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International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

3 July 2023

IESBA Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 U.S.A.

Our Ref: 2023/O/C1/IESBA/PM/41

Subject Line: Proposed Strategy and Work Plan for 2024-2027

Dear Geoff:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants' (the IESBA or the Board) *Proposed Strategy and Work Plan for 2024-2027* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high-quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We commend the Board's dedication and efforts to implement the Monitoring Group's (MG) Recommendations in order to strengthen the independence and accountability of international ethics, including independence, standard-setting and related governance. We encourage the Board to remain transparent in its communication regarding the progress made and potential challenges faced by the Board in implementing the MG Recommendations.

We support the Board's focus on the ongoing, timely identification of new and emerging issues that may need to be addressed within global standards, and the Board's timely, thorough analysis and resolution of those identified issues through the standard-setting process. We encourage the Board to continue monitoring such new and emerging issues, including those related to sustainability and technology, among others, and to provide flexibility in its work plan to allow for the reallocation of resources to address unexpected changes, as needed.

We acknowledge that the Board has made positive steps towards enhancing the International Code of Ethics for Professional Accountants, including International Independence Standards (the Code). However, in light of recent corporate and audit firm failures, we believe the Board should intensify its efforts on enhancing the quality and clarity of the Code (e.g., more clearly distinguishing requirements applicable to entities that are public interest entities (PIEs) vs. those that are not), which can have the added effect of making the Code more appealing to potential adopters and increasing the Code's acceptance worldwide. We encourage the Board to continue to pursue projects that will strengthen the Code for audit engagements and believe this should be a top ongoing priority of the Board.

We believe strengthening the Code is critical in achieving the Board's vision to achieve global recognition and acceptance of its ethics, including independence, standards. Refer to our recommendations where we believe the Code could be strengthened below. We strongly encourage the Board to add the Benchmarking Working Group's project to the strategic actions to expand the benchmarking project to other jurisdictions which we believe will help identify potential gaps in the Code for the Board to consider.

We also continue to encourage the Board to closely collaborate with the International Auditing and Assurance Standards Board (IAASB) to address topics of mutual interest. One example where the Board can collaborate with the IAASB is on their respective sustainability projects as well as the consistency of definitions and terminology used by both Boards. With respect to the latter, we are pleased to see an ongoing work plan item related to definitions and descriptions of terms.

Sustainability

We welcome the Board's work towards profession-agnostic sustainability-related ethics and independence standards and its related project on the use of experts as we see these as high priority projects. We encourage the Board to continue its work to develop high-quality standards in a timely manner and in accordance with a robust due process, engaging with a diverse range of stakeholders to help develop standards that are fit for purpose and meet the public interest needs. We are supportive of the Board's strategic decision on a phased approach to standard setting related to sustainability-related information given the potential for expanded roles for professional accountants in business (PAIBs) with respect to sustainability-related reporting and we encourage further engagement with stakeholders in this area. This further highlights the importance of the Board remaining flexible to address new or emerging issues based on the public interest needs. Furthermore, the Board should consider whether the concepts and outcomes pursued in other ethics and independence standard-setting projects might also be relevant to the Board's project on sustainability.

Proposed Work Plan for 2024-2027

As it pertains to the ongoing projects and work streams of the Board, we support the continuation of these projects as planned. We do, however, encourage the Board as it moves forward to ensure its ability to be agile in resource allocations and to be able to properly respond to emerging public interest issues (e.g., responding to the developments relating to reporting and assurance of sustainability-related information) as they arise.

As future projects are developed by the Board, we also encourage the Board to consider adding an expedited process to its standard-setting toolkit when the nature of the project (e.g., those with narrower scopes) can be completed through proper due process in a more accelerated timeline to achieve the public interest objective.

Potential New Topics Identified (Table B)

We believe the IESBA should prioritize the following, subject to staffing resources:

- Audit firm — audit client relationships (including "network firm" definition reconsideration)
- Business relationships – See "Materiality" discussion below
- Definitions and Descriptions of Terms

We also believe consideration should be given to whether less time intensive Code updates like modifying the definition of "network firm" could be considered as a narrow scope or targeted amendment to the Code versus a more involved project. This could permit expedited responses in response to the public interest. Subject to high priority projects continuing to be adequately resourced and progressed, the work plan should allow some flexibility for resources to be reallocated to address important new issues as they arise.

Materiality:
We would like to emphasize the importance of both prioritizing and providing guidance on how to evaluate materiality as we see this as one area that the Board should consider in strengthening independence standards. In prior comment letters, we identified various shortcomings in the Code that should be addressed. Specifically, the Board should consider whether the following arrangements should not be permitted by the Code irrespective of materiality and significance:

a) A firm, a member of the audit team or a member of that individual's immediate family may make or guarantee a loan to an audit client, provided the loan or guarantee is immaterial to the firm or individual and the client (paragraph R511.4); and
b) A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the

business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable. [Business Relationship section 520 (R520.4) / reworded in 2018 Code but generally same meaning adding "network firm" and swapped "immediate family member" for "close" as shown above].

