

**DRAFT Minutes of the 46<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on March 14-16, 2016 in Madrid, Spain**

**(CLEAN)**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair)  
Helene Agélie  
Michael Ashley (Days 1 and 2 only)  
Brian Caswell  
Kim Gibson  
Gary Hannaford  
Liesbet Haustermans  
Claire Ighodaro  
Robert Juenemann (Days 1 (PM), 2-3)  
Chishala Kateka  
Atsushi Kato  
Stefano Marchese  
Ian McPhee  
Reyaz Mihular  
Patricia Mulvaney  
Lisa Snyder  
Sylvie Soulier

**Technical Advisors**

Tony Bromell (Mr. Ashley)  
Denise Canavan (Ms. Haustermans)  
Elbano De Nuccio (Mr. Marchese)  
Michael Dorfman (Ms. Kateka)  
Jason Evans (Mr. Caswell and Ms. Snyder)  
Tania Hayes (Mr. Mihular)  
Tone Maren Sakshaug (Ms. Agélie)  
Heidi Martinez (Ms. Gibson)  
Andrew Pinkney (Ms. Mulvaney)  
Jens Poll (Mr. Hannaford)  
Eva Tsahuridu (Mr. McPhee)  
Toshihiro Yasada (Mr. Kato)

**Non-Voting Observers**

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair) and Masahiko Honma (Japanese Financial Services Agency (FSA))

Apology: Juan Maria Arteagoitia (European Commission)

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

Present: Jules Muis

**IESBA Technical Staff**

Present: James Gunn (Day 1 AM only) (Managing Director, Professional Standards), Ken Siong (Technical Director), Diane Jules, Kaushal Gandhi and Elizabeth Higgs

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He welcomed, in particular, Mr. Muis, observing on behalf of the PIOB. He also welcomed Mr. Koktvedgaard, Chair of the IESBA CAG, and Mr. Honma, the Japanese FSA observer. He then welcomed and congratulated the seven new IESBA members on their appointment to the Board: Mss. Gibson, Haustermans, Mulvaney and Snyder; and Messrs. Ashley, McPhee and Juenemann. He also extended a welcome to the new Technical Advisors: Mss. Canavan and Martinez, Dr. Tsahuridu and Mr. Evans. An apology was received from Dr. Arteagoitia.

Lastly, Dr. Thomadakis welcomed recently retired IESBA member, and continuing Structure of the Code Task Force Chair, Don Thomson; Peter Hughes, also recently retired IESBA member and continuing member of the Structure of the Code Task Force; Isabelle Sapet, former IESBA Deputy Chair; and Colleen Dunning, member of the Fees Working Group.

### CAG UPDATE

Dr. Thomadakis shared highlights of the March 2016 CAG meeting, noting the various projects and topics that were discussed. He congratulated Mr. Koktvedgaard on his re-appointment as CAG Chair for a three-year term from July 1, 2016, noting that the PIOB approved this at its March 2016 meeting.

### PLANNING COMMITTEE UPDATE

Dr. Thomadakis briefed the Board on the February 2016 Planning Committee teleconference. Among other matters, the Planning Committee considered the ICAS *Power of One* initiative, and possible dates and locations for the 2017 IESBA, CAG and IESBA-National Standards Setters meetings.

### RECENT OUTREACH ACTIVITIES

Dr. Thomadakis provided an update on outreach activities since the December 2016 meeting. He noted his participation in a joint video interview with IAASB Chairman Prof. Arnold Schilder in which they both shared perspectives about audit quality. Mr. Siong indicated that this video interview was intended to support greater visibility for the Board's work in support of audit quality and will be made available on the IESBA website.<sup>1</sup> Dr. Thomadakis also highlighted outreach meetings the previous week with representatives of the Compagnie Nationale des Commissaires aux Comptes (CNCC) Ethics Working Party, Haut Conseil du Commissariat aux Comptes (H3C) (including H3C's new Chair Mrs. Christine Guéguen), Organisation for Economic Co-operation and Development (OECD), and European Securities and Markets Authority (ESMA).

He thanked all IESBA representatives who had participated or will participate in outreach and encouraged other IESBA representatives to conduct outreach, and become ambassadors for the Code within their own jurisdictions.

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<sup>1</sup> See [joint IESBA-IAASB Chairmen interview](#).

## OTHER MATTERS

Dr. Thomadakis reported that INTOSAI had issued an Exposure Draft (ED) of its revised Code of Ethics (ISSAI 30) in November 2015. With advice and input from the IESBA representative on the ISSAI 30 Working Group, Jim Sylph, and the Planning Committee, an IESBA Staff response to the ED was submitted to INTOSAI at the end of January 2016. Dr. Thomadakis noted that INTOSAI has been appreciative of the valuable input and assistance it has received from the IESBA representative on the ISSAI 30 Working Group during the development of the ED and in the work post-exposure. The revised ISSAI 30 is expected to be finalized by the end of 2016.

## STAFF MATTERS

Dr. Thomadakis congratulated Diane Jules on her appointment as IESBA Deputy Director from January 2016. He noted that efforts are continuing in relation to the recruitment of a Principal to join the staff team.

## MINUTES OF THE PREVIOUS MEETING

The minutes of the November 30 – December 4, 2015 Board meeting were approved as presented.

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

Mr. Fleck introduced the topic, providing background to the project and highlighting its key objective and the strengths of the proposed response framework. He paid tribute to the former Task Force Chair, Caroline Gardner, for taking the project forward since the issuance of the May 2015 Exposure Draft. He briefly reported on recent activities related to the project, including: liaison with the IAASB Task Force; liaison with the Structure Task Force in relation to development of a preliminary draft of the restructured Sections 225 and 360;<sup>2</sup> and outreach to a number of stakeholders, including the Institut der Wirtschaftsprüfer (IDW). He noted that there remain diverse views on a number of the issues in the project, even if there is widespread expectation among stakeholders that the project will be finalized soon. He highlighted the key concerns from the IFAC SMP Committee on the proposals. He also highlighted the key outcomes of the discussion with the joint IESBA and IAASB CAGs the previous week. Among other matters, he had taken the opportunity to flag to both CAGs that the Board would plan to keep the topic under review post-implementation and to consider commissioning support tools and resources to facilitate implementation.

Commenting in his capacity as a smaller practitioner, IFAC SMP Committee liaison Mr. Caswell observed that the provision of audit and other services by SMPs to their clients has blurred the concept of an independent auditor. Often, a report of alleged wrongdoing will go directly to the owner-manager of the entity. There is a concern that if there is an expectation that a smaller practitioner will disclose identified or suspected NOCLAR to an appropriate authority, this will shut off the flow of information from the client. He noted that he does not hold that view and believed that the Board has struck the appropriate balance in the proposals.

Mr. Koktvedgaard expressed the view that the Board has come to the right conclusion regarding the inclusion of a third party test in the response framework, noting that the two CAGs were overall supportive of including the test.

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<sup>2</sup> Proposed Section 225, *Responding to Non-Compliance with Laws and Regulations*; and proposed Section 360, *Responding to Non-Compliance with Laws and Regulations*

Mr. Fleck then led the Board through the matters for consideration, including the proposed changes to the text.

#### IMMINENT BREACH OF A LAW OR REGULATION

Mr. Fleck explained the proposed new provision, in response to a comment from IOSCO Committee 1, which would permit a professional accountant (PA) to effectively bypass the response framework in order to make disclosure to an appropriate authority. This would be in exceptional circumstances where the PA has reason to believe that an imminent breach of a law or regulation would cause substantial harm to stakeholders.

In broadly supporting the proposal, IESBA members raised the following matters, among others:

- In Italy, criminal law imposes a duty to stop an imminent crime by reporting it. Failure by an individual to make such a report in these circumstances could lead the individual being deemed to have actually committed the crime.
- As the provision is intended to apply in exceptional circumstances where the alternative of non-disclosure would mean potentially disastrous consequences, this should be made clear. Otherwise, the response process which imposes appropriate due diligence would serve little purpose.
- The exercise of professional judgment in these circumstances should not be optional. Accordingly, the PA should be *required* to exercise professional judgment.
- Consideration should be given to whether:
  - A term other than “substantial harm” should be used to better differentiate this circumstance from other circumstances that would be addressed through the normal response process.
  - The provision would be better placed earlier in the response process rather than at the end of it.
  - The client should be notified about the PA’s intent to make disclosure before such disclosure is made.
- As an alternative to the PA making disclosure in these circumstances, it may be easier to alert management or those charged with governance (TCWG) to the imminent breach of the particular law or regulation in order to prevent the breach. However, in building this into the provision, care should be taken not to trigger the entire response process.

An IESBA member commented that the provision would require the exercise of much professional judgment, given concepts such as “reason to believe” and “substantial harm.” Accordingly, the IESBA member was of the view that there could be a problem of hindsight judgment where PAs could be held liable for failing to fulfill their duty. Mr. Fleck responded that this is why so much importance is attached to documentation of the facts and circumstances, and the PA’s assessments and rationale for any action taken. He emphasized that documentation would be a critical defense against such hindsight judgment. He added that the importance of documentation could be emphasized in implementation support material. Another IESBA member agreed that implementation support material will be important and that such material would provide an opportunity to remind users of the Code and other stakeholders of the objectives of the pronouncement once it is finalized.

The IESBA asked the Task Force to reflect on the above comments in refining the text.

#### COMMUNICATION WITH RESPECT TO GROUP AUDITS

Mr. Fleck explained the Task Force's proposals aimed at enhancing the provisions addressing communication with respect to group audits in response to feedback from IOSCO Committee 1.

