

**Draft Minutes of the Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on December 4-6, 2013 in New York, USA**

**Voting Members**

Present: Jörgen Holmquist (Chair)  
Isabelle Sapet (Deputy Chair)  
Helene Agélii  
Brian Caswell  
Robert Franchini  
James Gaa  
Gary Hannaford  
Peter Hughes  
Chishala Kateka  
Wui San Kwok  
Caroline Gardner (Days 2 and 3)  
Alice McCleary  
Reyaz Mihular  
Marisa Orbea  
Kate Spargo  
Don Thomson

**Technical Advisors**

Tony Bromell (Ms. Gardner)  
Colleen Dunning (Mr. Hughes)  
Kim Gibson (Mr. Thomson)  
Liesbet Haustermans (Ms. Orbea)  
Tone Maren Sakshaug (Ms. Agélii)  
Andrew Pinkney (Mr. Kwok)  
Lisa Snyder (Mr. Caswell)  
Sylvie Soulier (Mr. Franchini)  
Eva Tsahuridu (Ms. McCleary)

Apologies: Claire Ighodaro  
Stefano Marchese

Jean-Luc Doyle (Ms. Sapet)  
Elbano de Nuccio (Mr. Marchese)  
Patrick Wanjelani (Ms. Kateka)

**Non-Voting Observers**

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair), and Hiroyuki Dairaku

Apology: Juan Maria Arteagoitia

**Public Interest Oversight Board (PIOB) Observer**

Present: Chandu Bhave

**IESBA Technical Staff**

Present: Jim Sylph (Executive Director), Ken Siong (Technical Director), Kaushal Gandhi and Chris Jackson

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Mr. Holmquist welcomed the participants and public observers to the meeting. He welcomed, in particular, Mr. Bhave, observing on behalf of the PIOB; Mr. Koktvedgaard, Chair of the CAG; and Mr. Dairaku, observing on behalf of the Japanese Financial Services Agency. He also welcomed Ms. Dunning, Mr. Hughes's new Technical Advisor.

Apologies were received from Ms. Gardner (for the first day only), Ms. Ighodaro and Messrs. Marchese, de Nuccio, Doyle, Wanjelani and Arteagoitia. Mr. Holmquist noted for the record that Mr. Doyle would be leaving his role as a Technical Advisor at the end of the year, a position he had held for 12 years during which he had made valuable contributions to the Board's work.

### PLANNING COMMITTEE UPDATE

Mr. Holmquist briefly reported on the recent activities of the Planning Committee, which had met immediately after the close of the September 2013 IESBA meeting and by teleconference in October 2013. The Planning Committee discussed *inter alia*:

- Possible future compositions of task forces, working groups and the Planning Committee given IESBA member rotations at the end of the year;
- A proposed revised definition of "professional accountant" to be considered by the International Accounting Education Standards Board (IAESB);
- Consideration of input received during stakeholder outreach and the way forward regarding the project on responding to non-compliance with laws and regulations (NOCLAR);
- Consideration of initial recommendations from the International Auditing and Assurance Standards Board's (IAASB's) Audit Quality Task Force; and
- A draft of the proposed Strategy and Work Plan (SWP) consultation paper.

### COMPOSITIONS OF TASK FORCES, WORKING GROUPS AND PLANNING COMMITTEE

Mr. Holmquist summarized the changes to the task forces, working groups and the Planning Committee he had determined after consultation with the Planning Committee and the relevant individuals, effective from January 1, 2014:

- Ms. Gardner would replace Mr. Franchini as Chair of the NOCLAR Task Force. Ms. Sapet would continue as a member of the Task Force for an additional year.
- Ms. Spargo would replace Ms. Gardner as Chair of Non-Assurance Services (NAS) Task Force. Ms. Soulier would move from being a correspondent member to being a full Task Force member.
- Ms. Ighodaro would join the Part C Task Force and Ms. McCleary would continue on the Task Force for an additional year. Larry Kean, one of the external members on the Task Force, would leave the Task Force at the end of the year.
- Mr. Pinkney would move from being a correspondent member to being a full member of the Long Association Task Force.
- Mr. Thomson and Ms. Spargo would join the Planning Committee.

## RECENT OUTREACH ACTIVITIES

Mr. Holmquist highlighted the recent and upcoming outreach and related activities as noted in the agenda material, and thanked Mss. Sapet and Spargo and Messrs. Franchini and Gaa for their participation in recent outreach. He encouraged IESBA members and technical advisors to contribute to the outreach efforts.

## OCTOBER 2013 CAG TELECONFERENCE

Mr. Holmquist briefly mentioned that a CAG teleconference had been held in October 2013 to discuss the Long Association project and that the discussion had been constructive. He noted that Ms. Orbea and Mr. Koktvedgaard would report back on the discussion during the Long Association session later in the week.

## NOVEMBER 2013 PIOB MEETING

Mr. Bhave briefly reported on the November 2013 PIOB meeting in relation to matters concerning the Board and its work program. The PIOB had noted the upcoming consultations on the four work streams that were added to the Board's agenda in 2012 (i.e., Structure of the Code, Long Association, Non-Assurance Services and Part C of the Code), separately from the upcoming SWP consultation. The PIOB was concerned about the potential for confusion as the Board had not previously included those four work streams as part of its consultation on its future SWP. He noted that a potential solution was being developed to address the matter.

Mr. Bhave also noted that the PIOB had discussed the need for clarification regarding a remark in the IESBA Chair's report to the PIOB that highlighted a concern among some regulators that the Code seemed to be on a "lowest common denominator" (LCD) base. As the PIOB felt that this was an important issue to address, he noted the PIOB's desire to understand the efforts being made by the Board to respond to the regulatory concern. Mr. Holmquist clarified the remarks in his report, noting that he did not agree that the Code is on an LCD base. Rather, he explained that there is a logic to having a principles-based Code that would permit application of the Code in different jurisdictions, which would not be possible with a rules-based Code. He noted that he would write to the PIOB to clarify his remarks, emphasizing in particular that:

- The Code exists to serve the public interest.
- The Code is principles-based, the only approach that is possible in an international context and, importantly, an approach that helps to stimulate professional accountants to reflect on behavior that is ethical. However, the Board is committed to engaging in discussion about the enforceability of the Code, a matter that he had already discussed with the European Audit Inspection Group at its November 2013 meeting.
- The Board has a strong basis for arguing that the Code is a robust code and not an LCD Code given the widespread uptake of the Code around the world, including in jurisdictions such as Australia, Italy, Japan and the UK.

## GLOBAL UPTAKE OF THE CODE

Mr. Koktvedgaard wondered if data concerning the global uptake of the Code (similar to the information the IAASB has compiled concerning the global uptake of the clarified International Standards on Auditing (ISAs)) and the nature of national modifications were available. Mr. Holmquist noted that staff was already committed to gathering information regarding the global uptake of the Code. Mr. Siong added that this

had already been flagged as a key action in the proposed SWP and that staff planned to leverage the work of the IFAC Compliance Advisory Panel in this regard.

Mr. Sylph noted that some jurisdictions that have adopted the Code were not necessarily on the latest version of the Code and it would be important to understand from them when they planned to make the transition. He observed that questions are sometimes raised by those that adopt the Code as to whether the Board has finished revising the 2009 Code. Accordingly, he felt a communication strategy was needed to focus jurisdictions on moving to the 2009 Code at the earliest opportunity. Mr. Holmquist acknowledged the risk that some IFAC member bodies may choose to await completion of the work on restructuring the Code before transitioning from their current version of the Code.

#### IESBA-IFAC SMALL AND MEDIUM PRACTICES (SMP) COMMITTEE STATEMENT OF LIAISON PRINCIPLES

The Board noted that at its October 2013 meeting, the IFAC SMP Committee had considered and agreed to the proposed statement of liaison principles as presented. Accordingly, the Board approved the document, effective October 2013.

#### MINUTES OF THE PREVIOUS MEETING

Subject to an editorial amendment, the minutes of the December 2013 IESBA meeting were approved as presented.

## **2. Structure of the Code**

Mr. Thomson introduced the topic, providing background to the initiative and outlining the work undertaken by the Working Group (WG) to date. He then presented the WG's preliminary report and recommendations based on its research findings and the input received from the CAG and national standard setters.

#### DISTINGUISHING REQUIREMENTS FROM GUIDANCE

The WG proposed to distinguish requirements from guidance to enhance understandability and enforceability. This would include clearly identifying the application of the conceptual framework (the threats and safeguards approach) as a requirement.

Among other matters, IESBA members made the following comments:

- If the intention is not to turn the Code into a set of rules, it is unclear how distinguishing requirements from guidance would increase the enforceability of the Code. Mr. Thomson noted that regulators had indicated that the Code would be more easily enforceable if the requirements were clearly demarcated from the guidance. He noted that the Canadian Public Accountability Board (CPAB) had expressed concern about this issue when Canada considered adopting the 2009 Code. He also highlighted that separating requirements from the guidance would facilitate the adoption of the Code into law.
- It is important not to take a strictly legalistic view of enforceability as regulators are able to set rules to meet their specific needs. Instead, it is important to bear in mind that a code of ethics transcends laws and regulations. If the aim is to influence the PA to act more ethically, the Code should provide appropriate guidance to achieve that aim. In this regard, it was noted that in litigation the prosecutor or the court would consider the totality of the Code, including what is in guidance, in making a case.

- Legislation that is broadly based is as enforceable as one that is rules-based. Common law jurisdictions tend to have principles-based laws that are enforceable but this requires judgment as well as the application of a standard of care and diligence. Understanding this is important when thinking about enforceability.
- It would not be appropriate to start a section with a prohibition without explaining why the prohibition is important. Accordingly, there is a need for a logical flow starting with an analysis of the threats and safeguards.
- Regulators in some jurisdictions are unfamiliar with the threats and safeguards approach and tend to gazette the requirements as opposed to the guidance. Accordingly, when developing the requirements, it would be important to make the requirements self-contained.
- Care should be taken in drawing a parallel with the ISAs because auditing standards tend to be sets of procedural requirements supported by guidance. In contrast, ethics standards need to provide assistance to help professional accountants (PAs) rationalize why something is a requirement. Accordingly, care should be taken in separating the requirements from the guidance.

Mr. Sylph advised against the use of bold and gray lettering, and emphasized the importance of making clear that the requirements must be read in conjunction with the application material. ~~It was, however, noted that Australia has taken the bold and gray lettering approach in its ethics standards and that this approach appears to work well in practice.~~

Mt. Kottvedgaard emphasized the importance of making the requirements ~~clear~~ and the steps needed to achieve independence ~~clear~~. As is the case for the ISAs, he was of the view that some of these steps might not necessarily be applicable in all circumstances, for example, if engagement team members have no financial interests in the audit client.

After further deliberation, the IESBA expressed broad support for the direction of the WG's proposal but asked the WG to take note of the cautions expressed.

#### PRESCRIBING RESPONSIBILITY OF INDIVIDUALS IN SECTION 290<sup>1</sup>

The WG proposed requiring that a firm establish policies and procedures that enable the identification of the individual responsible for maintaining independence in a particular circumstance.

The Board considered whether the Code should include, as a defined role, an ethics partner with a senior position and access to firm leadership. While not arguing that every firm should have an ethics partner, an IESBA member expressed the view that the Code should include a provision for a firm to assign responsibility for ethics to a partner with direct access to the firm's leadership, similar to the approach taken in the independence standards issued by the UK Financial Reporting Council. It was argued that this would enable ethics to be given the appropriate level of importance by firm leadership. However, it was recognized that it may be difficult to assign responsibility to only one individual as a variety of individuals are often involved in practice.

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<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*

A few IESBA members expressed support for identifying an individual who can be accountable for ethics, noting that when responsibilities are diffuse, issues may not be appropriately addressed. In addition, it was felt that when the Code refers to the firm, it is unclear who in the firm has the specific responsibility. Another IESBA member, however, felt that whether it is appropriate to allocate responsibility for all the firm's ethics matters to one individual is a fundamental issue that would require significant analysis. The IESBA member also felt that the issue is not necessarily a structure issue but one that fundamentally concerns how quality control within a firm should be addressed.

Other IESBA members made the following comments:

- Some firms may be too small to have an ethics partner but whoever has responsibility should have access to the firm's leadership.
- In some circumstances, it is necessary to mention the individual's responsibility; for example, if an engagement team member receives a financial interest through inheritance, it would be the individual's responsibility to communicate the matter to the firm. It is therefore not necessary to assign responsibility to the firm in every situation.
- There is a risk that identification of a responsible individual may facilitate enforcement action against that individual when other individuals may be responsible for the particular breach. However, it was argued that allocating responsibility to specific individuals would not necessarily preclude prosecutors from pursuing enforcement action against others in the firm who can be held liable. It was noted in particular that a court of law would consider who should bear liability in the case and that this would depend on the specific circumstances, regardless of what the Code states.
- The matter of assigning responsibility is a substantive issue that should be addressed separately to avoid slowing the work on structure.
- Using the active voice would require specifying a subject in the sentence, which would force the allocation of responsibility. It would therefore be necessary to be careful that the responsibility is allocated appropriately.

Mr. Koktvedgaard expressed the view that the Code should be more direct in terms of assigning responsibility because if it is unclear who should bear responsibility, regulators would not be able to enforce the Code. A few IESBA members, however, disagreed with this view, noting that while the Code can specify that firms should assign responsibility, it would not be appropriate for the Code to specify who precisely should bear that responsibility. It was also noted that legislation in many jurisdictions refer to the "company" or an "officer" of the company and that it would be for the regulator to determine who and how many individuals to prosecute. Thus, from an enforcement perspective, it was argued that it would be pointless to nominate specific individuals to bear responsibility. In addition, it would be difficult to identify specific individuals because of the variation in how the Code is adopted and applied around the world.

IESBA members also commented specifically on the way in which the matter of responsibility had been addressed in the illustrative examples of restructured sections of the Code:

- The downside to changing to "active" from "passive" is that this could trigger significant debate about each change. Also, some provisions lend themselves to the active voice whereas others to the passive voice.

- Assigning responsibility in the Code may not reflect how firms delegate responsibility in practice. Doing so also forces the Code to make a choice and removes the ability of firms to make the appropriate judgment in the circumstances.
- While assigning responsibility could in principle make the Code more enforceable, this could also make the Code more rules-based and therefore ultimately less enforceable as it may not address all possible circumstances.

After further deliberation, the IESBA agreed to defer a final decision on whether to address the matter of responsibility as part of the Structure initiative or as a separate project until it has considered the WG's final recommendations at the April 2014 IESBA meeting.

#### CLARITY OF LANGUAGE

IESBA members broadly supported the WG's proposals to increase the clarity of language in the Code by, among other things:

- Reducing the reading grade of the Code
- Developing and using drafting conventions
- Avoiding stock phrases and linguistic nuances
- Using more sub-headings
- Using an editor
- Considering the translatability of exposure drafts (EDs) during drafting

Mr. Thomson explained that the WG's suggestion of a reading level of Grade 15 was established by using the Flesch-Kincaid tool in Word on a random selection of paragraphs in the Code. The WG's informal assessment was that text that achieved a reading grade of 15 or lower appeared more readable whereas text above that level appeared more complex. He emphasized that this was only an informal guideline and not a formal rule. IESBA members suggested that the proposed drafting conventions could already be used on current projects.

The IESBA asked the WG to present its final proposals in this area at the April 2014 IESBA meeting.

#### ELECTRONIC CODE

The WG proposed and the IESBA tentatively supported:

- Exploring immediate enhancements in terms of electronic features if achievable with limited resources;
- Coordinating more extensive electronic features with other changes to the Code's structure; and
- Maintaining the printed version of the Code as the official version for the foreseeable future.

Mr. Holmquist noted that during the November 2013 IFAC Council workshop addressing IESBA developments, there was strong support for the concept of an e-Code. Other IESBA members commented as follows:

- There may be merit in consulting with relevant IFAC personnel to determine whether to take a coordinated IFAC approach to the introduction of enhanced electronic features to pronouncements published on the IFAC website.

- Consideration should be given to the extent to which and how electronic features and formatting would be reflected in the printed version of the Code.
- Consideration should be given to introducing electronic features in stages to minimize the strain on resources.

#### REPACKAGING

The WG proposed and the IESBA tentatively supported:

- Repackaging in conjunction with an electronic Code; and
- ~~Moving independence into a separate area within the Code provided it is clearly a subset, and linked to the rest, of the Code; and~~
- Considering whether to rename the Code and/or the independence standards to raise their profile and enhance the brand.

IESBA members commented as follows:

- Although some stakeholders are only interested in certain segments of the Code, IFAC member bodies' obligations under IFAC's Statement of Membership Obligations (SMO) 4<sup>2</sup> are with respect to the Code in its entirety.
- The connection between independence and ethics should not be lost in any restructuring.
- Consideration should be given to reducing repetition in the independence sections of the Code.
- Consideration should be given to moving Part C, as applicable to all members, ahead of Part B (which is only applicable to professional accountants in public practice).
- Presentation of independence standards at the end of the Code may warrant consideration.

#### COMPLEMENTARY MATERIAL

The WG proposed and the IESBA tentatively supported:

- Addressing the matter of complementary material after restructuring the Code as the restructuring may eliminate the need for some material; and
- Considering working with others to develop material or taking advantage of existing material already developed by others.

An IESBA member commented that while complementary material may be beneficial, there is a risk that it takes on a level of authority on its own. In this regard, Mr. Sylph noted that he has been charged with reviewing the terms of reference of the standard-setting boards supported by IFAC and, in particular, whether the boards' mandate is to develop authoritative pronouncements or non-authoritative material. It was suggested that staff monitor the developments within IFAC in this regard.

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<sup>2</sup> SMO 4, *IESBA Code of Ethics for Professional Accountants*



Mr. Koktvedgaard noted that the International Accounting Education Standards Board (IAESB) is planning to develop guidance regarding the application of the Code, a training kit on ethics education to be used as a teaching tool. Accordingly, he suggested that consideration be given to liaison with the IAESB.

#### ILLUSTRATIVE EXAMPLES

IESBA members tentatively supported the general approach taken in the illustrative examples of certain restructured sections of the Code, subject to the comments noted above. In particular, there was some support for the proposed flow of each section, i.e., comply with the conceptual framework; set out specific threats and safeguards; and set out those areas where the threat is so great that a prohibition would be appropriate. There was also support for a short statement of purpose at the beginning of each section.

Among other matters, IESBA members commented as follows:

- The current style of the Code is quasi-legal, which is not helpful; in contrast, the examples seem to be a helpful improvement in terms of clarity.
- The explicit assignment of responsibility to the firm where this was not previously clear does not appear to have made any significant difference in terms of making the Code more enforceable. However, in other places the suggested changes may have potentially altered the intended meaning of the Code.
- The board discussion about instances of potentially altered meaning in the illustrative examples as a result of assigning responsibility highlights the need to better understand the nature of the regulatory concerns regarding enforceability. In this regard, Mr. Holmquist noted that this question could be raised with the European Audit Inspection Group, which has suggested that it could explore setting up a working group to discuss the Code's enforceability with the IESBA.
- Care should be taken in focusing only on the independence section as it was revised only four years ago.

In considering whether to develop further examples, the Board noted that the larger firms integrate the Code into their policies and procedures and it is necessary that they find the independence section workable and support it. Expressing support for the direction of the proposals, an IESBA member from a large firm thought that integration into firm policies and procedures should not be a problem if the changes do not alter the meaning. However, it was noted that significant changes had been made to the examples and checking every sentence in Section 290 for changes in meaning would represent a significant amount of work.

Mr. Koktvedgaard suggested that the Board agree on the drafting conventions at the April 2014 IESBA meeting so that these could be applied to projects currently in progress or new projects.

#### WAY FORWARD

The IESBA asked the WG to:

- Refine the WG's preliminary recommendations and the illustrative examples to reflect the input received and develop additional examples. Additional examples should include segments of Part A and Part B (other than those sections currently being revised by other task forces), in addition to independence, but not Part C.

- Consider meeting with Board members from the larger firms to obtain further input from them regarding the implementation of a restructured independence section within their policies and procedures.
- Meet with other selected stakeholders to discuss the recommendations and examples.
- Present at the April 2014 IESBA meeting the WG's final report, including proposals for the way forward, and a project proposal addressing the restructuring of the Code.

### 3. **Proposed Strategy and Work Plan, 2014-2018**

Mr. Holmquist introduced the topic, noting a concern that the PIOB had recently raised that the Board had not formally consulted on the addition of the Part C, NAS, Long Association and Structure of the Code work streams to its agenda in 2012. Taking into account input from the PIOB, he outlined a way forward that would include the Board seeking, as part of its consultation on the proposed SWP, confirmation as to whether or not respondents support the four work streams. The aim would then be to have the Board approve the final SWP incorporating those four work streams at the July 2014 IESBA meeting, in time for the PIOB to consider due process for the SWP at its September 2014 meeting.

Mr. Holmquist noted that he had also discussed the need for flexibility within the SWP with the PIOB. The PIOB had indicated that it would be willing to accept small changes to the SWP without requiring formal consultation, subject to the particular circumstances and degree of urgency. He noted, however, that the PIOB would like to be consulted on major changes.

Mr. Holmquist highlighted a suggestion from the PIOB staff that the Board consider taking an approach similar to the IAASB, which is proposing a five-year overarching strategy for 2015-2019 and a two-year work plan. The IAASB's intention is that mid-stream (around 2017) it would review the work plan and, if appropriate, develop a revised work plan for the remaining period. Mr. Holmquist indicated that he did not support exploring this approach as the changes that could arise therefrom could result in an undue delay in the issuance of the SWP consultation paper, potentially in turn delaying the Board's future work program. Nevertheless, he suggested that this could be an option the Board could consider in the future.

Mr. Kocktvedgaard suggested that the Board could still reconsider the work plan at the 2016 mark given that the new work streams were not scheduled to start before then. Mr. Holmquist highlighted the general principle about flexibility, noting that the Board would reconsider the work plan should circumstances warrant its doing so in the future.

Mr. Siong summarized the comments received from the IFAC SMP committee on the proposed SWP. He then led the Board through the main changes proposed to the document since the September 2013 IESBA meeting.

In addition to editorial changes, matters raised by various IESBA members included the following:

- In response to a question as to which stakeholders were recommending the fee dependency work stream, Mr. Siong advised the Board that it was a recommendation from the International Organization of Securities Commissions (IOSCO). Mr. Holmquist added that IOSCO consists of numerous bodies. He noted that previously when only a few of those bodies had recommended a project, IOSCO would indicate as such. In this case, IOSCO had not given such an indication.<sup>57</sup> ~~hence he assumed a large number of bodies within IOSCO supported its prioritization.~~
- The title "fee dependency" appeared somewhat misleading as the proposed work stream would address such matters as fee caps. In addition, it was suggested that a fee dependency project

should be subject to a needs analysis. Mr. Siong noted that the SWP is proposing a work stream to review whether it is in the public interest to undertake a project on this topic and, if so, what its scope should be. He added that it would be necessary for the Board to approve a project proposal before a project is started.

- There should be recognition upfront that the SWP is dynamic.
- The prioritization of the new work streams should not be determined at this stage but rather at the appropriate time. It was, however, noted that the SWP incorporates a range of priorities and it is at best an estimate. It was suggested that respondents' views thereon be sought. Mr. Holmquist noted that the precise start and end dates of projects should be set by the Planning Committee rather than the Board.
- The indicative Long Association timeline could be shortened as it seemed too long.
- It must be clear when a project begins because projects can appear to be long with little acknowledgement of the research performed prior to the commencement of the project. Long Association is an example of a project for which research had been performed prior to commencement and as a result the exact start date of the project was unclear.
- The timing of the work stream on collective investment vehicles (CIVs) should take into consideration the implementation of IFRS 9,<sup>3</sup> which has been postponed to 2016, otherwise a project on CIVs could be concluded before that standard is implemented.
- ~~It was disappointing that the proposed SWP did not include a proposal to provide guidance on the meaning of the public interest as it relates to the Code. There could be merit for the SWP to consider a project to provide guidance on the responsibility of a professional accountant to act in the public interest. It may be easier to develop such guidance rather than to define the public interest itself, since there may be differing views as to the precise definition of the public interest and whether the requirement to act in the public interest is an absolute for all professional accountants or only applicable to accountants acting in specific roles.~~ Mr. Holmquist ~~highlighted the general Board sentiment felt~~ that a project ~~in this regard on this topic~~ could result in protracted discussions with no significant benefits.

Mr. Koktvedgaard noted the following points:

- It should be made clear whether audit quality would be a new work stream or whether it would crowd out other projects. In this regard, Mr. Siong noted that the proposals in the SWP were based on the resources currently available to the Board.
- Consideration should be given to how to improve communication with investors to enhance their awareness and understanding of the Code. He suggested that short publications, such as the one-page summary the Board has issued summarizing the Code's key prohibitions concerning independence with respect to public interest entities (PIEs), could be developed for this purpose even before the work on restructuring the Code is completed.

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<sup>3</sup> IFRS 9, *Financial Instruments*

- There is a need for success criteria to allow an evaluation of the degree of success in achieving the priorities set out in the SWP in 2018.
- Consideration should be given to post-implementation reviews to enable the Board to assess whether new standards are meeting their intended objectives.

Mr. Dairaku expressed the view that due to expectations that accountants serve the public interest by delivering quality audits, the audit quality work stream warranted a greater priority and more resources allocated to it. In this regard, he noted that the Audit Quality Framework being developed by the IAASB is important. Mr. Sylph commented that the Audit Quality Framework, which is non-authoritative, would provide only an indication of how audit quality could be improved and should not be interpreted as a solution to improving audit quality. He suggested that consideration be given to obtaining the views of other stakeholders (notably regulators leveraging their inspections work) on how to improve audit quality, as without this additional feedback the Board would essentially be making a guess as to how to improve audit quality. He believed that there are other players who can contribute to audit quality. He also suggested reconsidering the wording in the proposed SWP to avoid any suggestion that the Board would be certain to take action on audit quality.

#### PIOB OBSERVER'S REMARKS

Mr. Bhavé raised a concern that the work streams in the proposed SWP did not have end dates. He highlighted the PIOB's view that the SWP would not appropriately serve its purpose without this information. Accordingly, he encouraged the Board to include the information even if predicting the timing of completion of projects at such an early stage is difficult and even if the end dates had to be changed in the future. However, he agreed that the SWP should emphasize the principle of flexibility and that the Board could revisit the work plan if deemed necessary in the circumstances. Mr. Holmquist concurred.

#### APPROVAL

After agreeing all necessary changes to the document, the IESBA approved the proposed SWP for issuance as a consultation paper with 16 affirmative votes out of the 16 IESBA members present. The IESBA set a minimum of 60 days for comments on the consultation paper, with a closing date of February 28, 2014.

#### NEXT STEP

The IESBA will consider significant comments from respondents to the consultation paper at its April 2014 meeting.

#### 4. **Review of Part C of the Code**

Mr. Gaa introduced the topic, outlining the issues and Task Force proposals for the Board's consideration. He then led a discussion of the issues and proposed changes to Part C of the Code.

#### APPLICABILITY OF THE CONCEPTUAL FRAMEWORK IN THE CODE TO PROPOSED SECTION 370<sup>4</sup>

At the September 2013 Board meeting, a few IESBA members had questioned whether it would be appropriate to use the construct of “safeguards” in the proposed Section 370. They were of the view that it would be difficult to apply a threats and safeguards approach to circumstances of pressure because the professional accountant in business (PAIB) may not be the source of the pressure and therefore not in control of the situation. It was suggested, instead, that Section 370 would be more helpful to PAIBs if it concentrated on practical guidance rather than conforming to the conceptual framework. Having further considered the matter, the Task Force was of the view that the safeguards in proposed Section 370 would be consistent with the examples of safeguards in Part B of the Code and consistent with the description of a safeguard in Part A of the Code.

One of the IESBA members who had questioned the Task Force’s approach during the September discussion clarified that her concern was not about the applicability of the conceptual framework to PAIBs. Rather, the IESBA member felt that there are no effective safeguards to address pressure, only actions to ensure that the PAIB remains objective and complies with the other fundamental ethical principles when under pressure. The IESBA member also felt that an ineffective safeguard is not a safeguard, and in that respect it was argued that consulting with others cannot reduce the threats created by pressure to an acceptable level. A few IESBA members agreed, noting that while seeking help from others is beneficial and should be part of the guidance, it is unlikely that this would solve the problem or eliminate the pressure. It was therefore felt that safeguards might not be the right descriptor. It was also felt that consulting with others may not in itself be sufficiently robust to address pressure and there is a need to consider alternatives that would work in the majority of cases to address the threats created by pressure.

A few IESBA members, however, expressed the view that consulting with others can be a strong safeguard. In particular, if the organization has a code of conduct and the PAIB is able to consult with, and is accountable to, someone else in the organization, this may help resolve the PAIB’s doubts and increase his or her confidence in resisting the pressure. Accordingly, it was felt that consultation with others can be an effective way of dealing with pressure, especially if the one who is exerting the pressure knows that this avenue is available to the PAIB. However, it was acknowledged that how effective consultation is in addressing the issue will depend on the individual PAIB and his or her employing organization and its culture.

An IESBA member commented that the focus should be more on how to provide guidance to PAIBs, recognizing that the usual safeguards that are in Part B of the Code may not be as effective for PAIBs as individuals compared with professional accountants in public practice (PAPPs) who have a greater range of options available to them in the context of their operating within engagement teams. Another IESBA member was of the view that questions regarding the effectiveness of consultation (including seeking legal advice) in resolving an issue arise equally in other parts of the Code. Accordingly, it was suggested that retaining the construct of threats and safeguards in this proposed Section would not be inconsistent with the rest of the Code. An IESBA member noted that the topic of responding to pressure has some parallels with responding to non-compliance with laws and regulations (NOCLAR), and that the proposed guidance with respect to PAIBs under the NOCLAR project does not use the “safeguards” terminology but

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<sup>4</sup> Proposed Section 370, *Pressure to Engage in Unethical or Illegal Acts*

rather focuses on actions PAIBs may take in responding to NOCLAR. Accordingly, it was suggested that the terminology not create unnecessary confusion. A few other IESBA members agreed, noting that notwithstanding the fact that there are other places in the Code that do not use the threats and safeguards terminology, the Code ultimately rests on the conceptual framework.

After further deliberation, a majority of IESBA members expressed no strong views on the terminology to be used in proposed Section 370. In addition, the Task Force was asked to consider the following further matters:

- A significance test appears to be missing, as the safeguards only become relevant when the threats are evaluated to be significant.
- The need for guidance regarding the PAIB's options when there are no adequate safeguards to address the threats, as it appears then that the only other course of action under the Code would be to require the PAIB to resign from the employing organization.

#### PREPARATION AND PRESENTATION OF INFORMATION

The Task Force proposed to require the PAIB to prepare or present information completely, fairly and honestly, without bias and in a manner that faithfully represents what the information purports to represent having regard to the purpose for which the information is to be used, the context in which it is provided and the audience to whom it is addressed. A number of IESBA members expressed various concerns about the proposed requirement that the information be prepared or presented "without bias:"

- This may not necessarily be an appropriate standard in all cases, and it may be going too far for internal information that is not intended for public consumption.
- PAIBs may find it difficult to interpret what "without bias" means, as there could be legitimate bias in the preparation or presentation of information. For example, internal information may be skewed for a particular purpose, such as to incentivize employees to achieve results. In this regard, it was suggested that internal information could be subject to different principles than external information.
- Even with respect to external information, it may not be entirely clear how one would interpret the concept of "without bias," for example, in relation to sensitivity analyses which may usefully produce a range of possible outcomes for further consideration.
- The practical reality is that there is always inherent bias in some decisions, especially those involving judgment, for example, valuation models for financial instruments or provisions for doubtful debts. In this regard, it was suggested that the difficulty may be one of wording and it may be better to consider approaching the issue from the perspective of preparing or presenting the information objectively. However, it was acknowledged that this may not make much difference from a practical standpoint if the standard is already one couched in terms of "fairly and honestly."
- The proposed wording appears tautological as there seems to be no clear distinction between "without bias" and "fairly and honestly."

A few IESBA members also questioned the addition of the word "completely," believing that it added little. It was also felt that the concept of completeness needed a fuller explanation as it was unclear with reference to which particular party's needs the information was being prepared or presented. For instance, information submitted to tax authorities may not be complete in the sense of being general purposes financial statements, but it may nevertheless be considered complete for their purposes.

Another IESBA member, however, was supportive of the concept of completeness on the grounds that this connotes not making omissions that are material and relevant.

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

- With respect to the proposed requirement that the PAIB be satisfied that the work of others also fulfills the PAIB's obligations regarding the preparation or presentation of information where the PAIB relies on their work, consideration should be given to incorporating the concept of "reasonable steps" within this requirement to avoid setting an absolute standard.
- A PAIB may not have the authority to ensure that any misleading information for which they have responsibility is corrected. However, the requirement to correct the information "where possible" when the PAIB becomes aware that it is misleading should be changed to at least require reporting to the next higher level of authority, or "to take reasonable steps" to have it corrected.
- The proposed requirement that the PAIB be satisfied that management information and reports are prepared and presented in accordance with the fundamental principles should be reconsidered as in circumstances where others have been involved in the preparation of such information, it would be difficult to establish that they have complied with the fundamental principles in doing so.
- The distinction between special purpose and general purpose financial statements is marginal and the paragraphs dealing with them could be merged.

The IESBA asked the Task Force to reconsider the proposals in the light of the above input.

#### MISLEADING INFORMATION

The Task Force proposed to require a PAIB not to prepare, alter or present information in a manner that is intended to deceive or mislead; misrepresent the underlying economic performance of the employing organization; or inappropriately influence decisions, or contractual or regulatory outcomes that depend on the reported information. The Task Force also proposed to require the PAIB not to prepare or report information that misrepresents what it purports to represent, notwithstanding that the information is in accordance with the applicable financial reporting framework.

IESBA members expressed various concerns with these proposals:

- Whether something is misleading is in the eye of the beholder, which creates a subjective bar. For example, a company may have timed a sale to cover up a downward profit trend. It was questioned whether the accounting of such a transaction would be considered misleading if it merely reflected what had already occurred.
- The proposals appear to set a higher bar than financial reporting frameworks. In particular, IFRSs have a true and fair override which would preclude the situation contemplated by the second proposed requirement. It was argued that this requirement would not be enforceable. It was also argued that this particular proposal could impede prudent accounting as PAIBs could be accused of preparing misleading information, and therefore breaching the Code, if hindsight proves that their prior judgments were excessively prudent.
- The true and fair override in IFRSs is set at a very high bar and the proposals appear to suggest that one could call on this override more frequently than should be the case.

- The proposals appear overly prescriptive in the context of the overall objective of the project to provide guidance to PAIBs.
- Conceptually, it is difficult to see how a set of financial statements that complies with the applicable financial reporting framework could be misleading. In this regard, it was suggested that if the Task Force were to proceed as it is proposing, a line of discussion with the International Accounting Standards Board (IASB) should be opened up as the proposals encroach on the IASB's mandate. Nevertheless, it was acknowledged that there are ethical aspects to the issues that need to be considered.

An IESBA member highlighted the importance of providing helpful guidance in this area to enable PAIBs to make appropriate choices. In this regard, it was suggested that consideration be given to approaching the issues in a more positive tone, consistent with the aim of providing PAIBs with helpful guidance in dealing with what may be challenging situations, rather than the proposed approach of establishing strict prohibitions.

Mr. Gaa stated that financial statements could misrepresent the entity's financial position, results and cash flows if they are prepared in accordance with the applicable financial reporting framework, and believed that the Code should not remain silent on this issue. He was of the view that the Code should recognize that a "middle ground" exists where discretion in financial reporting could lead to misleading financial statements even if they are in compliance with the applicable financial reporting framework. In this regard, he highlighted the fact the regulators in some jurisdictions have in the past taken disciplinary action where they had identified audited financial statements that they had concluded misrepresented the entity's financial affairs.

#### WAY FORWARD

The IESBA asked the Task Force to reflect on the comments from the Board and present revised proposals for consideration at the April 2014 Board meeting.

#### 5. **Presentation on Behavioral Ethics**

Mr. Holmquist welcomed Prof. Robert Prentice, Associate Chairman in the Business, Government and Society Department at the McCombs School of Business, University of Texas, for a presentation on biases, the role of codes of ethics in the context of the psychology of moral cognition and the related implications for the Board's work.

Prof. Prentice introduced his presentation, noting how difficult it is to be ethical all the time. Among other matters, he outlined:

- How psychological factors that can impact decisions, even when people believe themselves to be objective.
- How people frequently act unethically, although usually in minor ways.
- How judgment can be influenced by the local environment and situational factors, and by incentives.
- The role of the "fundamental attribution error," which underweights factors in others and overweighs them in oneself to support one's views.



He also provided examples from the accountancy profession of conflicts of interest caused by self-interest and a desire to please the client. He concluded that codes of conduct are useful because:

- Their existence and the required training can help raise the importance of ethics in an accountant's mind;
- They may reduce conflicts of interest and help prevent people rationalizing their conduct; and
- They hold people accountable.

In response to a question from the Board as to what could be done to improve the Code, Prof. Prentice suggested that the Board focus on self-serving bias and talk about principles.

Mr. Holmquist thanked Prof. Prentice for his informative and lively presentation, and Mr. Gaa for introducing Prof. Prentice to the Board.

#### **6. Responding to Non-Compliance with Laws and Regulations (NOCLAR)**

Mr. Franchini introduced the topic, explaining the main changes to the straw man the Board had considered at the September 2013 meeting and, in particular, the removal of the proposed rebuttable presumption of disclosure of NOCLAR to an appropriate authority.

##### **GENERAL COMMENTS**

In response to an observation from Mr. Bhavé that the proposed NOCLAR text now seemed to contain no requirement to report NOCLAR to an appropriate authority in any circumstances, even when an appropriate legal framework exists that provides protection for the whistle-blower, Mr. Holmquist reported on his recent discussions with stakeholders on the project. He noted that the most important concern for the profession is that if there is no legal protection, any reporting requirement in the Code would not be operable. Consequently, there is a belief that such a requirement should be established in law. He indicated that representatives of the profession had confirmed this view at the November 2013 IFAC Council workshop in which he participated. He noted that in developed economies generally, a reporting requirement already exists in law but not so much in developing or emerging economies, hence the desire among some regulators for a requirement to be established in the Code.

Mr. Holmquist noted, however, that other regulators seemed to accept that the Code cannot impose a requirement in the absence of legal protection. He also highlighted the following regulatory perspectives as needing further Board reflection:

- The final outcome of the project would unlikely be satisfactory if the PA can do whatever he or she wants. Rather, any consideration by a PA to report NOCLAR to an appropriate authority should be seen through a public interest lens, although this does not mean that there should be a presumption of disclosure.
- Documentation is important, especially for auditors.
- Also important is communication between a successor auditor and a predecessor auditor. In this regard, the regulators generally seem to believe that the Canadian model of such communication could work in the Code.
- In a group audit context, findings of NOCLAR in components should be communicated to the group auditor.

- Whether, in widening the scope, the effect of the proposed standard was being diluted.

Mr. Holmquist also highlighted the importance of the Board firming up a position on the NOCLAR text at this meeting as it was time to move the project forward. Given the complexity and sensitivity of the issues, he suggested that the Board seek stakeholder views on this indicative position through a series of global roundtables before releasing a re-ED.

In broadly supporting the direction of the Task Force's revised proposals, IESBA members commented as follows, among other matters:

- While legal protection may exist in some countries, it may not work effectively in practice. Accordingly, there is no guarantee of adequate legal protection for the whistle-blower. The regulatory community should therefore be encouraged to enhance the effectiveness of the legal and regulatory framework.
- It is important that reporting of NOCLAR by auditors is credible and not cover all instances of NOCLAR in respect of which auditors are not knowledgeable.
- The reason for the wider scope is because reporting is subject to the PA's discretion and not to a requirement. For example, if the PA becomes aware of a matter which is not directly related to the PA's service the PA should be free to disclose the matter if the PA believes that disclosure would be in the public interest.
- Legislators and regulators should provide legal protection if they wish to see whistle-blowers come forward with information regarding NOCLAR.

The IESBA also broadly supported holding roundtables in Q2 2014 prior to consideration of a possible re-ED in Q4 2014. Mr. Koktvedgaard expressed his support for the roundtables.

Mr. Dairaku expressed the view that auditors of PIEs have a higher responsibility for the public interest than other PAs and should be required to report NOCLAR if material and there is legal protection. He also expressed a preference for the alternative of not referring to the public interest as set out in the issues paper in the context of Section 360.<sup>5</sup>

#### MATERIALITY FILTERS

The Task Force proposed that when the PA becomes aware of information concerning a potential non-compliance, the PA should seek to obtain an understanding of the matter provided it is *other than clearly inconsequential*. The Task Force also proposed that with respect to understanding what actions the client, its management or those charged with governance (TCWG) plan to take to address the matter and evaluating their response, the threshold should be raised to matters that could have *significant consequences for the client or others*.

A few IESBA members expressed concern that the initial threshold of "not clearly inconsequential" seemed too low and could potentially imply a significant amount of work for the PA, even if the client ultimately decides not to address the matter, including reporting it to an appropriate authority. It was argued that a higher threshold was needed. Task Force members, however, explained that at the early

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<sup>5</sup> Proposed Section 360, *Responding to Non-Compliance with Laws and Regulations*

stage of the process, it would be difficult for the PA to determine the significance of the matter, and therefore whether or not it is inconsequential, without first carrying out the steps to understand the matter. It was also explained that the approach parallels that taken in ISA 250,<sup>6</sup> which requires the auditor to communicate to TCWG matters involving non-compliance other than when those matters are clearly inconsequential.

After further deliberation, the IESBA supported the Task Force's proposed approach to the materiality filters.

#### CONTRACTUAL DUTY OF CONFIDENTIALITY

An IESBA member questioned whether a contractual duty of confidentiality would preclude reporting of NOCLAR to an appropriate authority. In this regard, another IESBA member suggested the need to consider whether the PA should be alerted that it may be wise to consider including a suitable clause in the engagement letter with the client or employment contract with the employer to highlight the fact that under the PA's code of ethics, such confidentiality can be overridden in some circumstances.

An IESBA member, however, disagreed, noting that all the Code can do is state that the PA would be deemed not to have breached confidentiality in those circumstances. It was noted that if a PA were to decide to go ahead and report NOCLAR to an appropriate authority in the public interest, the PA would likely breach a range of contractual obligations and potentially other obligations under law. It was argued that the legal advice the PA is encouraged to obtain would likely highlight all the reasons why the PA should not report from a legal standpoint. Mr. Franchini noted that he believes it not uncommon that engagement letters contain clauses requiring confidentiality except in situations specified by law or under professional standards. He noted that in jurisdictions where there is a fair judicial process, most courts of law will rule in favor of the whistle-blower where there is a public interest in disclosure and provided he or she acted in good faith. The IESBA asked the Task Force to reflect on the comments further.

#### REFERENCE TO WHISTLE-BLOWING PROTECTION

The Task Force proposed to recognize that the existence of whistle-blowing protection from civil or criminal liability may be a factor to consider in deciding whether to report NOCLAR to an appropriate authority. The Task Force asked for the Board's views as to whether it would be better to delete this reference to protective mechanisms altogether to avoid giving the impression that the absence of such mechanisms would inappropriately deter the PA from reporting.

Some IESBA members expressed the view that such a reference would not be self-serving as it is in the public interest for there to be legal protection if PAs are to disclose NOCLAR. It was argued that this reference would help to highlight that there are risks to PAs in stepping forward with disclosure. It was, however, suggested that in addition to mentioning protection from civil or criminal liability, consideration should be given to referring to protection from retaliation for employees. It was also suggested that consideration be given to referring to the effectiveness of the protection.

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<sup>6</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

### *PIOB Observer's Remarks*

Mr. Bhavé asked the Board to reflect on whether referring to protection from retaliation would have the effect of dissuading PAs from reporting NOCLAR to an appropriate authority.

### REFERENCE TO THE PUBLIC INTEREST

With respect to Section 225,<sup>7</sup> the Task Force proposed that where there are no legal or regulatory provisions governing the reporting of NOCLAR to an appropriate authority, the PA be required to determine whether such reporting would nevertheless be in the public interest provided that it would not be contrary to law or regulation. The Task Force also proposed that in determining whether reporting would be in the public interest, the PA evaluate the gravity of the matter in terms of consequences to those potentially affected by the matter. IESBA members supported making the determination to report subject to an evaluation of the gravity of the matter but asked the Task Force to consider making a more general reference to the public interest to remind PAs of the importance of their responsibility to act in the public interest. This would also be consistent with the view of some regulators that the reporting issue should be viewed through a public interest lens.

With respect to Section 360, the Task Force proposed that the PAIB's consideration of whether to report NOCLAR to an appropriate authority *not* include consideration of the public interest on the grounds that it would be unreasonable for the Code to expect an individual PAIB alone to be able to consider such matter. Other IESBA members, however, did not support leaving out consideration of the public interest for PAIBs. It was argued that the consideration is an implicit part of the evaluation of the gravity of the matter and a PA in public practice may face the same difficulty in considering the public interest as a PAIB. It was observed that such a differential approach may give the impression that there is a different meaning of the public interest for PAIBs. Further, it was noted that all PAs already have a responsibility to act in the public interest under the Code.

After further deliberation, a majority of the IESBA supported making consideration of the public interest consistent in both sections.

Ms. Tsahuridu noted that research indicates that those who do blow the whistle feel they have no choice. They also do understand what is in the public interest and feel a moral obligation to blow the whistle. She commented that retaliation would not stop them in this regard.

### COMMUNICATION BETWEEN SUCCESSOR AND PREDECESSOR AUDITORS

The Task Force proposed that Section 210<sup>8</sup> be amended to:

- Require in the case of an audit of financial statements that a proposed PA request the existing PA to provide known information regarding any facts or circumstances that, in the existing PA's opinion, the proposed PA needs to be aware of before deciding whether to accept the engagement; and

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<sup>7</sup> Proposed Section 225, *Responding to Non-Compliance with Laws and Regulations*

<sup>8</sup> Section 210, *Professional Appointment*

- If the client fails or refuses to grant the existing PA permission to discuss the client's affairs with the proposed PA, require the existing PA to report this fact to the proposed PA; and require the proposed PA to then carefully consider the reason for such failure or refusal when determining whether or not to accept the appointment.

In supporting the Task Force's proposals, the IESBA also agreed that Section 210 should contain a further requirement for the existing PA to communicate with the proposed PA if the client has consented to such communication. This is to address the possibility of the existing PA choosing not to cooperate with the proposed PA even if the client has given consent.

#### DOCUMENTATION

The IESBA supported the Task Force's proposed guidance to highlight the importance of careful and thoughtful documentation given that any documentation the PA prepares can be subject to legal discovery. The IESBA also agreed that the encouragement for documentation should be directed at matters that could have significant consequences for the client or others in order to avoid suggesting that the Code would encourage documentation for inconsequential matters. The IESBA also asked staff to highlight in the explanatory memorandum to the re-ED in due course that a documentation requirement for auditors already exists under the ISAs.

#### OTHER MATTERS

An IESBA member suggested that consideration be given to whether guidance is needed to address the circumstance where the response from management or TCWG is untimely, a situation that may arise in smaller entities with limited resources. Mr. Franchini noted that this would already be dealt with under the requirement for the PA to evaluate whether the client, its management or TCWG have *appropriately* addressed the matter.

With respect to the earlier suggestion in the context of group audits that findings of NOCLAR in components be communicated to the group auditor, Mr. Franchini noted that this would be addressed under the requirement for the PA to consider the PA's responsibilities under auditing standards.

In addition to structural and editorial comments, the IESBA agreed the following:

- For consistency with the ISAs, the reference to potential non-compliance should be amended to non-compliance or suspected non-compliance.
- To be more consistent with whistle-blowing legislation, the terminology used in the proposals should refer to *reporting* in the context of legal or regulatory requirements but otherwise to *disclosure*.
- The Task Force's proposal to replace the phrase "permitted to override the duty of confidentiality" with "would not be a breach of the duty of confidentiality" is appropriate.
- With respect to the illustration of consequences to those potentially affected by NOCLAR, consideration should be given to referring to potential investors in addition to investors.

#### WAY FORWARD

After considering all necessary changes to the document, the IESBA agreed the proposed NOCLAR text for purposes of further stakeholder consultation through three roundtables to be held in Asia Pacific in May, Europe in June and North America in July 2014. The IESBA agreed that the next discussion of the

project would be at the October 2014 Board meeting, after all the input from the roundtables has been analyzed.

## 7. Long Association

Ms. Orbea introduced the topic. Among other matters, she recapped the main outcomes of the September 2013 Board discussion on the topic and the main comments received from the CAG at its October 2013 teleconference. She then outlined the Task Force's proposals.

### OVERALL FRAMEWORK OF PRINCIPLES ADDRESSING LONG ASSOCIATION

In generally supporting the proposed enhancements to the framework of principles addressing long association, IESBA members made various comments and suggestions for the Task Force's further consideration in refining the framework, including the following:

- The first sentence of the proposed revised paragraph 290.150 appears to start on the wrong note and it would better to indicate that while familiarity creates threats, knowledge of the entity's business, its operations and its environment is fundamental ~~may be beneficial~~ to audit quality.
- Consideration should be given to recognizing the size of the audit fee from the client relative to the key audit partner's (KAP's) fee base as a factor in evaluating the significance of a self-interest ~~the~~ threats.
- Consideration should be given to clarifying the scope of the principle that familiarity threats may be created as a result of an individual's long association with senior management and TCWG. For example, the individual may have developed a strong personal relationship with members of management in their other roles with other entities, for instance, as members of TCWG of ~~those~~ other entities.
- Clarity is needed as to why the enhanced framework refers to "senior management" as opposed to simply "management," as these terms are undefined in the Code.
- The use of the term "individual" as opposed to "professional accountant" should be reconsidered as the term "individual" can be ambiguous in some instances.
- In relation to factors that influence the significance of the threats:
  - The term "closeness" should be reconsidered as it may suggest more than a professional relationship. It was, however, suggested that closeness of relationship can be an issue in practice as it may inhibit frank communication between the KAP and management, especially if that relationship has developed to become more personal.
  - The overall length of ~~the~~ an individual's relationship with the client should be clarified as a factor, as the length of the firm's relationship with the client does not affect the evaluation of the individual's familiarity with the client.
- The proposed examples of self-interest threats should be reviewed for greater clarity, as it was unclear how a desire to maintain a close relationship with management might create such a threat.
- In relation to the factors relating to the client that influence the significance of the threats:
  - It should not matter whether or not the client is a PIE from the standpoint of the significance of the threats.

- Consideration should be given to clarifying the proposed factors “nature of the business” and “complexity of financial reporting issues,” as these appear to be factors that may support not rotating the individual as opposed to factors that create threats.
- When the firm chooses to apply rotation as a safeguard ~~C~~consideration should be given to aligning the suggested minimum cooling-off period of one year ~~for audits of non-PIEs (where rotation is applied as a safeguard by the firm)~~ to the proposed three years requirement for audits of PIEs for consistency, especially if three years are being argued as necessary for a fresh look for audits of PIEs. It was also felt that it would be difficult to envisage the new incumbent maximizing audit quality if he or she knew that he or she would be required on the audit for only one year. It was, however, noted that the proposed one year was a minimum which could apply to many engagement team roles and situations and it could be longer. In addition, it would be feasible that the new incumbent would remain in place for longer than the suggested minimum rotation period.

#### INVOLVEMENT OF TCWG

Pursuant to the September 2013 Board discussion, the Task Force had considered whether guidance on communication between the firm and TCWG in this area needed to be improved. The Task Force had concluded that additional provisions regarding communication would not be required, except that where the general rotation requirement for PIE audits has not been complied with when, there ~~cs~~should be a new requirement for the firm to discuss with TCWG why the planned rotation cannot take place and the need for any safeguard to reduce any threats created.

IESBA members commented as follows:

- In an IPO situation, communication with TCWG becomes especially important as part of forward planning, as the issue of rotation is significant in that context. Often, the IPO timeframe will allow for ample discussion time, which will help avoid emergency situations. While consideration could be given to establishing a communication requirement in such a case, there may also be merit in leaving it to the common sense of the relevant parties.
- If the exemption is linked to the client’s situation, the client’s concurrence should be sought; for example, the client may wish to have a new KAP with the requisite skills and experience to serve it going forward as a PIE.
- The decision-making should not be delegated to TCWG. An alternative could be to consider the approach taken in the Breaches project, where the firm first makes the analysis and then proposes a solution to TCWG for the latter’s concurrence. This would be consistent with the fact that independence is not the sole responsibility of the firm but a responsibility of TCWG as well.

Mr. Koktvedgaard was of the view that communication with TCWG would be important as they may ask the KAP to stay on for a further year to ensure stability, especially in the event of a merger or an IPO. He felt that the current proposal only emphasized firm-specific reasons for an exception.

The IESBA asked the Task Force to further consider the matter in the light of the above input.

#### TIME SERVED BY OTHER PARTNERS AND SENIOR PERSONNEL PRIOR TO BECOMING A KAP

At the September 2013 Board meeting, it was agreed that mandatory rotation should not be required for partners that are not KAPs as well as nor for other senior personnel. The Board had, however, requested the Task Force to consider how time served in these roles should be accounted for when that individual

becomes a KAP. Having reflected on this matter, the Task Force was of the view that it would be preferable to set principles that would require the consideration of time served prior to becoming a KAP when considering familiarity threats, rather than setting a maximum period an individual could serve on becoming a KAP. The IESBA agreed with the Task Force.

#### COOLING-OFF PERIOD APPLICABLE TO AUDITS OF PIEs

Ms. Orbea summarized the various arguments for the different possibilities regarding the cooling-off period before presenting the Task Force's suggestion of a three-year period combined with additional restrictions on permissible activities during cooling-off.

The IESBA considered whether in practice a rotated individual would return after being rotated. It was noted that the experience in some jurisdictions has been that once rotated, an individual ~~never does not~~ comes back to the audit. It was, however, noted that this would not always be the case, especially with respect to specialized industries where the number of partners who are specialists is limited, particularly in smaller firms.

IESBA members had various views as to what the most appropriate cooling-off period should be:

- A few IESBA members were of the view that two years would be sufficient to break the nexus to the client and would enable someone else to bring a fresh set of eyes to the audit.
- Some IESBA members expressed support for the Task Force's proposal of three years combined with greater restrictions on permissible activities during cooling-off, noting the need to take into account the practical challenges of limited partner resources in smaller firms (which do undertake large numbers of PIE audits in many jurisdictions, although not the largest and most complex audits), supply constraints regarding specialist resources in smaller jurisdictions, and geographical constraints which may necessitate the relocation of partners to address industry requirements. An IESBA member, however, expressed concern about the lack of a clear rationale for a marginal extension to three years, especially given the potential for this to create new complexity for firms in managing different rotation requirements around the world. It was suggested that it would be more important to focus on what the rotated individual could not do in the cooling-off period.
- Other IESBA members felt that three years were too short to give a sense of proper cooling-off and genuine rotation. It was acknowledged that there is a real perception issue that a two year cooling-off period is insufficient. A few IESBA members were of the view that it would not be appropriate to maintain the status quo if stakeholders are to continue to trust in the profession's independence and if the Code is to continue to be credible. In this regard, an IESBA member felt that the Board has an opportunity to provide real thought leadership on this issue. A few IESBA members suggested that five years for at least the lead audit engagement partner would give a more concrete sense of rotation and "fresh look," ~~recognizing that the longer a KAP has been associated with the client the more difficult it becomes for him or her to challenge management on difficult issues.~~ Nonetheless, it was acknowledged that a cooling off of five years would have commercial implications for firms.

Mr. Koltvedgaard noted that perception is one of the key elements to be considered, even if two years are felt to be sufficient. He noted that CAG representatives had not explicitly asked for the two-year cooling-off period to be retained, although three years were acceptable to some of them. He also emphasized the resource constraints in smaller economies and suggested that consideration be given to



allowing rotated KAPs to come back to the audit in limited capacities, such as providing specialist advice on IFRS issues.

A few IESBA members suggested balancing the impact of extending the cooling off period by considering bifurcating the cooling-off period for the lead audit engagement partner (LAEP) and potentially the engagement quality control reviewer (EQCR). ~~A few IESBA members also suggested that if such an extended period applied, that some of the impermissible activities being recommended by the TF might be allowed after a shorter amount of time than five years.)~~ ~~to alleviate the potential strain on firms resources if a five-year requirement were to be applied to all KAPs.~~ Further it was suggested that if such an extended period applied, that some relation of impermissible activities might be allowed after the end of the second year; ~~t~~This would then allow the opportunity for specialists to be consulted on new issues in which they have not had any previous involvement. It was felt that it would be unreasonable to deprive the audit team of the benefit of the expertise of such specialists for a very long period when the client's business could have changed significantly after just a few years.

Other IESBA members expressed caution~~ed~~ with this option, citing the additional complications that would result from bifurcating cooling-off periods among different types of KAP, especially for smaller firms and firms operating in smaller jurisdictions. Related questions were raised, notably the length of the cooling-off period for other KAPs if the LAEP and EQCR were on five years cooling-off. IESBA members were again split on this with some suggesting two years and others three. In addition, it would be necessary to consider when the five years cooling off would come into effect if the KAP becomes a LAEP or EQCR mid-way through his or her time-on period.

~~After further deliberation, IESBA members took an informal poll, with eight expressing support for a five-year cooling-off period for LAEPs and EQCRs and a two-year cooling-off period for other KAPs; seven expressing support for a three-year cooling-off period for all KAPs; and one expressing support for a five-year cooling-off period for all KAPs.~~

After further deliberation, Board members took an informal poll on two options of three year or five year cooling-off periods, with nine expressing support for a five year cooling-off period but only for LAEPs and EQCRs, with a two or three year cooling-off period for other-KAPs, and seven Board members supporting a three year cooling-off period for all KAPs, as per the Task Force recommendations. Based on the results of the informal poll, the Board requested that the Task Force consider an alternative to its proposal, namely whether a five year cooling-off period could be applicable to LAEPs and EQCRs and if so, what requirements would apply to other KAPs.

