



**SENT VIA E-MAIL:** [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org)

June 4, 2020

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

The AICPA Professional Ethics Executive Committee (PEEC) respectfully submits the following comments to the IESBA on its *Proposed Revisions to the Fee-related Provisions of the Code* (proposal).

The AICPA is the world's largest member association representing the CPA profession, with more than 429,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations, and federal, state, and local governments; provides educational materials to its members; develops and grades the Uniform CPA Examination; monitors and enforces compliance with the profession's technical and ethical standards; offers specialized credentials; builds the pipeline of future talent; and drives professional competency development to advance the vitality, relevance, and quality of the profession.

Through PEEC, the AICPA devotes significant resources to ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

As you are aware, PEEC is comprised of representatives of firms from around the United States. Aspects of the subject matter of the proposal involve sensitive topics under the U.S. antitrust laws. PEEC is mindful of engaging in any conduct on its part that could be perceived as facilitating anticompetitive conduct. Neither this comment letter (nor participation in the IESBA's consideration of revisions to the fee-related provisions of the IESBA Code) should be construed as supporting any proposed or actual standard by the IESBA that may have an adverse effect on competition in the United States or elsewhere.

PEEC has the following general comments regarding the proposal.

***Clarify how the proposal will be coordinated with public interest entity (PIE) project***

Although we understand the IESBA is committed to coordinating its PIE project with the Fee and NAS<sup>1</sup> proposals, it is unclear what this coordination intends to include aside from "...the formulation

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<sup>1</sup> IESBA Exposure Draft: Proposed Revisions to the Non-assurance Services to the Code.

of the effective dates of the revised provisions arising from the three projects should be to provide an appropriate transition for adoption and implementation of the changes.”<sup>2</sup>

Because the definition of PIE is so integral to the Fee and NAS proposals, we recommend the PIE project be finalized before the Fee and NAS proposals are adopted. We recommend the IESBA implement a procedure that will allow for commenters to provide additional input on the Fee and NAS proposals once the PIE definition is finalized, including consideration of the need to possibly re-expose.

***Disclosure of fees in the audit report may not address the IESBA’s concerns***

We believe the professional accountant’s disclosure should be limited to reporting to those charged with governance (“TCWG”) and that any disclosure to third parties should be done by TCWG or in coordination with requirements of regulators. We believe that failure to disclose fees in the audit report should *not* result in an independence impairment and recommend this requirement be removed from the proposal.

If the proposals are adopted as exposed, we recommend specific guidance be provided regarding what information should be disclosed so that all stakeholders can make informed conclusions about auditors’ independence. Without this additional clarification, we believe inconsistencies will arise and the IESBA’s desired outcome for informed conclusions will not be achieved.

If the IESBA moves forward with requiring fees be disclosed in the audit report, we recommend the IESBA coordinate with the IAASB to address the implications on existing audit and review standards.

***The significance of a client should be evaluated using a principles-based approach***

***Non-PIEs***

We believe a bright-line approach for determining the significance of a client (i.e., fee dependency) does not strike an appropriate balance for non-PIEs. Specifically, we are concerned that a bright-line approach for non-PIEs could (1) result in a firm failing to conduct an adequate assessment of its independence; (2) be subject to manipulation; and (3) place small firms at a disadvantage.

We recommend the IESBA instead adopt a principles-based approach for non-PIEs that would allow for the professional accountant to apply judgment to determine whether an audit client is significant to the firm, office, practice unit, or partner of the firm. Such approach could include having firms consider implementing policies and procedures to identify and monitor significant clients to help mitigate possible threats to a member’s objectivity and independence.

We believe that the principles-based approach would strike an appropriate balance by providing firms flexibility in evaluating the threats created by significant clients, especially given the additional limitations to non-assurance work proposed by the IESBA NAS exposure draft. **Exhibit A** is an example of a principle-based approach from the AICPA Plain English Guide to Independence.

We do not believe it is necessary for the IESBA to add as a possible safeguard “the existence of an independent committee which advises the firm on governance matters that might impact the

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<sup>2</sup> Paragraph 19 of the proposal.

firm's independence". Additionally, we believe this could pose operational challenges for most firms.

*PIEs*

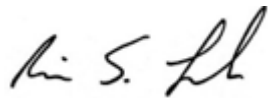
We believe the mandatory firm rotation called for in R410.19 may act as a barrier for some firms to providing audit services to PIEs. Accordingly, we recommend the IESBA eliminate the mandatory rotation until there is evidence to support its inclusion.

***Negotiation and payment of fees***

We believe the extant IESBA Code establishes sufficient and appropriate provisions to assist professional accountants and firms in addressing threats to independence that might be created by the negotiation of fees, level of fees charged, or payment of fees. Therefore, we do not support the changes to these areas of the code.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the *Proposed Revision to the Fee-related Provisions of the Code*.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian S. Lynch". The signature is fluid and cursive, with the first name "Brian" and last name "Lynch" clearly distinguishable.