In broadly supporting the proposals, IESBA members raised the following matters, among others:

- Besides the downstream communication of the identified or suspected NOCLAR from the group engagement partner to those performing work at components for group audit purposes, consideration should be given to the group engagement partner also communicating the matter downstream to auditors of components whose financial statements are subject to audit for purposes other than a group audit (for example, a statutory audit).
- Consideration should be given to the practicality of the statutory auditor of a component disclosing the matter upstream to the group engagement partner, as in many cases these components are very small entities.
- ISAs deal with communications within a group. However, the overriding principle should be that the auditor expressing the opinion on the financial statements should have all the information necessary in order to issue the auditor's report.

The IESBA asked the Task Force to reflect on the above comments.

#### COMMUNICATION BETWEEN EXISTING AND PROPOSED AUDITORS

Mr. Fleck explained the Task Force's proposal, in response to a comment from IOSCO Committee 1, regarding not requiring client consent as a precondition for communication between an existing auditor and a proposed auditor where the former is withdrawing from the professional relationship as a result of a NOCLAR matter.

In broadly supporting the proposals, IESBA members raised the following matters, among others:

- Consideration should be given to requiring the proposed successor auditor to request information from the predecessor auditor. If the former is unable to obtain the information from the latter, this would be a red flag. It was noted that in the U.S., the onus is on the proposed successor auditor to contact the predecessor auditor.
- References to successor auditor should be to "proposed successor auditor" as the firm has not yet accepted the appointment.

The IESBA asked the Task Force to reflect on the above comments.

#### FORENSIC ENGAGEMENTS

Referring to the last bullet point of the guidance in paragraph 225.49, an IESBA member wondered whether it was sufficiently clear that disclosure of identified or suspected NOCLAR to an appropriate authority would not be made in the case of forensic engagements. The IESBA member noted a concern that clients may not engage PAs to investigate potential non-compliance within the entity if they felt that PAs would be expected to disclose such non-compliance to an appropriate authority. Several IESBA members were of the view that it would not be appropriate for the Code to prohibit PAs from making disclosure pursuant to complying with Section 225. It was noted that whether or not a forensic accountant would make disclosure would be a matter of professional judgment. While disclosure may not be warranted in the early part of an investigation, it may become a consideration towards the end of the

investigation if the identified or suspected NOCLAR is a major issue and management or TCWG have not appropriately responded to the matter. After further deliberation, the IESBA agreed to maintain the current approach of keeping disclosure to an appropriate authority as a possible course of further action that may be considered.

#### OTHER MATTERS

In addition editorial matters, IESBA members suggested the following for the Task Force's consideration:

- Whether the phrase "comes across" is too casual, especially given that the text also uses a different formulation ("becoming aware").
- Whether the concept of "substantial harm" should encompass consideration of the consequences to the client, given that paragraph 8 (which scopes out matters that are clearly inconsequential) refers to consequences to the client.
- Whether the factors to take into account in considering whether to disclose NOCLAR or suspected NOCLAR to an appropriate authority for PAs providing a non-audit service should include other factors listed for PAs performing audits of financial statements.
- Reconsidering the wording of the documentation provision for senior PAIBs, as they may not themselves carry out the documentation but may arrange for others to do so.

#### PRELIMINARY RESTRUCTURED TEXT

Mr. Thomson, Chair of the Structure Task Force, noted that his Task Force has been working closely with the NOCLAR Task Force in developing the preliminary restructured text. He was of the view that the draft restructured text was generally consistent with the proposed structure and drafting conventions. Accordingly, he was broadly comfortable with the work that had been carried out.

IESBA members broadly supported the direction of the preliminary restructured text and offered editorial suggestions for the NOCLAR Task Force's consideration. It was also suggested that consideration be given to whether some of the flow of the narrative has been lost as a result of relocating some of the contextual material to be more upfront in the document.

An IESBA member wondered about the appropriateness of including the banner containing the statement "The Conceptual Framework contained in Section 120 applies in all circumstances" at the top of every page of the document. It was noted that this could give rise to potential confusion as there appears to be nothing in Sections 225 and 360 that relate to the conceptual framework. Mr. Thomson noted that the matter of including the banner at the top of each page of every section of the Code will be further considered by the Structure Task Force.

#### EFFECTIVE DATE AND ROLL-OUT

Dr. Thomadakis reminded the Board of its previous decision to issue the NOCLAR pronouncement under the extant structure and drafting conventions once finalized, and subject to PIOB approval of due process, without waiting for the document to be restructured. Mr. Fleck then outlined the Task Force's proposal regarding the effective date of the proposed pronouncement.

An IESBA member commented that the proposed effective dates with respect to auditors and other PAs appeared tight, given the need to raise awareness among preparers, TCWG and other stakeholders who might be affected by the provisions. Mr. Fleck noted that the project has long been on the Board's agenda

and been well publicized. Dr. Thomadakis observed that there has also been extensive stakeholder outreach on the project. Mr. Siong indicated that appropriate public communications will be issued to raise awareness once the Board approves the final pronouncement. Mr. Gunn added that unlike the ISAs, the proposed provisions are not a performance standard. Accordingly, there is less of a need for significant lead time to prepare for implementation.

An IESBA member suggested that IFAC member bodies be encouraged to adopt the new pronouncement so that they can appropriately promote it. Mr. Siong noted that staff will be discussing possible initiatives with the communications department within IFAC to roll out the new pronouncement once issued.

An IESBA member questioned the need to link the effective date for auditors to a financial reporting period, as this could result in auditors not responding to NOCLAR or suspected NOCLAR of which they have become aware after the beginning of the financial reporting period when Section 225 becomes effective but the NOCLAR or suspected NOCLAR occurred before the beginning of that financial reporting period. After deliberation, the IESBA agreed that both Sections 225 and 360 should be effective 12 months after the anticipated date of issuance of the final pronouncement, i.e., effective as of July 15, 2017.

#### AGREEMENT IN PRINCIPLE

After agreeing the changes to the document in the light of the Board discussion, the Board agreed in principle to close off its deliberations on the document, subject to the deliberations of the IAASB on related consequential and conforming amendments to the IAASB's standards. These deliberations were of particular relevance to the way that the provisions relating to communications between auditors of entities within a group are to be expressed, including the terminology used, as the IAASB has an initiative considering potential changes to ISA 600.<sup>3</sup> Mr. Fleck then outlined the next steps for the project.

Dr. Thomadakis conveyed the Board's appreciation to Mr. Fleck and the previous Task Force Chair, Caroline Gardner, as well as all previous Task Force members, for their contributions in bringing the project to this stage.

#### WAY FORWARD

The Board agreed to meet via teleconference on April 25, 2016 to consider the outcome of the IAASB's deliberations and any related proposed changes to the close-off text with a view to voting out the final pronouncement.

### 3. Structure of the Code

Dr. Thomadakis introduced the topic, highlighting that the Structure of the Code project is a high priority and strategic project, with the Structure Task Force having overall responsibility for the restructuring of the Code.

Mr. Thomson then summarized the project's background, its current status, and what the restructuring will deliver. He thanked IESBA members for advance input on Section 800<sup>4</sup> of the draft restructured Code (DRC) and led the Board through the discussion.

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<sup>3</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>4</sup> Extant paragraphs 290.500 to 290.514, *Reports that Include a Restriction on Use and Distribution*

## SECTION 800

Mr. Thomson explained that in response to advance input on Section 800 in December 2015, the Task Force had considered whether to present the Section in an alternative structure. However, for simplicity and clarity, it had retained its original approach. He noted that the Task Force had also received editorial and other comments on apparent duplication between paragraphs 800.1 and 800.6.

The following matters were raised, among others, for the Task Force's further consideration:

- Why paragraph 290.500(a) had been omitted in restructured paragraph 800.1. A Task Force member explained that the paragraph used the defined term "special purpose financial statements" and also included the term's definition. The definition was not necessary because it was contained in the Glossary. Accordingly, the Task Force had deleted the definition to improve readability.
- Whether the last two sentences of paragraph 800.1 could be written as a requirement because they sent a strong signal that a PA should not take certain actions. It was felt that the sentences are too important to be used as introductory material because they explain to the user when, in a restricted use situation, the modified set of independence requirements may not be used.
- Why Section 800 did not include the customary requirement to apply the conceptual framework in paragraph R120. It was noted that there will be some sections of the Code, for example, those relating to NOCLAR and sections of the Code addressing PAs in business (PAIBs), where there would be no reference to the conceptual framework. Accordingly, it was questioned whether the banner heading, "The conceptual framework contained in Section 120 applies in all circumstances," should be included in such sections of the Code. Mr. Thomson explained that the Task Force believed that everything in the Code relates back to the conceptual framework. He indicated that the Task Force would bring the matter back for further discussion at the Board's next meeting.
- Given the potential for confusion between the new term "qualifying restricted use report" introduced in paragraph 800.2 of the DRC and the term "qualified audit opinion," consideration should be given to using the term "restricted use and distribution report" or the terminology in auditing standards. An IESBA member expressed support for use of the new term. A member of the Task Force explained that the term had been introduced to improve the readability of the DRC by avoiding repeated references to certain section numbers.
- Whether it is necessary to repeat the phrase "when a firm prepares a qualifying restricted use report?" Mr. Thomson explained that the phrase was repeated because the Task Force intended the requirements to be clear and capable of being read on a standalone basis.
- Whether the inclusion of the word "need" in R 800.8 should be reconsidered as it could change the meaning of the extant Code by implying that a PA has an option when the extant Code does not provide one. A Task Force member commented that the provision in the extant Code was optional and that "need" had been included correctly in the DRC to reflect that the provision does not have to be met in order to meet the requirements in the Code.
- Whether paragraph 800.7 A1 could be written as a requirement. A Task Force member explained that this provision was optional and so was correctly written as an option rather than as a requirement. It could only be written as a requirement if the provision were mandatory.