The Task Force was also asked to consider the following additional matters:

- ~~• Who the incoming KAP is, as this individual may have been a senior manager on the engagement for a long period before becoming a KAP. It was noted that for the rotation to bring real fresh eyes to the audit, it would be important for the KAP not to have had any prior involvement in a decision-making capacity in the audit.~~
- Whether the focus should be on the number of audit cycles as opposed to the number of years in specifying the length of the time-on and cooling-off periods.
- Recapping the research when bringing back revised proposals for the Board's consideration.

#### PERMISSIBLE ROLES DURING "COOLING OFF"

IESBA members ~~generally~~ expressed support for the Task Force's proposals that the rotated KAP should not be able to take a role that could influence the outcome of the audit or the new KAP, and generally that

the rotated KAP be permitted to provide non-client specific technical advice on the audit. However, there were differing views as to the nature and extent of permissible roles. A few IESBA members felt that the rotated KAP should keep away from the client to enable the new KAP to bring fresh eyes to the audit and to avoid influencing the new KAP, although ~~occasional~~ *undertaking* generic training sessions *for the client* would be acceptable. Other IESBA members were concerned about a blanket ban on any involvement with the client during the cooling-off period, especially given circumstances where specialist resources are in short supply. It was felt that such a ban would have the potential to adversely affect audit quality. An IESBA member, however, felt that it would be difficult to have a true cooling off if the rotated KAP is consulted as a specialist on an issue that is critical to the audit client. It was argued that if this were the case, the new KAP ~~would~~ *may solely* rely on the former KAP's opinion.

The IESBA asked the Task Force to consider the matter further in the light of these comments.

#### OTHER MATTERS

##### *Recognizing the Public Interest Perspective in Board Agenda Material*

IESBA members noted how the Task Force had highlighted the relevant public interest considerations in this project at the beginning of the issues paper and agreed that this practice should be adopted for all other projects, with the relevant public interest considerations placed under a separate heading.

##### *Interaction with Code Structure Work*

The IESBA asked the Task Force to reflect on how best to coordinate the project with the Code Structure work to ensure a coherent approach to EDs. In particular, it was suggested that the long association project could be ideal for testing the new drafting conventions being developed under the Structure work.

#### WAY FORWARD

The IESBA asked the Task Force to present revised proposals for its consideration at the April 2014 IESBA meeting.

### **8. Non-Assurance Services**

Ms. Gardner introduced the topic, summarizing the Board decisions from the previous meeting and outlining the tentative forward timeline for the project. She then led the Board through the proposed changes to the emergency exception provisions for bookkeeping and taxation services, and the subsections "Management Responsibilities" and "Preparing Accounting Records and Financial Statements" in the Code.

#### EMERGENCY EXCEPTION

Ms. Gardner outlined the factors the Task Force had considered concerning the emergency exceptions. She noted that the terms "emergency" and "unusual situations" are subjective such that it may be difficult to gauge what a reasonable and informed third party may consider. She also noted the Task Force's view that the term "impractical" may not be robust enough to fully describe the extreme conditions intended for the emergency exceptions to be applicable. The Task Force had considered two options: revised wording permitting an emergency exception that is subject to approval of an appropriate third party such as a local regulator; and deletion of the emergency exception provisions entirely. The Task Force was proposing the latter on the following grounds:

- Situations in which the exceptions should be allowable should be so rare and extraordinary that it should not be addressed by the Code but instead by a local regulator;
- Removing the emergency provisions would strengthen the Code by removing the potential for their misuse due to the subjective terms in the extant guidance; and
- The Code would also be strengthened by the fact that if a regulator did allow an emergency provision within a jurisdiction due to a rare and extraordinary event, the firm would have to implement the provisions addressing breaches of the Code which would address threats to independence during performance of ~~prohibited the~~ services that impaired independence in the emergency exception period.

An IESBA member noted that the Australian Code does not allow for emergency exceptions as these are so unusual. It was noted that in practice, there are other ways to address such situations, for example, exceptions temporarily put in place by the US Securities and Exchange Commission ~~pursuant after to~~ the events of September 11, 2001. ~~An The IESBA member, however, expressed a concern about using terms such as "subjective" as the IESBA Code is principles based and subject to judgment. The~~ IESBA member ~~also~~ wondered whether there was evidence of abuse of the emergency exceptions. Ms. Gardner noted that while there is no specific evidence of abuse, the concern is more that the threshold is not as high as it should be and there may be perception that the exception provisions could be abused. The IESBA member also felt that the grounds for the proposal should not be linked to the provisions addressing a breach of a requirement of the Code as this could suggest that it would be acceptable for the firm to breach the Code as long as the breach was communicated to TCWG. It was noted that the breaches provisions deal more with the consequences of a breach.

An IESBA member noted that he knew of no instances of emergency exceptions being used in his firm or other firms except during the September 11, 2001 events when the regulatory response was swift and appropriate. Another IESBA member noted he had come across requests for emergency exceptions to be used in his firm but that these had always been denied.

After further deliberation, the IESBA agreed with the Task Force's proposal but asked the Task Force to reflect further on the linkage to the new Breaches provisions in the Code.

#### MANAGEMENT RESPONSIBILITIES

Ms. Gardner outlined the Task Force's proposal to clarify the subsection entitled "Management Responsibilities," namely rearranging the order of the first three paragraphs to follow that of the guidance of other sections of the Code, most notably, internal audit services; moving the first sentence of extant paragraph 290.163 to paragraph 290.162 as it is descriptive in nature; and deleting the term "significant" from the following sentence as the Task Force believed that management responsibilities, as defined, include all judgments and decisions, not just those that are significant:

However, management responsibilities involve controlling, planning, leading and directing an entity, including making significant judgments and decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.

Ms. Gardner also noted the addition of proposed examples of management responsibilities to the guidance. She highlighted that the Task Force had considered adding an example which would state that custody of client assets is a management responsibility. She indicated that while the majority of the Task Force agreed this was a management responsibility, it was not a unanimous view.

Among other matters, IESBA members raised the following:

- An IESBA member expressed concern with deleting the term “significant” as proposed, noting that the Code makes reference to the term in a number of other places. It was argued that this deletion would mean that even minor judgments when providing routine bookkeeping services (including the preparation of the financial statements) would be included. Another IESBA member agreed, noting that it would not be appropriate to sweep in judgments of an administrative or trivial nature. In this regard, it was felt that the challenge is to distill a principle whereby the auditor would not assume judgments or decisions that should be the proper authority of management. Another IESBA member agreed but also acknowledged the potential for misuse of the guidance as currently drafted.
- A Task Force member wondered if there was an example of making management judgment decisions while providing a bookkeeping service. An IESBA member noted that the preparation of financial statements does include some judgment even though the final product is approved by the client. The Task Force member acknowledged that while there may be judgment it is not of the level of proper management judgment.
- An IESBA member expressed the view that the custody of significant assets is a management responsibility. Another IESBA member noted that there are situations where custody of client assets is important, such as assisting a client with a trust account or transmitting funds to a taxing authority. Accordingly, it was argued that a blanket ban may cause practical difficulties. It was pointed out that such activities are subject to certain laws and this situation is covered by Section 270<sup>9</sup> of the Code, but not currently in the independence sections. An IESBA member noted NAS often constitute a significant part of smaller firms’ work and some consideration of the threats and safeguards approach would be appropriate to enable management to delegate tasks but take ultimate responsibility.

Ms. Gardner explained the Task Force’s proposal concerning administrative services, noting that this is currently addressed in extant paragraph 290.164 under “Management Responsibilities.” She noted the Task Force’s view that the guidance would be clearer if the paragraph were a separate stand-alone subsection addressing administrative services (proposed paragraph 290.166). However, performing routine administrative services for an audit client is also addressed in extant paragraph 290.149. Thus, the proposed paragraph 290.166 could appear to be duplicate guidance. Ms. Gardner noted that the performance of such services for an audit client should be considered to be a NAS, and thus the guidance in extant paragraph 290.149 may not currently be appropriately located in the Code. She noted that the Task Force is deliberating deleting proposed paragraph 290.166 due to the fact that it is covered by extant paragraph 290.149 or including both paragraphs so that professional accountants may find guidance concerning administrative services within the NAS guidance.

Ms. Gardner noted the proposal to amend extant paragraph 290.166 to ensure that the requirement of the firm to be satisfied that a member of management accepts responsibility for the actions of the service is robust and defined. This would include that the professional accountant ensures client management:

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<sup>9</sup> Section 270, *Custody of Client Assets*

- Provides oversight of the service and evaluates the adequacy and results of the service performed;
- Accepts responsibility for the actions to be taken arising from the results of the service; and
- Designates an individual, preferably within senior management who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee and acknowledge responsibility for the services. A suitable individual would understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual would not be required to possess the expertise to perform or re-perform the services.

Mr. Koktvedgaard inquired as to boundaries when a sole practitioner prepares financial statements for an audit client, specifically whether this would take two employees of the firm for the service to be performed properly. Ms. Gardner noted that the preparation of financial statements is addressed in bookkeeping services and when performed in conjunction with the newly proposed requirements concerning management responsibilities, the situation is properly addressed.

While in support of the proposed requirements, an IESBA member expressed concern about the examples provided in the guidance. Ms. Gardner noted that the examples would be re-examined by the Task Force. Specifically, there should not be contradictions between the examples and the guidance concerning administrative services.

Mr. Koktvedgaard highlighted a comment from the CAG about whether emerging services that are being embraced by the firms, such as cybersecurity services, would be covered by the proposed provisions. Ms. Gardner noted that the danger of listing specific examples is that they can become dated.

After further deliberation, the IESBA expressed general support for strengthening the Management Responsibilities section and clarifying what it means to take on management responsibility. However, the IESBA asked the Task Force to reflect further on the proposed examples in the light of the Board discussion.

