Draft Minutes of the 41st Meeting of the

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on June 29–July 1, 2015 in New York, USA

(CLEAN)

	Voting Members	**Technical Advisors**
Present:	Stavros Thomadakis (Chairman) Wui San Kwok (Deputy Chair) Helene Agélii Brian Caswell Richard Fleck James Gaa Caroline Gardner Gary Hannaford Peter Hughes Claire Ighodaro Chishala Kateka Atsushi Kato Stefano Marchese Reyaz Mihular Marisa Orbea Sylvie Soulier Don Thomson Yaoshu Wu	Tony Bromell (Ms. Gardner) Helouise Burger (Ms. Soulier) Elbano De Nuccio (Mr. Marchese) Michael Dorfan (Ms. Kateka) Colleen Dunning (Mr. Hughes) (Days 1 & 2 only) Kim Gibson (Mr. Thomson) Liesbet Haustermans (Ms. Orbea) (Days 2 & 3 only) Tania Hayes (Mr. Mihular) Tone Maren Sakshaug (Ms. Agélii) Andrew Pinkney (Mr. Kwok) Jens Poll (Mr. Hannaford) (Day 3 only) Lisa Snyder (Mr. Caswell) Toshihiro Yasada (Mr. Kato) Jizhe Zhao (Ms. Wu)

Non-Voting Observers

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair)

Apologies: Juan Maria Arteagoitia and Yoshihiko Tamiya

Public Interest Oversight Board (PIOB) Observer

Present: Eddy Wymeersch

IESBA Technical Staff

Present: James Gunn (Managing Director), Ken Siong (Technical Director), Kaushal Gandhi and Elizabeth Higgs

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He welcomed, in particular, Mr. Wymeersch, observing on behalf of the PIOB; Mr. Koktvedgaard, Chair of the IESBA CAG; Ms. Wu, the new IESBA member filling the casual vacancy left by Ms. Zhang; Ms. Hayes, Mr. Mihular's new Technical Advisor; and Mr. Zhao, Ms. Wu's Technical Advisor. Apologies were received from Dr. Arteagoitia and Mr. Tamiya.

JUNE 2015 INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) MEETING

Dr. Thomadakis reported that he and Messrs. Gunn and Siong had attended parts of the June 2015 IAASB meeting. At the meeting, the IAASB approved an Exposure Draft (ED) of limited changes to its International Standards to recognize the changes to the Code proposed in the new ED addressing professional accountants' response to non-compliance with laws and regulations (NOCLAR). He had conveyed to the IAASB how the IESBA values the close cooperation between the two Boards on the NOCLAR project. He added that this outcome demonstrated that the two Boards are working closely together and on a timely basis to address common or crossover issues. Dr. Thomadakis thanked Mr. Fleck for his participation on the IAASB Task Force.

The IAASB ED was anticipated to be issued in mid-July 2015 with a 90-day comment period. This would allow an overlapping comment period of approximately two months between the two EDs, which would enable stakeholders to consider both EDs side by side before finalizing their responses.

PROFESSIONAL SKEPTICISM

Dr. Thomadakis reported that the composition of the tripartite IAASB-IESBA-International Accounting Education Standards Board (IAESB) Working Group (WG) on professional skepticism had been finalized, with two representatives from each Standard Setting Board (SSB). The WG would be chaired by Prof. Köhler, an IAASB member, with Mr. Fleck and Ms. Sakshaug representing the IESBA.

Dr. Thomadakis added that he had observed an informative panel session on the topic at the June 2015 IAASB meeting. The WG would consider the input from the panel session in exploring its next steps.

FEE-RELATED ISSUES

Dr. Thomadakis reported that he and Mr. Siong had held a teleconference in June 2015 with some IESBA Technical Advisors (TAs) to explore the possibility of the TAs assisting the Board with initial fact finding on the topic of fees, particularly with respect to:

- Empirics, including any relevant regulatory inspection findings.
- Regulatory responses at the national level.
- Possible areas of intervention for the IESBA.

The findings will provide a basis for the Board to then define the scope and focus of any potential project that may be warranted on the topic.

Dr. Thomadakis noted that he had invited Mss. Dunning, Haustermans and Snyder, and Mr. Dorfan, and they had accepted, to join a WG to undertake the fact finding effort. He invited expressions of interest for an IESBA member to lead the WG.

MEETING WITH LEADERSHIP OF THE IFAC SMALL AND MEDIUM PRACTICES (SMP) COMMITTEE (SMPC)

Dr. Thomadakis reported that he had met with the SMPC Chair (Mr. Attolini) and Deputy Chair (Ms. Foerster) earlier in June 2015 for an update on the liaison relationship between the Board and the SMPC and to discuss other matters of mutual interest. Among other matters, he had complimented the SMPC on its diligence in submitting comment letters on the Board's projects, and conveyed the Board's commitment to listening to the SMPC's views. He had also conveyed to the SMPC leadership that it is not possible for the Board to set standards to address the sole needs of the SMP community. Nevertheless, the Board will endeavor to avoid creating standards that will be difficult for SMPs to apply while at the same time giving due regard to the potential macro consequences of its standards, such as on market competition.

IESBA-NATIONAL STANDARD SETTERS (NSS) MEETING

Dr. Thomadakis reported that the annual IESBA-NSS meeting took place in May 2015. He noted that the meeting was productive, and thanked Ms. Gardner and Messrs. Gaa, Hannaford and Thomson for leading sessions. He hoped that there would be further opportunities for the Board to engage with NSS in future.

PLANNING COMMITTEE UPDATE

Dr. Thomadakis reported that the Planning Committee had met in April 2015 and by teleconference in June 2015 to consider, inter alia:

- IESBA representation on the tripartite IAASB-IESBA-IAESB Professional Skepticism WG.
- The packaging of upcoming EDs in the context of the Structure project.
- The topic of fee-related issues.

He also reported that he had invited Mr. Fleck, and Mr. Fleck had accepted, to join the Planning Committee effective April 2015.

RECENT OUTREACH ACTIVITIES

Dr. Thomadakis drew the Board's attention to the recent and upcoming outreach and related activities as detailed in the agenda material. He thanked all IESBA representatives who had participated or have agreed to participate in outreach activities.

Dr. Thomadakis also highlighted his participation in the joint SSB Chairs' session at the June 2015 IFAC Board meeting, noting that it was a constructive session given a number of common grounds among the SSBs. He also noted that he had reported on the Board's activities during a teleconference with the PIOB earlier in June.

STAFF NEWS

Dr Thomadakis reported that Ms. Stevens had resigned from her position as Senior Technical Manager due to family commitments. He wished her well in her future endeavors. Ms. Diane Jules, a Senior Technical Manager seconded from the IAASB staff team, would replace Ms. Stevens on the Safeguards project. In addition, the American Institute of CPAs (AICPA) had agreed to make Mr. Jason Evans available to provide support on the Structure of the Code project. Dr. Thomadakis welcomed Mr. Evans back and thanked Ms. Snyder and the AICPA for their assistance in making this resource available to the Board.

2015 IESBA HANDBOOK

Dr. Thomadakis noted the recent publication of the 2015 IESBA Handbook of the *Code of Ethics for Professional Accountants*.

MINUTES OF THE PREVIOUS MEETING

Subject to a few editorial amendments, the minutes of the April 13-15, 2015 Board meeting were approved as presented.

2. Structure of the Code

Mr. Thomson introduced the topic, outlining key restructuring improvements to the selected sections of the draft restructured Code (DRC) that were presented previously. He noted that the text presented at the meeting incorporates input from the plain English editor, and that the Task Force had deferred consideration of the title of the restructured Code to a future meeting. He also highlighted that the Task Force had met on the Sunday prior to the Board meeting to consider advance comments received from Board participants on the agenda material.

Mr. Thomson then outlined recent consultation with, and feedback from, stakeholders, including continued support from the SMPC for the project, a caution at the April 2015 Forum of Firms meeting to allow sufficient time for the project, and an encouragement at the May 2015 IESBA-NSS meeting to complete the project on a timely basis. He also highlighted ongoing liaison with the IAASB's ISQC 1[1] working group concerning the matter of responsibility within a firm for compliance with the requirements of the Code in particular circumstances.