#### FORWARD TIMELINE AND WAY FORWARD

Mr. Thomson explained that the Task Force would present a summary of the significant comments from respondents on Structure of the Code Exposure Draft 1 (ED 1) and related Task Force proposals to the Board at the June 2016 meeting. The Task Force would also be presenting restructured Section 800 and Section 900.<sup>5</sup>

Mr. Hannaford, Chair of the Safeguards Task Force, commented that the various task forces were endeavoring to coordinate the timing of their projects with the Structure of the Code project. He indicated that maintaining good coordination on the projects depended on feedback from respondents not causing significant modification to exposure draft material. Dr. Thomadakis noted that there was always an element of uncertainty when receiving feedback from a variety of sources. He emphasized the importance of all of the projects maintaining their progress in accordance with the Structure of the Code project's timeline.

#### 4. Long Association

Mr. Fleck introduced the topic, noting that the Long Association re-exposure draft (re-ED) was issued in February 2016 with responses due in May 2016. As a substantial part of the revised provisions has been agreed by the Board, he explained that the Task Force had made an early start on preparing a preliminary draft of the provisions in the re-ED in a restructured format. He then led the Board through the restructured provisions.

#### PRELIMINARY RESTRUCTURING CONSIDERATIONS

Mr. Fleck explained that the Task Force's approach to the restructuring had been "light touch." He indicated that this was because much of the original drafting took account of the Structure Task Force's approach; and because the provisions are highly technical, having been carefully refined by the Board as a result of the first exposure process. He noted that the main drafting considerations concerned paragraphs that address exemptions from a requirement. He noted that the Long Association Task Force had liaised with the Structure Task Force concerning the restructuring.

Regarding the drafting of requirements and exceptions, the following matters were raised, among others, for the Task Force's further consideration:

- Although paragraph 540.9 A2 was drafted as application material, it might be better expressed as a requirement.
- Although paragraph R540.8 was labelled as a requirement, it did not contain the word "shall" which designates a requirement. If drafted as a requirement, it could read: "in such circumstances the cooling-off period of five years specified in R540.5 and R540.6 shall not be shorter than three consecutive years."
- Paragraph 540.12 A1 was not drafted as a requirement although following the Code's drafting conventions it could be better expressed as such. A member of the Task Force noted that the paragraph was effectively an exemption rather than a requirement. Mr. Thomson, Chair of the Structure of the Code Task Force, explained that under the Structure drafting conventions an exception to a requirement should be drafted as a requirement. He noted that the paragraph did,

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<sup>5</sup> Extant Section 291, *Independence—Other Assurance Engagements*

however, recognize that the exemption was not an exemption granted by the Board but one that might be granted by a regulator. He further noted that as there is a general statement in the Code that the Code does not override law and regulation, it would not be for the Board to establish a requirement in this case.

- An IESBA member expressed concern about the suggestion that exceptions to requirements be expressed as requirements. The IESBA member noted that this could be confusing to users of the Code because there would be no compulsion to use an exception. Mr. Thomson commented that the drafting of exceptions as requirements was to give due weight to them.

The following other matters were raised:

- The need for consistency in the use of lettered and plain bullet points. In particular, lettered bullet points should be used for closed or complete lists whereas plain bullet points should be used for open lists that are not intended to be comprehensive.
- Whether the addition of the words “Chief Executive or equivalent” to the phrase “senior or managing partner” in 540.9 A1 could conflict with R540.9 (c), which requires that an individual not, for the duration of the cooling-off period, “be responsible for leading or coordinating the firm’s professional services to the audit client or overseeing the firm’s relationship with the audit client.” A member of the Task Force explained that the term “Chief Executive or equivalent” is already used in the extant Code. The drafting was intentional because the Board had not considered it appropriate for R540.9 (c) to prevent an individual from becoming the senior partner of a firm.
- With respect to the comparison between extant 290.151 and restructured 540.10 A1 in the mapping table, why the extant Code indicated that a key audit partner may remain in that role up to one additional year, whereas in the restructured Code that provision had been deleted. A member of the Task Force commented that 540.10 A1 had the same meaning in that it read “key audit partners may be permitted to serve an additional year as a key audit partner.”
- The need for some context to the reference to examples of safeguards in paragraph 540.3 A5.
- Whether the inclusion of references to Section 120 in the Introduction and paragraph R540.3, if repeated as a practice throughout the Code, might make redundant the gray banner across the top of every page in the Code which referred to Section 120.

#### FORWARD TIMELINE

Mr. Fleck indicated planned outreach on the project to the Forum of Firms and the National Standard Setters liaison group in May and June 2016, respectively. He added that, subject to the responses to the re-ED, the Task Force would present the final long association provisions to the Board with a view to approval at the September 2016 IESBA meeting.

#### WAY FORWARD

The IESBA asked the Task Force to take into account the comments from IESBA members concerning the restructuring of the long association provisions and to present a revised draft of the provisions for the Board’s consideration at its June 2016 meeting.

## 5. **Fee-Related Initiative**

Ms. Kateka introduced the topic, summarizing the changes that had been made to the draft Terms of Reference (ToR) of the Fees Working Group (WG), including the clarified objectives and areas of focus, additional discussion about the planned approach, and timing for the research to be conducted. She noted that the document included additional language to indicate the public interest benefit to be derived from the fee-related initiative. Ms. Kateka drew the Board's attention to the draft scope of work, and informed the Board that Staff would prepare an updated version to incorporate the wording in the finalized ToR.

The IESBA approved the ToR for the WG to undertake fact finding in relation to certain fee-related matters. IESBA members affirmed the importance of moving forward with initial fact finding to provide a basis for determining any future action that may be warranted on the topic of fees, including the scope and focus of such action. In addition to editorial refinements, IESBA members agreed to revisions to the draft ToR in response to the following substantive comments aimed at refining the scope and focus of, and approach to, the fact finding initiative.

### OBJECTIVE, INCLUDING AREAS OF FOCUS

- Some IESBA members were of the view that there was a need for greater specificity and focus in the objectives of the fact finding as there is a significant amount of research that is publicly available on the topic of fees. They were of the view that an overly broad scope would make it more challenging for the WG to draw meaningful conclusions from the findings and therefore develop appropriate recommendations to the Board. There was agreement that the focus should be on the ethical implications of the fee-related matters. There was also a view that the fact finding should seek to determine whether there is an empirical relationship between fees charged and compliance with the fundamental principles.
- Some IESBA members reiterated the need to consider the activities and safeguards within firms to address threats created by fee-related issues. Ms. Kateka explained that as part of its fact finding, the WG plans on leveraging discussions with firms, including the Forum of Firms, and will consider the need for surveys or other tools as needed.
- The ToR should be neutral and open. Suggestions included:
  - Toning down any presumptions regarding possible outcome(s) of the fact finding. For example, there were varying views about how to refer to concerns that regulators have raised about the level of non-assurance services provided to an audit client and the likelihood that this may threaten independence.
  - Removing the specific references to the fundamental principle of professional competence and due care.
  - Avoiding creating unrealistic stakeholder expectations, for example, that the IESBA would be undertaking extensive research on the topic of fees.

### APPROACH

- Some IESBA members asked that the ToR clarify the approach to be used for conducting the fact finding and how the WG planned to conduct outreach to stakeholders. There was also a suggestion

that the list of stakeholders be expanded to include: investors, regulators and audit oversight bodies, audit firms and TCWG.

Revisions were made to the draft ToR to clarify that the fact finding would encompass:

- Benchmarking – Understanding the nature and extent of regulatory responses in the areas noted by analyzing relevant ethical rules and regulations, with a focus on G20 countries; and
- Academic research – Gathering relevant empirical evidence in the areas noted with respect to actual and perceived threats to auditor independence and compliance with the fundamental principles and how they are being addressed.

The Board also agreed to clarify that the review of relevant literature, which would be performed by an academic, would extend not only to information generated by academics but also publicly available information on the topic.

#### TIMING

- The IESBA agreed that the ToR should clarify the planned timing for the activities of the WG, including key milestones and the planned timing for Board interactions.

#### WAY FORWARD

Ms. Kateka thanked the Board members for their comments and for their approval of the ToR (the approved ToR of the Working Group are included in the Appendix to these minutes for information). Ms. Kateka explained that based on the agreed parameters in the ToR, Staff will liaise with relevant individuals within IFAC to identify an academic to perform the literature review.

The IESBA will consider a progress report on the fact finding at its September 2016 meeting.

## 6. Safeguards

### PHASE 1 – RECAP OF SAFEGUARDS ED-1

Mr. Hannaford introduced the topic, summarizing the IESBA's proposals in the December 2015 Exposure Draft, [\*Proposed Revisions Pertaining to Safeguards in the Code – Phase 1\*](#) (Safeguards ED-1).<sup>6</sup> He

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<sup>6</sup> The Safeguards ED-1 includes:

- Enhancements aimed at clarifying the conceptual framework (CF) by shifting the professional accountant's (PA's) focus to identifying, evaluating and addressing threats to compliance with the fundamental principles rather just seeking to apply safeguards.
- New requirements in proposed Section 120, *The Conceptual Framework* that more explicitly direct PAs to identify, evaluate and address threats to compliance with the fundamental principles.
- A requirement for PAs to re-evaluate those threats if new information becomes available, or if facts and circumstances change.
- Improved descriptions of the following terms and concepts:
  - Reasonable and informed third party;
  - Acceptable level; and
  - Safeguards.

reminded the Board that the purpose of the Safeguards project is to review the clarity, appropriateness and effectiveness of safeguards in the extant Code, including those safeguards that pertain to non-assurance services (NAS) in extant Section 290.<sup>7</sup> He added that the proposals in Safeguards ED-1 were drafted in the proposed new structure and drafting conventions developed under the Structure of the Code project. As such, the Task Force had been working closely with the Structure Task Force and would need to continue to do so.

Dr. Thomadakis noted that the IESBA anticipates that the responses to Safeguards ED-1 and the December 2015 Exposure Draft, [\*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1\*](#) (Structure ED-1) may overlap. Because of this, he stressed the need for the Safeguards and Structure Task Forces to coordinate with one another in a timely and effective manner to appropriately inform the June and September 2016 IESBA discussions. Mr. Hannaford agreed.

An IESBA member asked for clarification about the proposal for conditions, policies and procedures established by the profession, legislation or the firm not to be considered safeguards. Mr. Hannaford explained that the extant Code characterizes these matters as safeguards, but that was not the case in Safeguards ED-1. He further explained the Board's view that these matters do not meet the proposed description of safeguards, but rather should be characterized as factors that will affect the PA's identification of threats to compliance to the fundamental principles, and possibly the PA's evaluation of those threats. He added that the proposed description of safeguards calls for the PA to take specific actions that individually or in combination would effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.

#### PHASE 2 – PROPOSED CONSEQUENTIAL AMENDMENTS ARISING FROM SAFEGUARDS ED-1

##### *Application of the CF to Independence – Proposed Section 400<sup>8</sup>*

Mr. Hannaford noted that consequential amendments were needed to the proposals pertaining to the application of the CF to independence in Structure ED-1 as a result of the Safeguards project.<sup>9</sup>

##### *Linkage Between Independence and the Fundamental Principles*

Mr. Hannaford drew the Board's attention to the sections in Structure ED-1 that described the linkage between independence and the fundamental principles (i.e., objectivity).<sup>10</sup> He explained that the Task Force was of the view that the provisions set out in Safeguards ED-1 (i.e., proposed Sections 120 and 300<sup>11</sup>) pertaining to threats to compliance with the fundamental principles should also apply with respect to threats to independence. He added that the Safeguards and Structure Task Forces had met in person in advance of the IESBA meeting and concluded that further revisions might be needed in the CF (i.e.,

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- A new requirement for the PA to perform an overall assessment (i.e., "step back") by reviewing judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level and that no further action is needed.

<sup>7</sup> Extant Section 290, *Independence – Audit and Review Engagements*

<sup>8</sup> Proposed Section 400, *Application of Conceptual Framework to Independence for Audits and Reviews*

<sup>9</sup> The Task Force suggested consequential amendments principally to proposed Section 400 of Structure ED-1.

<sup>10</sup> See paragraph 3 of the proposed Guide, and proposed paragraphs 112.A1 and 400.1–400.2 of Structure ED-1. Those paragraphs correspond to paragraphs 290.1, 280.2 and 290.4 of the extant Code.

<sup>11</sup> Proposed Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*

proposed Section 120) to further clarify the linkage between independence and the fundamental principles. He noted that the need for such clarification was flagged at the CAG meeting the previous week. This would make it clearer to users of the Code that the provisions in proposed Section 120 also apply with respect to threats to independence. He noted that the Task Forces believed that as a start, the following wording could be added at paragraph 120.3 A1:

“PAs are required to apply the CF in order to comply with the fundamental principles in a wide variety of roles and circumstances. ...Part C, *Professional Accountants in Public Practice*, including the International Independence in C1 and C2, set out additional requirements for applying the CF.”

Mr. Thomson agreed. He explained that consistent with the extant Code, the CF set out in proposed Section 120 is described in terms of the fundamental principles and do not explicitly refer to threats to independence. He further explained that feedback on outreach to stakeholders, particularly regulators, indicates that PAs do not always consider the fundamental principles or the CF when considering independence matters. On the other hand, PAs have expressed concern that regulators do not always acknowledge PAs' application of the CF as a means of evidencing their compliance with independence requirements. As a response of these concerns, the Board had therefore sought to clarify the linkage between independence and the fundamental principles in Structure ED-1.

The Board reaffirmed its view that the provisions in the CF should also apply to threats to independence in the same way as they apply to threats to the fundamental principles. The Board was generally supportive of the Task Force's proposals, including the need to refer to threats to independence in the CF (i.e., proposed Section 120).

IESBA members provided various editorial suggestions for improving the Task Force's proposed wording, including avoiding duplicating paragraph R120.3 in the first sentence of 120.3 A1.

In light of the feedback from the CAG, the Board agreed that the description of the linkage between independence and the fundamental principles should be enhanced (paragraph 400.1), in particular the phrase “Independence is a measure of objectivity both in mind and appearance, which is applied to audit engagements...”. The Board agreed that this work should be informed by the feedback to Structure ED-1.

The Board deliberated what should be included in the Code with respect to the linkage between independence and the fundamental principles. Varied views were expressed as follows:

- Several IESBA members were of the view that independence should not be characterized as a fundamental principle in the Code. An IESBA member cautioned against the risk of overemphasizing the concept of independence, or giving it too much prominence in the Code, when actually many of the fundamental principles are truly important. Mr. Koltvedgaard agreed. Mr. Hannaford explained that the Task Force did not view independence as a fundamental principle, but believed that the Code would be enhanced with a more explicit explanation of why the CF should also be applied with respect to threats to independence.
- On one hand, some IESBA members viewed independence as a concept that is relevant to audits and other assurance engagements, and thus is applicable to only auditors and providers of assurance engagements. An IESBA member was of the view that “independence is a step along the way to compliance with the fundamental principles.” Another IESBA member noted that independence facilitates compliance with the fundamental principles.

- On the other hand, there was a view that independence of mind is always relevant, irrespective of the professional services or activities being provided, and is applicable to all PAs. In this regard, an IESBA member suggested that the phrase "...which is applied to audit engagements" in proposed paragraph 400.1 be deleted. The IESBA member commented that the concept of "independence of mind" as described in the Code is essentially the same as objectivity, while "independence in appearance" is applicable to auditors and providers of assurance engagements only. Another IESBA member added that independence should apply to all PAs, but the work effort expected in terms of how threats to independence are evaluated and addressed should differ based on the type of PA (i.e., whether the PA is a PA in business (PAIB), auditor, etc.). An IESBA member cautioned against regarding independence as being applicable to all PAs, as this could imply that all PAs would be subject to the independence requirements in extant Section 290. Mr. Koktvedgaard wondered about the implications for the location of the material in the Code if it were felt that independence of mind applies to PAIBs.
- Mr. Muis expressed the view that independence is an "enabler" of objectivity but not a guarantee of it. He highlighted stakeholders', including regulators', desire for clarity about the linkage between the two in the Code. An IESBA member commented that it is important for the Code to distinguish between the specific objectives that PAs should be required to achieve, and the "enablers" that facilitate the achievement of those objectives (i.e., compliance with the fundamental principles). The IESBA member noted that "independence of mind" is essentially a way of achieving the fundamental principle of objectivity, just as the CAG has recognized that professional skepticism and "moral courage" are other important enablers. The IESBA member was of the view that articulating the linkage between these "enablers" in the Code is a fundamental challenge.
- A few IESBA members were of the view that thinking about the enabling function of independence would be a more helpful approach to describing the linkage between independence and objectivity than describing independence as a measure of objectivity.
- An IESBA member noted that there is much external literature available that addresses the linkage between independence and objectivity, and cautioned against "reinventing the wheel."

Dr. Thomadakis acknowledged the points raised, but cautioned against a broader change in the Code fundamentally, noting that the project originated from regulatory concerns regarding the clarity, appropriateness and effectiveness of the safeguards in the Code. Reflecting on the remit for the Safeguards project, he suggested that the Task Force consider how to better leverage the proposals in Safeguards ED-1 (e.g., the proposals to better align safeguards to threats) with respect to threats to independence in appearance.

The Board agreed that the work to improve the linkage between independence and the fundamental principles should be progressed by the Structure Task Force in coordination with the Safeguards Task Force. The Board also agreed to leverage, to the extent practicable, existing national codes, laws or regulations that describe independence and its linkage to the fundamental principles.

#### *Requirements and Application Material Pertaining to Threats to Independence*

Mr. Hannaford explained that the Task Force believed that the overarching requirement to apply the CF

set out in paragraph R400.9 should be supplemented by stand-alone provisions.<sup>12</sup> He indicated that the Task Force is of the view that absent explicit references to threats to independence in proposed Section 120, it is important for the Code to emphasize certain requirements and key concepts in proposed Section 400, even if it meant repeating them. He noted that with a clearer description of the link between independence and the fundamental principles, this repetition might not be needed.

The Board cautioned the Task Force against an approach that involves repeating some, but not all of the requirements and application material in the CF (i.e., proposed Section 120) in proposed paragraphs R400.10–R400.15, in the context of identifying, evaluating and addressing threats to independence. Some IESBA members were of the view that such an approach could potentially be confusing. Other comments raised included the following:

- Notwithstanding the IESBA conclusions reached in paragraph 400.7, an IESBA member felt that directing the requirements and application material pertaining to threats to independence in proposed Section 400 to “the firm” rather than “the PA” makes certain provisions in the Code unclear (e.g., proposed paragraph R400.15 that deals with the overall assessment).
- An IESBA member questioned whether the reasonable and informed third party would be expected to be aware of the specific safeguards that might be applied by the firm to address threats to independence.
- An IESBA member was of the view that the application material with respect to evaluating threats in proposed paragraph 400.12 A2 that reads “Whether an audit client is a public interest entity might impact the level of a threat to independence...” should apply only to “independence in appearance” and not to “independence of mind.” The IESBA member characterized the latter as analogous to objectivity. Mr. Hannaford explained that the Task Force did not attempt to separate the concepts of “independence in appearance” and “independence of mind” in progressing its work.

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<sup>12</sup> The Task Force believed that the consequential amendments to proposed Section 400 should include:

- A requirement for firms to perform an overall assessment by reviewing judgements made and overall conclusions reached to determine that threats to independence are eliminated or reduced to an acceptable level and that no further action is needed (i.e., a step-back provision).
- New application material to:
  - Explain that threats to independence are similar to threats to the fundamental principles;
  - Reinforce the importance of the reasonable and informed third party test in the context of dealing with threats to independence; and
  - Better assist firms to evaluate threats to independence.



Mr. Muis suggested that the Task Force further reflect on the lessons learned from, and the actual and perceived reasons for, the global financial crisis, and consider how the Code may better assist PAs avoid the risk of “collective ignorance.” He was of the view that the crisis occurred because different categories of PAs (PAIBs and auditors) did not constructively challenge information presented (e.g., auditors did not sufficiently challenge the information that they received from management).

#### *Documentation*

Mr. Hannaford noted that the Task Force considered further consequential changes to proposed paragraph R402.2<sup>13</sup> to improve the requirement for firms to document their conclusions about independence. He noted that the CAG was broadly supportive of the Task Force’s suggested changes. The Board expressed a preference for the proposal as drafted in Structure ED-1, before the Task Force’s proposed revisions.

Mr. Hannaford noted that a CAG Representative had suggested that the IESBA reconsider the wording in proposed paragraph 402.1 A1 (which reads “A lack of documentation does not determine whether a firm considered a particular matter or whether a firm is independent as required by C1”), as this wording sounded defensive.

#### *Communication with Those Charged with Governance*

Mr. Hannaford highlighted the requirements for communication between the firm and TCWG about independence matters which may exist in applicable professional standards,<sup>14</sup> law or regulation.<sup>15</sup> He noted that the Code encourages but does not require such communication. He then asked for views about whether the Code should explicitly require auditor communication with TCWG about independence matters and whether such requirements should be aligned with the provisions in the ISAs (i.e., apply to listed entities only).

Generally, the Board was supportive of enhancing auditor communication with TCWG, but cautioned against undertaking revisions only about independence matters. Many IESBA members were of the view that while important, enhancing auditor communication with TCWG was a broader issue that went beyond the scope of the Safeguards project. They also suggested that broader consideration be given to environmental factors such as the EU audit reforms in order to determine at a fundamental level what should be communicated to TCWG.

The Board was of the view that auditor communication with TCWG, in itself, is not a safeguard but could improve transparency and, in some cases, increase the effectiveness of the safeguards.

The Board had mixed views about whether auditor communication with TCWG should be required for listed entities, public interest entities (PIEs) or all entities, taking into account the difficulty of identifying those with a governance role in smaller entities. However, the Board agreed that any consideration of changes to the Code on this topic should be coordinated with the IAASB, and generally should not go beyond what is currently required under the ISAs.

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<sup>13</sup> Proposed Sub-section 402, *General Documentation of Independence for Audit and Review Engagements*

<sup>14</sup> For example, International Standard on Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance* included provisions, for audits of listed entities only, for auditors to communicate with TCWG about independence matters.

<sup>15</sup> See proposed R400.15 of Structure ED-1 (paragraph 290.28 of the extant Code).

## PHASE 2 – ISSUES AND TASK FORCE PROPOSALS PERTAINING TO SAFEGUARDS IN THE NAS SECTION OF THE CODE

Mr. Hannaford presented the Task Force's proposals and its plans for revising the NAS section of the Code. He noted that the Task Force had done an extensive review of the extant NAS section of the Code. He then described the Task Force's preliminary views about the improvements that should be made.

The Board generally supported the Task Force's proposals, but cautioned against its plans for taking a "holistic" approach in progressing its work. Dr. Thomadakis applauded the Task Force's enthusiasm and diligence to address the NAS-specific issues in a holistic manner, but asked that the Task Force be mindful of constraints, in particular the limited project scope and time constraints, the fact that this project was not being undertaken in a "vacuum," and the potential for creating new areas of coordination with the Structure project.

The Board asked that the Task Force be mindful of the NAS pronouncement issued in April 2015, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#), so as to not re-open debates about the permissibility of NAS provided to an audit client.

The following other matters were raised:

### *Principles and Criteria*

- An IESBA suggested that the Task Force carefully consider whether different positions (akin to those in the extant Code) should be taken with respect to operationalizing the overarching principles set out in paragraph 28 of the agenda materials. For example, questions were raised about whether the Task Force should plan to expand certain PIE prohibitions to non-PIEs.
- An IESBA member was of the view that the matters that the Task Force described as "overarching principles" are in fact prohibitions, and suggested that they be characterized as such. Mr. Hannaford confirmed that the referenced matters are the prohibitions that exist in the extant Code, and indicated that moving forward the Task Force will use a different term to describe that aspect of its proposals.
- An IESBA member observed that the Task Force's proposed approach could potentially result in the unintended consequence of having the NAS section of the Code become rules-based rather than staying principles-based. Mr. Hannaford explained that proposed Section 120 noted that there are some types of threats created by certain situations for which there are no safeguards that could reduce them to an acceptable level – i.e., prohibitions. Mr. Hannaford noted that the Task Force was simply trying to more prominently feature examples of those situations in the NAS section of the Code, a suggestion that had been made by some CAG Representatives.
- An IESBA member cautioned against the proposal to retitle the section "Management Services" to "Prerequisites...." It was suggested that the Task Force further consider the matters within the Management Services and confirm whether they all should be characterized as a prerequisite for providing a NAS to an audit client.

### *Examples of NAS-Specific Safeguards*

- The Board asked that the Task Force clarify the example of the NAS-specific safeguard in the agenda materials for addressing threats to independence created from self-review, self-interest, familiarity and advocacy threats that reads "engage another firm to evaluate the results of the

NAS.” Specifically, the Board asked that the Task Force indicate whether this is an action that should be performed by the firm, the client, or both.

*Communication with TCWG about NAS Provided to an Audit Client*

- An IESBA member pointed to the requirement for communication with TCWG in proposed Section 400 and questioned whether there was a need to also have additional requirements in the NAS section of the Code. There was also a view that the Code should include additional application material about how auditors should apply existing communication requirements to TCWG. Mr. Siong suggested that the Task Force consider application material in ISA 260 (Revised), for example, paragraph 3.

WAY FORWARD

Mr. Hannaford thanked the IESBA members for their input, and indicated that the Task Force will present the significant comments received on Safeguards ED-1 and related Task Force proposals, as well as a first draft of the proposed changes to the Code pertaining to NAS at the June 2016 IESBA meeting.

**7. Review of Part C of the Code**

RESTRUCTURING OF PHASE 1 CLOSE-OFF DOCUMENT

Ms. Agélii introduced the topic, recapping the history of the Part C project and detailing the forward timeline for the project. She explained that the Task Force had restructured the Phase 1 close-off document in line with the proposed new structure and drafting conventions established in the Structure project. She also noted that in developing the agenda material, the Task Force had liaised with the Structure Task Force to obtain initial feedback on the proposed restructuring.

Ms. Agélii then outlined the key restructuring changes to the close-off document, noting that paragraphs containing references to threats and safeguards may be subject to further change as a result of the Safeguards project. She then invited feedback from the Board on the proposed restructured text and the matters for consideration in the agenda material.

*Footnoting the Definition of a PAIB*

Ms. Agélii explained why the Task Force felt that a footnote stating the definition of a PAIB was not needed.

Some IESBA members agreed that there was no need for the footnote to simply duplicate the definition of a PAIB. An IESBA member noted that footnotes within the Code may be problematical in jurisdictions where standards are transposed into legislation, as legislation generally does not utilize footnotes.

An IESBA member noted that the term “professional accountant in business” had been used on its very first occurrence in the restructured text and then abbreviated to either “professional accountant” or just “accountant” in the remainder of the text. The IESBA member was of the view that users of the Code may not appreciate that all three terms are referring to a PAIB. Mr. Thomson explained that, as per the Structure guidelines, the first occurrence should be “professional accountant in business,” after which the term “professional accountant” should be used the first time it appears in a paragraph with subsequent references in the same paragraph being simply to “accountant”. A few IESBA members expressed concern as to whether a user might be confused as to whether the terms “professional accountant” and

“accountant” are referring to a PAIB or a PA in public practice (PAPP). They suggested the following options for the Task Force’s further consideration:

- Using the acronym “PAIB” in place of “professional accountant” or “accountant.”
- Instead of a footnote, adding guidance in brackets after the term “professional accountant in business” clarifying that a PAIB will now be referred to as “professional accountant” or “accountant.”

#### *Restructuring of Extant Paragraph 310.4<sup>16</sup>*

Ms. Agélii explained the Task Force’s view that it would be better to restructure the extant paragraph 310.4 by placing the application paragraph before the requirement paragraph, in an exception to the restructuring guidelines.

Some IESBA members agreed that the application paragraph should be placed ahead of the requirement paragraph to ensure that the focus of the guidance remains on encouraging the PAIB to seek guidance when addressing a conflict of interest.

In addition to an editorial comment, an IESBA member suggested that the guidance could include a reminder of the overarching requirement to observe confidentiality rather than a specific requirement to consider confidentiality when making disclosures. Another IESBA member agreed with this view. Mr. Siong noted that the requirement within the extant 310.4 is not a reminder to comply with the fundamental principle of confidentiality, but an exhortation to pay particular attention to this fundamental principle when making disclosures.

After further deliberation, the Board asked that the Task Force reconsider the proposed restructuring of this paragraph to ensure that the focus of the guidance is not lost.

#### *Reference to the Conceptual Framework*

Ms. Agélii explained that, as no mention is made of threats and safeguards in the restructured Section 220,<sup>17</sup> the Task Force decided, in an exception to the guidelines, not to refer to the conceptual framework in the opening paragraph.

An IESBA member expressed the view that since reference to the conceptual framework had already been made at the very beginning of the restructured text, it is acceptable not to refer to it within this section.

Mr. Thomson noted that should the Safeguards Task Force add guidance on the application of safeguards in the restructured Section 220, doing so would affect the decision not to refer to the conceptual framework at the start of this section. Mr. Hannaford indicated that the Safeguards Task Force would consider this matter when reviewing whether guidance on safeguards is necessary in this section.

#### *Editorial Change to Extant Paragraph 320.2<sup>18</sup>*

Ms. Agélii explained the amendments made as a result of restructuring the extant paragraph 320.2, highlighting Task Force’s decision to remove the phrase “who are responsible” from the extant guidance.

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<sup>16</sup> Extant Section 310, *Conflicts of Interest*

<sup>17</sup> Proposed Section 220, *Preparation and Presentation of Information*

<sup>18</sup> Extant Section 320, *Preparation and Presentation of Information*

An IESBA member felt that if the phrase was not removed the restructured guidance would appear repetitive and hence agreed with the Task Force. Another IESBA member took an opposite view, noting that the extant wording provided a context as to whom the guidance is applicable, which had been lost in the restructuring. The restructured guidance now appeared to be applicable to all levels of PAIBs, including junior PAIBs, possibly creating an unattainable goal for junior accountants. The Board asked the Task Force to further reflect on the matter.

*Restructuring of Examples of Preparing or Presenting Information*

Ms. Agélii explained the Task Force's dilemma on whether the examples of preparing or presenting information in the extant paragraph 320.2 should constitute part of the requirement to comply with the fundamental principles when preparing or presenting information or should be restructured as application material.

In addition to editorial suggestions, the Board broadly indicated that the examples should be positioned as application material.

*Restructuring of Extant Paragraph 320.3*

Ms. Agélii explained the Task Force's approach to restructuring the extant paragraph 320.3 by creating a requirement paragraph mandating that a PAIB not prepare or present information with the intention of misleading others, and an application paragraph detailing the context of the requirement.

In addition to editorial suggestions, the following matters were raised:

- The proposed restructuring appeared to have resulted in the essence of the extant provision being lost. The extant provision states that a PAIB should not use discretion to mislead. It then explains the parties and stakeholders that the PAIB could mislead. In contrast, the restructured text appeared to provide guidance on performing a professional activity that is beyond a reporting framework and then highlighted the need to consider the target audience to ensure that the information is not misleading.

Acknowledging the comment, a Task Force member noted that during the restructuring process, instances had arisen where following the Structure guidelines had resulted in the essence of the extant provisions not being accurately reflected in the restructured provisions. The Task Force had liaised with the Structure Task Force to address this matter. Mr. Thomson noted that while the Structure guidelines are intended to be applied in drafting the entire Code, they might need to be modified if the Board believed that the restructuring changed the essence of the extant guidance. Mr. Siong noted that the matter of ensuring that the restructuring does not change substance concerned the entire Code, not than just this paragraph. He indicated that a requirement can be prefaced with a context to ensure that the requirement is not interpreted incorrectly. He suggested that the Task Force consider this approach rather than restructure the context as application material.

- The extant provision should not be restructured as a requirement as this could contradict standards set by accounting standard setters, as compliance with those standards is generally deemed to result in financial statements that are fairly presented. This could also discourage accountants from using their judgement and discretion in their work. In addition, it is unclear how the intentions of a PAIB could be established. Mr. Siong noted that the extant provision clearly requires a PAIB not to

use discretion to mislead. He added that the Board had debated this provision at length. Accordingly, he cautioned against changing the meaning of the provision.

- The provision on preparing or presenting information with the intention of misleading should be restructured as a requirement. In addition, consideration should be given to supplementing the requirement paragraph with examples of situations where discretion could be used to mislead, with examples of how discretion could be used to mislead provided as application material.

Mr. Siong noted that the extant wording contains a requirement not to exercise discretion with the intention to mislead, whereas the restructured wording contained a requirement not to prepare or present information with the intention of misleading. There was therefore a need to reinstate discretion into the restructured text.

- A decision should be made as soon as possible as to whether it is acceptable to place an application paragraph ahead of a requirement paragraph when restructuring in order to provide clear direction to other Task Forces. Mr. Thomson noted that the Structure Task Force would reconsider the Structure guidelines once responses to the Structure Exposure draft have been received.

#### *Reference to the Conceptual Framework*

Ms. Agélie explained the Task Force's proposal not to refer to the conceptual framework in the opening paragraph of the restructured Section 270<sup>19</sup> as no mention is made of threats and safeguards in this section. This is consistent with the restructured Section 220. The Board supported the Task Force's proposal.

#### PHASE 2 – APPLICABILITY OF PART C TO PAPPs

Ms. Agélie explained that the Code is currently structured so that provisions dealing with ethical matters between PAPPs and their clients are contained within the extant Part B, and provisions dealing with ethical matters between a PAIB and the PAIB's employing organization within the extant Part C. Currently, there is little guidance within the Code to indicate that PAPPs may need to consider relevant provisions within the extant Part C. She outlined the options the Task Force had considered to clarify that guidance within Part C might be applicable to PAPPs along with the pros and cons of each option. These options are:

- (a) Duplicate relevant Part C provisions in Part B for PAPPs;
- (b) Amend or clarify the definition of a PAIB to include PAPPs; and
- (c) Add an explanatory paragraph clarifying that provisions within the Code should be considered holistically.

The Task Force's preference was for Option (c).

IESBA members broadly agreed that the provisions in extant Part C might be applicable to PAPPs in the relevant circumstances, and supported the Task Force's preferred option for the holistic approach.

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<sup>19</sup> Proposed Section 270, *Pressure to Breach the Fundamental Principles*

In addition to editorial comments on the proposed explanatory paragraph, the following matters were raised:

- The current format of the Code, which is divided into parts addressing PAPPs and PAIBs separately, does not lend itself well to addressing the recent increase in shared services centers. This development has resulted in accountants providing professional services but not to external clients, which has blurred the distinction between the two categories. In addition, as the profession has evolved it has become feasible for an accountant to concurrently work in different roles that carry different categorizations.
- An accountancy firm in some countries may not be classified as a commercial business, but as an organization conducting economic activities. As a result, PAs working for them would be classified as PAIBs. Hence, caution should be taken over the use of the term “commercial business” in the explanatory paragraph. However, a view was also expressed that accountancy firms should be classified as commercial businesses. Hence, a possible solution would be to clarify that a firm is also a business. Accordingly, Part C may be relevant to employees of the firm depending on their role.

There was some support for the view that a firm should be classified as a business. Hence, the role an accountant takes within the organization, not the nature of the organization, should determine whether the accountant should be classified as a PAIB or a PAPP.

- Consideration should be given to providing direction to PAPPs on which sections in Part C could be applicable to their particular circumstances. Alternatively, a statement could be added in Part A indicating that PAPPs need to consider all of Part C.

Mr. Siong suggested that consideration could be given to including guidance in the proposed explanatory paragraph to assist PAPPs in deciding which sections of Part C are relevant. There was some doubt as to whether this option would be feasible, as the applicability of the provisions in Part C would depend on the role the PAPP is occupying and hence there may not be an alternative to considering all of Part C. A Task Force member agreed, noting that there were no provisions within Part C that all PAPPs could entirely discount. Accordingly, signposting could mislead PAPPs on the relevance of certain provisions and might inadvertently result in guidance being overlooked.

- Mr. Thomson indicated that the proposed paragraph would likely get included in the “Guide to the Code.” Accordingly, clarification would be needed as to who is covered by the term “professional accountant.”

#### *PIOB Observer's Remarks*

Mr. Muis suggested that the Board consider how employers could be made to better recognize the professional duties of an accountant. This might assist accountants in deciding which sections of the Code are applicable to them. He suggested the creation of a “Bill of Rights” requiring employers to recognize the professional duties of accountants and also possibly the right of legal support to avoid the accountant being exposed to all the consequences of their actions. He felt that this might also increase the effectiveness of the work of the Board by emphasizing that professional accountants not only have obligations, but also the concomitant rights, to follow the Code.

## WAY FORWARD

Ms. Agéllí thanked the Board for its feedback, noting that the Task Force would present a revised draft of the restructured text of Phase 1, together with the proposed explanatory paragraph regarding the issue of the applicability of Part C to PAPPs, at the June 2016 IESBA meeting. The Task Force will then focus its attention on extant Section 350.<sup>20</sup>

### 8. Professional Skepticism

Mr. Fleck and Ms. Sakshaug provided an update on the activities of the Professional Skepticism Working Group (PSWG), noting that the topic was addressed in the IAASB's December 2015 [Invitation to Comment, Enhancing Audit Quality in the Public Interest](#) (ITC). Mr. Fleck noted that the IESBA CAG and IAASB CAG had a joint session the previous week to share reactions to the issues raised in the ITC. He indicated that the CAGs provided a number of suggestions about how auditors may enhance professional skepticism. Specific to the IESBA, Mr. Fleck noted that there was a general view that the IESBA should consider the merits of having additional wording in the Code to describe the interaction between professional skepticism and the fundamental principles. For example, it was suggested that the Code clarify that professional skepticism is an important attribute, as is "moral courage," that enables or drives compliance with the fundamental principles.

Generally, the IESBA agreed to explore whether and how the proposed restructured Code might acknowledge and describe the interaction between professional skepticism and the fundamental principles.