#### ROUTINE OR MECHANICAL BOOKKEEPING SERVICES

Ms. Gardner explained the Task Force's proposal to clarify the phrase "routine or mechanical" under the subsection "Preparing Accounting Records and Financial Statements," noting specifically the proposed changes to paragraph 290.171, including:

- The addition of the following sentence: "Services that are routine or mechanical in nature require little to no professional judgments from the professional accountant;"
- A reminder that performance of such services is subject to the provisions on management responsibilities in proposed paragraph 290.165; and
- Newly proposed examples of services that would be considered routine or mechanical and those that would not be considered to be so.

Ms. Gardner noted that the Task Force had considered including "invoicing or generating statements of account to customers of the client" in the examples of services that were not considered to be routine or mechanical. She indicated that most of the Task Force had agreed that generating a source document was considered to be a management responsibility. However, an audit firm may provide permitted bookkeeping services and enter sales information as determined and coded by the client into the

accounting system, which may result in the generation of invoices to be sent or transmitted to customers of the client. Ms. Gardner requested Board feedback concerning the definition of a source document.

Among other matters, the following points were raised:

- An IESBA member expressed the view that the proposed examples may be overly detailed, which could trigger unnecessary discussions compared with an approach focused more on principles. Another IESBA member agreed.
- An IESBA member wondered if the Task Force had considered the question of a firm holding a client's records in the firm's system. He noted that this could be a potential issue for small firms. Mr. Evans noted that the Task Force did consider the matter in the context of its discussion regarding custody of client assets. Another IESBA member noted that software such as Quickbooks could be purchased by the firm and licensed to clients. In this situation, the IESBA member wondered to whom the accounting records would belong.
- Mr. Koktvedgaard raised the topic of XBRL reporting, noting that a number of firms appear to be providing that service. He wondered whether such a service would be considered a management responsibility. Ms. Gardner noted that the challenge to address is to define the point at which the firm would take on management judgment. Another IESBA member agreed, noting that finding that demarcation is key. The IESBA member, however, noted that care would be needed to avoid inadvertently precluding the client from seeking advice from the firm.
- An IESBA [member](#) wondered whether, by deleting "significant" before "judgments" under management responsibilities, the auditor would not be permitted to propose an accrual as this would involve judgment. Ms. Gardner noted that the determining factor would be the degree of judgment involved and that there is no black and white answer or simply the fact that it is an accrual. She also noted that "significant" had not been deleted from the fourth bullet of paragraph 290.171.
- Mr. Koktvedgaard suggested the need to ensure that safeguards are put in place so that the auditor maintains appropriate professional skepticism when providing bookkeeping services. Ms. Gardner noted that the Code takes the approach that [except for immaterial subsidiaries or divisions](#), no bookkeeping services are permitted for PIEs and only services that are routine or mechanical are permitted for non-PIEs. A Task Force member also noted that a safeguard is already available under the Code in that the work could be performed by another employee of the firm who is not on the engagement team.
- An IESBA member expressed concern about cloud-based systems as there is a question as to the origin of the source documents. [Ms. Gardner](#) noted that the Task Force shared the same concern.

After further deliberation, the IESBA expressed general support for the direction of the proposals but asked the Task Force to reflect further on the examples and particularly the point at which judgment is being exercised, and whether there are other safeguards in place.

#### PIOB OBSERVER'S REMARKS

Mr. Bhavé commented that except for the emergency exceptions the entire focus of the issues appeared to relate to non-PIEs. He wondered whether this was a conscious decision. Ms. Gardner noted that this was a consequence of the project proposal and the current restrictions regarding bookkeeping services to PIEs. A Task Force member additionally noted that the Task Force is proposing including three additional

bullets under paragraph 290.165 to clarify what informed management means. The Task Force member emphasized that it should not simply be that the auditor performs the work and management simply signs off on the work done without considering the matter. Another IESBA member highlighted the practice in the U.S. which involves significant documentation being prepared by the firm in that regard.

#### WAY FORWARD

The IESBA asked the Task Force to present a revised draft of the proposed enhancements to the Code for consideration at the April 2014 IESBA meeting.

### **9. Emerging Issues and Outreach**

Mr. Hannaford introduced the topic and briefed the Board on the work of the Emerging Issues and Outreach Working Group (EIOWG) since the previous Board meeting. Among other matters, the EIOWG had developed a draft Terms of Reference (ToR) for the proposed Emerging Issues and Outreach Committee (EIOC) for the Board's consideration. Mr. Hannaford then led the Board through the revised proposed working processes and the draft EIOC ToR.

An IESBA member wondered whether the EIOWG envisaged a tracking mechanism to be established to enable particular identified issues to be monitored and regular progress updates to be provided to the Board. Mr. Hannaford noted that this would be dependent on the Board's response to the particular issues. It was also suggested that the Board may wish to consult with appropriate experts in relation to specific identified topics.

Mr. Koktvedgaard highlighted the importance of dialogue on emerging issues with the CAG and that this had been appropriately reflected in the proposed working processes and the EIOC ToR.

Subject to a few editorial changes, the IESBA approved the statement of working processes and the ToR for the EIOC, effective December 2013. Mr. Hannaford reported that all EIOWG members had agreed to continue their involvement in this initiative by becoming members of the EIOC.

#### WAY FORWARD

The EIOC will present its first report at the April 2014 IESBA meeting.

### **10. Presentation on Context and Issues in Sub-Saharan Africa**

Mr. Holmquist welcomed a presentation from Ms. Kateka on the context and issues in sub-Saharan Africa as these relate to the profession and ethics. He welcomed especially the focus on a region to which the Board often does not pay close attention. Ms. Kateka acknowledged the support of the Pan African Federation of Accountants (PAFA) in carrying out a survey of its member bodies to gather information for purposes of the presentation.

Among other matters, Ms. Kateka outlined the extent of adoption of the Code among those PAFA members that responded to the survey and the level of awareness of the Code in their jurisdictions; topical ethical issues in the region; and challenges in implementing the Code. She also highlighted a number of suggestions from respondents to the survey for actions that the Board could take to raise awareness, promote adoption and facilitate implementation of the Code in the region.

Mr. Holmquist suggested that an action plan for Board outreach to the region be developed that could include, for example, a visit to PAFA in the near future and communication activities such as interviews of



Board representatives. Ms. Orbea shared her experience from her participation at the CReCER conference in Nicaragua the previous year, noting, among other matters, similar feedback in terms of calls for the Board to provide greater implementation support.

Mr. Holmquist thanked Ms. Kateka for the informative presentation and asked her to convey the Board's appreciation to PAFA for its assistance with the presentation.

#### **11. PIOB Observer's Remarks**

Mr. Bhave noted that the Board's deliberations over the past three days were very informative. With respect to the NOCLAR project, he was of the view that the Board had reached the right conclusion that wider consultation was needed before reaching a re-ED. He felt that the Board should avoid a repeat of the experience with the first ED and hoped that on this difficult project the Board would reach a position that would be acceptable to most stakeholders.

Mr. Bhave also noted that he perceived a frustration within the Board regarding what some regulators appear to be expecting the Board to do on this project. He highlighted the importance of bearing in mind that regulators do not make their comments in a vacuum but rather that there is a context to their input. He noted that it is IFAC that sought to establish an oversight mechanism to bring credibility to the standard-setting process, hence the importance of paying close attention and serious heed to regulatory input. He observed that what individual regulators need to do in their particular jurisdictions would be for them to decide as they are answerable to their legislatures. He added that while regulators understand the independence of the standard-setting boards supported by IFAC, they also are supervising a process the outcome of which could be unacceptable to them. Accordingly, he felt that they need to provide feedback and let the Board know which direction they would prefer.

On the Long Association project, he observed that the discussion at some point seemed to be going in a direction whereby if a particular provision were to be established, this would make it be very difficult for the firm to continue to audit the client because of an insufficient number of partners, etc. He felt that this seemed to be almost suggesting that it is the Board's duty to ensure that the same firm is able to continue to audit the client. He commented that an external party would think that if there is an insufficient number of partners in the firm, some other firm should be appointed to undertake the audit. So he questioned why the Board appeared to be intent on developing a provision in a manner that would not result in a change of auditors. He asked Board members to reflect on this further, noting that while they come from different backgrounds and bring different viewpoints to the table, they should not allow themselves to be influenced by those backgrounds.

Finally, Mr. Bhave commented on the challenge of keeping the Code principles-based in the light of his observation that the Board deliberations at times seemed to be focused on specific situational cases. He noted that he understood the challenge of international standard setting, especially given the need to take into account the practical realities that exist in many jurisdictions. However, he encouraged the Board to reflect on how to just distill the principles and keep them short. He observed that an IESBA member had correctly remarked earlier in the week that ethical principles are not just about enforcement. In acknowledging the Board's desire to keep the Code principles-based, he encouraged the Board to be mindful of not letting such a Code become rules-based.

Mr. Bhave concluded his remarks noting that the Board's deliberations had been ~~anything but~~ of the best quality and that he had enjoyed them.

Mr. Holmquist thanked Mr. Bhave for his constructive remarks.



**12. Next Meeting**

The next meeting of the IESBA is scheduled for April 7-9, 2014 in Toronto, Canada.

**13. Closing Remarks**

Mr. Holmquist briefly reported on the meeting he and Messrs. Kwok and Siong had with the technical advisors earlier in the week, noting especially the technical advisors' willingness to come forward and provide assistance to the Board where appropriate. He noted that staff would explore with the technical advisors possible areas in which their assistance would be particularly helpful in furthering the Board's work.

In closing, Mr. Holmquist especially thanked the retiring IESBA members, Mss. Sapet and McCleary and Mr. Franchini, for their six years of service on the Board and their dedication to the Board's work. He also thanked the retiring technical advisors for their contributions to the work of the Board. Finally, he thanked all participants for their contributions during the meeting and conveyed his best wishes for the upcoming holiday season. Mr. Holmquist then closed the meeting.