

12 July 2018

Mr. Ken Siong
International Ethics Standards Board
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NY 10017, USA

submitted electronically through the IESBA website

333/541/500

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Re: IESBA Proposed Strategy and Work Plan, 2019 – 2023

Dear Mr Siong

We would like to thank you for the opportunity to provide the IESBA with our comments on IESBA's Proposed Strategy and Workplan, 2019 – 2023 (hereinafter referred to as "the Consultation").

Whilst we broadly agree with the Proposed Strategy and Workplan, 2019 – 2023, we question the apparent increasing focus on the PIE audit market given the fact that the IESBA is tasked with developing a Code of Ethics for global application and refer to our comments below in this regard.

Whilst we fully agree that the profession must aspire to the highest professional ethics, we would also observe that too fast a pace of change can be detrimental to achievement. In this vein, we would urge the IESBA to ensure that its intent in "further raising the bar" does not result in the Code becoming a continually moving target with which the profession will inevitably struggle to catch up. We would also welcome a more long-term strategic consideration as to where the Code "ultimately ought to end up", rather than just making it more stringent over time in a piecemeal fashion (i.e. what is the "end-game"). In this context we support the proposed post-implementation reviews of NOCLAR, long association and the restructured Code, provided this allows a period of no change, whereby imperative reactive changes would be the exception.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

page 2/7 to the comment letter to IESBA dated 12 July 2018

We have chosen to restrict our comments to areas for which we have specific concerns in responding to the various sections of, and questions posed in, the Consultation.

Section I: Vision for the Code and Strategic Themes

The IDW supports the proposed IESBA's vision for the Code and the three strategic themes intended to support and guide IESBA's adherence to this vision.

We especially welcome the IESBA's stated intention to monitor the effective implementation (i.e., undertaking post-implementation reviews) of selected portions of the Code and of the recently restructured Code in due course. In our view, a stock-take of any problematical issues is called for before the Code is subject to further changes. In any case, professional accountants do need sufficient time to get to grips with new provisions and the revised structure of the Code, so we support the IESBA focusing its resources on research activities to give a period of calm for the immediate future.

We fully support the IESBA's stated commitment going forward to cooperate with other standard setting boards on matters of common interest. In our view this is essential; as is allowing sufficient time therefor.

However, in the context of the third strategic theme: expanding the IESBA's perspectives and inputs, we were concerned to read in the IESBA's briefing note for the three Roundtables to debate non-assurance services and professional skepticism, that: "This briefing note summarizes the NAS issues that the IESBA has identified to-date, in particular, in relation to audit clients that are public interest entities (PIEs)". Since global roundtables demand significant resources, we believe the focus on a single segment of the audit market may be suboptimal. We were further concerned that attendance was by invitation only, so we have some concern at the lack of transparency as to whether the roundtables were intended to be open to all interested parties or not.

Indeed, it has proven challenging for IESBA to connect with the SMP constituency; few comment letters are exclusively from SMPs. In this context, although we are encouraged to note that the IESBA envisages continued close liaison with the SMP Committee (paragraph 28), we would also welcome the IESBA taking specific further steps to support this liaison to ensure that it is well informed of, and sensitive to, issues of particular relevance in an SME/SMP environment. Indeed, in view of our understanding that the three global roundtables in 2018 focus heavily on the PIE audit market, we are also

page 3/7 to the comment letter to IESBA dated 12 July 2018

concerned that the manner in which the IESBA intends to “manage robust outreach and communication with stakeholders” (paragraph 34) neglects to include any specific reference to the SMP community.

In this context, we would emphasize the importance of a global standard setter that develops a Code for the entire profession to take the views of all constituent groups into account and be transparent in doing so.

Section II: Key Considerations Guiding the Establishment of the Work Plan

CRITERIA FOR DETERMINING ACTIONS AND PRIORITIES

Question 1: Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

With the exception of the following comments, we agree with the proposed criteria for the IESBA’s determination of standard setting and other actions for 2019-2023:

- We believe that “global operability of a particular matter” (as mentioned in a different context in paragraph 34) should be specifically added to the 4th bullet point in paragraph 30: “The global relevance and operability of the particular matter”, since inoperable requirements are generally counterproductive when they result in expectations that some members of the profession are unable to fulfil due to law or regulation prohibiting the application of the Code (e.g. in some jurisdictions, the reporting provisions in NOCLAR will remain a dead-letter because of legal confidentiality requirements). A lack of certainty on the part of IESBA that key proposed provisions will be adhered to calls into question whether the Code is indeed suitable for global application. Establishing provisions that IESBA knows cannot be adhered to globally can also be directly detrimental to members of the profession in affected jurisdictions.
- We question whether the feasibility of undertaking the action within a realistic timeframe is always a valid criterion. We do not believe that this is intended to mean that a complex issue cannot be dealt with because it would demand too much resource and time, but it might be open to similar interpretation.

FACTORS THAT AFFECT TIMELINES WITHIN THE WORK PLAN

We have no specific comments regarding this section.

page 4/7 to the comment letter to IESBA dated 12 July 2018

Section III: Managing Delivery of the Strategy and Work Plan 2019-2023

We have no specific comments regarding this section.

Section IV: Proposed Actions, Priorities and Timing

Question 2: Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.