Mr. Thomson then led the Board through the main changes to the DRC text since the April 2015 Board meeting and the matters for consideration.

AMBIGUITY AS TO WHETHER GUIDANCE CONTAINS REQUIREMENTS

Mr. Thomson noted that the Task Force had identified a number of instances in the extant Code where guidance contains phrases or terms such as "generally necessary" or "recommended," which gave rise to ambiguity as to how such guidance should be applied. He explained that the Task Force had chosen to leave these as guidance but cautioned that stakeholders may challenge this approach given the Board's commitment not to weaken the Code.

In supporting the Task Force's general approach on this matter, the Board asked the Task Force to note the specific instances where there is ambiguity in guidance as to whether the extant Code is placing an obligation on the professional accountant, and to bring these to the Board's attention for further consideration on a case-by-case basis. It was noted in particular that some of these instances tend to be good practice recommendations and do not go as far as setting requirements.

"TERMS USED"

Mr. Thomson highlighted the main matters arising from the advance input the Task Force had received on the agenda material. IESBA members complimented the Task Force on its efforts and the progress achieved to date.

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[1] International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

An IESBA member noted a lack of clarity as to when terms should be in the Glossary and when they should be in the "Terms Used" subsections. In particular, it was questioned whether some items in "Terms Used" might be better located in the Glossary and whether there might be some duplication between the two. In this regard, it was suggested that consideration could be given to developing a guideline for determining when terms should be in the Glossary or "Terms Used." Mr. Thomson noted that the baseline is for terms to be in the glossary. He explained that the reason the Task Force was proposing to carry on using "Terms Used" subsections is to address situations where certain terms may be misunderstood, for example, the use of the term "audit" to mean audit and review. In these instances, the "Terms Used" subsection helps to highlight the special meaning attributed to the particular terms. In addition, he noted that certain topics such as "network firms" are addressed in some detail and hence are better located within "Terms Used." Another IESBA member suggested going with a consolidated approach, and that if emphasis is needed for particular terms, this could be handled on an ad hoc basis. The Board asked the Task Force to consider this suggestion further.

CROSS-REFERENCING

A few IESBA members commented on the use of cross-referencing in the DRC, noting a perception of excessive use and a potential for blurring the focus of the particular provisions. Observing that some of the cross-references are already in the extant Code, a Task Force member expressed a preference for linkages to be explained in the Preface as opposed to spreading cross-references liberally in the different sections. After further deliberation, the Board asked the Task Force to reconsider the approach to, and extent of, cross-referencing in the light of the discussion.

PREFACE

Mr. Thomson outlined the Task Force's thinking in developing the proposed Preface. Commenting that the Preface would be useful and would help enhance the user experience, an IESBA member wondered whether the Preface would be detached from the rest of the Code and not taken up in some jurisdictions. Mr. Thomson noted that this matter would mainly concern the first three paragraphs setting out the "authority statements," which would not be needed in jurisdictions that have adopted the Code.

An IESBA member expressed a concern that a "How to Use the Code" section was not included as originally proposed, noting that what remained appeared to be more of an executive summary of the Code. The IESBA member also expressed a concern about paraphrasing the Code's explanation of topics such as the conceptual framework. It was also felt that the link between independence and objectivity should not be in the Preface but in the section where the Code discusses independence. Mr. Thomson confirmed that it was the Task Force's intention to develop a "How to Use the Code" section.

In addition to the above comments, the Board asked the Task Force to consider the following comments and suggestions from Board participants, among other matters:

- Making clear in the Code that the application material needs to be considered with the requirements for a proper understanding of the Code.
- Reconsidering how the list of threats is presented in the Preface as it conveys an impression that it is a comprehensive list rather than a list of the most common examples of threats.
- Reflecting on whether there is a better term to use to describe professional accountants in the public sector and academia.

- In the context of how to use the Code, considering whether it would be useful to provide some guidance on the role of the Code more generally in dealing with ethical issues.

LINK BETWEEN PUBLIC INTEREST AND FUNDAMENTAL PRINCIPLES

Mr. Thomson reviewed the proposed enhancements to Part A of the Code and invited views on linking the public interest to the fundamental principles. An IESBA member noted that while the public interest is important, it should not replace the overarching theme of ethics. It was felt that it would be a fundamental change if the Code were to become a code on public interest as opposed to a code of ethics. It was also noted that the conceptual framework is a tool to assist compliance with the fundamental principles, but the conceptual framework should not be the main goal in itself.

Another IESBA member noted that there has been some criticism regarding the lack of guidance on how to assess the public interest in the UK Code, and by extension, the IESBA Code. The IESBA member felt that further guidance on the relevant considerations in making such an assessment would be needed. Dr. Thomadakis noted that this matter would be beyond the scope of this project and that the Task Force should maintain a running list of matters for future Board consideration.

PIOB Observer's Remarks

Mr. Wymeersch noted that the concept of public interest is difficult to define. He was of the view that firms should be organized to act in the public interest, as should the IESBA, and that the profession should work not only for private interests but also to serve society. In relation to the question of whether ethics absorbs the public interest, and vice versa, he was of the view that the answer is no in both cases but suggested leaving the discussion for the time being.

OTHER MATTERS

In addition to structural and editorial comments, the Board asked the Task Force to consider the following:

- Revisiting the flow and readability of the restructured sections of the Code so that the logical connections are clearer.
- Reconsidering the use of the term "guidance," as the term "application material" better conveys a sense of obligation to consider the material in understanding how to apply the requirements.
- Reconsidering the numbering of the parts of the restructured Code, in particular to avoid confusion with the extant Parts A, B and C.
- Reconsidering the wording at the top of each page regarding the conceptual framework being applicable in all circumstances, as it may not be clear how the conceptual framework should apply in particular circumstances, such as with respect to extant Part C of the Code.
- Reconsidering the location of the guidance on ethical conflict resolution as it seems to have been given significantly greater focus than under the extant Code.
- Reflecting on how best to enhance the presentation and accessibility of the material on financial interests.
- In relation to the mapping table, providing explanations of why a change has been made where not readily apparent, which will assist users' understanding of the restructuring.

The Board also noted that the Task Force would further review the independence provisions with respect to separating network firms from firms, and identify potential ambiguities that will need Board consideration.

WAY FORWARD

The Board asked the Task Force to present a revised draft of Tranche 1 of the DRC as well as a first-read draft of Tranche II for consideration at the September 2015 IESBA meeting.

3. Long Association

Dr. Thomadakis thanked the Task Force for its hard work and diligence in considering the various viewpoints and ideas from the previous Board discussion on the project. He acknowledged that the discussion on the two issues under consideration at this meeting had moved into rules-based territory, with less in the way of principles-based grounds to guide judgment. Accordingly, he emphasized the need for the Board to seek an appropriate balance in formulating a way forward on each issue, recognizing at the same time the trade-offs.

Ms. Orbea then introduced the topic, summarizing the Board's tentative conclusions from its April 2015 discussion on the two issues, being the length of the cooling-off period for the engagement quality control reviewer (EQCR) and the recognition of jurisdictional differences. She also outlined input received from the SMPC, recent feedback from the Fédération des Experts Comptable Européens (FEE), and the main feedback from the May 2015 IESBA-National Standards Setters (NSS) meeting and the June 2015 SMPC meeting. She then led the discussion on the matters for consideration.

COOLING-OFF PERIOD FOR THE EQCR

Ms. Orbea outlined the further considerations on the matter following the April 2015 Board meeting, including the concerns of some within the regulatory community, the PIOB Observer's remarks at that meeting concerning the EQCR's familiarity with the issues in the audit engagement, the Task Force's analysis of the differences in the roles of the EQCR and engagement partner (EP), the benefits and detriments to audit quality of particular options, and the importance of finding the appropriate balance in the public interest. In the light of these further considerations, she presented a further option, namely that the EQCR on the audit of a listed entity would be required to cool off for five years while the EQCR on the audit of a non-listed public interest entity (PIE) would cool off for two years, as currently required.

Extension of the Cooling-Off Period for the EQCR

IESBA members expressed mixed views. Those who expressed reservations about the potential increase in the EQCR's cooling-off period to five years noted the following, among other matters:

- The nature of the role of an EQCR requires a high level of seniority in practice, and accordingly, suitable individuals to fulfil these roles are not in plentiful supply. While larger firms may be able to manage such a constraint, it will prove especially challenging for SMPs. Ultimately, firms may not find sufficient individuals to assume EQCR roles and this would have an adverse impact on audit quality and would not be in the public interest.
- The nature of the roles of the EP and the EQCR are distinctly different. In particular, the EQCR rarely meets with management or those charged with governance in practice. Rather, the EQCR reviews the work papers and discusses any significant issues with the EP. In addition, an EQCR does not

plan an audit engagement and is not part of the engagement team. Accordingly, it is not logical to equate the EQCR with the EP from a cooling-off standpoint.

- There is insufficient empirical evidence to justify the increase.
- IESBA is an international standard setting body and accordingly, it should set standards that are globally operable. If the standard is set too high, some jurisdictions will not be able to adopt it.

IESBA members who expressed support for the option noted the following, among other matters:

- The EQCR plays a very important role because if there is a difference of opinion between the EP and the EQCR, an audit report cannot be issued unless the disagreement is resolved.
- A lack of resources is not a convincing argument. Firms should organize themselves appropriately to address human capital needs. In addition, shortages of resources, if so addressed, are not generally a permanent phenomenon.

Distinguishing Between Listed and Non-Listed PIEs

IESBA members who expressed concern about the proposed bifurcation of the provisions between listed and non-listed PIEs expressed the following views, among other matters:

- The split between listed and non-listed PIEs is not appropriate as they are all entities of public interest and treated with the same level of importance in the Code.
- If there were to be a distinction between listed and non-listed PIEs, then the same provisions that apply to listed PIEs should also apply to all financial institutions that are treated as PIEs in a jurisdiction, such as banks and insurance companies. A few IESBA members did not support scoping in non-listed PIEs that are financial institutions because this might add further complexity to the provisions.
- Splitting the requirements between listed and non-listed PIEs would increase the complexity of the provisions and, accordingly, might make them more difficult to apply. As an alternative, it might be preferable to apply a lower requirement such as a three-year cooling-off period for all PIE audits.
- Care is needed not to create unintended consequences, such as subsets of PIEs in jurisdictions that have chosen to develop their own definitions of a PIE.
- Care is also needed not to create a disincentive for firms to appoint EQCRs on unlisted PIE audits, which would be detrimental to audit quality.

In supporting a differentiation between listed and non-listed PIEs, some IESBA members commented as follows, among other matters:

- The differentiation recognizes the wide differences in PIE definitions across jurisdictions and focuses on an important and consistent subset thereof.
- The Code already makes a distinction between listed entities and other entities with respect to the concept of “audit client” from an independence perspective.
- Jurisdictions can apply the stricter listed requirements to other PIEs by determining how to define the scope of PIEs to suit their circumstances.

A few IESBA members noted that ISQC 1 requires the appointment of an EQCR for all listed audits, and audits of those entities which meet the criteria established by the firm for an EQCR to be appointed. It was

suggested that it might be more logical to apply the longer cooling-off period only to listed audits, as per the option provided by the Task Force, to align with the approach for EQCRs in ISQC 1.

Mr. Koktvedgaard recognized that ISQC 1 only mandates an EQCR for listed entities. He commented that it would be appropriate that stricter cooling-off provisions be linked to those situations mandated by ISQC 1. In the light of the discussion, however, he wondered whether there may be a need for dialogue between the IESBA and the IAASB on this matter, including whether the IAASB should consider extending the EQCR requirement to all PIEs.

An IESBA member flagged that if an EQCR is required for an unlisted entity and a jurisdiction defines PIEs to encompass listed entities only, there would be a situation where the Code would go beyond the definition of a PIE from the perspective of the cooling-off provision. Another IESBA member expressed a fundamental concern about linking the provision to ISQC 1, believing that this would cause confusion among firms.

PIOB Observer's Remarks

Mr. Wymeersch expressed the view that the general picture was not a convincing one in that he was concerned about audit quality with regard to all entities. He expressed the view that non-listed PIEs might be very important entities in their own right, and hence worthy of the same treatment as listed entities. He commented that the objective of the provisions should be to increase the quality of audits rather than reflect the resource concerns of audit firms.

With regard to the principle of a "fresh look," he wondered whether this was achieved with the current package of measures, in particular if the EQCR cools off for only two years, and if an EP who rotates off is permitted to provide technical advisory services with respect to the audit engagement during the cooling-off period. He was of the view that an approach linked to ISQC 1 would not be credible as ISQC 1 leaves it to firms to decide, beyond listed entities, for which audits to require EQCRs.

Tentative Way Forward

Several IESBA members acknowledged the need to respond to perception concerns among a large component of the Board's stakeholders, including those at the CAG. After further deliberation, and in light of the mixed views expressed, the Board agreed in principle on a "middle-ground" position as a tentative way forward. The Board tentatively concluded that it would support an increase in the cooling-off period for the EQCR to five years with respect to the audits of listed PIEs and, in addition, an increase in the cooling-off period for the EQCR to three years with respect to the audits of non-listed PIEs. All other KAPs serving PIEs that are not the EP or EQCR would cool off for 2 years. The Board agreed that it would be important to explain carefully how it reached this position but not to suggest that it got there by compromising on the principles. It was noted that the proposal addresses concerns about the EQCR cooling-off period by increasing the cooling-off period for EQCRs on audit of all PIEs, while providing a differential approach between listed and non-listed PIEs, assisting SMPs.

LENGTH OF COOLING-OFF PERIOD – RECOGNIZING DIFFERENT JURISDICTIONAL, LEGISLATIVE OR REGULATORY REQUIREMENTS

Pursuant to the Board's instruction at the April 2015 meeting, the Task Force further considered the matter of whether the Code could recognize different legislative or regulatory safeguards at a jurisdictional level. Ms. Orbea outlined the Task Force's revised proposal, i.e., that an EP be required to cool off for a minimum of three years as a specific alternative to the five-year cooling-off requirement, in jurisdictions where the

time-on period for a key audit partner (KAP) serving on a PIE audit is shorter than seven years, or where mandatory firm rotation or retendering is required in addition to the rotation of KAPs.

In generally supporting the revised proposal, IESBA members commented as follows, among other matters:

- The revised proposal puts a floor on the cooling-off period and it includes conditions such as regulatory inspections in the particular jurisdiction. It also acknowledges that there are different ways to address the threats created by long association.
- It elegantly addresses the Board feedback and it would be neutral from the perspective of two of the largest jurisdictions, i.e., the U.S. and the EU. However, care should be taken about the potential for unintended consequences for other jurisdictions.
- The revised proposal acknowledges the reality of mandatory firm rotation (MFR) in some jurisdictions. However, there may need to be tighter conditions because in some jurisdictions where MFR applies, a firm could continue to be an entity's auditor for 20 years, meaning there would be the potential for the provision not to address the fresh look issue in those circumstances.

A few IESBA members expressed some reservation about the proposal on the grounds that a jurisdictional exception might lead to less uniformity in the application of the long association provisions. They felt that allowing such an exception would not be appropriate for a global Code. It was also felt that jurisdictions could adopt stricter provisions if deemed appropriate for their circumstances. In this regard, Ms. Orbea commented that the proposals were not directed at jurisdictions that had provisions stricter than the Code. Rather, they were directed at jurisdictions where there were different combinations of measures which might be seen as equally effective as the provisions in the Code, although not equivalent.

PIOB Observer's Remarks

Mr. Wymeersch commented that where MFR is imposed by law or regulation, MFR will prevail. He was of the view that the Code should not override rules set by the national legislature.

After further deliberation, the Board expressed support for the direction of the Task Force's proposal but asked that the Task Force consider further tightening the circumstances under which it could be applied. It was noted that depending on the outcome of the discussion on the EQCR cooling-off issue above, the provision would need to be extended to refer to the EQCR.

