

**DRAFT Minutes of the 40th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
Held on April 13-15, 2015 in New York, USA**

Voting Members

Present: Stavros Thomadakis (Chairman)
Wui San Kwok (Deputy Chair)
Helene Agélie
Brian Caswell
Richard Fleck (Days 2 and 3 by video conference)
James Gaa
Caroline Gardner
Gary Hannaford
Peter Hughes
Claire Ighodaro
Chishala Kateka
Atsushi Kato
Stefano Marchese
Reyaz Mihular
Marisa Orbea
Sylvie Soulier
Don Thomson

Technical Advisors

Tony Bromell (Ms. Gardner)
Helouise Burger (Ms. Soulier)
Elbano De Nuccio (Mr. Marchese)
Michael Dorfman (Ms. Kateka)
Colleen Dunning (Mr. Hughes)
Kim Gibson (Mr. Thomson)
Liesbet Haustermans (Ms. Orbea)
Tone Maren Sakshaug (Ms. Agélie)
Andrew Pinkney (Mr. Kwok)
Jens Poll (Mr. Hannaford)
Lisa Snyder (Mr. Caswell)
Toshihiro Yasada (Mr. Kato)

Non-Voting Observers

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair) and Yoshihiko Tamiya (Japanese Financial Services Agency (FSA))
Apologies: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Jane Diplock

IESBA Technical Staff

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

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He welcomed, in particular, Ms. Diplock, observing on behalf of the PIOB; Mr. Koktvedgaard, Chair of the IESBA CAG; Mr. Tamiya, observing on behalf of the Japanese Financial Services Agency (JFSA); and Mr. Dorfman as Ms. Kateka's new Technical Advisor. Apologies were received from Dr. Arteagoitia.

BOARD COMPOSITION

Dr. Thomadakis reported that Ms. Zhang had recently changed employment, which caused a change in her Board member status from non-practitioner to practitioner. As a result, she tendered her resignation from the Board in mid-February 2015. The IFAC Nominating Committee has started the process of identifying a suitable replacement.

MARCH 2015 PIOB MEETING

Dr. Thomadakis reported that the PIOB met in March 2015 in Abu Dhabi, where it approved the Non-Assurance Services (NAS) pronouncement. In communicating its approval, the PIOB noted the limited scope of the NAS project and urged the Board to revisit issues on auditor independence from a broader perspective, such as with respect to prohibited NAS, fee-related issues and the role of those charged with governance (TCWG) in approving NAS. The PIOB indicated that this should be completed within the timeframe of the Strategy and Work Plan 2014-2018 (SWP).

Dr. Thomadakis also reported on the joint Standard Setting Board (SSB) and CAG chairs session with the PIOB at that meeting. The discussion focused on how to facilitate closer engagement among the parties, and there was agreement regarding increasing engagement at the chair level and at PIOB meetings going forward. He noted that this was a good step forward and that there would be a need to more clearly articulate the engagement process going forward.

Mr. Koktvedgaard concurred with Dr. Thomadakis, noting that the PIOB meeting was constructive.

PIOB OBSERVER'S REMARKS

Ms. Diplock noted that the joint session was a significant step forward in the standard setting process as communications between the PIOB, SSBs and CAGs allowed the parties to have an understanding of each other's perspectives. She acknowledged that some of the PIOB's observations can come relatively late in the process and give rise to unexpected discussions. Accordingly, the PIOB recognized the benefit of intervening earlier in the process to achieve a common understanding on the issues. She added that all the chairs were in agreement that such dialogue should continue.

MARCH 2015 CAG MEETING

Mr. Koktvedgaard thanked Board members for preparing for the March CAG meeting and for the timely distribution of the meeting material. He noted that the meeting was productive, with a record number of participants, including the European Commission representative.

MEETING WITH THE IAASB LEADERSHIP

Dr. Thomadakis reported that he had met with the International Auditing and Assurance Standards Board (IAASB) leadership to consider crossover issues and areas of potential coordination between the two SSBs,

notably on the NOCLAR, Structure, Long Association and Safeguards projects. Among other matters, he noted the following:

- IAASB leadership had agreed that the International Standard on Quality Control (ISQC) ¹ working group would further consider certain crossover issues relating to the Structure and Long Association projects.
- The leaderships of both SSBs agreed to each appoint a Board member to act as a liaison to the other SSB. The Planning Committee would consider in due course who could represent the Board.
- Staff of both SSBs will liaise with each other to consider actions needed to align definitions of certain terms used in the Code and IAASB standards.
- There was agreement to establish a joint IAASB-IESBA-International Accounting Education Standards Board (IAESB) working group to consider the topic of professional skepticism. The Planning Committee would consider which IESBA representatives to nominate to the working group in due course.

Dr. Thomadakis reaffirmed his commitment to ongoing liaison with IAASB leadership.

PLANNING COMMITTEE UPDATE

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

- The strategy for outreach in the first quarter of 2015, particularly with respect to the NOCLAR project;
- The coordination of upcoming Board outputs;
- Coordination with the IAASB; and
- The matter of key performance Indicators for the Board.

IESBA-NATIONAL STANDARD SETTERS (NSS) MEETING

Dr. Thomadakis reported that preparations for the annual IESBA-NSS meeting in May 2015 were in progress, with Ms. Gardner and Messrs. Gaa, Hannaford and Thomson expected to attend to lead sessions on their projects.

TIMING AND LOCATION OF IESBA AND CAG MEETINGS

Dr. Thomadakis highlighted Planning Committee proposals for the location of the September 2015 Board meeting and the timings and locations for the 2016 Board and CAG meetings in the agenda material. He invited Board members to raise any concerns with the proposed dates and locations.

RECENT OUTREACH ACTIVITIES

Dr. Thomadakis highlighted the recent and upcoming outreach and related activities as detailed in the agenda material, noting that he was looking forward to further engagement with stakeholders. He thanked

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

all IESBA representatives who had participated or agreed to participate in the recent and upcoming outreach activities.

MINUTES OF THE PREVIOUS MEETING

The minutes of the January 12-14, 2015 Board meeting were approved as presented.

2. Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations

Ms. Gardner introduced the topic, recapping the tentative decisions from the January 2015 Board discussion on the topic. She also outlined the recent outreach activities in connection with the project, noting in particular meetings with Committee 1 of the International Organization of Securities Commissions (IOSCO), representatives of the European Commission (EC), the Monitoring Group (MG), the IAASB, the IFAC Professional Accountants in Business (PAIB) Committee, and the IESBA CAG.

Dr. Thomadakis commented that the Task Force's proposals will support and complement the new audit legislation in the EU. In response to a question from Ms. Diplock as to whether the EC representatives believed the proposals were sufficiently robust, Ms. Gardner explained that the Task Force had forwarded them a copy of its close-to-final proposals and the EC representatives had not raised any significant concerns.

Dr. Thomadakis briefly reported on the meeting with the MG, noting that the indication from the meeting was that the MG was supportive of the direction of the latest proposals. Mr. Fleck briefed the Board regarding his recent participation in a meeting of the IAASB Working Group charged with exploring the nature and extent of changes that might be needed to IAASB standards to avoid any actual or perceived inconsistencies between the NOCLAR proposals and IAASB standards. He also briefed the Board on the main feedback received from his presentation of the proposals at the March 2015 IFAC PAIB Committee meeting, noting the Committee's support for the direction of the proposals and for their re-exposure.

Ms. Gardner reported the main feedback received at the March 2015 CAG meeting, noting also the CAG's broad support for the direction of the proposals and for their re-exposure. She then led the Board through the main changes in the revised text of the proposals.

GENERAL COMMENTS

IESBA members expressed strong support for the revised proposals. Among other matters, they noted the following:

- The revised proposals are balanced and responsive to the input from stakeholders.
- If professional accountants (PAs) will feel inconvenienced by a proposed ethics standard, this should not be a reason not to pursue every avenue to assist PAs in acting ethically.
- The proposals will assist PAs in navigating NOCLAR issues in a robust way, both in jurisdictions that legislate or regulate on the topic, and in jurisdictions that do not.

PROPOSED SECTION 225²

In addition to editorial comments, IESBA participants made the following suggestions for the Task Force's further consideration, among other matters:

² Proposed Section 225, *Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations*

- Reconsidering the tone of the provisions with respect to the auditor raising the matter with management or TCWG and prompting them to address it, as the auditor can only make recommendations to them and not issue instructions to them in order to avoid taking on a management responsibility.
- With respect to the guidance encouraging the auditor to obtain legal advice if insufficient information is obtained to satisfy the auditor that the client is in compliance with laws and regulations, whether the term “satisfy” would set too high an expectation in that regard.
- Whether the threshold of substantial harm should be given precedence among the list of factors to consider in determining whether further action is needed, and the nature and extent of it, as the threshold currently appeared buried within the list of factors.
- With respect to the description of the term “substantial harm,” whether it would be necessary to incorporate a timing element in the description through use of the words “immediate or ongoing” when referring to serious adverse consequences, as some consequences may in fact just be delayed.
- Whether the wording of the third party test could be reconsidered as it appeared very demanding for auditors and could systematically lead to disclosure of the matter to an appropriate authority or withdrawal from the engagement and professional relationship.
- With respect to factors to consider in determining whether to disclose the matter to an appropriate authority:
 - Whether the factor addressing the possibility of the matter threatening the client’s ability to operate could be interpreted as a reason not to make the disclosure, for example, if the disclosure could undermine the entity’s ability to continue as a going concern.
 - Whether the factor addressing the likely sale of products that could be harmful to public health or safety could be interpreted to scope in products such as tobacco or liquor.
- With respect to factors to take into account in considering whether to disclose the matter outside the client for PAs in public practice (PAPPs) providing services other than audits:
 - Whether a second example could be provided regarding circumstances where there is legal privilege, for instance where the PA himself or herself would act in a quasi-legal capacity when representing the client in a court of law on a tax matter.
 - Clarifying whether circumstances in which the PA is engaged directly by the client to undertake a forensic engagement (i.e. where legal privilege does not apply) are scoped out with respect to the consideration of disclosure of the matter to an appropriate authority. Ms. Gardner explained that these circumstances are not excluded. However, the extent of the PA’s required response in those circumstances would be less compared with that for auditors. In particular, a balance had been struck as it would only be a consideration of disclosure in these situations and not a requirement to determine whether to do so.

Mr. Koltvedgaard highlighted the question raised at the CAG as to why the Task Force had not considered differentiating more broadly between assurance engagements and other engagements, as opposed to the current split between audit engagements and other engagements. A Task Force member explained that assurance practitioners who are not auditors do not generally approach the public interest in the same way as auditors are required to do. Accordingly, the Task Force was of the firm view that the proposed split was appropriate.

In respect of the list of factors to consider in determining whether to disclose the matter to an appropriate authority, Ms. Diplock wondered whether a better balance could be achieved with consideration of the public interest given greater prominence. She felt that the presentation of the factors conveyed the impression that auditors could readily justify not disclosing the matter to an appropriate authority, for example, if they felt that doing so could harm the entity's employees. Ms. Gardner explained that the Task Force's intention was indeed to give sufficient prominence to the public interest considerations while at the same time taking particular care in achieving an overall balanced list of factors to consider. Nevertheless, she agreed that the Task Force would further reflect on the wording of this provision.

PROPOSED SECTION 360³

IESBA members made the following suggestions for the Task Force's further consideration, among other matters:

- With respect to requirement for senior PAIBs to disclose the matter to the employing organization's external auditor, if any, whether such an action could provide a way out for them by simply reporting the matter to the auditor and not themselves appropriately responding to the matter.
- With respect to the guidance indicating that the senior PAIB may also discuss how the matter should be addressed with senior colleagues, whether this guidance should also suggest risk management personnel, general counsel, etc.

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS

Except for the proposed movement of the documentation guidance in the proposed text to Section 100,⁴ the Board supported the Task Force's proposals regarding consequential and conforming amendments to other sections of the Code.

The Task Force proposed to move the documentation guidance in the proposed text to Section 100 on the grounds that this guidance would be relevant to other sections of the Code and not just in relation to NOCLAR. An IESBA member disagreed with the proposal, believing that documentation is more a quality control matter than an ethical matter. There was a concern that by enumerating the benefits of documentation in that section of the Code, this could lead to an expectation that all PAs should document every matter they have considered or action they have taken in carrying out their responsibilities. There was also a concern that the guidance, where now proposed to be placed, could lead to PAs documenting trivial matters. Another IESBA member noted that documentation is both an individual and a firm responsibility. Accordingly, if the firm has documented how it has addressed the matter, there should be no need for the individual PA to also document this. Some other IESBA members, however, were not concerned with the guidance, believing that it neither added to nor subtracted from the main documentation requirement applicable to auditors.

After further deliberation, the Board asked the Task Force to consider the matter further.

DRAFT EXPLANATORY MEMORANDUM (EM)

Ms. Gardner outlined the approach to, and content of, the draft EM, noting that some IESBA members had provided useful editorial comments on the document in advance of the meeting.

³ Proposed Section 360, *Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations*

⁴ Section 100, *Introduction and Fundamental Principles*

IESBA members broadly supported the direction of the draft EM, noting that it was well drafted. Among other matters, IESBA participants made the following suggestions for the Task Force's further reflection:

- Consideration should be given to maintaining an ongoing record of the Board's thought process in arriving at the conclusions on this project.
- Whether the placement of the text laying out the rationale for not mandating disclosure to an appropriate authority under the Code could be reconsidered, as that text did not seem to flow well with the explanations of the approach now being proposed.
- Whether the presentation of the questions to respondents could be reconsidered so as to more prominently invite feedback from users of financial statements, preparers, TCWG and investors.
- Making clear in the EM that nothing in the proposals is intended to modify or interpret the International Standards on Auditing (ISAs).
- Whether more general questions could be posed first, particularly respondents' views as to whether the proposals would support law or regulation if it requires reporting of NOCLAR, or be helpful in guiding PAs in fulfilling their responsibility to act in the public interest where there is no such legal or regulatory reporting requirement; and views on the practical impact of the proposals, particularly on the relationships between PAPPs and their clients, and PAIBs and their employers.

Ms. Diplock noted that global standards not only have an inspirational effect but also an aspirational influence. She wondered whether the NOCLAR proposals would achieve such influence. She suggested that it should be clear in the draft EM that where legal protection is available, the PA would have a duty to report the matter to an appropriate authority in the appropriate circumstances.

Mr. Kocktvedgaard suggested considering the preparation of an impactful communication document that would highlight the key aspects of the proposals and why they are relevant to users, preparers, TCWG and investors.

CONSIDERATION OF DUE PROCESS MATTERS

The Board considered and concluded that there was no need to further consult on the proposed pronouncement through, for example, the issuance of a consultation paper, the holding of further public fora or roundtables, or the conduct of a field test of the proposals. The Board also considered and concluded that there were no further issues raised by respondents to the August 2012 exposure draft (ED), in addition to those that had been summarized by the Task Force, which should have been discussed by the Board. Ms. Gardner confirmed that all significant matters identified by the Task Force as a result of its deliberations since the issuance of the ED, and the Task Force's considerations thereon, had been brought to the Board's attention. Mr. Siong advised the Board that it had adhered to its stated due process in reaching its conclusions on the proposed pronouncement.

APPROVAL AND RE-EXPOSURE

After agreeing all necessary changes to the document, the Board approved the pronouncement with the affirmative votes of 17 out of the 17 IESBA members present.

The Board assessed whether there was a need to re-expose the pronouncement. The Board agreed that the changes made to the ED represented fundamental changes to the principles and approach in, and substance of, the ED. With the affirmative votes of 17 out of the 17 IESBA members present, the Board determined to re-expose the pronouncement, with a 120-day comment period.

3. Review of Part C of the Code – Phase II

Mr. Gaa introduced the topic, providing a brief update on the responses to the Phase I ED and noting that the Task Force would be aiming to present a full review of the responses to the ED at the June/July 2015 Board meeting. He then reported on the Task Force's deliberations on Section 350,⁵ explaining the areas that the Task Force had identified that could be potentially enhanced.

The following comments and suggestions were received from IESBA members, among other matters:

SCOPE OF SECTION 350

- In considering whether potential amendments to Section 350 would need to be reflected in Part B of the Code, the Task Force should review Section 240⁶ which contains guidance on the giving and receipt of commission payments. These are deemed illegal in certain jurisdictions. Mr. Gaa noted that while the Task Force had not considered commission payments, it had conveyed its views to the NOCLAR Task Force about fee payments to agents who subsequently make bribes.
- The Task Force should reconsider whether the actions of a colleague of a PAIB should be included within the scope of Section 350. Mr. Gaa noted the Task Force's view that guidance is needed in Section 350 for situations where a PAIB becomes aware of another individual making illegal payments. Another IESBA member was of the view that care should be exercised in using wording that could suggest a requirement for a PAIB to be accountable for the unacceptable actions of a colleague, as this could create unnecessary alarm.
- Consideration should be given to including the following in the scope of Section 350:
 - Guidance on addressing political lobbying. In certain jurisdictions, this can constitute an inducement.
 - Guidance on how to link an inducement and the reciprocal favor when the reciprocal favor is made a significant time after the inducement.
 - How to consider cultural norms when declining a gift. In some cultures, refusal of a gift can cause offence and damage a working relationship.
 - Transparency as a safeguard. This could take the form of, for example, a gifts and hospitality log.
 - Guidance on corruption in the private sector.

Mr. Koktvedgaard wondered whether government accountants are included in the scope of Section 350. Mr. Gaa confirmed that all PAs not in public practice are PAIBs. A Task Force member noted that the Task Force had considered that PAPPs could be performing similar work to PAIBs and hence there would be a need to align guidance in Part B with any revisions to Section 350 for consistency.

TERMINOLOGY

- While the terms "gifts" and "hospitality" may be more appropriate than "inducement," consideration should be given to distinguishing between gifts and hospitality that are intended to induce an

⁵ Section 350, *Inducements*

⁶ Section 240, *Fees and Other Types of Remuneration*

inappropriate return favor and those that are not. Some Task Force members acknowledged that such a distinction is not necessary when using the term “inducement” but would be necessary with the terms “gifts” and “hospitality.” Another IESBA member noted that Section 260⁷ contains clear guidance that the intent of a gift dictates whether it is acceptable and the Task Force should consider elaborating on this.

- The terms “gifts” and “hospitality” are more appropriate in the title of Section 350 than the term “inducement” as a user is more likely to perform a search on these terms. “Bribery” and “incentives” are other potential terms that could be searched and could thus be used in any revised guidance.
- The term “benefit” could be associated with an employee benefit or a compensation in kind and should be avoided as an alternative to the term “inducement.”
- The term “inducement” is not easy to translate and hence difficult to devise a safeguard against it; however, the terms “benefit” and “hospitality” are easier to translate and thus it would be easier to devise appropriate safeguards by comparison.

Mr. Gaa thanked the Board and invited additional comments from IESBA members by email.

WAY FORWARD

The Board asked the Task Force to progress development of the issues and present proposals for consideration in due course.

4. Long Association

Ms. Orbea introduced the topic, summarizing the Board’s tentative conclusions from its January 2015 meeting regarding the rotation requirements for key audit partners (KAPs) on the audits of public interest entities (PIEs). She then presented the remaining significant comments from respondents to the ED and led the discussion on the matters for consideration.

ROTATION OF KAPS ON THE AUDIT OF PIEs

Consideration of Different Jurisdictional Regulatory or Legislative Requirements

Ms. Orbea noted that at the January 2015 meeting, the Board had asked the Task Force to consider whether the existence of different regulatory safeguards, or a package of safeguards, at the jurisdictional level might provide an alternative to the PIE rotation requirements in the Code. She also reported that at the March 2015 CAG meeting, a concern was expressed about providing an exception to the global requirement. A suggestion was made at the CAG for the Board to reconsider the proposal, in particular whether the provision should apply to all PIEs or just listed entities. She outlined three options for the Board to consider: (1) retaining the ED proposal on the cooling-off period for the EP; (2) allowing an alternative approach to be taken at jurisdictional level if the time-on period for a KAP on a PIE audit is shorter than seven years, or the jurisdiction has different cooling-off requirements but also has mandated firm rotation; or (3) a reconsideration of the existing proposals.

IESBA members commented as follows, among other matters:

- As there is no empirical evidence of the need for change, there may be merit in exploring the proposed alternative approach, but perhaps with a less open-ended proposal. The Board might

⁷ Section 260, *Gifts and Hospitality*

recognize that there is a range of what might be reasonable and allow a different approach, as long as a minimum standard is met.

- Using the term “equivalent provisions” might create interpretational difficulties. It may also be difficult to state that mandatory firm rotation on its own is reasonable, particularly if the rotation period is long. Consideration should be given to incorporating qualifiers such as whether there is a regulatory inspection regime or quality control system in the local jurisdiction; whether the regulatory provisions have been subject to public consultation; whether a needs analysis has been performed; and whether there are environmental considerations to take into account.
- It is unclear whether the phrase “would not be a breach of the Code” would leave a firm unable to assert compliance with the Code.
- A five-year cooling-off period for the EP is consistent with the original project objectives, i.e., to address the concern that under the extant provisions an individual might be an EP for 14 out of 16 years; the need for a “fresh look;” to review the robustness of the Code relative to requirements in various jurisdictions; and to prevent the outgoing KAP from influencing the incoming partner’s work.
- The Board is a global standard setter with a principles-based code and it should not make exceptions for specific jurisdictions, as there are many different rules in many different jurisdictions. Recognizing such rules might undermine the robustness of the Code. This approach may also set an expectation that future enhancements to the Code might also contain exemptions.
- Consideration might be given to the simplicity of a three-year cooling-off period for all KAPs, with a restriction on any consultation.

After further deliberation, the Board asked the Task Force to consider the matter further in the light of the discussion. Mr. Koktvedgaard noted that it is important that the final provisions meet the original project objectives.

PIOB Observer’s Remarks

Acknowledging the significant Board discussions on this issue, Ms. Diplock commented that if the Board believes that five years is the appropriate cooling-off period for the EP, then it should make that decision. She outlined the PIOB’s concerns which were that: there is no recognition of mandatory firm rotation in the proposals whereas it plays a part regarding the matter of independence in some jurisdictions; the bifurcation of rotation periods and in particular why it is only the EP that is subject to the five-year cooling-off period; and the idea that a former EP can be consulted during the cooling-off period.

Length of Cooling-Off period for the Engagement Quality Control Reviewer (EQCR)

Ms. Orbea recapped the main feedback from respondents to the ED on the issue of cooling-off period for the EQCR. She noted that at the March 2015 CAG meeting, there was a significant lack of support for the ED proposal, although some CAG Representatives were concerned about the impact of a five-year cooling-off period for the EQCR on small and medium practices (SMPs). In the light of this feedback, the Task Force proposed three options: (1) supporting the ED proposal; (2) a five-year cooling-off period for both the EP and the EQCR; or (3) the same cooling-off period but a reconsideration of the five-year time-on period.

Several IESBA members supporting the ED proposal commented as follows, among other matters:

- The roles of the EQCR and the EP are distinctly different, and the EQCR is not part of the engagement team. Regardless of any perception issues, the difference in roles justifies a shorter

time-off period for the EQCR. The role of the EQCR is well defined in ISQC 1 and ISA 220.⁸ For example, the EQCR is not permitted to participate in the audit engagement during the period of the review. The EP is the key decision maker because that individual has responsibility for signing off on the financial statements, and is the individual who is in regular contact with the client. The role of the EQCR is one of quality control, reviewing the key judgments and decisions. As the familiarity threat is different, there is no need for the EQCR to have the same cooling-off period as the EP.

- Within the CAG, support for the EQCR being subject to a five-year cooling-off period seems to come from Representatives from a particular jurisdiction, where it appears to be more common for the EQCR to have some involvement with the client. For that jurisdiction, there may be merit in a longer cooling-off period for the EQCR, which the jurisdiction could implement.
- The Code is applicable worldwide and smaller firms represent a significant constituency that would have difficulty in implementing a five-year cooling-off period for the EQCR. Even if an EQCR were to be moved from one jurisdiction to another, it is questionable whether this would be the right thing to do and whether it would add to audit quality. EQCRs generally hold senior roles within firms and so there are relatively fewer of them. Increasing the cooling-off period will lead to genuine practical issues for large and small firms alike.
- There is no empirical evidence of the need for change, as issues that have been raised tend to relate to the performance of the EQCR role rather the EQCR's objectivity.
- There is a trade-off regarding familiarity as it can not only adversely impact objectivity but also enhance audit quality.

A few IESBA members supporting an increase to five years for the EQCR cooling-off period commented as follows, among other matters:

- The EP is an important role on an audit, as is evidenced by paragraph 22 of ISQC 1. This provides that if a difference of opinion arises between the EP and the EQCR, an audit report may not be issued until that difference of opinion has been resolved. The EQCR plays an important role on an audit as a safety net, and therefore the threats to independence need to be treated in the same way as for the EP.
- If the role is critical, then it might be a reason to support a five-year cooling-off period for the EQCR. If firms would find it challenging to accommodate a longer cooling-off period, this might suggest the need for structural reform in the profession.

Other views expressed by IESBA members included the following:

- The lack of empirical evidence supporting the need for a longer cooling-off period might not outweigh the perceptions of some stakeholders that a longer cooling-off period is necessary to maintain the EQCR's independence.
- There may be merit in re-examining the available evidence, including the feedback from the stakeholder survey undertaken at the beginning of the project.
- To lessen the impact of extending the cooling-off period for the EQCR, consideration could be given to limiting the scope of the longer cooling-off period for EPs and EQCRs to audits of listed entities. In

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*

this regard, it was noted that the Code does not generally differentiate between listed PIEs and unlisted PIEs, and going down that path would introduce further complication.

Mr. Koktvedgaard suggested engaging with investors and regulators in resolving this issue.

PIOB Observer's Remarks

Ms. Diplock observed that the discussion had focused on the core objectives of the project, i.e., reducing the familiarity threat and achieving a "fresh look." She expressed the view that familiarity does not just occur between people, and therefore the issue is not whether or not the EQCR meets with the client. She was of the view that the major concern is the EQCR's familiarity with the issues on the audit engagement.

EP for Only Part of the Seven-Year Time-On Period

Ms. Orbea explained that the ED had proposed that a KAP who has served as an EP at any time during the seven-year time-on period be required to cool off for five years. Respondents had generally disagreed with this proposal and the Board had therefore asked the Task Force to reconsider it. The Task Force's revised proposal⁹ recognizes when the EP has served sufficient time in that role to warrant applying the longer cooling-off period, consistent with the recommendation of a number of respondents. Ms. Orbea explained that, in referring to two out of the last five years, the revised proposal reflected the Task Force's view that the familiarity threat is greater at the end of the time-on period.

In supporting the revised proposal, IESBA members made the following comments, among other matters:

- The proposal creates certainty, which will support consistent application. Whilst it may seem complicated, it is pragmatic and fair. It not only addresses familiarity, but also takes into account recent service. It also recognizes the need for short term absences.
- Whilst the Code is principles-based, it may be best on balance to draw a line where an individual has acted in a combination of roles.
- Whilst it is important to focus on more recent service, including a majority of time provision will introduce some complexity.

KAP Moving Directly from a KAP into an EQCR Role

Ms. Orbea noted that a respondent's comment about whether an EP should be allowed to move straight into an EQCR role during a seven-year time-on period, without cooling-off, had been referred to the IAASB's ISQC 1 Working Group. A discussion paper is anticipated from the IAASB later in 2015.

OTHER ENHANCEMENTS AND GENERAL PROVISIONS

Limited Consultation by the EP

Ms. Orbea commented that most respondents supported the ED proposal allowing limited consultation by the former EP after two years. She then outlined a few refinements to the proposed provision, including that the consultation could take place with the former EP if there is "no other equivalent expertise available."

IESBA members supported the revised provision.

⁹ Paragraph 290.150 that "An individual who has acted as the engagement partner during the seven-year period for either four or more years or for at least two out of the last three years shall not be a member of the audit engagement team or provide quality control for the audit engagement for five consecutive years;"

Other Restrictions on Activities

Ms. Orbea explained that there were almost as many respondents in favor of the ED proposal as there were against it. She indicated that the Task Force had considered these comments and, on balance, was not proposing any adjustment to the proposals. She explained that the rationale for the proposal was based on concerns of many stakeholders that contact between the rotated individual and the audit client during the cooling-off period should be very limited; and that the rotated individual should not be in a position where he or she would be, or be perceived to be, able to directly influence the outcome of the audit. She noted that the Board did not consider it necessary or practical that there be no contact at all, and that the Task Force had not been persuaded to change this proposal. IESBA members concurred with the Task Force.

Application of Seven Year Time-On Period

Ms. Orbea explained that the extant Long Association provisions may imply that it is always acceptable for a KAP to serve the maximum seven-year time-on period, without reference to any other factors or safeguards. To address this matter, the ED proposed to make clear that it may not always be appropriate for an individual who is a KAP to continue in that role, even if he or she has not completed seven years as a KAP. The objective of the proposal is to ensure that the significance of any threat is evaluated in accordance with the general provisions. She indicated that most respondents supported this proposal. Accordingly, the Task Force was not recommending any change to this proposal. IESBA members concurred with the Task Force.

Long Association of Audit Team Members Other Than KAPs

Ms. Orbea explained that the ED proposed a new provision to the effect that consideration be given to threats created by the long association of members of the audit team other than KAPs. This was to remind users that the principles in the general framework must be taken into account in addition to the specific requirements for KAPs. She indicated that most respondents supported this proposal. Respondents who did not support the proposal suggested that the provision should only apply to senior personnel or did not consider that the provision was required as it was repetitive of the general provisions.

She also noted a regulatory respondent's view that consideration of the familiarity threat should not only focus on partners but also on other engagement team members who "grew up" on the engagement. The respondent recommended strengthening the proposals to appropriately address the threat relative to such non-partner engagement team members. Ms. Orbea indicated that the Board and the Task Force had previously considered this question and concluded that the principles-based approach contained in the general provisions addressed this concern. IESBA members concurred with the Task Force.

Concurrence with TCWG

Ms. Orbea explained that in the ED, respondents were asked whether or not they agreed that the firm should apply the provisions in paragraphs 290.151 and 290.152 only if it has the concurrence of TCWG. Ms. Orbea explained that most respondents supported the proposal. A regulatory respondent believed that the familiarity threat is the same whether a partner is serving an audit client that is a non-PIE or a PIE. As such, the respondent believed the total length of time a partner should be allowed to serve a non-PIE audit client that becomes a PIE should be the same as required for a partner who has served as an audit partner on a PIE.

Ms. Orbea confirmed that the Task Force had considered the feedback from respondents and continued to support the ED proposal. IESBA members concurred with the Task Force.

Enhancements to the General Provisions

Ms. Orbea summarized respondents' comments and outlined the refinements the Task Force proposed to the general provisions in response to the comments.

IESBA members supported the proposals and made comments as follows, among other matters:

- It would be helpful in these provisions to organize the factors to take into consideration the nature of their importance with reference to the seniority of the personnel involved.
- The words "as a member of the audit team" added in the second paragraph of the provisions might not be appropriate as far as the firm's senior management is concerned, as familiarity might not only be gained by virtue of any relationship outside an audit but also by virtue of any relationship inside an audit. Ms. Orbea explained that this addition was made to address comments from respondents about the nature of the familiarity threat. It addresses the point that familiarity threats apply to information as well as to people.
- The additional paragraph setting out the purpose of changing the role of the individual might not make it clear that changing this role does not allow a "fresh look" in itself. So, the provision might state that it creates an opportunity for a new person to join the engagement to provide a fresh look.

Application of the General Provisions to All Individuals on Audit Team

Ms. Orbea summarized comments from respondents and confirmed that the Task Force continues to support the proposal. However, she indicated that the Task Force also proposed to address concerns that the provisions do not adequately take into account that threats created by the long association of junior personnel may be less significant. Accordingly, the Task Force proposed additional factors to consider when evaluating threats, including the seniority of the individual and the extent to which his or her work is reviewed by more senior personnel. IESBA members supported the proposals.

SECTION 291

Ms. Orbea confirmed that the Task Force had made corresponding changes to Section 291 and invited IESBA members to submit editorial comments via email to staff.

PROFESSIONAL SKEPTICISM

Ms. Orbea noted that a regulatory respondent had encouraged the Board to consider how the concept of professional skepticism could be addressed more thoroughly in the Code. Ms. Orbea noted that this matter is out of scope and it has been referred to IESBA and IAASB leaderships for further consideration.

WAY FORWARD

The Board asked the Task Force to further consider (1) the matter of legislative or regulatory safeguards at the jurisdictional level, and (2) the cooling-off period for the EQCR in the light of the PIOB Observer's remarks, and present proposals for consideration at the June/July 2015 IESBA meeting.

5. Structure of the Code

Mr. Thomson introduced the topic. He briefed the Board on the significant comments received to the November 2014 consultation paper (CP) *Improving the Structure of the IESBA Code of Ethics*. He then set out to lead the Board through the Task Force's analysis of the responses and the Task Force's proposals.

OVERVIEW OF RESPONSES

Mr. Thomson explained that there was widespread support for the proposals in the CP. Many respondents supported the proposed timetable for the project, although some favored a longer timescale because of a concern about making sure that there are no inadvertent changes in meaning of the Code. Respondents supported making the Code clearer and easier to translate and apply. There was support for improving the safeguards in the Code. Mr. Thomson indicated that the Structure and Safeguards Task Forces anticipate that two concurrent, 120-day EDs will be issued in the format and language of the draft restructured Code.

Among other matters, IESBA members commented as follows:

- Whether consideration had been given to issuing one ED rather than two to reduce the burden on stakeholders to respond.
- The draft restructured Code did not appear easier to repackage into a firm's independence manual. In this regard, an IESBA member disagreed, noting that the clearer separation of requirements and guidance would assist many firms that have not yet adopted the Code.
- Consideration should be given to coordinating this project with other ongoing projects. In this regard, it was noted that the target timescale for the project should not drive the approach to the restructuring.

Mr. Thomson explained that two separate EDs had been proposed because concerns had been expressed by stakeholders about inadvertent changes in meaning within the Structure project.

KEY MATTERS RAISED BY RESPONDENTS

Requirement to Comply with the Fundamental Principles and Apply the Conceptual Framework

Mr. Thomson explained that there was general support for increased prominence being given to the fundamental principles and the conceptual framework. In response to a regulatory respondent's concern that the proposed purpose paragraphs did not give the required degree of prominence to the fundamental principles, the Task Force proposed to replace the purpose paragraphs with clearer "scope" and "core requirements" paragraphs. To avoid repetition, some sections had been more logically grouped into main sections and subsections. "Core requirements" and "terms used" in each subsection had been set out in a main section, followed by several subsections containing subsection-specific information.

In broadly supporting the proposed structure, IESBA members commented as follows, among other matters:

- The draft restructured Code did not appear to sufficiently highlight the core requirement to comply with the fundamental principles.
- The terms "core requirement" and "specific requirement" might be phrased in plain English to make their purpose more understandable. "Compliance with the Fundamental Principles" was suggested as a clearer heading.
- Having a core requirement in every section would not work well in Part A of the draft restructured Code. It may however, work well where an action is required.

Mr. Thomson explained that a new section concerning how to use the Code would be presented to the Board at its next meeting. It would clarify the purpose of core and specific requirements.

“Stepping back”

Mr. Thomson noted that a regulatory respondent had commented that professional accountants should not only comply with the detailed requirements in the particular circumstances but also “step back” and assess whether they have complied with the overarching fundamental principles. He noted that although this might be implicit within the conceptual framework, it might not be clearly articulated. He indicated that some might perceive addressing this matter as going beyond clarifying the Code. In this regard, he noted that as the Safeguards Task Force is considering the conceptual framework approach, the Structure Task Force was of the view that the matter could be further considered by the Safeguards Task Force.

IESBA members supported further consideration being given to the matter. Among other matters, the following views were noted:

- The third party test is closely connected to the idea of “stepping back.”
- “Stepping back” is an approach that PAs already apply in their work and it may just be a matter of highlighting it in the Code.
- Mr. Hannaford reported that the Safeguards Task Force was already considering the matter and the importance of stepping back in evaluating the effectiveness of safeguards. He commented that the conceptual framework might be enhanced by providing guidance on the process of “stepping back.” He indicated that this might include the third party test.

Rebranding the Code as Standards

Mr. Thomson explained that CP respondents had given a consistent message that regardless of the title chosen for the restructured Code, it should be principles-based. There was support from some respondents for at least the independence section of the Code being called independence standards. Some respondents preferred to continue using the word “code” because “standards” might imply a rules-based approach. In the light of the CP responses, the Task Force preferred the name “International Code of Ethics Standards for Professional Accountants.”

IESBA members commented as follows, among other matters:

- The proposed title seemed appropriate because it had the right words, in the right order, and conveyed a sense of the contents to those who are not familiar with the Code.
- It is appropriate that the title include “standards” because a standard-setting board with “standards” in its name should issue “standards.” In addition, the mix of “code” and “standards” reflects the Preface to the Code which states that the Code contains standards.
- The ethics and independence sections of the Code should not be separated because independence is a measure of objectivity and objectivity is a fundamental principle.
- The title of the restructured Code should be short with an appropriate acronym. The dictionary definition of “code” includes a standard, so the use of the word “standard” is unnecessary.
- Having “code” and “standards” in the title might be confusing. In some jurisdictions, the meanings of “code” and “standard” might be distinctly different. For example, a code can be regarded as high level standards, and standards might be very precise and rules-based. A better title might be “International Code of Ethics and Independence Standards for Professional Accountants.”

- Rebranding should reflect the international status of the end product and convey respectability and importance. This might lead to a collection of standards such as the IAASB's ISAs. It would make convergence easier as users could adopt individual standards. Accordingly, "International standards on Ethics" might be a more appropriate title.
- Whether it would be necessary to include "professional accountants" in the title.

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

Distinguishing Requirements and Guidance

Mr. Thomson explained that respondents had commented that the illustrative examples in the CP had given prominence to the separation of requirements and guidance and that this had resulted in the risk that users might only read the requirements and never reach the guidance. Accordingly, the Task Force proposed that in the draft restructured Code, guidance be moved closer to the relevant requirements. "R" and "A" had been used to denote requirements and guidance, respectively.

IESBA members commented as follows, among other matters:

- The grouping of requirements and application material together was helpful, as was the consistent use of "R"s and "A"s.
- There are some paragraphs which are neither denoted as "R" or "A" and this issue should be addressed for the sake of consistency.
- The use of bold text would be a suitable method of denoting requirements and guidance. However, it was noted that complete paragraphs of bold text are not easy to read.

Mr. Gunn explained that using bold type might lead users to consider that they only need to apply the requirements when they actually need to apply requirements in the context of guidance. The use of "R" and "A" with requirements close to guidance reduced the risk of users only applying requirements and ignoring guidance.

Identification of a Firm's or Individual PA's Responsibility

Mr. Thomson reported that IESBA and IAASB leaderships had recently met and agreed that the two Boards should liaise on the issue of responsibility. The matter had been referred to the IAASB Working Group on ISQC 1 for further consideration.

An IESBA member commented that it might be important to align the timing of any changes to the Code with any potential changes to ISQC 1. Mr. Thomson responded that the extant Code¹⁰ already dealt with responsibility by referring users to ISQC 1. Accordingly, it was appropriate for the Task Force to continue its work without waiting for the IAASB to complete its review of ISQC 1. However, the Task Force would monitor the work of the IAASB's Working Group.

Unintended Changes in Meaning

Mr. Thomson explained that some respondents had commented that there should be no change of meaning in the draft restructured Code. In this regard, he indicated that the Task Force was using a mapping table

¹⁰ Paragraph 290.12

to track the changes to minimize the risk of inadvertent changes in meaning. He noted that early stakeholder engagement was being encouraged as material is published on the website. In addition, the CAG had set up a working group to consider the draft restructured Code.

IESBA members commented as follows, among other matters:

- Professional accountants need certainty that the redrafted Code means exactly the same as the extant Code. In addition, the extant Code must not be less authoritative. It is also important that no new ambiguities are introduced and that any current areas of ambiguity are eliminated.
- If there were ambiguities in the extant Code, the Task Force might consider seeking clarification from Board participants who have been involved in, or had followed the development of the relevant provisions, or referring to records of past Board deliberations on the relevant matters.

Mr. Gunn explained how the IAASB had dealt with the challenges it faced during its clarity project. He commented that the Board should not shy away from identifying areas for possible improvement, and whether such opportunities should be taken in this project or a future project should be assessed on a case-by-case basis. Mr. Thomson agreed with Mr. Gunn and confirmed that the basic objective was not to change the meaning of the Code.

OTHER MATTERS

Mr. Thomson briefly summarized other developments as follows:

- CP respondents had generally supported the reordering of Parts B and C of the extant Code.
- The Task Force intended to continue to define “audit” as meaning audit and review in the independence sections of the code. He noted, however, that referring to both audit and review may be considered as an option for jurisdictions where reviews are widespread.
- The Task Force did not propose that the word “firm” include “network firm” in the independence sections of the Code. “Network firm” would be stated for clarity where it was relevant in the Code.
- Definitions and descriptions would not be highlighted in the paper version of the Code. In the electronic Code, definitions and descriptions would be highlighted and hyperlinked.

IESBA members commented as follows, among other matters:

- Specifying the term “network firm” might create more complexity than in the extant Code.
- Specifying the term “network firm” focused attention on what the Code really meant in a given paragraph. It may, however, be necessary for the Board to re-examine some examples from the Code where there is a need to reconfirm what is meant in the extant Code.
- Whether the paper version of the Code would remain the official version.

Mr. Thomson noted that network firm would be referred to where it is relevant to give greater clarity to the Code. He added that the Task Force proposed that the paper version continue as the official version.

WAY FORWARD

The Board asked the Task Force to present a first draft of restructured sections of the Code for consideration at the June/July 2015 IESBA meeting.

6. Safeguards

Mr. Hannaford introduced the topic, recapping the project's objectives and timeline, and outlining the Task Force's activities since the January 2015 Board meeting. He highlighted that the Task Force would endeavor to consider the comments from the PIOB when it approved due process for the NAS pronouncement regarding revisiting issues on auditor independence from a broader perspective. He also highlighted the main feedback received from CAG Representatives at the March 2015 CAG meeting. He then set out to present the main issues and initial Task Force thinking for the Board's consideration.

