

Meeting: IESBA

Meeting Location: New York

Meeting Date: July 7-9, 2014

Agenda Item

3

Future Strategy and Work Plan

Objective of Agenda Item

1. To consider and approve a revised draft of the proposed IESBA Strategy and Work Plan, 2014-2018 (SWP).

Activities Since Last IESBA Discussion

2. At their April 2014 meetings, the IESBA Consultative Advisory Group (CAG) and the Board considered the significant comments received on the SWP consultation paper (CP) and the Planning Committee's (PC's) initial recommendations to the Board in response to those comments. At the May 2014 IESBA-National Standards Setters (NSS) meeting, input was also received from NSS participants regarding the PC's recommendations, taking into account the discussions at the April 2014 CAG and Board meetings.
3. The PC met via teleconference in early June 2014 to consider the input received from the CAG, Board and NSS. The Planning Committee subsequently liaised via email to finalize the agenda material for this Board meeting.
4. The main comments received from the CAG, Board and NSS are summarized below together with the PC's responses and recommendations.
5. Subsequent to the finalization of the agenda material for the April 2014 IESBA meeting, a comment letter on the CP was received from the International Organization of Securities Commissions (IOSCO). This is included as Agenda Item 3-C together with the PC's responses to those comments.

Main Feedback from April 2014 CAG Teleconference

6. The main comments received from the CAG are summarized below together with the PC's responses and recommendations.

#	CAG Input	PC Responses/Recommendations
1.	A number of comments from the CAG emphasized the importance of the Board focusing on the enforceability of the Code, particularly how to enhance the robustness of the threats and safeguards approach that underpins the Code. It was noted in particular that in many countries,	Point noted. A review of safeguards in the Code has been identified as a priority in the proposed SWP. See also response to IOSCO's comment in Agenda Item 3-C.

#	CAG Input	PC Responses/Recommendations
	oversight and enforcement are poor and, accordingly, there is an issue of allowing professional accountants too much latitude in exercising judgment. There was encouragement for the Board to carefully consider IOSCO's comments, particularly IOSCO's suggestion that the Board determine areas of focus and priority based on enforceability of the Code, including a review of the appropriateness of the threats and safeguards approach.	
2.	There was also encouragement for the Board to strengthen engagement with stakeholders, especially the regulatory community.	Encouragement noted. The Board has already stepped up its engagement with the regulatory community. At the same time, the Board will continue to engage with other stakeholder groups as part of its strategic focus on outreach.
3.	There was recognition of the length of time projects take to complete and therefore a question as to whether a more disciplined approach to project timelines could be taken, including allowing for timely consultation with the CAG.	Other than the project on responding to non-compliance with laws and regulations (NOCLAR), the Board has generally been timely on project deliverables. The Board also actively considers the need for timely consultation with the CAG in setting project timelines.
4.	A few CAG Representatives emphasized the importance of the Board considering a post-implementation review process for new or revised standards.	<p>Point taken into account. While such a process may provide for a systematic way of gathering input regarding the implementation of standards, there may be practical challenges to implementing it for ethical standards. This is because, unlike other professional or technical standards, ethical standards do not lend themselves well to directly observable outcomes in terms of preventing or averting unethical conduct.</p> <p>The PC nevertheless recommends that the SWP include, as part of ongoing activities and subject to stakeholder feedback, consideration of whether there is a need to gather information from relevant stakeholders such as regulators, firms and those charged with governance regarding</p>

#	CAG Input	PC Responses/Recommendations
		how effectively certain revised or new standards are being implemented in practice.
5.	In relation to proposed work streams, there was support for the Board to address the topics of collective investment vehicles (CIVs) and the fee-related issues raised by IOSCO.	Support noted.
6.	With respect to adoption and implementation, there were suggestions for the Board to consider implementing a “hotline” to receive notice of implementation issues identified by stakeholders, and to develop a video conference tool to facilitate the provision of implementation support.	The PC recommends that the Board consider these suggestions as part of the Board’s strategic commitment to supporting adoption and implementation, resources permitting.
7.	Some on the CAG also were supportive of the Board exploring an “annual improvements” process.	Suggestion considered but not accepted. The PC was concerned that the Board’s limited resources could be inappropriately diverted towards addressing matters of low or minor significance and away from issues of high importance. In addition, the PC felt that there will be a far less frequent need for minor changes to the Code in practice. Instead, the PC recommends that the Board consider specific guidance on an as-needed basis.

Main Feedback from April 2014 Board Meeting

7. There was generally broad support from the Board for the PC’s initial recommendations, including the suggestions to issue changes to the Code with one common effective date whenever possible, and in the context of the call from some respondents for greater transparency on needs analysis, to explain more clearly the Board’s basis and rationale for undertaking particular projects.
8. The main comments received from the Board are summarized below together with the PC’s responses and recommendations.

#	Board Input	PC Responses/Recommendations
1.	There was a caution that the Board not be perceived to be addressing exclusively the concerns of the regulatory community and that a balance has to be achieved taking into account the needs of the Board’s diverse constituencies around the world,	While it is important to take into account input from the regulatory community, the Board does need to be, and be seen to be, balanced in responding to the needs of its diverse constituencies.

#	Board Input	PC Responses/Recommendations
	and having regard to the public interest and due process.	
2.	There was a suggestion that the Board consider how it can demonstrate that it has made progress and been effective in relation to the strategic themes, such as promoting and facilitating adoption and implementation of the Code. In this regard, there was agreement that the Board should more openly communicate about its achievements under the relevant strategic themes.	The PC recommends that the Board holds a strategy review session at the mid-point and towards the end of the strategy cycle (i.e. 2016 and 2018) to take stock of progress in delivering on the Board's strategic commitments. Consideration would need to be given to identifying appropriate outcomes by which progress under the different strategic themes could be assessed.
3.	There was some support for the Board to consider clarifying the concept of professional accountants' responsibility to act in the public interest under the Code, especially given the ongoing developments in the MG Rover case in the UK.	The PC had previously considered this topic as part of the development of the SWP and had concluded that there was no need to prioritize a work stream on this topic. The PC's views remain unchanged in this regard. Nevertheless, recognizing that the MG Rover case in the UK is not yet fully settled, the PC recommends that the Board continue to monitor developments in the case through the Emerging Issues and Outreach Committee (EIOC) with a view to determining the need for further Board deliberation on the topic.
4.	It was acknowledged that questions are often raised in practice regarding the application of the related entity definition in the Code to CIVs but it was cautioned that Board efforts in addressing the issues in this area should not lead to complex rules as exist in some jurisdictions with respect to these entities.	Point noted.
5.	There was also a suggestion that not all the topics under consideration may need to be addressed through changes to the Code and that consideration should be given to the appropriateness of developing off-Code guidance.	Point noted.
6.	With respect to the suggestion from some stakeholders for the Board to explore a post-	Point noted. See response to related CAG comment above.

#	Board Input	PC Responses/Recommendations
	implementation review process, it was noted that how to approach such a process would need careful consideration as in practice it would be difficult to measure in concrete terms how successful new or revised ethical standards have been in preventing the occurrence or recurrence of the ethical issues that they are intended to address.	
7.	Finally, there was a concern that the Board be sensitive to the needs of professional accountants in small- and medium-sized entities and practices, and that it engages more closely with that constituency.	Point noted.

Main Feedback from May 2014 IESBA-NSS Meeting

9. NSS participants were broadly supportive of the PC's initial recommendations in response to the significant comments on the CP. Participants' more specific comments are summarized below together with the PC's responses and recommendations.

#	NSS Input	PC Responses/Recommendations
1.	<p>In May 2014, the U.S. Public Company Accounting Oversight Board (PCAOB) issued its <i>Staff Guidance on Economic Analysis in PCAOB Standard Setting</i>.¹ The guidance establishes an analytical framework for PCAOB staff to evaluate the economic implications of standard-setting projects that are presented for the PCAOB's consideration. The guidance is intended to help the PCAOB pursue investor protection with appropriate consideration of regulatory burden.</p> <p>It was suggested that IESBA staff consider the PCAOB staff's approach when undertaking an assessment of needs with respect to any potential IESBA project.</p>	Point noted. The PC recommends that this development be initially considered by the EOIC.
2.	<p>It was a matter of regret that the IESBA did not have any influence or visibility regarding the audit reform regulatory developments in the EU, which now may lead to greater regulatory divergence around the world. Some participants urged the Board to take on a leadership role in, and contribute to, such debates</p>	<p>The issue of regulatory divergence has the potential to adversely impact the global relevance of the Code and the Board's standing as a leading global standard setter.</p> <p>The PC therefore recommends that the SWP explicitly articulate a Board</p>

¹ The PCAOB staff guidance can be accessed at: http://pcaobus.org/Standards/Pages/05152014_Guidance.aspx.

#	NSS Input	PC Responses/Recommendations
	in future.	commitment to thought leadership through speaking out on developments that may lead to increased regulatory divergence and seeking to influence international debates in support of greater international convergence.
3.	The development of guidance regarding CIVs would be welcome. It was noted in particular that the rules developed by the US Securities and Exchange Commission (SEC) in this area have not been updated since 2000. In this regard, it was also noted that the AICPA has recently issued guidance regarding the identification of affiliates of audit clients, which the Board may wish to consider.	Support noted. AICPA guidance to be appropriately taken into account.
4.	An initiative addressing audit fee pressures would be timely. It was noted that recent regulatory developments regarding mandatory firm rotation and mandatory tendering in some jurisdictions have the potential to further increase those pressures. In this regard, participants noted that some national regulators have raised concerns about low audit fees and significant fee write-offs and the related implications for audit quality. IOSCO's comment on the CP regarding undue fee pressure was also highlighted.	Points noted.
5.	Developing a more specific definition of a public interest entity (PIE) to suit national circumstances has proven to be a challenge for some NSS. Participants agreed that there would be merit in the Board exploring whether the PIE definition in the Code could be further developed.	Point noted. The PC proposed that the Board further engage with the regulatory community to seek a better understanding of regulatory concerns regarding the definition in the Code and consider whether there is a need to reexamine it.
6.	With respect to the topic of post-implementation reviews of ethics standards, no participant indicated NSS experience in undertaking such reviews at the national level. However, it was noted that the PCAOB had set up a Center for Economic Analysis earlier this year to advise it on how economic theory, analysis, and tools can be better used to	Point noted.

#	NSS Input	PC Responses/Recommendations
	enhance the effectiveness of PCAOB program areas. ²	

Consideration by IESBA of Significant Matters Identified by the PC

10. In the PC's view, the significant matters the PC has identified as a result of its deliberations since it started work on developing the SWP, and the PC's considerations thereon, have all been reflected in the issues papers, draft CP, and draft SWP presented at the IESBA meetings in December 2012, June 2013, September 2013, December 2013, April 2014, and this meeting. In the PC's view, there are no significant matters discussed within the PC in developing the SWP that have not been brought to the IESBA's attention.

Material Presented

Agenda Item 3-A	Proposed Strategy and Work Plan 2014-2018 (Mark-Up)
Agenda Item 3-B	Proposed Strategy and Work Plan 2014-2018 (Clean)
Agenda Item 3-C	IOSCO Comments on SWP Consultation Paper and Planning Committee Responses and Recommendations
Agenda Item 3-D	Draft April 2014 IESBA CAG Minutes - SWP
Agenda Item 3-E	Compilation of General Comments on the CP (for reference only)
Agenda Item 3-F	Compilation of Responses to Specific Questions in the CP (for reference only)
Agenda Item 3-G	Compilation of Other Comments on the CP (for reference only)

Draft to be Discussed at the Meeting

11. The PC proposes that the marked-up version of the revised draft of the SWP (**Agenda Item 3-A**) be discussed at the meeting.

Action Requested

12. IESBA members are asked:
- (a) To consider the PC's responses and recommendations above and in **Agenda Item 3-C** ;
 - (b) Whether there are issues raised by respondents, in addition to those addressed by the PC, that they consider should be discussed by the Board;³ and
 - (c) To approve the revised draft of the SWP in **Agenda Item 3-A** for submission to the Public Interest Oversight Board (PIOB) as the IESBA's final SWP for the period 2014-2018.

² PCAOB Center for Economic Analysis: <http://pcaobus.org/About/Pages/CenterforEconomicAnalysis.aspx>

³ All comment letters SWP CP can be accessed at: <http://www.ifac.org/publications-resources/iesbas-proposed-strategy-and-work-plan-2014-2018>.