WAY FORWARD

The Board asked the Task Force to obtain the CAG's feedback on the revised proposals addressing the two issues at the September 2015 CAG meeting, and to present the revised text of the long association provisions under the current structure and drafting conventions with a view to approval at the November/December 2015 IESBA meeting.

4. **Fee-Related Issues**

Fact Finding on Fee-Related Issues

The Board supported a Planning Committee recommendation for a WG to be established to initiate fact finding on fee-related issues in various jurisdictions. This is in response to the recent call from the PIOB for the IESBA to revisit issues on auditor independence and non-assurance services (NAS) from a broader perspective, including consideration of fee-related issues, when it recently approved the NAS pronouncement.

Dr. Thomadakis thanked Ms. Kateka for agreeing to lead the WG, and Mss. Dunning, Haustermans and Snyder, and Mr. Dorfan for agreeing to join the WG. The Board asked the WG to present an update on its initial work in due course.

Staff Publication

The Board considered a Planning Committee recommendation for a staff publication to be commissioned to raise auditors' and other stakeholders' awareness of fee-related issues and relevant provisions of the Code. In supporting the recommendation, IESBA members made the following suggestions for staff's consideration:

- It would be advisable to avoid using the term "alert" in the title of the document and to choose a more neutral term, as the former connotes some urgent need for a response to particular circumstances.
- Care should be taken in not suggesting that firms are colluding when setting audit fees.
- Care should also be exercised in circumscribing and describing the scope of the publication, and in not going beyond the principles in the Code.
- Consideration should be given to highlighting the provisions in the Code addressing overdue fees and contingent fees.

Mr. Koktvedgaard noted that while the two matters that the staff publication would seem to address are independence in fact and audit quality, the key concerns raised by stakeholders relate to the proportion of NAS fees to audit fees and independence in appearance. He was of the view that there should be an acknowledgement that societal views and expectations have changed and that this should be the key message.

Dr. Thomadakis invited expressions of interest from IESBA members to join a small working group to advise staff on the development of the publication, noting that he would lead the group.

The Board asked staff to present an update on the development of the publication at the September 2015 IESBA meeting.

5. **Review of Part C of the Code – Phase I**

Mr. Gaa introduced the topic, outlining the timeline for the project. He briefed the Board on the main feedback received at the May 2015 IESBA-National Standard Setters (NSS) meeting relating to both Phases I and II of the project. He then set out to outline the significant comments received on the Part C Phase I Exposure Draft (ED) and the Task Force's preliminary proposals in response to the comments. He noted that due to time constraints, the Task Force would present a summary of significant respondents' comments on proposed Section 370[2] at a future meeting.

"FAIR and HONEST" PRINCIPLE

The Code requires PAIBs to prepare information "fairly and honestly." However, there is little guidance on the meaning of this principle. The ED therefore proposed guidance to assist PAIBs in better understanding and adhering to the spirit of the principle.

[2] Proposed Section 370, *Pressure to Breach the Fundamental Principles*

Mr. Gaa explained that while the majority of respondents were supportive of the proposals in the ED, concerns were raised about aspects of the proposals. In addition, a number of suggestions were received as to how the guidance could be enhanced. In relation to the "fair and honest" principle, the main concern was the need for clarity on how the principle is linked to the five fundamental principles and whether the intention was to introduce another fundamental principle. Mr. Gaa explained that there was no intention to introduce another fundamental principle. In addition, the Task Force felt that it would be inappropriate to link "fair and honest" to a particular fundamental principle as the concept could be linked to any one of the five fundamental principles.

Among other matters, IESBA members commented as follows:

- Consideration should be given to making compliance with the fundamental principles explicit rather than implicit, consistent with what the Structure Task Force is endeavoring to emphasize throughout the restructured Code.
- Given that a number of respondents have questioned the linkage between the "fair and honest" principle and the fundamental principles, consideration should be given to clarifying this linkage.
- The Task Force's proposal to delete the term "fair and honest" from paragraph 320.2 is sensible as the Code generally refers to the fundamental principles, which are more complete. In addition, doing so would eliminate potential confusion through the use of another term. However, if the term is deleted from paragraph 320.2, it should also be deleted from paragraph 320.3 for consistency, which would then have the benefit of leaving the guidance focused simply on complying with the fundamental principles.

The Board asked the Task Force to consider the matter further in the light of the above comments.

MISUSE OF DISCRETION

The ED proposed enhanced guidance in Section 320 on addressing the misuse of discretion in preparing or presenting financial information. Discretion under an applicable financial reporting framework may be misused to misrepresent an entity's financial performance, financial position, or cash flows while still complying with the framework. The proposed guidance was intended to enable PAIBs to better recognize and deal with the issue of misuse of discretion and thereby assist them to fulfil their responsibility to prepare or present information fairly and honestly.

Mr. Gaa outlined the significant comments from respondents on the ED proposal and the Task Force's related responses.

In generally supporting the Task Force's proposals, IESBA participants raised the following, among other matters:

- Consideration should be given to aligning the guidance on misuse of discretion with related guidance in International Standard on Auditing (ISA) 540 dealing with management bias.[3] In this regard, Mr. Gaa noted that the Task Force had already reviewed several ISAs, including ISA 540, and considered incorporating wording used in the ISAs into Section 320.
- Consideration should be given to clarifying the meaning of the phrase "to influence contractual or regulatory outcomes" that the Task Force proposed to add to paragraph 320.3. In addition, this wording seemed to dilute the requirement not to use discretion to mislead. Mr. Gaa explained that

[3] ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

the Task Force proposed to add this phrase to paragraph 320.3 to align it with paragraph 320.2, where the phrase already appears, and to ensure a potential loophole did not arise. He provided examples of contractual or regulatory outcomes. It was suggested that the Task Force consider incorporating these examples in the guidance and explain the distinction between misleading information and inappropriate contractual or regulatory outcomes.

- The Task Force's proposal to change one of the examples of misuse of discretion from manipulating the timing of revenue transactions to manipulating the timing of the sale of an asset seemed now to have made the guidance more ambiguous. In particular, it was noted that the unethical part in the example of the sale of an asset would be in the decision making and not in the accounting of a transaction that has already happened, as the financial statements will only record the effects of the decision. Concern was also expressed that this example could potentially lead to commercial decisions being second guessed with the benefit of hindsight, resulting in accusations of unacceptable behavior. In this regard, it was questioned whether the example was one that addressed preparation and presentation of information or one that belonged somewhere else in the Code. Mr. Gaa noted that research indicates that some executives engage in sub-economic transactions, such as the sale of an asset at below its maximum realizable value, to manipulate financial statements for their own personal benefit. They may do so, for example, to meet performance targets, which impact bonuses. Accordingly, the financial statements are manipulated by the premeditated timing of the transaction rather than the manner in which it is recorded.
- With respect to the example pertaining to the determination of estimates, consideration could be given to referring to ISA 540 for an example of manipulating fair value estimates.
- It was unclear in the list of examples why the Task Force had changed the term "manipulate" to other terms such as "misrepresent."

After further deliberation, the Board asked the Task Force to consider the guidance further in the light of the Board comments.

INFORMATION PREPARED IN THE ABSENCE OF A REPORTING FRAMEWORK

The ED proposed revised guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. The proposed guidance emphasized three important considerations with respect to the information being prepared: the purpose of and context for the information, and the audience. Mr. Gaa outlined the main feedback from respondents on the proposed guidance and the Task Force's responses.

IESBA members made the following suggestions for the Task Force's further consideration:

- Rather than orienting PAIBs towards providing more information concerning the purpose, context and audience, which may not always be helpful, an alternative could be for the guidance to suggest that PAIBs add disclaimers concerning the purpose, context and audience, much in the way of a safeguard. It would then be up to the users to exercise judgment when relying on the information, knowing its purpose, context and audience.
- Consideration should be given to clarifying the extent of due diligence a PAIB should perform to determine the purpose, context and audience, as it was unclear from the revised wording whether the Task Force had actually addressed concerns raised by some of the respondents in that regard.