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

cc: Andrew Mintzer, CPA, IESBA Member  
Myriam Madden, IESBA Member  
Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics

**Exhibit A**  
**Excerpt from Chapter 10 of the AICPA Plain English Guide to Independence**

***Does It Matter If a Significant Proportion of My Firm's Fees Come from a Particular Attest Client?***

Paragraph .16 of the "[Conceptual Framework for Independence](#)" interpretation (AICPA, *Professional Standards*, ET sec. 1.210.010) states that a self-interest threat may exist if a "*member* or his or her *firm* relies excessively on revenue from a single *attest client*." In addition, the "[Integrity and Objectivity Rule](#)" (AICPA, *Professional Standards*, ET sec. 1.100.001) and the "[Objectivity and Independence](#)" principle (AICPA, *Professional Standards*, ET sec. 0.300.050) discuss in broad terms that *members* should be alert for relationships that could diminish their objectivity and independence in performing attest services. The significance of a *client* to a *member* (or the member's firm), measured in terms of fees, status, or other factors, may diminish a *member's* ability to be objective and maintain *independence* when performing attest services.

To address this issue, *firms* should consider implementing the following policies and procedures to identify and monitor significant *clients* to help mitigate possible [threats](#) to a *member's* objectivity and *independence*:

- a. Policies and procedures for identifying and monitoring significant *client* relationships, including the following:
  - i. Considering *client* significance in the planning stage of the engagement.
  - ii. Basing the consideration of *client* significance on firm-specific criteria or factors that are applied on a facts and circumstances basis (see the following section, "[Factors to Consider in Identifying Significant Attest Clients](#)").
  - iii. Periodically monitoring the relationship. What constitutes periodic is a matter of judgment, but assessments of client significance that are performed at least annually can be effective in monitoring the relationship. During the course of such a review, a *client* previously deemed to be significant may cease to be significant. Likewise, *clients* not identified as significant could become significant whenever factors the *firm* considers relevant for identifying significant *clients* arise. (For example, additional services are contemplated.)
- b. Policies and procedures for helping mitigate possible *threats* to *independence* and objectivity, including the following:
  - i. Assigning a second (or concurring) review [partner](#) who is not otherwise associated with the engagement and who practices in an [office](#) other than those who perform the [attest engagement](#)
  - ii. Subjecting the assignment of engagement personnel to approval by another *partner* or [manager](#)
  - iii. Periodically rotating engagement *partners*
  - iv. Subjecting significant *client attest engagements* to internal firm-monitoring procedures
  - v. Subjecting significant *client attest engagements* to pre-issuance or post-issuance reviews or to the *firm's* external peer review process

The most effective safeguards a *firm* can employ will vary significantly, depending on the size of the *firm*; the way the *firm* is structured (for example, whether highly centralized or departmentalized); and other factors. For example, smaller *firms* (particularly those with one *office*) tend to be simpler and less departmentalized than larger *firms*. Generally, their processes will be less formal and involve fewer people than those of larger *firms*. Further, the *firms'* managing *partners* may engage in frequent and

direct communications with the *firms'* *partners* and professional staff on *attest client* matters and be personally involved in staff assignments. Larger *firms* draw from a sizeable and diverse talent pool. In those *firms*, *partners* who are not affiliated with the engagement (or *client service office* or business unit) can choose a second (or concurring) review *partner* from outside the *office* to perform the *attest engagement*. Midsized or regional *firms* may have aspects of both their smaller and larger counterparts, such as combining the ability to choose second review *partners* from an *office* other than the *attest client service office* while maintaining a relatively close connection to specific *attest client* relationships.

## Factors to Consider in Identifying Significant Attest Clients

The following are both qualitative and quantitative factors that can reveal a significant *attest client*:

- The size of the *attest client*, in terms of the percentage of fees or the dollar amount of fees versus total revenue of the engagement *partner, office, or practice unit* of the *firm*<sup>3</sup>
- The significance of the client to the engagement partner, office, or practice unit of the firm in light of the following:
  - The amount of time the *partner, office, or practice unit* devotes to the engagement
  - The effect on the *partner's* stature within the *firm* due to the partner's relationships with the *attest client*
  - The manner in which the *partner, office, or practice unit* is compensated
  - The effect that losing the *attest client* would have on the *partner, office, or practice unit*
- The importance of the *attest client* to the *firm's* growth strategies (for example, the *firm* is trying to gain entry into a particular industry)
- The stature of the *attest client*, which may enhance the *firm's* stature (for example, the *firm* is trying to gain entry into a particular industry)
- Whether the *firm* also provides services to related parties (for example, also provides [professional services](#) to [affiliates](#) or owners of the *attest client*)
- Whether the engagement is recurring

Judgment is necessary to determine whether an *attest client* is significant to the *firm, office, practice unit, or partner* of the *firm*. *Firms* will vary considerably in terms of the degree to which they consider some factors to be more pertinent than others. Gauges that relate to each relevant level within a *firm* (for example, *firm, geographic region, office, or practice unit*) may be useful but will likely be different for various levels within the *firm*.

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<sup>3</sup> Assessing an attest client's significance at the business or practice unit level may be a more meaningful measure for *firms* that structure their practices along industry lines (such as health care or financial services).