Strategic Theme: Advancing the Code's Relevance and Impact

SUB-THEME: MAINTAINING A GLOBAL CODE FIT FOR PURPOSE IN THE EVOLVING ENVIRONMENT

We broadly support the identified actions aimed at identifying emerging trends in technology, service delivery etc. and considering any ethical perspectives attaching thereto as essential.

In addition to the (relatively small) working group tasked with exploring trends and developments in technology identified in the Consultation, we expect that broader public consultation will be needed to ensure that the IESBA obtains as complete as possible a grasp of issues at a global level. We would therefore suggest this be included in the semi-annual discussions on matters as part of the emerging issues initiative explained in paragraph 50.

It will be essential for the IESBA to retain a principle-based approach in dealing with emerging issues, as this allows flexibility in a rapidly changing environment that rules cannot.

SUB-THEME: FURTHER RAISING THE BAR ON ETHICS

Tax Planning and Related Services: We do not object to the notion of IESBA exploring tax planning and related services, provided it remains sensitive to the fact that the legal environment may vary from jurisdiction to jurisdiction. Others, such as the European Union are also looking at this issue and so IESBA should primarily be involved in following the debate at present. Whether IESBA "...can intervene within its remit as a global ethics standard setter." (paragraph 53) will need to be decided, and so the IESBA ought to hold an open mind. The statement "seek to explore a path where it can intervene within its remit as a global ethics standard setter" appears to be biased towards action. Given our

page 5/7 to the comment letter to IESBA dated 12 July 2018

remarks as to global operability above, this is likely to be a highly sensitive issue demanding caution on the part of IESBA.

Definitions of Public Interest Entity and Listed Entity: The IDW has previously cautioned the IESBA against retaining the term public interest entity (PIE) in the Code, the definition of which may vary between jurisdictions and which is not under the IESBA's control. We thus believe that the IESBA should approach certain more stringent aspects of the Code in the same way as the IAASB does (i.e., specifying certain requirements for listed entities thereby allowing jurisdictions to add further entities of public interest in the particular jurisdiction). We would therefore suggest IESBA coordinate with the IAASB in exploring the need for any revision of the definition of listed entity.

Materiality: We would support the IESBA looking at this issue, but note that the concept of materiality is a financial reporting one and that therefore may not be appropriate for the Code. However, in cooperation with the IAASB considering a concept of "significance" might be of benefit. Clarification of how professional accountants should treat clearly trivial inadvertent departures (i.e., de minimis exceptions) should also be addressed.

Communication with Those Charged with Governance: Given the diverse governance structures in place world-wide, we have reservations as to the appropriateness of IESBA attempting to deal with this issue in a global Code. The ISAs deal adequately with auditor communications and so do not need to be repeated or expanded upon in the Code.

Documentation: This is a significant issue for professional accountants. We would welcome precision as to expectations in regard to documentation of factors relevant to auditor independence, as this is a key public interest issue. We do not see a justification for stringent requirements beyond this and consider that recommendations are likely to be appropriate in certain cases.

Strategic Theme: Deepening and Expanding the Code's Influence

As explained above, professional accountants will need sufficient time to deal with the recent changes to, and restructuring of, the Code if they are to apply it

page 6/7 to the comment letter to IESBA dated 12 July 2018

effectively. This also applies for legislators or ethical standards setters in jurisdictions that have not adopted the Code, but which may base their own ethical behavioral requirements on the IESBA Code.

In our view, a period of calm is now essential, and we support the IESBA undertaking post-implementation reviews of specific areas as well as the restructured Code so as to inform whether there is a need for amendments or changes as well as the further support activities outlined in paragraph 76.

Strategic Theme: Expanding the IESBA's Perspectives and Inputs

Other than as explained above in regard to SMPs, we support the activities outlined in the Consultation.

Question 3: Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.

The IDW could suggest the IESBA to look at:

- What is the public interest (it seems tenuous and subjective, so it is all too easy to claim “public interest” without having to test a proposal against robust criteria)?
- How the cost benefit argument is met (often the IESBA states a belief in this context but there are no hard facts behind this)?
- What distinguishes the various parts of the audit and accountancy services market and how do these impact ethics (many board members are regulators or from larger firm backgrounds, so it is not evident that they will have a full understanding of the SMP environment and whether there are differences)?
- Providing a better understanding to stakeholders about the commonalities (e.g., the fundamental principles, including conflicts of interest) and differences between the various activities that professional accountants undertake and what makes assurance engagements special so that special ethical and other requirements (e.g., independence, professional skepticism) are warranted, and why these may not be appropriate for other activities.

page 7/7 to the comment letter to IESBA dated 12 July 2018

Question 4: Do you have comments on any other matters addressed in this consultation paper that you believe the IESBA should address?

We refer to our suggestion that the IESBA initiate a project to look at the various segments of the audit and other professional services markets and related implication for professional ethics to inform its work going forward. We see no merit in the IESBA taking on further projects as the need to step back and undertake post-implementation reviews of most recent changes is more pressing at present. We also reiterate the view that IESBA needs to consider at a long-term strategic level, where the Code ought to be in the very long run.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly

Klaus-Peter Feld
Executive Director

Helmut Klaas
Director, European Affairs