

Draft Minutes of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
Held via Teleconference on October 15, 2012

Voting Members

Present: Jörgen Holmquist (Chair)
 Brian Walsh (Deputy Chair)
 Helene Agélie
 Brian Caswell
 Robert Franchini
 James Gaa
 Caroline Gardner
 Gary Hannaford
 Peter Hughes
 Felicitas Therero Irungu
 Chishala Kateka
 Wui San Kwok
 Stefano Marchese
 Alice McCleary
 Marisa Orbea
 Isabelle Sapet
 Kate Spargo
 Don Thomson

Technical Advisors

Tony Bromell (Ms. Gardiner)
 Elbano de Nuccio (Mr. Marchese)
 Liesbet Haustermans (Ms. Orbea)
 Tone Maren Sakshaug (Ms. Agélie)
 Andrew Pinkney (Mr. Kwok)
 Sylvie Soulier (Mr. Franchini)
 Lisa Snyder (Mr. Caswell)
 Eva Tsahuridu (Ms. McCleary)
 Patrick Wanjelani (Ms. Kateka)

Apologies:

Jean Luc-Doyle (Ms. Sapet)
 Kim Gibson (Mr. Thomson)

Non-Voting Observers

Present: Richard Fleck (IESBA Consultative Advisory Group (CAG) Chair), and Seiya Fukushima
 Apology: Juan Maria Arteagoitia

Public Interest Oversight Board (PIOB) Observer

Present: Chandu Bhave

IESBA Technical Staff

Present: Jim Sylph (Executive Director, Professional Standards and External Relations), Ken Siong (Acting Deputy Director), Chris Jackson and Karlene Mulraine

1. Opening Remarks

Mr. Siong confirmed that the necessary quorum of Board members had been met. Mr. Holmquist then welcomed the participants to the meeting. He extended a special welcome to Mr. Caswell, replacing former IESBA Chair Ken Dakdduk on the Board, and the official observers, Mr. Bhavé representing the PIOB, Ms. Fukushima representing the Japanese Financial Services Authority, and Mr. Fleck representing the IESBA CAG. Mr. Holmquist thanked the former IESBA Deputy Director, Jan Munro, for her contributions to the IESBA's work and conveyed the Board's best wishes to her.

MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the June IESBA 2012 meeting were approved as presented, subject to a minor refinement.

2. Breach of a Provision of the Code

Mr. Holmquist introduced the topic, noting that the Chair of the Breaches Task Force, Ms. Spargo, and staff had met with representatives of IOSCO via teleconference the previous week to discuss the Task Force's revised proposals presented to the Board at this meeting. Mr. Holmquist noted that a number of concerns were raised by IOSCO during the teleconference which would require further consideration by the Task Force. As a result, the Board would not be asked to approve the Task Force's proposals as a final standard during this teleconference. Instead, the Board would be asked to agree the Task Force's wording changes except those that might be impacted by the comments from IOSCO.

Ms. Spargo outlined the approach to the session, namely confirmation of the changes agreed at the June 2012 IESBA meeting, consideration of additional changes to the document, and a report-back on the further comments received from IOSCO the previous week.

Except as outlined below, the IESBA agreed with the recommendations of the Task Force as set out in the meeting material.

CHANGES AGREED AT THE JUNE 2012 IESBA MEETING

The IESBA confirmed the changes agreed at the June 2012 meeting.

OTHER CHANGES

Reporting within the Firm

The IESBA agreed the proposed changes, subject to the following and minor editorial changes:

- With respect to the Task Force's proposal to amend paragraph 290.42 so that the first sentence read "When a breach is identified the firm shall be notified in accordance with its policies and procedures...", an IESBA member commented that it was unclear what was being intended as there was no indication from this construct as to who would be doing the notification. Accordingly, it was suggested that this sentence be amended to read along the following lines:

When a breach is identified, it shall be promptly communicated to the engagement partner in accordance with the firm's policies and procedures, and to the individual assigned responsibility for policies and procedures related to independence, and other relevant personnel in the firm...

It was noted that the matter of clarity regarding the assignment of responsibility within the firm would need to be addressed as part of a broader review of other aspects of the Code where such a matter also arises.

- The proposed reference to “the individual assigned responsibility” in paragraph 290.42 suggested that the responsibility for policies and procedures related to a breach should be assigned to an individual, even though such a reference is not included in International Standard on Quality Control (ISQC) 1¹ with respect to ethical requirements. It was suggested that if the Board prefers to establish such a requirement, it should be clearly established outside the scope of this paragraph and, even then, should not be established solely within the context of breaches. It was also cautioned that assigning responsibility to an individual for such matters could also impact other sections of the Code. It was therefore suggested that it would be more appropriate to use wording such as:

When a breach is identified, it shall be promptly communicated to the engagement partner... and to others within the firm in accordance with the firm’s policies and procedures.

The IESBA asked the Task Force to consider the comments received and propose revised wording for consideration at the December 2012 meeting.

OTHER MATTERS

In addition to editorial changes, the IESBA agreed that the Task Force should reconsider paragraph 291.35 regarding the appropriate timing for communicating a breach, as the proposed wording seemed to be more prescriptive than the original text ~~and could potentially give rise to a more stringent test than for audits.~~

ADDITIONAL ISSUES RAISED BY IOSCO

Ms. Spargo summarized the main issues raised by individual IOSCO representatives during the teleconference the previous week, noting that in the view of some of these representatives, the Code does not sufficiently emphasize the issue of “resignation” which they believe may lead to inconsistent application of the Code. She also noted the suggestion from some of the IOSCO representatives that more detailed guidance be provided regarding when resignation from the engagement would be necessary and the meaning of “significance” in relation to breaches. These representatives were in particular concerned about several aspects of the application of the term “significance” in the context of breaches, including how the significance of a breach should be evaluated and how the related provisions of the Code would be enforced. They also noted that the strength of those charged with governance may vary from jurisdiction to jurisdiction.

WAY FORWARD

The IESBA asked the Task Force to present for approval at the December 2012 Board meeting final proposals with respect to the comments received from:

- Board members in relation to paragraphs 290.42 and 291.35; and

¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- The IOSCO representatives regarding the concepts of significance and resignation, and the firm's interactions with those charged with governance.

The IESBA also asked that staff communicate to the IOSCO representatives the Board's expectation of approving the final document at its December 2012 meeting.

3. Definition of Engagement Team

Mr. Franchini provided a brief update on significant comments received on the exposure draft (ED) of the proposed change to the definition of the term "engagement team" in the IESBA *Code of Ethics for Professional Accountants* (Code). He noted that the Task Force planned to reach out to the International Organization of Securities Commissions (IOSCO) and a group of 11 European Audit Regulators to better understand the concerns they have expressed on the ED. The Task Force will present a full summary of significant ED comments at the December 2012 IESBA and seek the Board's approval of the proposed revised engagement team definition at that meeting.

4. Staff Questions and Answers

Mr. Jackson briefed the Board on the status of the proposed staff Questions and Answers (Q&As) publication, *Implementing the Code of Ethics*, developed to facilitate the adoption and implementation of the Code. He noted that the working group developing the Q&As had agreed to remove a number of questions from the original draft set of Q&As, either because these concerned matters that should be dealt with by the Board, or because the working group could not reach consensus on the responses. In this regard, an IESBA member noted that several respondents to the ED on conflicts of interest had questioned whether there was sufficient guidance in the Code with respect to the application of the reasonable and informed third party test. The IESBA member noted that this could be a matter for substantive consideration by the Board in the future.

5. PIOB Observer's Remarks

Mr. Bhavé noted that this was his first time observing an IESBA meeting on behalf of the PIOB. He commended the Board on a constructive meeting, noting in particular that the Board deliberations were thoughtful and gave due regard to the need to listen to the views of public authorities.

Mr. Holmquist thanked Mr. Bhavé for his feedback.

6. Next Meeting

The next meeting of the IESBA is scheduled for December 10-12, 2012 in New York.

7. Closing Remarks

Mr. Holmquist thanked the participants for their contributions. He then closed the meeting.