- Consideration should be given to changing the wording "relevant, necessary estimates …" to "relevant estimates … assumptions, where appropriate, …"

REASONABLE STEPS

The Code currently requires PAIBs to take "reasonable steps" to maintain information for which the PAIB is responsible in a manner that is appropriate. The ED proposed that PAIBs should also be required to take "reasonable steps" to satisfy themselves that, when relying on work performed by others, the PAIB is able to fulfil the obligations that flow from the "fair and honest" principle.

While many respondents were supportive of the proposal, many others indicated the need for clarity regarding actions that would constitute "reasonable steps" along with possible examples of these steps. Mr. Gaa explained that given the variety of possible situations, providing guidance on what constitutes "reasonable steps" would be too detailed and potentially incomplete. The Task Force thus proposed that "reasonable steps" be replaced by "professional judgment."

An IESBA member felt that the change was helpful as the term "reasonable steps" suggests a process whereby the PAIB must take specific actions, which would not be a reasonable obligation to place on PAIBs. "Professional judgment" on the other hand would be less prescriptive and would give the PAIB the flexibility to decide on appropriate actions. In this regard, it was suggested that consideration could be given to employing a third party test in gauging the nature and extent of actions that would be appropriate in the circumstances.

Other IESBA members, however, were concerned about the proposed change for the following reasons:

- It is unclear what it means to "use professional judgment to be satisfied…" and why it is necessary to make this change. The concept of professional judgment is already embedded in the term "reasonable."
- Reliance on external experts does create significant threats. Accordingly, one would expect to see a process of reasonable steps in this situation. For colleagues, however, having an elaborate process would be overkill. In this regard, Mr. Gaa noted that a control structure for internally produced information would be expected to ensure the validity of the information.
- Many CFOs use external valuation specialists and it is critical matter as to what steps they should take with respect to these external parties, particularly when audit inspection reports regularly emphasize findings concerning fair value estimates. Some degree of rigor is needed in that respect.
- Professional judgment is a given in the Code, so the proposed change is not adding anything substantive. It is therefore important to clarify what the guidance is intended to cover.

An IESBA member suggested that consideration could be given to taking a middle ground in terms of exercising professional judgment to determine what steps to take. It was noted that the Code expects PAs to take reasonable steps, especially if important information is being prepared. In this regard, Mr. Gaa pointed out that elsewhere in the Code, such as in paragraph 130.5, there is no additional guidance on the concept of "reasonable steps." Another Task Force member added that the Task Force did not intend the guidance to be overly prescriptive. However, there is guidance in two places in the Code that could be leveraged if helpful: paragraphs 130.5 and 210.8.

An IESBA member suggested that the term "others" be clarified. It was noted that if "others" include colleagues, these will be subject to the entity's internal control system. Even then, however, some

colleagues may not be accessible, for example, very senior colleagues from the perspective of more junior employees.

The IESBA asked the Task Force to reflect on the matter further in the light of the Board input.

Differentiating Between "Senior PAIBs" and "Other" PAIBs

Mr. Gaa reported that some respondents were concerned that the ED did not distinguish the guidance according to the PAIB's level of seniority. Given this, the Task Force reviewed all the examples in the proposed guidance and believed that they could be used by any level of PAIB. He added that the Task Force intended to consider whether paragraph 300.5 contains adequate guidance about the increasing responsibilities of more senior PAIBs.

An IESBA member noted that the re-ED on responding to non-compliance with laws and regulations (NOCLAR) differentiates between "senior" and "other" PAIBs. The IESBA member suggested that the same approach be used for proposed Section 320 for consistency and that this would also help explain steps that should be taken by the different categories of PAIBs. Mr. Gaa noted the Task Force's view that Section 320 builds on paragraph 300.5 of the Code. He added that the Code does not otherwise bifurcate guidance for different categories of PAs. In addition, there are many different levels of seniority within an organization. An IESBA member wondered whether it would be sufficient to simply rely on the guidance in paragraph 300.5 as this only addresses an ethics-based culture as opposed to specific steps. Another IESBA member noted, however, that the decision to differentiate between "senior" and "other" PAIBs within the NOCLAR re-ED came from matters specific to that project, whereas the guidance in Section 320 is intended to be more principles-based. A Task Force member agreed, adding that the NOCLAR re-ED has been drafted in a different, more process-driven context. The Task Force member emphasized the importance of not creating a tiered profession, including an expectation that more junior PAIBs do not have to do anything, particularly as all PAIBs are qualified PAs and therefore would have ethical responsibilities.

An IESBA member commented that the distinction between senior PAIB and other PAIBs would be much more important in the context of disassociation from the information. The IESBA member expressed a concern about the lack of guidance in that regard.

In relation to a comment from a regulatory respondent concerning the matter of professional skepticism, Mr. Gunn wondered whether the point is about finding the opportunity to message the fundamental principle of due care, especially in the context of the guidance on relying on the work of others.

The Board asked the Task Force to reflect further on the matter in the light of the discussion.

Association with Misleading Information

IESBA members were generally supportive of the enhancements to the guidance regarding steps to resolve the matter where the PAIB has reason to believe the information is misleading. An IESBA member, however, wondered whether the same approach should apply for all levels of PAIBs, noting that the same issue of escalation was addressed under the NOCLAR project. The IESBA member felt that the proposed guidance did not include an appropriate distinction between senior PAIBs and other PAIBs. Another IESBA member noted that there is a difference between the NOCLAR proposals, which require a specific set of actions, and the proposed Section 320. It was suggested that a reminder could be added that the Code expects more of senior PAIBs.

OTHER MATTERS

In addition to editorial matters, IESBA members made the following comments or suggestions:

- Part C should apply to unintentional errors resulting in misleading information as these situations would be relevant to the fundamental principle of professional competence and due care.
- In relation to actions to consider when the PAIB determines that appropriate action has not been taken and believes the information is still misleading, whether it is appropriate to change the level of obligation from "may consider" to "shall consider" with respect to those actions, as the question is whether this would be a reasonable standard for all levels of PAIBs.
- In relation to documentation, clarifying the perceived inconsistency in the guidance, which refers to the matter being "resolved" although the information would still be misleading.
- There is a need to clarify that Part C is applicable to PAs in government and education. Mr. Gaa noted that Part C is also applicable to PAs in public practice (PAPPs) and that Phase II of the project would address clarifying to which parties Part C applies.
- The seriousness of a decision by the PAIB to resign from the employing organization is acknowledged. It would be important to make sure that the guidance on resignation is consistent with that in other sections of Part C.

Mr. Koktvedgaard noted that the majority of respondents to the ED had come from the profession. He questioned whether the Board should make a greater effort to obtain the views of other stakeholders, particularly the user community. Dr. Thomadakis noted that one of the Board's strategic goals is greater engagement with the PAIB community. He acknowledged Mr. Koktvedgaard's concern, noting that the Board should explore means of better reaching out to stakeholders outside of the profession.

PIOB OBSERVER'S COMMENTS

Mr. Wymeersch thanked the IESBA for the discussion and made the following observations:

- Coordination with the NOCLAR project would be important regarding differentiating guidance between "senior" and "other" PAIBs. In this regard, he acknowledged that coordination may be difficult as the NOCLAR pronouncement had not yet been finalized.
- The need to explain how a PAIB's actions can influence contractual and regulatory outcomes, and clear guidance as to what could constitute contractual and regulatory outcomes.
- How the issues raised within the Part C project are applicable to PAs working in education and in the public sector.

Mr. Wymeersch also noted that Mr. Koktvedgaard's comment regarding constituents that do not respond to the Board's EDs applies equally to the other standard-setting boards supported by IFAC. He felt that while the Board may formally have satisfied due process, it may not have substantively met the objective of consultation. He suggested that the Board could be more proactive in reaching out to such constituencies, noting that the PIOB would be supportive of such effort.