Pre-committed Work Streams to Commence during or after Q1 2024 (Table C)

Post-implementation reviews during 2024-2027 appear appropriate for the Code revisions relating to long association phase 2, restructured code, non-assurance services and fees, and definition of public interest entity. We also recommend the Board consider adding an accelerated post-implementation review related to its sustainability standard-setting projects to assess how effectively the implementation of those standards meet the original objectives for developing them, and to identify any need for further enhancements due to the rapid developments relating to reporting and assurance of sustainability-related information. We encourage the Board to intensify its other post-implementation review efforts, in particular, as it relates to non-assurance services and fees and other topics discussed in this letter, and to remain flexible by prioritizing key areas and issues in order to enhance the effectiveness of the Code and address relevant matters of public interest.

In addition, as the Board considers the effectiveness of the implementation of the Code, as it relates to PIEs we believe it would be appropriate for IESBA to reflect on: 1) the nature of substantive safeguards in the Code as noted in our non-assurances services letter, and repeated below, and 2) assuming management responsibilities, as follows:

Substantive Safeguards:
While we appreciate the Board's initiative to address the independence issues arising from the provision of non-assurance services to assurance clients, we nevertheless continue to strongly believe that the more commonly used safeguards may be inadequate and should be addressed by the Board to strengthen the effectiveness of the Code. More specifically, we believe that the following are insufficient safeguards in many circumstances (as specified in subsections 601 through 610; e.g., section 601.5 Al of the Code):

- Using professionals who are not audit team members to perform the service and,
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

If the provision of a service by the audit firm or its network creates a threat to the firm's independence because it either results in the firm acting as management or creates a self-review threat, we question how having another professional within that firm or network firm can be used as an effective safeguard. Because the ***firm*** performed the service for its audit client, the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors. We believe the following actions are examples that would be stronger safeguards than what is currently in subsections 601 — 610 (see details above):

Examples of actions that the firm might take include:

- Recommending that the audit client engage another firm to review or reperform the affected audit work to the extent necessary.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

We believe the above safeguards are much more effective and we suggest the Board consider using these in certain other areas within the Code where reducing the threat to independence is feasible. Finally, and consistent with our commentary made during the due process for the non-assurance services project, the Board should consider defining more stringent provisions (including prohibitions for public interest entities) to further strengthen the independence of auditors in fulfilling their role. We continue to observe that many jurisdictions have current rules that go beyond the provisions in the Code today.

Assuming Management Responsibilities:

We believe the Board should strengthen sections R600.7 through R600.8 of the Code, Prohibition on Assuming Management Responsibilities, to enhance the effectiveness of management taking responsibility for a service. Section 600.7.A4 states:

> *"Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility."*

Further, paragraph R600.8 requires that management:

> *"Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services . . . However, the individual is not required to possess the expertise to perform or re-perform the services."*

In that regard, we observe that if the individual and management lack the expertise to truly understand the service, we question how then could they have the competence and capability to "evaluate[s] the adequacy of the results of the service performed."? We believe that without management or its designated individual having the competence or expertise to re-perform, or at least truly understand, the service, there may be little to no substance to "management taking responsibility" for the service.

If in substance, management is not taking responsibility, this could indicate that the firm might be performing a management function rather than simply providing advice or a recommendation. We are concerned with the many subtleties that continue to occur in practice when management is presumed to "assume responsibility" without evidence of its competence and capability to do so. We recommend that the Board consider a future project to enhance these requirements in the Code, such as to require an assessment of management's competence and capability to determine whether sufficient expertise, or knowledge and experience permit management to substantively take responsibility.

Finally, timely and accurate translation of the Code from English to another language is very important in facilitating consistent understanding, adoption and implementation of the Code in practice. Some of our members that have adopted the Code are using a Board-approved translated version in which there are instances where the translation does not reflect the original meaning or intent of the Code. Relatedly, we encourage the Board to continue to consider possible unintended consequences of using words that may be difficult to translate into other languages. Further, we encourage the Board to consider the compliance of the various translating bodies particularly with respect to providing representatives of independent oversight bodies, regulators, and other public interest organizations with an opportunity to review the proposed translation before it is finalized. The Board could also consider establishing a process, perhaps as part of a post-implementation review, to address translation issues that were identified subsequent to finalizing a translated version so those issues could be modified and resolved.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551- 5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Paul Munter

Paul Munter
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions