs 410.26 A1 and 410.31 A2.)

²⁷ The extant Code already includes in other provisions the “knows or has reason to believe” test which is in line with the Code’s principles-based approach.

²⁸ The Glossary to the Code provides the definition of financial statements on which the firm will express an opinion: In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Exception to Disclosure in the Case of Certain Subsidiaries and Parent Entities

137. The IESBA considered how the public disclosure requirement would operate in those jurisdictions where, in addition to the presentation of the group financial statements, parent entities and wholly-owned subsidiaries are required to present financial statements on a standalone entity basis or subgroup basis.
138. The IESBA noted that when the group financial statements and the standalone entity's financial statements are all audited by the firm or a network firm, applying the same requirement to communicate fee-related information to TCWG and to the public could create confusion given the potential for different fee-related information being communicated from the standalone entity's perspective compared to the group perspective. Furthermore, there would be an element of repetition as the fee-related information from the standalone entity's perspective would also be included in the communication of the fee-related information in relation to the group financial statements.
139. To avoid duplication of effort in relation to compiling and communicating the information, the IESBA therefore determined to provide an exception to the public disclosure requirement in the case of standalone financial statements of a PIE parent entity and wholly-owned subsidiaries included in group financial statements which are published by the PIE parent entity (see paragraphs R410.32). The IESBA did not believe that this exception should be extended to PIE controlled entities that are *not* wholly-owned given the presence of minority shareholders.
140. Furthermore, in the case of communication with TCWG, the IESBA noted a distinction between a parent entity and a wholly-owned subsidiary. For a parent entity, TCWG are, by definition, the same as for the group. Therefore, the IESBA determined that it is not necessary to provide an explicit exception from the requirement to communicate with TCWG about the fees in the case of parent entities (see paragraph R410.27).
141. The IESBA as well as the PIOB noted some potential complexity in relation to the readability and understandability of the revised provisions. However, the IESBA believes that the impact of any perceived complexity will be relatively short term while the proposals are being implemented, whereas the impact of duplicating the disclosure effort would be permanent. Furthermore, the IESBA agreed to commission IESBA Staff to develop a FAQ publication to provide detailed implementation guidance to facilitate consistent application of the provisions.

IV. Other Matters**Contingent Fees**

142. In the ED, the IESBA did not propose any significant changes to the extant provisions on contingent fees. (See paragraphs 410.8 A1 to 410.10 A3 in the final provisions.)
143. However, some respondents – including two Monitoring Group members – suggested that contingent fees for the provision of NAS to an audit client should not be permissible in any event. They were of the view that even immaterial contingent fees for NAS could impair the firm's independence as this results in an alignment of the firm's interest with the client's.
144. The IESBA noted that the changes arising from the NAS project would significantly limit the extent of permissible NAS a firm could provide, especially to a PIE audit client. The IESBA also noted that if

the provision of a NAS is not prohibited by revised Section 600²⁹ of the Code and the contingent fee does not meet any criteria that would result in a prohibition according to paragraph R410.10, the conceptual framework will apply in addressing the self-interest threat created. Therefore, the IESBA did not believe it was necessary to change the extant Code's approach in this regard.

Anti-Trust Issues

145. During the course of the project, the IESBA heard concerns, including among some within the IESBA CAG, that the proposals could raise potential issues with regard to anti-trust laws in some jurisdictions.
146. In particular, representatives of the American Institute of Certified Public Accountants (AICPA) commented that the proposed revisions to the Code that relate to fees paid to auditors by the entities they audit might be regarded as anti-competitive under the relevant US laws and regulations.³⁰ They expressed concerns that in those circumstances, the IESBA and its members and/or the AICPA and members of the AICPA who are Board members of the IESBA might be exposed to civil or criminal proceedings.
147. To better understand those concerns, the IESBA engaged a US law firm as independent legal counsel to explore and analyze the legal implications of the proposed revisions to the Code from a US anti-trust perspective. The IESBA also sought independent legal counsel's views regarding the matter of potential exposure of the IESBA and its Board members to any civil or criminal proceedings if the proposed provisions were adopted in the US.
148. After having reviewed the final revised fee-related provisions of the Code, independent legal counsel advised the IESBA that the revisions do not raise material antitrust concerns under applicable US law and precedent. Independent legal counsel also advised that it is highly unlikely:
 - That the revisions would be found to be anti-competitive; and
 - That any of the Board members of the IESBA would be held personally liable for any potential antitrust violation.
149. Additionally, in the ED, the IESBA had asked for stakeholders' 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 competition laws. Respondents were generally of the view that the proposals would not give rise to anti-trust or anti-competition issues in their respective jurisdictions.

V. Effective Date

150. Some respondents to the ED called for a period of stability, particularly given the newly enhanced conceptual framework after the Revised and Restructured Code became effective in June 2019.
151. Several commentators from a range of stakeholder groups also pointed out that due to the ongoing PIE project, there was a lack of certainty regarding the entities that will be covered by the provisions relating to PIE audit clients.

²⁹ Section 600, *Provision of Non-Assurance Services to an Audit Client*

³⁰ The Sherman Antitrust Act is the relevant anti-trust law that regulates competition in the US.

152. In undertaking the Fees, NAS and PIE projects, the IESBA had committed to coordinating the effective dates of the revisions arising from the three projects to provide an appropriate transition for adoption and implementation of the changes. Against that background, while there were some discussions with stakeholders about the merit of aligning the effective dates for all three projects, the IESBA concluded that it would not be practicable for the effective date of the changes arising from the PIE project to be fully aligned with the NAS and Fees effective dates. This is because, in view of the broad approach taken to the revision of the PIE definition in the Code, regulators, national standard setters or other relevant local bodies will need time to refine the revised PIE definition to their local context as part of the adoption process. The IESBA was also mindful that a significantly extended period before the strengthened provisions arising from the Fees and NAS projects come into effect would not be in the public interest.
153. The IESBA also noted that regardless of the changes arising from the PIE project, the aim of the Fees project as regards PIE audit clients is to strengthen the provisions relating to certain fee-related matters so as to enhance stakeholder confidence in the auditor's independence with respect to those audit clients. For the relevant provisions, the IESBA's focus has been on the principles (and requirements) that should apply to audits of PIEs (however defined) as compared to audits of non-PIEs.
154. Accordingly, the IESBA set the effective date of the final Fees provisions – aligned with the effective date of the final revised provisions from the NAS project – to be as follows:
- For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after December 15, 2022.
 - For the revised Section 905:³¹ in relation to assurance engagements with respect to underlying subject matters covering periods of time, effective for periods beginning on or after December 15, 2022; otherwise, effective as of December 15, 2022.
 - For conforming and consequential amendments to other Sections of the Code: effective as of December 15, 2022.

Early adoption will be permitted.

³¹ Section 905, *Fees*

The *International Code of Ethics for Professional Accountants (including International Independence Standards)*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Ethics Standards Board for Accountants', *International Code of Ethics for Professional Accountants (including International Independence Standards)*, 'International Federation of Accountants', 'IESBA', 'IFAC', the IESBA logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © [April 2021] by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, save for where the document is being used for individual, non-commercial use only. Contact permissions@ifac.org.

Published by:





**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org