An IESBA member acknowledged the difficulty of obtaining input from a broad range of stakeholders, noting that the issue is the volume of EDs. Accordingly, the IESBA member suggested that it would be helpful if the Board sought to coordinate and package its releases. Dr. Thomadakis noted that the Board has already been making an effort in that direction. He emphasized the importance of the Part C project, noting that

PAIBs play an important role in the global economy. Mr. Kwok commented that the Board has already made a special effort to accommodate PAIBs, including through membership on the Task Force, extending the comment deadline on the ED, and inviting Transparency International as an external speaker to address one of the topics in the project. Mr. Gaa added that the Board also undertook surveys of IFAC Member Bodies with significant PAIB constituencies in the early stages before the project started.

WAY FORWARD

The Board asked the Task Force to present a revised draft of Section 320 for consideration at the December 2015 IESBA meeting and a summary of significant comments received from respondents on the proposed Section 370 at the September 2015 IESBA meeting.

6. **Safeguards**

Mr. Hannaford introduced the topic, noting that the objective of the project was to review the clarity, appropriateness and effectiveness of safeguards in Sections 100[4] and 200[5] and those safeguards that pertain to non–assurance services (NAS) in Section 290[6] of the Code. He summarized the issues identified by the Task Force and presented the Task Force's preliminary proposals. He also summarized the feedback that the Task Force had received on the agenda materials from the SMPC, and noted that the Task Force planned to further consider this feedback as part of its future work. He then set out to lead the discussion of the key issues and Task Force proposals.

CLARIFICATIONS TO THE CONCEPTUAL FRAMEWORK

Mr. Hannaford noted that the Task Force was of the view that the conceptual framework should be re-focused to better emphasize the professional accountant's key objective to eliminate or reduce threats to compliance with the fundamental principles to an acceptable level. He explained that the proposed changes to the conceptual framework followed an approach that is similar to the approach used in the IAASB's ISAs with respect to identifying, assessing and responding to the risks of material misstatement of the financial statements. He also explained that the Task Force's proposals meant reordering extant Section 100 so that it addressed the following:

- Introduction, outlining a description of the professional accountant's responsibility to act in the public interest;
- Requirements to comply with the overarching principles and to comply with the conceptual framework;
- Identifying of threats to compliance with fundamental principles;
- Evaluating the significance of the threats identified; and
- Addressing threats, either by eliminating them or reducing them to an acceptable level.

Mr. Hannaford indicated that the Task Force was of the view that the concept of "reasonable and informed third party" should be retained.

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4 Section 100, *Introduction and Fundamental Principles*

5 Section 200, *Introduction* (Part B – Professional Accountants in Public Practice)

6 Section 290, *Independence – Audit and Review Engagements*

The Board broadly supported the Task Force's proposed re-orientation of the conceptual framework and the suggested changes to Section 100 of the extant Code. However, some IESBA members cautioned against re-opening the conceptual framework for reconsideration and that changes should be framed only in the context of the project proposal.

REASONABLE AND INFORMED THIRD PARTY TEST AND STEPPING BACK

Mr. Hannaford explained that the "reasonable and informed third party" test is part of an assessment that the extant Code requires professional accountants to make in determining whether a threat to compliance of the fundamental principles has been eliminated or reduced to an acceptable level. He noted the Task Force's view that the test should be an objective test. He added that preliminary discussion among Task Force members indicate that a description of a "reasonable and informed third party" could be closely aligned to an arbitrator, a "conceptual person" who can objectively consider the views of all stakeholders, not just one person or party.

Mr. Hannaford added that the Task Force concluded that "stepping back" is an approach that professional accountants already are required to take under the extant Code. However, he explained the Task Force's view that the conceptual framework might be enhanced through having more robust guidance to better explain the process of "stepping back" so that it is more closely linked to the reasonable and informed third party test.

The Board tentatively agreed to reconsider the proposed approach to the guidance on the concept of a "reasonable and informed third party," but asked that the Task Force consider the following comments from IESBA members, among other matters:

- Care should be taken in using the term "arbitrator" as that term connotes someone in a judicial role. Rather, consideration should be given to describing the individual characteristics of the role of a reasonable and informed third party.
- Consideration should be given to approaching the reasonable and informed third party test from a perception standpoint. In particular, the focus could be on emphasizing the intent of a reasonable and informed third party rather than on describing who that party is. Care should also be taken in avoiding too rigid a description.
- The test should be approached from "ex ante" perspective (i.e., based on the information that is available at the time of the specific activity or engagement).

Mr. Koktvedgaard expressed the view that the test is not always objective. He suggested that the Code better describe the circumstances in which the test might be subjective. He explained, for example, that independence in appearance is affected by the public's expectations and culture, both of which are dynamic. Therefore, consideration could be given to incorporating a degree of flexibility in describing a reasonable and informed third party to capture the evolving nature of the concept.

Mr. Gunn suggested that the Task Force seek to achieve the right balance between a disinterested third party and the public's views of what is considered to be a reasonable third party. In particular, as a way of introducing the perspectives of users, the Task Force could consider referring to an individual who does not have a direct connection in the outcome of the decision, but who may be affected by it.

Dr. Thomadakis expressed the view that the description should be simple and convey that such a person is informed ex ante, independent, and cognizant of perceptions in the social environment at the particular

point in time. He added that the term should address at a very high level only the concept of objectivity. The Board asked the Task Force to consider the matter further in the light of the discussion.

DESCRIPTION OF A SAFEGUARD AND TYPES OF SAFEGUARD

Mr. Hannaford highlighted the Task Force's proposed description of safeguard as follows:

> A safeguard is an action or measure that the professional accountant:
>
> - Designs and implements in response to threats to compliance with the fundamental principles; and
> - Concludes is effective to eliminate such threats or reduce them to an acceptable level.
>
> Depending on the circumstances, safeguards may need to be a combination of actions or measures.

He noted the Task Force's view that the proposed description represented a "middle ground" approach to describing an action or measure that the professional accountant determines to be both credible and effective to eliminate or reduce threats to an acceptable level, while recognizing that there are inherent difficulties that may only be known after such an action or measure (safeguard) is applied.

Specific to the types of safeguards, Mr. Hannaford noted that the Task Force's proposals, including proposed changes to Section 200, meant that there are a number of actions or measures currently characterized in the extant Code as safeguards that would no longer be categorized as safeguards. For example, those actions or measures created by the professional, legislation or regulation, as well as safeguards implemented by the entity would no longer meet the proposed description of a safeguard.

Description of Safeguards

IESBA members had mixed views about whether the professional accountant should make the determination that a safeguard is effective. Some IESBA members expressed concern about stating in the description that the safeguard needed to be effective. They felt, in particular, that in some cases more than one action or measure may be needed to address a threat. Further, several IESBA members made suggestions to improve the proposed description, in particular the wording of the second bullet, including the following:

- There should be clarity as to whether the professional accountant makes the assessment about effectiveness based on the professional accountant's judgment. Mr. Hannaford explained that this would indeed be the case.
- Consideration should be given to avoiding the word "conclude" in the second bullet, as it is too subjective. Instead, a term such as "determine" may be more useful. The Safeguards Task Force should also liaise with the Structure Task Force to ensure that terms are used in a consistent manner throughout the Code.
- It is important to consider the timing of the threat when describing safeguards. In particular, the Code could acknowledge that the timing of a safeguard should coincide with the timing of a threat. Also, a safeguard could either be preventative and general in nature or specific based on the facts and circumstances of an engagement.

Mr. Siong wondered whether the linkage between the description of the safeguard and the threat being addressed was giving rise to confusion. He suggested considering focusing the description more on the

possibility of the adverse outcome. He also wondered whether an action is a safeguard if the threat is eliminated. Mr. Hannaford explained that that if a threat does not exist, there is no need for a safeguard.

An IESBA member challenged the need for even having the term safeguards in the Code. The IESBA member suggested that the Code should, instead, focus on the development and implementation of policies that address threats. Another IESBA member noted that the terms "threats" and "safeguards" are embedded in auditing and accounting literature since the 1970s, and that there may be unintended consequences to eliminating them. Other IESBA members agreed.

