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Via email: KenSiong@ethicsboard.org

July 11, 2018

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

Attention: Ken Siong, IESBA Technical Director

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

Dear Members and Staff of the International Ethics Standards Board for Accountants:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA's) "Proposed Strategy and Work Plan, 2019-2023" (SWP). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, we offer the following comments on the SWP consultation paper. We have keyed our responses to the questions as presented on pages 11 and 23 of the paper.

### **Responses on Requests for Specific Comment**

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

We agree with the proposed criteria for determining actions and priorities over the strategy period. With respect to considering the feasibility of undertaking action within a realistic timeframe, we suggest the IESBA consider ways in which the Board can address pressing issues and developments in a timelier manner.

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

### a. Trends and developments in technology

We agree this is a critical area. Professional accountants need to understand the ethical implications that exist in light of emerging technologies. We suggest the IESBA address these issues as a heightened priority. We also suggest any additional requirements or application material be principles-based and broad enough to apply to technological advances that will likely continue to evolve.

We are pleased that the IESBA has already established a working group that began data gathering in Q1 2018. Due to the breadth of the topic, and the steep learning curve to understand and evaluate the implications of the technological trends and developments, we agree that the IESBA should perform this project on a phased basis, i.e., initially take a diagnostic approach. Though we recognize the complexity of the subject matter, we are concerned about the timeframe for completion of this first phase (that is, Q3 2019), and suggest the IESBA seek ways to expedite its review, which is critical to the profession and its stakeholders.

## b. Emerging or newer models of service delivery

We suggest the IESBA consider whether the Code of Ethics for Professional Accountants' (the Code's) fundamental principles sufficiently address issues related to firms' business models of service delivery. Firms' business models for delivering services have and will continue to emerge and change, thus, we do not believe the IESBA should devote significant time and resources to gain a detailed understanding of the current models. However, a general understanding could help inform the IESBA's process. For example, understanding the nature of work "data engineers" or "project managers" are doing at some firms would be helpful in deciding/testing the parameters of the definition of "engagement team." As noted in the paper, we also believe that firm business models will likely be discussed in the context of trends and developments in technology and may be considered in that context.

### c. Emerging Issues Initiative

We support the continued use of an Emerging Issues Workgroup to help IESBA identify issues that require the development of guidance or changes to the Code.

# d. Tax planning and related services

NASBA agrees with the statement in par. 53 of the paper: "The issues involved are complex, especially given the variety of legal frameworks around the world, and therefore may only be capable of being addressed at a principles level." We believe the Code's fundamental principles (for example, integrity and professional behavior) provide adequate guidance in this area although we would like to see the IESBA bring greater awareness to the application of those principles to "aggressive" tax avoidance.

# e. Definitions of public interest entity and listed entity

NASBA does not believe that professional accountants in the United States need clarification of the current definitions of public interest entity and listed entity. However, we do believe the IESBA should consider whether those terms appropriately include or exclude entities involved in new capital-raising methods such as crowdfunding and cryptocurrencies (for example, initial coin offerings or "ICOs").

# f. Materiality

NASBA believes that initiatives to define materiality in various contexts in the Code, particularly if in a manner that differs from the accounting and auditing literature, can lead to greater confusion. Constituents often press standard-setters and regulators to define materiality, but short of the IESBA providing a numerical gauge for measuring materiality (for example, percentage of assets or revenue), we do not believe that additional guidance will result in greater consistency in application. Rather, we believe that accountants exercising professional judgment should determine materiality based on specific facts and circumstances.

# g. Communication with those charged with governance

NASBA believes that enhancing communication between the auditor and those charged with governance at the client helps to protect the public interest. However, we note that these requirements exist in the auditing standards and do not believe the requirements should be repeated in the Code.

#### h. Documentation

NASBA believes that all professional accountants should document specifics related to matters they evaluate under the Code whenever they exercise "professional judgement". Documentation requirements need to be scalable to the complexity (or lack thereof) of situations that arise, to avoid the need for extensive documentation in circumstances that have relatively low risk of giving rise to ethical (e.g., independence) issues. Instilling such discipline helps to ensure professional accountants can demonstrate the process they followed to arrive at their conclusions and comply with the Code.

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.

We are concerned that certain high priority projects (i.e., trends in technology) may not be performed timely due to other initiatives requiring IESBA resources (i.e., tax planning, firm business models). We appreciate that the complexities of some initiatives require significant fact-finding prior to taking other actions (for example, standard-setting or developing guidance). Nevertheless, we would like to see IESBA develop more agile, responsive processes that would allow it to address potential issues more expeditiously.

Given the speed of technological developments, we believe a high priority should be placed on determining whether the Code adequately addresses technologies such as cryptocurrency, cloud computing, blockchain and artificial intelligence.

NASBA does not believe that gaining an in-depth understanding of the firms' business models would be the best use of the IESBA's resources, considering other proposed agenda items for 2019-2023. New service delivery models are in constant flux; the Code's fundamental principles and the Conceptual Framework should guide professional accountants in addressing new ways of servicing clients. To the extent new models are technology-driven (as acknowledged in the paper), we suggest the IESBA address those matters in the context of the emerging technologies initiative.

4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

NASBA has no further comments.

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Thank you for the opportunity to comment on the IESBA Proposed Strategy and Workplan - 2019-2023 consultation paper.

Very truly yours,

Theodore W. Long, Jr., CPA

NASBA Chair

Ken L. Bishop

NASBA President and CEO

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