

Overview of Key Comments to Fees Exposure Draft

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Virtual IESBA Meeting
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Objective of IESBA Session



- To note observations and key issues raised by respondents to the [Fees Exposure Draft](#)
- To provide input on Fees Task Force's (TF) early views regarding how to address main comments
 - TF met on 2 July and discussed observations and key comments
 - Based on the comments and IESBA input, TF will develop full review and changes to proposals by September

Overview of Respondents

Category	# of Respondents
Regulators & oversight authorities, including MG	10 (16 %)
Public sector organizations	3 (5 %)
Preparers & TCWG	1 (1,5 %)
NSS	4 (6 %)
IFAC MBs (MBs)	30 (47 %)
Firms	12 (19 %)
Other	4 (6%)
Total	64

- Asia-Pacific – **17** (26 %)
- Global organizations – **16** (25 %)
- Europe – **14** (22 %)
- Middle East & Africa – **8** (12 %)
- North America – **6** (9 %)
- South America – **3** (4.5 %)
- ❖ **MG – IFIAR & IOSCO**
- ❖ **Certain IFAC MBs hold dual NSS role → here indicated as NSS**

All comment letters available on [IESBA website](#)

General Comments

- Respondents generally supported IESBA to enhance fee-related provisions in the International Independence Standards
- Questions re timing of the project
 - IESBA has committed to coordinating PIE project with the NAS and Fees projects and will consider formulation of the effective dates
 - Views that assessment to proposals is difficult without knowing the impact of the new definition of PIE
- Views that proposals drift the Code away from being a principles-based Code into a rules-based Code
 - Concerns about the costs of implementation, and application of the proposed requirements creating too much administrative burden
- ❖ IFIAR and IOSCO – Support the direction of the proposals in the ED, but some jurisdictions have already gone beyond



Threats Created by Fees Paid by Audit Client

- ❖ Self-interest (SI) threat to independence created when fees are negotiated with and paid by an audit client
 - Requirement for firms to determine whether such threats are at an acceptable level

Majority of the respondents agreed with the proposal

- Some respondents (MBs and firms) suggested that the inherent risk is the result of the "client relationship" – *and not an issue specifically related to fees* – and is already addressed by compliance with professional standards, including the Code
 - Whether the determination is necessary each time?
 - Determination should rely on pre-existing QM standards
- Some NSS raised that the role of TCWG in appointing auditors and negotiating fees provides "checks and balances" to the auditor payer model

TF preliminary response

- TF agrees that the proposal goes back to risks related to "client relationship" which is broader than a fee-related issue
- Addressing risk arising from the relationship of the client is beyond the remit of the Fees Project
- TF seeks the Board's views on whether the inherent risk related to the 'client relationship' ought to be addressed by the TF, or be the subject of a separate project?

Impact of Provisions of Other Services to Audit Fee

- ❖ Requirement that firms not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

General support that audit fee is a standalone fee and for the Code to include relevant provisions

- Some concerns regarding the operability of the proposed requirement
 - Questions regarding enforceability and related documentation
 - Suggestions for reconsidering the term “influenced”

TF preliminary response

- TF believes the principle is appropriate and clear
 - similar preexisting provisions in EU Directive
- TF will consider
 - Alternative term to “influence”, such as “affect”, “impact” or “determine”
 - Adding application material to clarify some practical issues, such as compliance with the requirement and documentation

Proportion of Fees

- ❖ Guidance on determination to large proportion of fees for services other than audit to audit fees
 - Charged by both firm and network firms to the audit client; and
 - Delivered to related entities of the audit client

General support that large proportion of fees for services other than audit could create threats to independence

- Respondents, except regulators, supported that the Code not include an exact threshold
- Suggestions for a more granular determination to services other than audit, i.e. audit-related service
- Concerns about possible implementation challenges at a network level

TF preliminary response

- TF believes the proposed factors to the determination of proportion address the comments raised
 - it would be impractical to create definition to audit-related fees at global level
- TF will include additional factors regarding
 - Assurance or related services that are mandated, by law or contract, to be performed by the auditor
 - Fees for services provided by network firms to the audit client

Fee-dependency of non-PIE Audit Clients

- ❖ Including a threshold for firms to address threats created by fee dependency on a non-PIE audit client
 - Whether the proposed threshold is appropriate?

Several stakeholders made comments to the proposed threshold → range of proposals to threshold

- Some MBs and firms suggested to revert to principle-based approach
- Some regulators and NSS were of the view that proposed threshold (30% in conjunction with 5 yrs) is too high
 - Concerns that firms will perceive that such level of fee-dependency is acceptable up to 5 years
- Concerns that from public interest perspective the burden created (i.e. external review) may outweigh the benefit

TF preliminary response

- The proposal aims to create a consistent approach regarding the expectations in the case of non-PIE audit clients as well
→ but allowing greater latitude in the threshold and safeguards adopted than in case of PIEs
- TF seeks the Board's view whether to
 - a) Include the proposed 30% threshold with a post implementation review, or
 - b) Include no threshold in the proposed requirement?

Fee-dependency of PIE audit clients

- ❖ Enhanced actions to reduce threats created by fee dependency in case of a PIE audit client
- ❖ Requirement for firm to cease to be the auditor if fee dependency continues after consecutive 5 years

Majority supported the enhanced proposed provisions

- Some respondents (MBs and firms) raised that having a definite period in a global code could have unintended consequences and create challenges to the implementation.
 - Some commentators suggested that TCWG have a more prominent role in the assessment of firm's independence and the actions taken in such circumstances.
- Suggestions for reconsidering whether pre-issuance review is the only appropriate safeguard to reduce threats

TF preliminary response

- TF believes that the principle is clear and proposals regarding communication of fee-dependency to TCWG will lead to a more prominent role of TCWG when assessing the firm's independence
- IESBA previously expressed support to remove other safeguards and include only pre-issuance review equivalent to an EQR

Transparency to Fee-related Information of PIEs

- ❖ Requirement regarding disclosure of fee-related information of a PIE audit client to TCWG and to public

Support that transparency can serve to better inform views and decisions about the auditor's independence

- Support to enhanced provisions regarding communication of fee-related information of PIEs to TCWG
- Support from some regulators to proposals on public disclosure
- However, concerns (from the 4 NSS, spread of MBs and majority of firms) regarding the requirement for firms to disclose fee-related information
 - Requiring such disclosure is outside of the remit of the Code and should be addressed by law or regulation
 - Disclosure is the clients' responsibility and should not be imposed on the auditor through the Code

TF preliminary response

- Enhanced transparency of fee-related information is an important element of the proposals
- Question to the Board is whether transparency could be achieved at a global level by ways other than through modifications to the Code?
 - Whether to convey to IASB and IOSCO the feedback from commentators that requiring the disclosure of fee-related information in financial statements would improve transparency and consequently the value of financial reporting
- Subject to Board comments, the TF will continue the proposal to provide global transparency at earliest time possible
 - Extent of TF specific proposals can be further considered

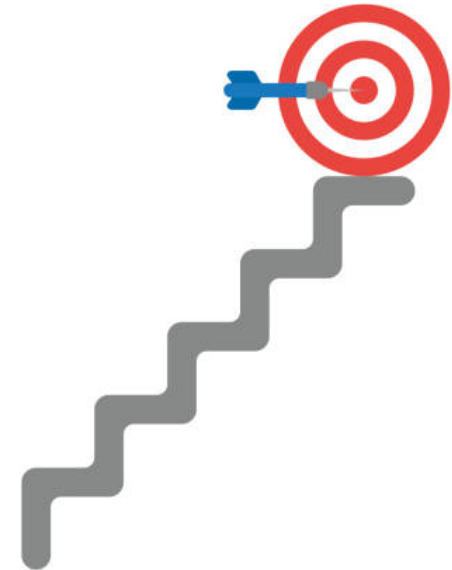
Next Steps

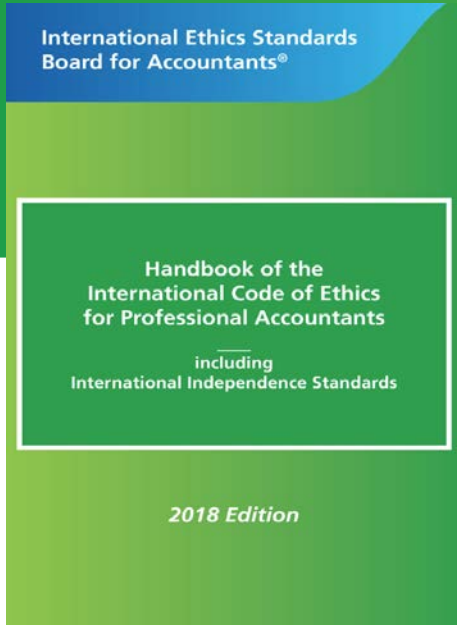
September 2020

- CAG discussion
- IESBA first-read
- Targeted outreach with major stakeholders

December 2020

- Second-read
- Approval of final text





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