Mr. Koktvedgaard expressed support for having a more robust description of safeguards. He agreed that there are different types of safeguards, including preventative safeguards, and relevant versus non-relevant safeguards. He supported the Task Force's effort to make a closer linkage between threats and safeguards in the Code. He suggested consideration of a "risk mitigation approach" in describing a safeguard. He also agreed with others who suggested that the word "effectiveness" should not be the focus of the description of a safeguard.

A Task Force member suggested that the description of safeguard be simplified by focusing on the design of actions or measures that the professional accountant determines should eliminate or reduce threats. Mr. Hannaford noted that there may be other actions or measures that are not necessarily safeguards that may assist in eliminating or reducing threats.

Dr. Thomadakis suggested that the Task Force consider incorporating the concept of "credible" in describing a safeguard. He also suggested clarification of the term "concludes to be effective…" in the second bullet, in particular within the context of when a professional accountant makes the determination of whether or not an action or measure is a safeguard. He also expressed the view that the evaluation of threats of compliance with the fundamental principles is not exactly analogous to the evaluation of audit risk.

Types of Safeguards

There was general support for the Task Force's proposals with respect to clarifying types of safeguards, in conjunction with a new description of the term safeguards, and streamlining the examples of safeguards. A few IESBA members, however, expressed some reservations regarding the Task Force's proposal to use the term safeguard more narrowly, including the following:

- Certain actions or measures created by the professional, legislation or regulation function as safeguards and eliminate or reduce threats to compliance with the fundamental principles to an acceptable level. It was suggested that the Task Force carefully review the existing safeguards in the extant Code in comparison to the threats before forming its conclusions about what should be deleted as a safeguard. Mr. Hannaford responded that the Task Force started its work broadly, but then progressed to a view that safeguards are those actions or measures that the professional accountant determines are in place at the engagement-specific level to eliminate or reduce threats to compliance with the fundamental principles to an acceptable level.
- From an enforcement standpoint, the focus should be on those safeguards that are relevant to threats to independence.
- The project should focus on NAS-specific safeguards only. The Code as a whole is drafted using a threats and safeguards approach, and all the professional accountant's activities require the application of the conceptual framework. Consideration should therefore be given to a narrower application of the project proposal and to careful consideration of the implications of the Task Force's

proposed changes to the conceptual framework on the Code as a whole. Mr. Hannaford pointed out that the project proposal for the Safeguards indicated the need to review Sections 100 and 200 of the extant Code. He explained that it was on this basis that the Task Force developed its proposals. He indicated the Task Force's view that it was important to start first with Sections 100 and 200, then to NAS and afterwards determine the implications for the rest of the Code as part of Phase II of the project.

Dr. Thomadakis agreed that the scope of the Safeguards project as described in the project proposal should be retained.

USE OF THE TERM "RISK" VERSUS "THREATS"

Noting a translation concern, an IESBA member suggested that consideration be given to replacing the term "threats" with terminology that more closely aligns to "risks" because the concept of risk is widely understood among professional accountants and is also measurable. Many IESBA members disagreed, noting that the concept of risk was not appropriate in the context of discussing compliance with the fundamental principles of the Code, in particular as it relates to objectivity.

Mr. Koktvedgaard expressed a preference for the term "risks," noting his view that businesses typically report and are evaluated based on risks. He added that because auditors and others are accustomed to working with the term risk, they are more likely to understand the importance of having internal controls in place to mitigate those risks.

Dr. Thomadakis acknowledged that translation may result in differences in what is meant or understood by the term "threats." However, he was of the view that the term "threat" should be retained because it conveyed a meaning that is different from risk in many languages, including English. He noted that if the Board were to consider changing the term "threat" to "risk," it would be important to have a qualifier to convey that a threat is an extreme or major form of risk.

NAS, INCLUDING THE INVOLVEMENT OF TCWG AS A SAFEGUARD

Communication with TCWG

Mr. Hannaford noted that a 2013 survey undertaken as part of the NAS project indicated that variation exists among jurisdictions regarding required communications with TCWG about pre-approval of NAS. He noted that the Code already requires specific communication with TCWG but asked IESBA members whether more guidance was needed with respect to the professional accountant's responsibility to communicate with TCWG, including whether such communication should be characterized as a safeguard. He outlined four options to the Board with respect to the level of involvement of TCWG with respect to the provision of NAS.

IESBA members acknowledged the importance of communication with TCWG, in particular in the context of an audit engagement, and broadly supported Option 4 as presented in the agenda material, i.e., allowing for a combination of informing TCWG, obtaining their concurrence or seeking their pre-approval as determined appropriate based on the PA's professional judgement. IESBA members also asked that the Task Force:

- Ensure that the importance of effective two-way dialogue between audit committees and auditors be emphasized in any new guidance relating to communication with TCWG.

- Ensure that new guidance about communication with TCWG be drafted in a manner that is flexible, and not prescriptive in nature. A few IESBA members were of the view that there may be practical challenges effectively implementing communications about pre-approval with TCWG.
- Reflect on whether it is appropriate to consider a communication with TCWG to be a safeguard.

Mr. Koktvedgaard noted that pre-approval is most relevant and necessary in the context of an audit of a PIE. He suggested that any communication with TCWG should address the auditor's views with respect to pre-approval of services.

NAS

Mr. Hannaford described the Task Force's planned approach to reviewing specific safeguards pertaining to NAS. He noted that the Task Force has identified key themes and has determined potential next steps.

IESBA members did not have specific comments on the Task Force's proposed approach for NAS. However, an IESBA member noted that the proposed timeline appeared overly aggressive. Mr. Hannaford noted that the project has been fast-tracked, but that the Task Force will continue to evaluate with the Board's counsel when adjustments to the timeline may be appropriate or necessary.

Dr. Thomadakis complimented the Task Force for its hard work. In relation to the concerns concerning the forward timeline, he explained that as a matter of principle the Board would not compromise quality or due process in order to meet targeted deadlines.

OTHER MATTERS

IESBA members also suggested the following, among other matters:

- Consideration of guidance in the Code to assist professional accountants better document the process of applying safeguards.
- Proactive liaison between the Safeguards and Structure Task Forces to ensure that the timelines and proposals for the two projects are closely aligned.

Mr. Koktvedgaard complimented the Task Force on its work, noting in particular the table in the agenda materials depicting the linkages between threats and the fundamental principles. He suggested considering using the table to develop a framework for professional accountants.

WAY FORWARD

The Board asked the Task Force to present a first draft of proposed changes to the Code for consideration at the September 2015 IESBA meeting.

7. **EIOC Presentations**

Mr. Mihular introduced the topic, noting that the Board would receive country presentations with respect to India, Indonesia, Mexico and South Korea at this session as part of the initiative to obtain a deeper understanding of the key differences between the Code and national ethical requirements in the G-20 and major financial centers. In addition, Mr. Fleck would present an update on the MG Rover Case in the UK.

INDIA

Mr. Mihular provided background and context to how ethics standards are promulgated in India. He then outlined the structure of the Indian code, the level of convergence with, and key differences relative to, the IESBA Code, and plans to further converge with the IESBA Code.

Ms. Soulier provided additional information concerning the regulatory context in India, notably:

- A strict regulatory environment, including the potential for high liabilities for auditors, and the ability of a tribunal to change the auditor if it is not satisfied with the quality of the audit.
- A relatively low threshold for the definition of a PIE, resulting in many companies being classified as PIEs.
- Limitations on the number of partners within a firm, resulting in many small firms and large entities that are audited by many different firms.
- The formation of a new government body, the National Financial Reporting Authority, to take over responsibility for standard setting from the Institute of Chartered Accountants of India (ICAI).

In response to questions from IESBA members, Mr. Mihular and Ms. Soulier noted the following:

- Under an ICAI guideline, the maximum audit fee receivable by a firm from one client is limited to 40% of the firm's total audit fee revenue.
- The Companies Act 2013, introduced by the previous Indian government, is still in place. The current government is considering revising the Act along with other laws brought in by the previous government.
- As part of a Government supported anti-corruption and anti-fraud initiative, auditors are now required to make a number of statements in their audit reports, including that they have no reason to believe a fraud is being perpetrated.
- There is no formal process for updating the Indian code to accommodate changes to the IESBA Code. The previous revision was in 2005 and the next update of the Indian Code is aimed at converging with the 2014 IESBA Code.

