



International Organization of Securities Commissions
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4 July 2022

Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 5th Floor
New York, NY 10017 U.S.A.

Our Ref: 2022/O/C1/IESBA/MS/40

Subject Line: IESBA Strategy Survey 2022

Dear Technical Director:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants ("the IESBA" or "the Board") *Strategy Survey 2022* ("the Survey"). 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 ("members" or "we") 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.



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Introductory Comments

We welcome the Board's approach to the Survey to seek the views from stakeholders on key trends, developments, or issues the Board should consider as it begins the process of developing its next Strategy and Work Plan (SWP) for the period 2024 - 2027. We observe that the Board was able to complete, or make progress on, a number of important projects in spite of the challenges presented by the COVID-19 pandemic. While the recently completed projects such as Non-Assurance Services Provisions, Fee-related Provisions, and Revisions to the Definition of Listed Entity and Public Interest Entity marked a positive step towards enhancing the "Code of Ethics for Professional Accountants" (the Code¹), we encourage the Board to continue to pursue projects that will strengthen the Code, as well as continue to engage with stakeholders in order to identify areas of the Code needing attention.

As it pertains to the current active work plan² of the Board, we support the continuation of these projects as planned as they represent opportunities to raise the bar for ethical conduct and practice for all professional accountants. We do, however, encourage the Board as it moves forward to ensure the 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 information) as they arise.

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

¹ The references to requirements and application material of the Code herein are from the "2021 Handbook of the International Code of Ethics for Professional Accountants" dated October 21, 2021.

² <https://www.ethicsboard.org/consultations-projects/work-plan>



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IESBA Strategy Survey 2022 for the Work Plan 2024-2027

Potential Strategic Focus Areas

We support the Potential Strategic Focus Areas identified in the Survey: 1) *Strengthening independence standards for audit engagements*, 2) *Responding to developments relating to reporting and assurance on sustainability information, along with the sustainability-related topic*, 3) *Raising the bar of ethical behavior for Professional Accountants in Business*, and 4) *Promoting timely adoption and effective implementation of the Code*. Our comments related to each area are:

Strengthening independence standards for audit engagements

We support strengthening the International Independence Standards for audit engagements. We believe this should be a top ongoing priority of the Board. The ongoing benchmarking project could identify potential gaps in the Code for the Board to consider.

Materiality:

We would like to emphasize the importance of both prioritizing and providing professional accountants with guidance on how to evaluate materiality. For example, one area that the Board should consider to strengthen independence standards is materiality.

In prior comment letters³, 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:

³ https://www.iosco.org/library/comment_letters/pdf/IESBA-22.pdf and IESBA's Consultation Paper: Proposed Strategy and Work Plan, 2014-2018 (iosco.org).



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- (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].

Responding to developments relating to reporting and assurance on sustainability information

Given the rapid evolution in the area of sustainability reporting, it would be useful for the Board to assess its role in this area and determine how ethics and independence considerations related to sustainability could underpin the work efforts in this area including:

- collaboration with the International Sustainability Standards Board (ISSB) especially to emphasize ethics and independence considerations from the start of the ISSB’s standard setting activities;
- collaboration with the International Auditing and Assurance Standards Board (IAASB) to provide for a holistic standard-setting approach;
- gathering an understanding of the various roles and responsibilities of the wide range of professional firms outside of the accountancy profession that may provide assurance services with respect to sustainability in order to facilitate considerations related to the Board’s exploration of a potentially expanded remit of the Code⁴;

⁴ From the Survey page 9 of 22:“Whilst the Code governs public accountants in public practice (PAPPs) ethical conduct or independence on assurance engagements, it appears that there are currently no comprehensive or globally accepted standards that govern the ethical conduct or independence of these other assurance providers, or standards as comprehensive as those in the IESBA Code. Accordingly, the IESBA recognizes that



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- considering how the Code may cascade through the ecosystem (e.g., adopted by professionals other than accountants) before concluding on any potential expanded remit to additional professionals; and
- potential insufficient numbers of properly trained professionals with diverse backgrounds to perform sustainability efforts.

Potential future sustainability-related project 2024-2027

We have included our comments related to the potential future sustainability-related project 2024-2027 in this potential sustainability strategic focus area. We encourage the IESBA to be proactive in considering enhancements to be responsive to the global momentum in this space, beginning with climate change disclosures as some major jurisdictions are already proposing approaches that would consider assurance of climate-related disclosures.

We also support *Raising the bar of ethical behavior for Professional Accountants in Business* given the anticipated expanded roles for professional accountants in business related to sustainability reporting. However, the Board should ensure that resources assigned to this work does not detract from work related to strengthening independence standards for audit engagements.

Promoting timely adoption and effective implementation of the Code

Post-implementation reviews during 2024-2027 appear appropriate for the Code revisions relating to non-assurance services, fees, and definitions of listed entity and public-interest entity. We encourage the Board to intensify its post-implementation review efforts including the topics discussed in this letter since those could enhance the effectiveness of the Code.

In addition, as the Board considers the effectiveness of the implementation of the Code, we believe it would be appropriate for IESBA to reflect on 1) the nature of substantive

there is an open question as to whether the public interest will be better served if the scope of the Code – as a body of ethics (including independence) standards that is already globally recognized and trusted – were to be enlarged to cover assurance service providers that are not PAPPs.”....



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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 strongly believe that the more commonly-used safeguards in the proposal may be inadequate. 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 A1 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 re-perform 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.



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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 commentary⁵ 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

⁵ https://www.iosco.org/library/comment_letters/pdf/IESBA-24.pdf



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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.

Possible future standards-related projects or initiatives

We appreciate the Board’s thoughtfulness in developing the ten potential future projects or initiatives in the 2024-2027 strategy period included on pages 14-22 of the Survey. We believe the IESBA should prioritize the following, subject to staffing resources:

- Independence of external experts
- Audit firm – audit client relationships (including “network firm” definition reconsideration)
- Business relationships
- Non-authoritative material (see sustainability potential strategic focus section above for these comments)

While we acknowledge the importance of a possible future standard-related project on Breaches of the Code, we believe that the Board should first focus its efforts on ensuring the projects that are designed to achieve objectives to strengthen the Code to promote the deterrence of breaches to the extent possible.

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 light of public interest responsiveness.



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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 Survey. If you have any questions or would like to further discuss these matters, please contact Nigel James at U.S. phone number (202) 551-5394 (email: JamesN@sec.gov) or myself. In case of any written correspondence, please copy me.

Sincerely,

Makoto Sonoda
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions