

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

**Held via Teleconference on April 29, 2014**

**(Mark-Up)**

**Voting Members**

**Technical Advisors**

Present:	Wui San Kwok ( <del>Interim</del> <sup>Acting</sup> Chair)	Tony Bromell (Ms. Gardner)
	Helene Agélli	Colleen Dunning (Mr. Hughes)
	Brian Caswell	Liesbet Haustermans (Ms. Orbea)
	Caroline Gardner	Alden Leung (Ms. Zhang)
	Gary Hannaford	Tone Sakshaug (Ms. Agélli)
	Chisala Kateka	Lisa Snyder (Mr. Caswell)
	Atsushi Kato	Toshihiro Yasada (Mr. Kato)
	Stefano Marchese	
	Reyaz Mihular	
	Marisa Orbea	
	Sylvie Soulier	
	Don Thomson	
	Wen Zhang	
Apologies:	Jim Gaa	Elbano De Nuccio (Mr. Marchese)
	Peter Hughes	Andrew Pinkney (Mr. Kwok)
	Claire Ighodaro	
	Kate Spargo	

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**Non-Voting Observers**

Present:	Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair)
Apologies:	Juan Maria Arteagoitia and Hiroyuki Dairaku

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

Present:	Chandu Bhawe and Claudia Deodati
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**IESBA Technical Staff**

Present:	Ken Siong (Technical Director), Elizabeth Higgs
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## 1. Long Association

Mr. Kwok welcomed the participants and observers to the teleconference, noting that the primary objective of the meeting was for the Board to consider and provide directional feedback on the Long Association Task Force's revised proposal for restricting the roles and activities a key audit partner (KAP) may undertake relative to a public interest entity (PIE) audit client during the cooling-off period. He also noted that during the teleconference, the Board would be briefed on proposed corresponding changes to the long association provisions in Section 291.<sup>1</sup>

Ms. Orbea introduced the topic, summarizing the outcome of the April 2014 Board discussion and, in particular, the main matter for consideration during the teleconference. She explained that the Board had not yet reached a conclusion regarding whether a KAP may participate in the provision of other services to the PIE audit client during cooling-off. She then highlighted for the Board's consideration the comment letter from the IFAC Small and Medium Practices (SMP) Committee on the April 2014 Board agenda material on the topic.

### PARTICIPATION IN THE PROVISION OF OTHER SERVICES

Ms. Orbea explained that the Task Force had reverted to first principles in developing its new proposal, i.e., that for all KAPs, an individual be restricted from undertaking any roles or activities with respect to the PIE audit client which would result in the individual having ongoing or frequent interaction with senior management or those charged with governance, or being able to exert influence, including through the provision of other services, on the outcome of the audit engagement.

IESBA members overwhelmingly supported the direction of the Task Force's revised proposal and the focus on the key principles. A few IESBA members made the following comments for the Task Force's further consideration:

- The proposal that certain consultation with the LAEP be permitted after two years have elapsed appeared inconsistent with the principle of the individual not exerting any influence on the outcome of the audit. Ms. Orbea acknowledged the concern and noted that the Task Force would further consider the wording so the principle did not contradict the mentioned proposal as this was not the intention.
- The two-tiered approach to cooling-off appeared to muddle the message.
- The principle that the Task Force has set out for the time out period is a reasonable one, but it should allow for the former LAEP to consult on new matters after two years in a specialist accounting/industry role. It should also allow for the former LAEP to be promoted into a leadership role. Ms. Orbea noted that the Task Force would consider these interactions further as it was not the intention to prohibit such roles being undertaken by the former LAEP.
- It would be disproportionate to prevent a former KAP from moving into positions in which they would not influence the conduct of the audit, such as in a non-audit service (NAS) role that has nothing to do with the audit (for example, completely outside scope, no involvement with senior management etc.) or is immaterial (for example, work for an immaterial subsidiary). It was noted that some analogy could be made to some of the immaterial carve-outs of the NAS restrictions on

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<sup>1</sup> Section 291, *Independence – Other Assurance Engagements*

the basis that they have no consequential impact on the audit of a PIE. It was felt that it would appear anomalous if the Board went even further than these provisions on the basis that there must be some ability to influence the audit.

- Whether the proposed wording for the revised provisions could be construed as prohibiting a KAP from taking a leadership position within the firm, such as managing partner, during cooling-off. Ms. Orbea noted that this was not the Task Force's intention and that the Task Force would reconsider the wording.

Mr. Koktvedgaard acknowledged the Board's efforts in seeking a compromise between a simple solution and a robust approach to dealing with the issues. He felt that the revised wording appeared at least to be stronger for the engagement partner, which would send a strong signal and would be consistent with the discussions in the CAG. He indicated, however, that he was still struggling with some of the wording concerning permissible activities during the cooling-off period. Nevertheless, he felt that the revised proposals were an improvement.

#### PROPOSED CORRESPONDING CHANGES TO SECTION 291

Ms. Orbea briefed the Board on the Task Force's proposed corresponding changes to the long association provisions in Section 291, inviting directional feedback from the Board.

An IESBA member questioned whether the draft as presented appropriately took into account the significant differences between audit and other assurance engagements. The IESBA member noted that what creates the familiarity threat for audit and review engagements are the length of the engagements and their recurring nature, whereas other non-audit assurance engagements tend to be less formal, of a shorter duration and often not recurring. The IESBA member suggested that consideration be given to elaborating on the features of the type of non-audit assurance engagement that could give rise to a familiarity threat. It was also suggested that focusing on the individual would be a secondary consideration. Rather, what would be more important would be to focus on the nature of these engagement and their specific features.

The IESBA asked the Task Force to consider these comments in further developing the proposals.

#### WAY FORWARD

The IESBA asked the Task Force to present revised drafts of the relevant provisions in Sections 290<sup>2</sup> and 291 for consideration with a view to approval for exposure at the July 2014 IESBA meeting.

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

Mr. Bhave thanked the Board for the opportunity to observe the meeting in the public interest, noting the Task Force's hard work in developing the proposals. He asked the Board to take into account whether or not the exception provisions within the subsection of the Code dealing with long association are in the public interest. He felt that at times some of the comments appeared to be whether a particular provision will create inconvenience for the firms. He highlighted in those situations the potential for losing sight of the public interest. Nevertheless, he trusted that the Board would make the right judgment.

Mr. Kwok thanked Mr. Bhave for his remarks.

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<sup>2</sup> Section 290, *Independence – Audit and Review Engagements*

3. **Next Meeting**

The next meeting of the IESBA is scheduled for July 7-9, 2014 in New York, USA.

4. **Closing Remarks**

Mr. Kwok thanked the participants for their contributions, noting the clear direction the Task Force now has for moving forward. He then closed the meeting.