INDONESIA

Ms. Soulier provided background and context to the accounting profession and the economy in Indonesia. She then outlined the background to and history of the Indonesian code, the process by which ethics standards are set and the main differences between the Indonesian code and the IESBA Code.

In response to questions from IESBA members, Ms. Soulier noted the following:

- Recruiting and retaining talent into the profession has proven difficult, resulting in relatively few CPAs in comparison to the number of listed companies. Recruiting and retaining talent are also a problem for other countries in Asia.
- Ethical rules for listed companies are mostly promulgated by the Indonesian government and not the Indonesian IFAC member body, hence there tends to be a disconnect with the IESBA Code. The Indonesian IFAC member body is responsible for ethics standards with respect to non-listed companies and performs batch updates to the Indonesian code to reflect changes to the IESBA Code. Updates take place after the required local due process and translation issues have been addressed.

Changes are thus often made a significant period after the IESBA Code has been revised, hence the version of the IESBA Code adopted is still an older version.

MEXICO

Ms. Orbea provided background and context to the development of the Mexican code. She then outlined the key differences between the Mexican code and the IESBA Code and the reasons for these.

SOUTH KOREA

Ms. Soulier provided background to the South Korean economy, key laws and regulations related to ethics and independence and the bodies responsible for standard setting. She then outlined the status of adoption of the IESBA Code in South Korea and the key differences between the IESBA Code and local requirements.

In response to questions from IESBA members, Ms. Soulier and Mr. Mihular provided the following additional information:

- There are two regulatory bodies in South Korea responsible for setting ethics and independence rules for listed companies. Once new rules for listed companies are incorporated into local regulation, the Korean Institute of CPAs (KICPA) reflects them in its code.
- South Korea is moving towards adopting international financial reporting standards in an effort to attract foreign investment.
- Business in South Korea evolved through Chaebols and as a result the concept of "conflict of interest" cannot be easily understood or translated into Korean. The concept of "independence" appears to be better understood than "conflicts of interest."

GENERAL COMMENTS

An IESBA member shared the following views and suggestions:

- In jurisdictions where the IFAC member body is weak, the government has tended to take over the standard setting function. It was therefore suggested that the Board could explore how the IFAC Compliance Advisory Panel could assist in the process of convergence with the IESBA Code.
- In some areas, the Board has lost the leadership position. For instance, deposit-taking financial institutions are not currently covered under the definition of a PIE.
- Some of the key differences are fairly unique to particular jurisdictions. Accordingly, it may be advisable to focus on differences that are common across the G-20 and major financial centers. Mr. Mihular agreed, noting that the EIOC would plan on reporting accordingly at the December 2015 IESBA meeting.

MG ROVER CASE

Mr. Fleck recapped the history of the MG Rover case in the UK and the role of Deloitte in the sale of assets of the company by its shareholders to a consortium of businessmen known as the "Phoenix 4." He outlined the misconduct charges brought against Deloitte and how the Disciplinary Tribunal had concluded that Deloitte had failed to act in the public interest. He then went on to elaborate on the Appeal Tribunal's review of the disciplinary findings, its decision to overturn certain of these findings, and the implications of the outcome of the appeal for the Code.

In response to questions from IESBA members, Mr. Fleck provided the following additional information:

- The final appeal decision has been published by the UK Financial Reporting Council (FRC).
- The relevant ethical Code is applicable to all accountants who are members of the particular IFAC member body (the Institute of Chartered Accountants in England and Wales (ICAEW)), regardless of their job functions. Mr. Fleck believed that there is no equivalent to the Code in other professions.
- All EU accountancy bodies are required to have a disciplinary function for public interest matters that is independent of the profession. As a result, the FRC has been tasked with taking enforcement action against members of ICAEW in public interest cases. While membership of a self-regulatory professional body means that enforcement decisions are not legally sanctioned, as regards the MG Rover case it would be unlikely that any enforcement decision would not receive full legal backing by a court of law.
- As a result of the Disciplinary Tribunal's decision, the ICAEW has prepared a discussion paper to consider the need for updated guidance on the public interest in its code. This discussion paper has not been updated to reflect the Appeal Tribunal's decision. Mr. Fleck expressed a view that the MG Rover case demonstrated that while the public interest needed to be considered by accountants, it should be addressed through the five fundamental principles.
- The Tribunal was not being asked to determine whether the actions of the "Phoenix 4" were illegal, and they were not, but whether these actions breached a fiduciary duty that a corporate finance advisor would be expected to observe with respect to its client.
- The Appeal Tribunal decided that the initial decision of the Disciplinary Tribunal (that accountants must consider the public interest in all of the work they perform) was an unacceptable conclusion. The context of the work being performed would affect the degree of consideration that would need to be given to the public interest. Related to this, Mr. Fleck expressed a view that Deloitte's failure was not inadequate consideration of the public interest, but to ensure that the MG Rover received independent advice due to a conflict of interest in Deloitte's role as corporate finance advisor to the "Phoenix 4" and auditor of the company. Conflicts of interest would need to be considered by other professions, not just accountants, acting in similar circumstances.

WAY FORWARD

Dr. Thomadakis thanked the presenters for their informative presentations. The Board asked the EIOC to arrange presentations for the remaining jurisdictions (Brazil, Russia and Saudi Arabia), and present a summary of the key differences relative to the IESBA Code, at the December 2015 meeting. The Board also noted the MG Rover presentation for further reflection.

8. PIOB Observer's Remarks

Mr. Wymeersch shared the following personal observations on the topics that were discussed:

- In relation to the Structure project, he noted the considerable work that had been performed to date and the good progress made. He expressed his appreciation for the Task Force's and the Board's efforts. In addition, he thanked Mr. Thomson for agreeing to remain as Chair of the Task Force in 2016 after stepping down from the IESBA at the end of the year.
- In relation to the Part C project, he noted the good progress made. He also noted a few public interest matters needing attention, including clarification of the meaning of the concept of "contractual or

regulatory outcomes," and consideration of the need for consistency of approach on some of the issues relative to the NOCLAR re-ED. He wished the project a successful outcome.

- In relation to the Long Association project, he considered this as an important question regarding the structure of the profession in the long term. He acknowledged the good progress made, particularly on the issue of cooling-off period for the EQCR on PIE audits. Nevertheless, he felt that there were certain issues still outstanding, such as the permissibility of the engagement partner consulting during the cooling-off period, the possibility of the EP changing categories (e.g., the EP becoming the EQCR), and the question of mandatory firm rotation.
- In relation to the topic of fee-related issues, he urged caution regarding the messaging, as this can have an impact on public opinion. Much would depend on the message that will be envisaged in the new work. He was of the view that the topic of fee is important and recommended further research, as he felt that there are quite a few issues to be identified.
- In relation to the Safeguards project, he noted that the discussion had been impressive and congratulated the Task Force on its work. He added that the International Organizations of Securities Commissions (IOSCO) had recommended that the IESBA review the Code's approach to safeguards, and he commended the Board for addressing it.

Finally, he wondered whether there would be a possibility of discussing wider policy issues in dedicated Board meetings. In this regard, he advised the Board to identify wider issues such as the growth of the NAS business in firms relative to their audit business and the structure of the profession so that there can be consideration of the wider context, in addition to the necessary focus on details. He concluded by thanking the Board for the opportunity to observe the meeting.

Dr. Thomadakis thanked Mr. Wymeersch for his comments and advice, adding that he would welcome strategic discussions with the PIOB. He noted, however, that the challenges would be in the details. On the fees topic, Dr. Thomadakis noted that it is still early days and preparatory steps would be taken to facilitate the scope definition.

9. **Next Meeting**

The next meeting of the IESBA is scheduled for September 15-16, 2015 in New York, USA.

10. **Closing Remarks**

Dr. Thomadakis thanked IESBA participants for their contributions to a productive meeting, and IFAC for hosting the meeting and for its administrative support. He then closed the meeting.