CONCEPTUAL FRAMEWORK

Mr. Hannaford explained that for the most part Section 200¹¹ of the Code includes a series of lists of example threats and safeguards with little correlation between them. He noted that the Task Force believes the link from Section 200 to Section 100¹² could be strengthened to provide better guidance on the application of the conceptual framework by PAPPs. In relation to NAS, he noted that the Code includes more stringent requirements for PIEs and that the Task Force believes safeguards for PIEs may not be the same as for other entities. He noted that the Task Force intends to review whether additional guidance could be provided to link the application of the conceptual framework to PIEs and other entities when evaluating what is an acceptable level in a given situation.

IESBA members made the following comments, among other matters:

- Care should be taken in not opening a debate about categories of threat as the Board had debated these at length and they are well understood. In addition, not taking on management responsibility is a precondition to undertaking any NAS. Stakeholders' concerns are more focused on safeguards.
- Safeguards, or more specifically their appropriateness and effectiveness, could be considered through the eyes of a third party.

Mr. Koktvedgaard noted that some of the threats relate to certain fundamental principles. He commented that independence could be more clearly linked to the fundamental principle of objectivity. He suggested it may be useful to generate a matrix to identify the key fundamental principle affected. Mr. Hannaford noted considering the correlation between threats and fundamental principles is important. Doing so could assist the Task Force in identifying appropriate safeguards.

Mr. Koktvedgaard also noted that the public interest could be violated. Accordingly, he wondered whether there could be a threat in that respect. Mr. Hannaford noted that the question of whether the public interest is a fundamental principle has been raised by some regulators in the past but that this is not within the remit of this project. IESBA members made the following comments, among other matters:

- There is a danger of scope creep. The scope of this project should be tightly defined.
- The public interest is fundamental but currently sits above, and is supported by, the fundamental principles.
- The meaning of acting in the public interest is a fundamental issue that has been debated at length. It is a significant topic that falls outside the scope of this project.

¹¹ Section 200, *Part B – Professional Accountants in Public Practice, Introduction*

¹² Section 100, *Introduction and Fundamental Principles*

Dr. Thomadakis noted that the effectiveness of safeguards is central to the project. He wondered whether the effectiveness of a safeguard should be specified only so as to eliminate or limit a threat, or whether it should more broadly seek to defend the fundamental principles. Mr. Hannaford noted that the project is focused on identifying safeguards and considering whether they are effective.

MATERIALITY

Mr. Hannaford noted the Task Force's belief that it may need to reconsider the application of materiality in the context of safeguards. He noted that questions have been raised by various stakeholders as to the meaning of the concept as used in different parts of the Code. In this regard, he highlighted that some clarification regarding the application of materiality with respect to NAS is contained in the November 2012 IESBA Staff Q&A. He added that the Task Force intended to proceed cautiously and liaise with the IAASB in this area.

IESBA members made the following comments, among other matters:

- Materiality is an area where users experience confusion given the uniform approach to a concept that is used in very different ways in the Code. There is therefore merit in revisiting the area, and a good starting point could be to draw out the different meanings of materiality in the different contexts in which it is used.
- Materiality can be very difficult to define since it has different meanings in different contexts. There are also qualitative aspects to be considered.
- It may be useful to consider linking materiality to proportionality.
- Consideration should be given to monitoring the work of the International Accounting Standards Board (IASB) in this area.
- There are also a few instances of the term "trivial and inconsequential" in the Code that may also need consideration.

REASONABLE AND INFORMED THIRD PARTY

In response to the comment at the January 2015 Board meeting regarding considering whether it would be within the project scope to clarify the meaning of the concept of a "reasonable and informed third party," Mr. Hannaford noted the Task Force's view that this should be so, insofar as the concept relates to the definition of "acceptable level." He noted that the Task Force recognized that the test is intended to be an objective test. However, as many would argue that the concept has a legal basis, the Task Force was considering whether to obtain legal advice to inform its further consideration of the matter. He then set out the Task Force's preliminary views regarding the characteristics of a "reasonable and informed third party."

In supporting the Task Force's further consideration of clarifying the concept, IESBA members made the following comments, among other matters:

- The concept is linked to stepping back.
- The test is intended to be a common sense test, accordingly care should be taken in avoiding being overly prescriptive.
- Some PAs may misinterpret a "reasonable and informed third party" as being a real rather than a hypothetical person.
- It is important for the third party to understand the issues rather than just the PA's decisions.

- It may be appropriate to consider similar concepts such as the “prudent businessman” in case law.
- It is important to emphasize that the information considered by the third party should be information *available* at the time.

An IESBA member was concerned at the Task Force’s suggestion that a “reasonable and informed third party” need not be a PA. Other IESBA members, however, were of the view that it is not necessary for that individual to be a member of the profession as long as the individual is informed.

Mr. Koktvedgaard noted that the “reasonable and informed third party” test would need to be applied in the context of particular threats and safeguards. He therefore felt that the characteristics of the “reasonable and informed third party” may vary depending on the circumstances.

PIOB Observer’s Remarks

Ms. Diplock noted that the “reasonable and informed third party” test is very important and therefore a public interest matter. She was of the view that the test should not be about what another PA thinks of the situation but what someone of intelligence would think on the basis of the information available at the time.

SAFEGUARDS

Description of Safeguards

Mr. Hannaford noted that the Task Force was considering whether the examples of safeguards in Section 200 should be appropriately called safeguards as a number of them are general actions or measures to reduce a threat but not taken directly in response to a threat. He highlighted that the Code does not include a definition of a safeguard although there is a description. He explained the Task Force’s preliminary view that it would be important for the description of a safeguard to refer to an intention to eliminate the threat or reduce it to an acceptable level. He then set out the Task Force’s alternative descriptions of a safeguard.

An IESBA member wondered whether there were ways to accommodate the particular circumstances of smaller firms while still allowing them to comply with the fundamental principles. Mr. Hannaford noted that the Task Force is mindful of the issues SMPs face and would be considering their situations.

In relation to the alternative descriptions of a safeguard, IESBA members commented as follows, among other matters:

- The use of “reasonably” in the description of a safeguard seems to diminish the importance of safeguards eliminating a threat or reducing it to an acceptable level. Mr. Hannaford noted the difficulty of being certain that the safeguard applied is effective. He noted that it should be clear that the PA’s intent should be for the safeguard to eliminate the threat or reduce it to an acceptable level.
- Some of the safeguards in the Code should not be described as such as they are not implemented post identification of a threat. It is important that the action or measure be intended to reduce the threat to an acceptable level. However, it may be difficult to have a general description that would work in every situation.
- It is unclear as to whether reducing a threat to an acceptable level means that it is the magnitude of the threat or the probability of a violation that is reduced.
- It is unclear why the three options are being presented as the current approach to describing a safeguard in the Code seems to be appropriate. Rather, the Board should be considering the specific safeguards in the Code.

- It may be necessary to add specificity to the description to clarify that an action or measure is taken in response to a specific threat. For example, an action which is an appropriate safeguard against one threat may not be effective, and therefore not a safeguard, against another threat.

Mr. Koktvedgaard was of the view that if an action or measure, or a combination thereof, does not eliminate an identified threat or reduce it to an acceptable level, then the action or measure is not a safeguard.

Mr. Hannaford noted that the conceptual framework as currently written does not clearly describe the need to step back and evaluate on a continuous basis whether the safeguards have indeed been effective. The Task force believes that after identifying and evaluating a threat and applying safeguards, the PA should evaluate the effectiveness of the safeguards applied.

IESBA members made the following comments, among other matters:

- If a safeguard is defined as effective, then an evaluation would not be necessary. However, if a safeguard is an action or measure intended to be effective then effectiveness would need to be determined subsequently.
- There are two ways to define safeguards: as actions or measures intended to eliminate or reduce threats, the achievement of which can then be assessed; or actions or measures that eliminate or reduce threats.
- The description needs to differentiate between the objective of the action or measure and the evaluation of its effectiveness. There should be a two-step process: first, describe that actions may be taken singly or together to eliminate or reduce threats; and then, whether they achieve the elimination or reduction of threats, which would determine whether those actions are safeguards.
- Actions or measures that are successful in eliminating or reducing a threat to an acceptable level might be described as “effective safeguards” since effectiveness is a critical part of the process.

Evaluating the Effectiveness of Safeguards

Mr. Hannaford noted that the Task Force expects to consider carefully what is meant by the term “acceptable level.” The Task Force believes it is important that the evaluation of the effectiveness of the safeguard should be a continuous process. This is likely to involve a re-evaluation of the threat. He noted the Task Force’s view that the conceptual framework could be clarified in this regard, adding that the evaluation of the effectiveness of safeguards is linked to “stepping back.”

IESBA members made the following comments, among other matters:

- If an action is intended to be a safeguard, its effectiveness needs to be evaluated. If the action is effective, it is a safeguard, otherwise it is not.
- Effectiveness is implied within the word “safeguard”.
- A distinction should be made between actions intended to be safeguards and safeguards (i.e. effective actions).
- The Oxford English Dictionary definition of safeguard refers to an action or measure that serves as a protection or defense. This does not mean that such an action will be effective.
- There should be an explicit need in the Code to review the effectiveness of safeguards along with the cumulative threats. This recognizes that in practice situations may change over time.

- It is important that at a point in time the PA can reach a conclusion on effectiveness. However, if there is a change in circumstances, it may then be appropriate to reconsider effectiveness.

Mr. Hannaford noted the possibility that safeguards may not always be available to eliminate or reduce a threat.

IESBA members expressed a range of views regarding whether an action or measure would need to be effective to eliminate a threat or reduce it to an acceptable level in order to be considered a safeguard. In a straw poll, IESBA members showed support for safeguards being actions or measures intended to eliminate a threat or reduce it to an acceptable level, recognizing that it would be necessary to evaluate the effectiveness of the actions taken should new information become available.

Dr. Thomadakis observed that one cannot know *ex ante* that a safeguard will be 100 percent effective. He suggested conveying that safeguards are credible tools that will eliminate the threats or reduce them to an acceptable level, but their effectiveness may be subject to extreme circumstances and therefore to subsequent review. Mr. Gunn advised the Board to reflect carefully on the messaging, i.e., that if safeguards are implemented the Board would expect them to be credible and effective.

Types of Safeguard

Mr. Hannaford noted that Section 200 of the Code includes lists of example safeguards in three categories: firm-wide safeguards, engagement-specific safeguards and safeguards put in place by the entity. He noted there had been some criticism of these safeguards by some stakeholders in the past. Whilst firm-wide safeguards provide an environment for effective safeguards, there is a view that these are not safeguards. The Task Force believes it is important that firm-wide safeguards are appropriately described in the Code.

IESBA members made the following comments, among other matters:

- There are some fundamental principles, such as integrity and professional competence and due care, in respect of which there may be no safeguards besides organizational safeguards.
- Firm-wide measures are very important and can be seen as a pre-requisite to ensuring engagement-specific safeguards are effective e.g., training and disciplinary processes create an environment in which engagement-specific safeguards will be effective.

THOSE CHARGED WITH GOVERNANCE

Mr. Hannaford noted that the Task Force had been asked to consider whether additional guidance should be added to the Code regarding communication with TCWG. The Task Force believes that although regular communication with TCWG is positive, this is not in itself a safeguard. He noted that the Task Force intends to consider whether the view of TCWG may be an indicator of the view of a reasonable and informed third party. Additionally, the Task Force intends to consider the purpose of communication with TCWG, e.g., to obtain concurrence or approval, and the matters that should be disclosed to TCWG. Mr. Hannaford noted that the focus of any considerations should be on the PA's responsibilities in this area.

IESBA members made the following comments, among other matters:

- In many jurisdictions, TCWG include individuals who are governed by the Code.
- The policy for communications regarding NAS often rests with TCWG who may also be responsible for ensuring that it is applied appropriately and regularly reviewed.

- It can be difficult to include communication with TCWG as part of a safeguard. In a particular situation, TCWG may choose not to approve the provision of a NAS, which would be a safeguard. However, if they approved the provision of services, it would be unlikely this communication would be accepted as a safeguard, e.g., in the case of a disciplinary matter.
- Communication with TCWG may assist with transparency. In this regard, Mr. Hannaford noted that the focus of the communication would be whether the approach taken in relation to applying safeguards when providing NAS is considered acceptable by TCWG.
- There is an increasing expectation from regulators for TCWG to do more to consider the auditor's independence. Auditor independence is a joint responsibility for TCWG and the auditor. It is important to have some involvement of TCWG with regard to safeguards, although their level of involvement is subject to debate. This may also provide stakeholders with some confidence that the auditor's judgment has been vetted by TCWG.
- Requiring pre-approval would be a significant step and the Board would need to carry out more research before making a proposal. Such research would be a challenge given the current timetable.
- Consideration should be given to the communication requirement with audit committees in the new EU audit legislation and how the Code could support such a requirement, even if only for listed audits.

DOCUMENTATION

At the January 2015 IESBA meeting, a suggestion was made for the Task Force to consider documentation pertaining to safeguards. Mr. Hannaford noted that the Task Force believes this would be outside the scope of the project but nevertheless agreed that it is an important matter to consider. The Task Force believes the guidance in the extant Code could benefit from further consideration, although liaison with the IAASB would be important.

An IESBA member noted that for auditors, documentation requirements are adequately addressed under IAASB standards, although there may be a wider issue regarding general documentation provisions in Section 100 that could be considered as part of a separate project. Mr. Siong encouraged the Task Force to identify any cross-over issues that may merit consideration by the IAASB's ISQC 1 Working Group.

ALIGNMENT AND COORDINATION WITH THE STRUCTURE OF THE CODE PROJECT

Noting the Board's intention to seek to approve the Safeguards ED at the same time as the Structure ED at the December 2015 meeting, Mr. Hannaford noted the Task Force's view that combining the two EDs could be perceived as making changes that are not transparent. He then set out the options for presentation of the Safeguards ED for consideration by IESBA members.

IESBA members expressed a range of views with regard to presenting the changes to the Code arising from the Safeguards project. In an informal straw poll, the majority of IESBA members supported presenting any changes to safeguards in the Code in the format and language of the restructured Code. In addition, IESBA members made the following comments, among other matters:

- Consideration should be given to issuing the Structure ED with a 120-day comment period followed by the Safeguards ED a month later so that stakeholders are familiar with the format and language of the draft restructured Code. It could otherwise be challenging to present two EDs at the same time.
- Consideration should be given to a more holistic timetable for all pronouncements to assist stakeholders in planning implementation. This may also improve the quality of responses received.

- It should be clearly explained in the accompanying Explanatory Memorandum that the format and language of the draft restructured Code is subject to comments from stakeholders.
- The NOCLAR and Part C projects relate to distinct parts of the Code that can be easily separated from the Structure project. Safeguards is integral to the Code.

Mr. Koktvedgaard was of the view that issuing the Safeguards ED under the format and language of the extant Code and subsequently restructuring the provisions would confuse stakeholders. He suggested that the Safeguards ED could include an appendix allowing users to track the changes from the extant Code to the restructured content. He suggested requesting comments from stakeholders based on the content in the format and language of the restructured Code.

WAY FORWARD

The Board asked the Task Force to further develop its analysis of the issues in the light of the Board discussion and present preliminary proposals for consideration at the June/July 2015 IESBA meeting.

7. Accelerated Response Process

Dr. Thomadakis introduced the topic, providing background to the initiative and referring to the October 2014 Board discussion. Mr. Gunn then outlined the history of, and context for, the initiative and the important considerations that were taken into account in the development of the proposed policy document.

In broadly supporting the approach to, and direction of, the proposal, IESBA members commented as follows, among other matters:

- It should be recognized that if the accelerated process is applied to a particular item, another item on the Board's work program may need to be slowed or deferred given resource constraints.
- In the list of proposed criteria, it should be more the outcome (i.e., the undesired inconsistencies) that should lead to the accelerated response rather than the differences in interpretation of the standards.
- Consideration should be given to mentioning consistency with sister international standards in the list of criteria.
- The proposed policy should not be used as a surrogate for proper due process, including the need to establish evidence of the issue being addressed.
- In practice, factoring in consultation with the CAG and other steps in the accelerated process, the proposed policy may not result in any real acceleration of timeline in addressing a particular issue.

Mr. Koktvedgaard noted that the issue being addressed should not be complex, otherwise it would not be conducive to discussion via teleconference.

In response to an IESBA member's question, Mr. Gunn noted that the effective date of any changes to the Code arising from the application of the accelerated process should be determined as per the Board's usual approach to setting effective dates.

Dr. Thomadakis noted the merits of the proposed policy, including providing guidance regarding situations where an accelerated response would be appropriate and how such an acceleration could be achieved. He also highlighted the flexibility of the approach, adding that the policy would not pre-commit the Board to applying an accelerated process to any given issue.

WAY FORWARD

The Board asked staff to:

- (a) Fine-tune the proposed policy as appropriate in the light of the discussion and to circulate a revised version for a fatal flaw review;
- (b) Share Board reactions to the document with IAASB; and
- (c) Arrange for the document to be discussed with the IESBA CAG and PIOB.

Subject to finalization of the document, the Board agreed that this accelerated process should be kept under future review.

8. EIOC Presentations

Mr. Mihular introduced the topic, explaining the Emerging Issues and Outreach Committee's (EIOC's) plan to batch future country presentations by regions in order to expedite the briefing process. He indicated that once all identified presentations had been completed, the EIOC would report on its analysis of the key differences between the Code and national ethical requirements in the G-20 and major financial centers.

Mr. Mihular then summarized other matters being considered by the EIOC, including the following:

- Deloitte had won its appeal over the fine imposed for its actions in the MG Rover Case in the UK. The EIOC planned to present a summary to the Board of the judgment issued and any implications this judgment may have regarding how the concept of the public interest is addressed in the Code.
- The EIOC will consider developing an outreach strategy to present to the Board that ensures that while outreach focuses on the G-20, other matters that fall outside of the G20 are given adequate consideration.
- The EIOC will review its process for collecting and analyzing emerging issues to ensure it is adequate.

AUSTRALIAN CONVERGENCE

Ms. Orbea began her presentation by highlighting the various bodies responsible for regulating the accounting profession in Australia and their remits. She briefed the Board on the accountancy bodies in Australia, the various legislation regulating audits in Australia, and the history and role of the Accounting Professional & Ethical Standards Board (APESB) in setting ethical standards. She then summarized the key differences between the Australian ethical provisions and the Code and the reasons for the differences.

In response to questions from IESBA members, Ms. Orbea provided the following additional information:

- The time-on period in Australia for an engagement partner is five years.
- Guidance provided to PAs who are not auditors, such as tax accountants, is also based on the IESBA Code and requires consideration of the public interest.
- Only PAs are subject to the Australian Code. However, individuals who work in a similar capacity as PAs are obliged to follow the Australian Code.
- Other professional bodies may have similar ethical standards covering all practitioners in their fields, regardless of whether they are PAs or otherwise. Hence, PAs could be subject to two ethical codes. There have been previous occurrences of PAs being subject to higher standards than non-PAs in the same field, leading accountants to threaten to resign from their accountancy bodies.

JAPANESE CONVERGENCE

Mr. Yasada outlined the process of setting laws, regulations and professional standards in Japan. He provided an overview of the prevailing accountancy and auditing standards. He then highlighted the key differences between the Japanese Institute of Certified Public Accountants (JICPA) Code and the IESBA Code and explained the main challenges the JICPA faces to converge with the IESBA Code.

In response to questions from IESBA members, Messrs. Yasada and Kato provided the following additional information:

- Changes to the IESBA Code are the main driver of change to the JICPA Code, though major ethics-related events, such as the Enron scandal, had resulted in the JICPA Code adopting more restrictive requirements than the IESBA Code.
- Larger audit firms are subject to more stringent rotation requirements than SMPs. The JICPA considers that the current rotation requirements for SMPs along with the current safeguards in the JICPA Code are sufficient to ensure key audit partners in an SMP maintain objectivity.
- Due to the current definition of a listed entity being very broad, group structures exist that allow several entities within a group to be listed. Hence, it is possible to have multiple PIEs within a group. For compliance and operational reasons, the definition of a listed entity is being tightened to ensure that only companies that are legitimate PIEs have to abide by the more stringent partner rotation requirements imposed on PIEs. In addition, partly due to this unique structure and partly due to the different rotation requirements for SMPs, it is possible to have the auditors of different group entities subject to different rotation periods.
- In the light of major accounting scandals, various programs had been devised to address the cause of these scandals. These programs essentially proved to be triggers to change the JICPA Code and align it more closely with the IESBA Code.
- The content of the JICPA Code is essentially the same as the IESBA Code. Once IESBA issues a pronouncement, it is translated into Japanese. Consideration is then given to whether the pronouncement can be incorporated into the JICPA Code or whether additional restrictions are required to address situations specific to Japan. The JICPA Code is largely the same as the IESBA Code, with changes generally within the definition of adoption.
- The JICPA provides additional guidance when it determines that guidance in the IESBA Code does not adequately address issues specific to Japan. For example, a Q&A booklet was written to provide practical guidance on the application of independence requirements for complex corporate structures.

Mr. Tamiya noted that the Japanese FSA would be interested in any IESBA plans for additional guidance to users of the IESBA Code, notably in relation to the NOCLAR and Long Association projects. He indicated that the FSA would comment on any additional guidance through its membership of IOSCO and the International Forum of Independent Audit Regulators (IFIAR).

SINGAPOREAN CONVERGENCE

Mr. Kwok briefed the Board on the Singaporean bodies tasked with addressing ethical standards in the country, explaining that the remit of each body was linked to the type of audit being performed. He outlined the standard setting approach in Singapore, noting that the Code in Singapore is essentially the same as the 2014 IESBA Code with small modifications to suit the Singaporean environment. He outlined the key differences from the IESBA Code, including with respect to the definition of a PIE, partner rotation

requirements, the limit on NAS fees, the requirement for the existing and successor auditors to communicate, and guidance relating to Anti-Money Laundering. He concluded by outlining the way forward for standard setting in Singapore.

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

- Audit committees are tasked with ensuring that NAS fees do not exceed the limit of 50% of the audit fee, unless exceptional circumstances arise and there is adequate explanation as to why an alternative firm could not perform the NAS. In addition, a safeguard used is to assign firm personnel not involved in the audit team to perform the NAS.
- Legislation has been enacted to address management control and ownership of audit firms. The legislation introduced the option of audit firms to assume limited liability partnership (LLP) status to address the litigation risk they face.

PIOB OBSERVER'S REMARKS

Ms. Diplock noted that she was on the audit committee of the Singapore Stock Exchange, adding that audit committees monitor the limit on NAS fees stringently and take enforcement very seriously.

WAY FORWARD

Mr. Mihular and Dr. Thomadakis thanked the presenters for their informative presentations.

9. **PIOB Observer's Remarks**

Ms. Diplock commented that it was an honor for her to observe her first IESBA meeting. She indicated that she was impressed by the quality of the input to, and the energy of, the discussions and the diligence with which the Board deliberated the issues. She noted that she was pleased to see such due process in action.

Ms. Diplock then shared the following personal observations on the topics that were discussed:

- In relation to NOCLAR, she noted that the PIOB had discussed the project and had not reached a conclusion on the proposals. She indicated that some within the PIOB had felt that it would be difficult to explain why an international standard-setting body would not require auditors to report a suspected act of NOCLAR if the matter were of significant public interest. She noted that now, the Board had put forward a credible alternative that she felt would be operable around the world, and based on which disclosure of the matter to an appropriate authority could be envisaged if legal protection were available. In this regard, she wondered whether the EM to the re-exposure draft could direct auditors more clearly to the concern to uphold the reputation of the profession in such a situation.
- In relation to the Long Association project, she highlighted a concern among some on the CAG that the Board's proposals did not appear to have given any recognition to the concept of mandatory firm rotation. Regarding the determination of the duration of time-on and cooling-off periods, she noted that this is very much an art and not a science. She hoped that the Board would conclude on an approach that would satisfy most stakeholders. Regarding the issue of cooling-off period for the EQCR, she noted that the PIOB may have a view on the matter. She felt that it would be a pity if the PIOB were to have some reservation on the final outcome should the proposed cooling-off period for the EQCR remain at two years, unless the Board could present a strong justification for the position. She added that the principle of fresh look is an important part of the considerations.

- In relation to the Safeguards project, she found the Board discussion fascinating, particularly around the meaning of a safeguard. She did not believe a “tick the box” perspective was one the Board should encourage. Instead, she felt that the key question was how to direct PAs in the right way to think ethically. She also noted that explaining the concept of “reasonable and informed third party” will be a challenge. Finally, she noted that the matter of documentation would need consideration.
- In relation to the Structure project, she noted that a concern will be how to coordinate the Structure and Safeguards EDs. However, she felt that the Board was appropriately addressing the matter. She also acknowledged the concern among some jurisdictions and stakeholders regarding the volume of changes to the Code, which she felt was an important issue for the Board to consider.
- In relation to the proposed accelerated response process, she was of the view that the Board and IAASB had engaged early with the PIOB on the topic. She commented that the PIOB would be prepared to consider any request from the standard-setting boards in this regard, provided that due process is followed.
- Finally, she noted that there had been some discussion within the PIOB on the topic of fee-related issues, and that the matter of fee caps for NAS in particular was under active consideration. She indicated that she would report back to the PIOB that the Board is considering the topic.

Dr. Thomadakis thanked Ms. Diplock for her valuable comments and good guidance, which he noted was in keeping with the spirit of early engagement and communication with the PIOB.

10. Next Meeting

The next Board meeting is scheduled for June 29-July 1, 2015 in New York, USA.

11. Closing Remarks

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