The following comments and suggestions were made:

- Mr. Koltvedgaard questioned whether the IESBA should seek to understand whether there are other enablers to achievement of the fundamental principles. Mr. Fleck agreed that any consideration of enablers would need to be done in a holistic manner.
- Some IESBA members observed that the concept of professional skepticism as it is referenced in the extant Code is linked to a description of independence and is relevant to audit engagements only. They commented that having a discussion about the concept of professional skepticism in close proximity to the material on fundamental principles may raise questions about whether the concept should be relevant to non-audit engagements.
- Some IESBA members noted that professional skepticism describes a mindset rather than a specific action and should apply more broadly to all professional accountants, including those responsible for preparing financial statements. An IESBA member was of the view that the concept extends more broadly to other professions and is not unique to auditing, ethics and accounting. Ms. Sakshaug explained that the work of the PSWG to-date has indicated that the issue in practice lies not in the definition of professional skepticism, but rather in the application of the concept.
- Dr. Thomadakis wondered whether there are existing concepts or explanatory material in the extant Code or Safeguards ED-1 (e.g., reasonable and informed third party, overall assessment/ stepping back) that essentially describe what is commonly understood to be behavior exhibiting professional skepticism.

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<sup>20</sup> Extant Section 350, *Inducements*



Mr. Siong suggested that the Board consider how to respond to the concerns that have been raised by regulators and others with respect to the exercise of professional skepticism.

#### WAY FORWARD

Dr. Thomadakis acknowledged the perspectives shared. He noted the need for further fact-finding to understand the root causes of the issues raised, and suggested that an opportunity to do so might be at the April 2016 IFIAR plenary meeting. He also noted the need for further reflection within the Planning Committee about the possible actions that the Board might take in considering a way forward, including whether there is a need for a dedicated IESBA Professional Skepticism working group.

### 9. Emerging Issues

#### G20 COUNTRY PRESENTATIONS

Mr. Mihular introduced the topic, noting that the presentations on adoption of the Code in Saudi Arabia and Brazil to be made at this meeting would conclude the series of country presentations focusing on the G20 and major financial centers. The EIOC would then review key differences between the Code and national ethical requirements in those jurisdictions and present its analysis and recommendations for action, if any, to the Board at the earliest opportunity.

##### *Saudi Arabia*

Mr. Mihular presented information relating to the Saudi Arabian code, summarizing the local standard-setting process, the history and legal standing of the local code, and how standards within the local code compared to the IESBA Code. In highlighting the key differences between the two codes, he noted that these differences were predominantly cultural in nature, specifically in relation to a prohibition on NAS and the more restrictive independence standards related to close family members. In addition, there was no local definition of a PIE. He noted that the current focus of standard setters in Saudi Arabia was to fully adopt and implement International Financial Reporting Standards (IFRS), with updating of the ethics code taking a lower priority due to staff resource constraints.

Ms. Soulier provided additional information, noting that the prohibition on NAS was only recently adopted. Prior to this change, the restrictions on NAS had been closer to those in the Code. However, it is somewhat unclear whether the NAS prohibition applies to firms or network firms. On a more general basis, the requirements in Saudi Arabia are very close to the Code, although it has supplementary restrictions linked to family relationships. She noted that while there is no definition of a PIE within the local legislation, standards relating to PIEs within the Code are applied with respect to financial institutions in Saudi Arabia. In practice, therefore, the Code is being adhered to a greater extent than perhaps one might perceive at first glance.

The following matters were raised:

- Whether there were any plans to assist jurisdictions with significant differences to upgrade their local codes. Mr. Mihular indicated that through outreach, jurisdictions would be encouraged to further align their national ethical requirements with the Code. He added that while some local codes appear to be more restrictive in some areas, an analysis of the differences between the local codes and the IESBA Code is needed to understand the nature of the differences.
- Whether the exercise could be bilateral, i.e., promoting the IESBA Code in the local jurisdiction while at the same time gathering information regarding implementation of the Code that could be

useful to the Board. Dr. Thomadakis concurred, noting that there is an opportunity to disseminate knowledge about the Code while also seeking to understand whether there are any “gaps” in the Code.

### *Brazil*

Mr. Juenemann outlined the regulatory and standard-setting framework in Brazil. He noted that Brazil has committed to be fully aligned with IESBA and IAASB standards, with the last major alignment effort in 2014. A task force is currently in place with the mandate of achieving full alignment. He noted that the Brazilian code is generally in line with the IESBA Code and highlighted minor differences between the two. These relate to the local code containing different disclosure and rotation requirements and additional guidance on threats and safeguards. An IESBA member clarified that partner rotation and firm rotation are for the same number of years in Brazil, so in essence the two are the same.

Mr. Juenemann also clarified that two different categories of accountants exist in Brazil. Each category requires a different set of competencies and skills. Possession of these determines an accountant's classification, and the local code would then apply regarding fulfilment of the legal duties of the profession.

An IESBA member wondered how PAs in Brazil kept abreast of changes to the IESBA Code. Mr. Juenemann indicated that while he was not aware of how changes to the IESBA Code are translated into the local code, it is likely to be a challenge to keep abreast of the changes, especially for SMPs with limited staff resources.

Mr. Juenemann indicated that he would explore the possibility of having a presentation from the Brazilian audit regulator at a future IESBA meeting.

Dr. Thomadakis thanked both presenters and the EIOC for their work.

### INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND'S (ICAS'S) THE POWER OF ONE INITIATIVE AND RELATED DISCUSSION PAPER<sup>21</sup>

Dr. Thomadakis welcomed Anton Colella, ICAS CEO, and James Barbour, ICAS Director of Technical Policy, noting that the Board had already had a preliminary discussion on the ICAS initiative during its executive session.

Mr. Colella introduced the initiative. Among other matters, he outlined the history of the ICAS Code of Ethics, the challenges of having a code that is applicable to both CEOs of large multinational companies and sole practitioners, and the significant amount of outreach to stakeholders required in maintaining such a code. He then outlined the nature of the research behind the initiative, the conclusions drawn from the research, and the objectives of the initiative commenced as a result of the research. He highlighted ICAS's belief that there is a need for a PA to consider individual and corporate values in his or her actions, and that this stance should be directed specifically at accountants during the early stages of their careers.

Mr. Barbour summarized the main proposals by ICAS, including the proposed introduction of “moral courage” as an additional fundamental principle, and proposed enhancements to the descriptions of the current fundamental principles.

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<sup>21</sup> ICAS Discussion Paper, *The Five Fundamental Ethics Principles: Time for Evaluation?*

The following matters were raised, among others:

- The suggestion of moral courage as an additional fundamental principle with amendments to the other fundamental principles would seem to run counter to ICAS's view that the review of the fundamental principles should be done as a whole rather than individually. Mr. Barbour indicated that ICAS did review the other fundamental principles as a whole and concluded that while fit for purpose, they could be improved. He added that the ICAS suggestions were based on research into real life ethical dilemmas.
- While there is merit in exploring the concept of moral courage, the proposed description of moral courage appeared to overlap with the descriptions of some of the fundamental principles in the Code. Mr. Barbour acknowledged this, noting that ICAS would welcome input with a view to determining how the description could be improved.
- Moral courage should be considered an enabler (or a means to an end) to achieve compliance with the fundamental principles, which is the ultimate aim of the Code. Mr. Colella acknowledged that moral courage could be viewed in this manner. However, he expressed the view that the ultimate aim of the Code is not to achieve compliance with the fundamental principles but to ensure the integrity of the financial statements, the achievement of which a principle of moral courage could facilitate. He added that the aim of the ICAS initiative was greater than to simply have the Code revised to encompass moral courage as a fundamental principle. Instead, the aim was to have organizations transfer the principle into the behavior and culture of the organization beyond just compliance with rules, starting with the most senior employees taking the principle and looking to impart it into more junior employees. Mr. Barbour indicated that ICAS's objective of proposing a new fundamental principle was to refocus on what is fundamental in the Code.
- Whether the guidance would be tailored to account for the seniority of the PA and, while ICAS appears to be focusing its message on junior accountants, whether consideration should also be given to how to take the issue to more senior accountants? Mr. Colella indicated that the aim of the initiative was for accountants to be trained and guided on moral issues, regardless of their seniority, and that the guidance was aimed at all levels of accountants regardless of their particular contexts. Mr. Barbour added that the focus of the initiative was on ethical leadership that is proactively cascaded down by senior accountants to more junior accountants and even accountancy students.
- The word "moral" could be interpreted differently across cultures. Hence, "personal" courage might be a more appropriate term to use. Dr. Thomadakis expressed a view that translatability of the word "moral" needed to be considered by ICAS. Mr. Colella acknowledged the concerns, noting that ICAS had felt that the term "courage" on its own was too broad and could be misunderstood, hence the introduction of the word "moral" to distinguish it from other forms of courage. He added that real life dilemmas used in the ICAS research indicated that when accountants find themselves in a position of needing to exercise courage in their actions, they often have little direction on what actions to take but realize that the wrong actions could have adverse consequences. The ICAS initiative was therefore aiming to assist accountants in exercising moral courage when needed, something that is currently apparent in the Code. Mr. Barbour noted that ICAS would consider stakeholder feedback before proceeding.
- A fundamental principle should not have a boundary or limit. Accordingly, there is a question as to whether moral courage fitted the pattern of a fundamental principle. Mr. Colella elaborated that while a valid argument existed that moral courage is implicit in the current fundamental principles,

ICAS was of the view that it needed highlighting, hence the suggestion of having moral courage as a separate principle. He noted that a school of thought existed that a fundamental principle needs to be enforceable. While moral courage might not be enforceable, a similar question could be raised about the fundamental principle of integrity.

- Literature exists that indicates how moral courage could be better incorporated into the teaching process for better results. Mr. Barbour indicated that ICAS would welcome the opportunity to consider additional research, adding that based on his experience the teaching of ethics is best facilitated through the use of real life examples. Mr. Colella noted that the ICAS aim was not to provide theoretical examples and commoditized training, but to provide cases of real life situations to address issues that are not easily dealt with.
- Whether, in acting in the public interest, it is necessary for all types of PAs to take on the issue of moral courage. Mr. Colella indicated that the guidance was aimed at all PAs and not just auditors. He noted that it would not be feasible for auditors alone to adopt this position, as should they be held to a higher standard than other accountants, individuals could question whether they wanted to be auditors, which might not be in the public interest.
- The existence of a robust rule of law could be linked to an individual's willingness to exercise moral courage. Mr. Colella indicated that the work of ICAS had focused on countries where a robust rule of law exists as the majority of ICAS members operate in such countries. He added that the ICAS focus was on embedding morally and ethically appropriate behavior into its members to address issues even before the rule of law becomes a consideration.

Mr. Muis indicated that based on his experience, individuals exhibiting moral courage appear to be the exception to the rule. He expressed a concern about turning what is exceptional behavior into a standard expectation on accountants. He therefore urged the Board to exercise caution in considering how to address the issue. Mr. Colella acknowledged the point, noting that while it may not be clear how the principle of moral courage would be implemented in practice, its existence would bring comfort to users.

Mr. Siong suggested that the Board consider the questions and the challenge raised by ICAS regarding whether the Code will still be effective without a fundamental principle of moral courage, and whether moral courage is needed as an enabler, given that it is not currently mentioned in the Code.

#### WAY FORWARD

Dr. Thomadakis conveyed the Board's appreciation to Messrs. Colella and Barbour for their lively and thought-provoking presentation, noting that the Planning Committee would reflect on the way forward.

#### POST-PRESENTATION REFLECTIONS

Following the presentation, IESBA members briefly shared the following general reactions, among others:

- There is merit in exploring the concept of moral courage. However, it is more an enabler than a fundamental principle.
- There would be an opportunity to link moral courage with professional skepticism to emphasize the behavioral aspects.
- The concept of moral courage as described by ICAS overlaps with the fundamental principles in the Code. If the Board were to tackle the concept, it may be necessary to undertake a comprehensive

review of all the fundamental principles, which would be a significant project, with implications for the rest of the Code.

- There would be benefit in building more proactive thinking into the Code in terms of enablers to achieve compliance with the fundamental principles.
- ICAS is advocating a very specific call for action for PAs to be personally accountable to “do the right thing” as they deal with ethical issues. This may resonate with, and might be favorably viewed by, some stakeholders, including regulators and audit oversight bodies.
- The term “moral courage” might be too aspirational. In addition, the word “moral” may not be well understood and might present translation challenges.

IESBA members had mixed views about whether a formal comment letter should be sent to ICAS, including whether a letter should be sent from Staff rather than from the Board. The Board concluded that it would be appropriate that a brief letter be sent on its behalf to thank the ICAS representatives for their insightful presentations to the CAG and IESBA, and to express interest in and support for ICAS's efforts in its initiative. The Board also asked that Staff continue to engage with ICAS representatives with a view to monitoring the progress of the initiative.

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

Mr. Muis thanked the Board for the hospitality afforded to him. He felt that there were no public interest issues that he needed to raise at this time. With respect to the proposed NOCLAR pronouncement, he noted he would expect overwhelming support, despite the PIOB's voice in the past for a more demanding standard, and little in the way of the PIOB's sign off regarding due process. He felt that the discussion on that topic had been very constructive and that it would be beneficial for the market to test the final provisions and see how practice would evolve.

Dr. Thomadakis thanked Mr. Muis for this comments.

#### **11. Next Meetings**

The next Board teleconference was scheduled for April 25, 2016. The next physical Board meeting is scheduled for June 27 – 29, 2016 in New York, USA.

#### **12. Closing Remarks**

IFAC Communications Manager Alexandra Waibel provided a brief update regarding the Board's Twitter handle, noting that the extent of followers of IESBA on Twitter had significantly increased. She also highlighted some of the tweets that were released during the Board meeting. Dr. Thomadakis encouraged all Board members to participate in outreach to raise awareness of the Board's work.

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

## Appendix

### **IESBA Fees Working Group—Approved Terms of Reference** **March 2016**

#### **A. Background**

1. The IESBA has established the Fees Working Group (WG) in light of the commitment in its Strategy and Work Plan, 2014-2018 to explore a number of matters related to audit fees charged by firms with a view to determining whether there is a need for further enhancements to the Code or the commissioning of further staff guidance.

#### **B. Objectives**

2. The objectives of the WG are to:
  - (a) Undertake fact finding about fees charged by firms in various jurisdictions to identify whether there are trends or other factors that indicate a relationship between fees and threats to auditor independence and compliance with the fundamental principles, or whether there are reasonable perceptions that such threats exist, and how they might be addressed. The fact finding will focus in particular, on whether such relationships exist in the following areas:
    - Level of audit fees for individual audit engagements.
    - Relative size of fees to the partner, office or the firm, and the extent to which partner(s) remuneration is dependent upon fees from a particular client.
    - The ratio of non-audit services fees to audit fees paid by an audit client.
    - The provision of audit services by a firm that also has a significant non-audit services business.
  - (b) Report its findings and recommendations to the IESBA with a view to enabling the Board to determine whether to pursue a project on the topic and, if so, the scope and focus of such a project, or whether to commission further staff guidance.

#### **C. Approach**

3. The WG's remit will encompass:
  - (a) Benchmarking – Understanding the nature and extent of regulatory responses in the areas noted above, by analyzing relevant ethical rules and regulations, with a focus on G20 countries; and
  - (b) Academic research – Gathering relevant empirical evidence in the areas noted above with respect to actual and perceived threats to auditor independence and compliance with the fundamental principles and how they are being addressed.

#### *Research*

4. The WG will recommend that the IESBA undertake research to be performed by an academic on the topic. With the assistance of the International Federation of Accountants (IFAC), the WG plans to first obtain an understanding of the research that is publicly available on the topic of fees. The

WG expects that such research will culminate in a “summary of research” document.

5. The WG anticipates that the summary of research document will highlight stakeholder perspectives on the topic based on an analysis of regulatory inspection findings and other publicly available and relevant information.
6. On the basis of the summary of research document, the WG will determine whether to recommend that the IESBA undertake:<sup>22</sup>
  - (a) A more detailed synthesis of existing research; or
  - (b) “Original” new customized researchaimed at obtaining a deeper understanding of specific areas or issues.

#### *Outreach*

7. Further engagement with, and outreach to, key stakeholders, in particular investors, regulators and audit oversight bodies, firms and those charged with governance (TCWG), are planned to further understand their various perspectives on the topic of fees. The WG will explore the extent to which specific targeted outreach is necessary in addition to the planned and routine IESBA outreach activities that is currently undertaken by IESBA leadership.
8. With respect to outreach to firms, the WG will seek to understand what specific processes or activities have been established and implemented by firms (including large and small- and medium-sized firms) to address “fee-specific” threats to auditor independence and compliance with the fundamental principles.

#### **D. Consideration of the Public Interest**

9. The work of this WG is intended to be responsive to concerns that have been raised by stakeholders, in particular investors and regulators. Accordingly, the WG’s exploration of whether the IESBA should undertake a project on this topic will include a consideration of the public interest benefits to be derived from addressing the specific issues.

#### **E. Deliverables**

10. The WG will present the Board with a report summarizing its findings and recommendations. Depending on the outcome of its deliberations, the Board may request that the WG develop a project proposal.

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<sup>22</sup> The determination about whether to undertake *further* academic research work (i.e., either an academic synthesis or new “original academic research”) will be dependent on the WG’s and IESBA’s consideration of the summary of research at its September 2016 meeting (see proposed timeline below).

## F. Tentative Timeline

11. The Working Group's timeline below is tentative and will be revisited as more information becomes available.

<ul style="list-style-type: none"> <li>Approval of WG Terms of Reference and agreement on the proposed scope of, and approach to, fact-finding and research.</li> </ul>	<ul style="list-style-type: none"> <li>March 2016</li> </ul>
<ul style="list-style-type: none"> <li>Deliver a progress report to IESBA that will include: <ul style="list-style-type: none"> <li>Update and preliminary findings from the academic, and the results of the G20 bench-marking study pertaining to fees</li> <li>Update on the feedback from outreach to key stakeholders, in particular investors, regulators and audit oversight bodies, firms and TCWG to obtain their perspectives on the topic.<sup>23</sup></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>September 2016</li> </ul>
<ul style="list-style-type: none"> <li>Deliver a final report to IESBA that will include the summary of research document.</li> </ul>	<ul style="list-style-type: none"> <li>December 2016</li> </ul>
<ul style="list-style-type: none"> <li>Subject to conclusions reached at the December 2016 meeting, IESBA consideration of whether further research is needed, either in the form of: <ul style="list-style-type: none"> <li>More in-depth analysis of existing research; or</li> <li>The development of new original research</li> </ul> </li> <li>aimed at further understanding specific areas or issues.</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> </ul>
<ul style="list-style-type: none"> <li>Outreach to key stakeholders, in particular investors, firms regulators and audit oversight bodies, and TCWG to obtain their perspectives on the topic.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>

## G. Composition

12. The WG is chaired by a member of the IESBA, with four additional members comprised of IESBA members, Technical Advisors and a representative from KPMG Canada.

<sup>23</sup> As noted at paragraphs 7–8 above, the WG will explore the extent to which specific targeted outreach is necessary in addition to the planned and routine outreach activities performed by the IESBA Chairman and other IESBA leadership.