Agenda Item 1-C (Updated)

Draft Minutes of the 74th Meeting of the

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on September 13-17 & 27, 2021 – Virtual Meeting via Video Conference

(Mark-up from Posted Version)

	Voting Members	Technical Advisors
Present:	Stavros Thomadakis (Chairman)	James Barbour (Mr. Ashley)
	Caroline Lee (Deputy Chair)	David Clark (Mr. Huesken)
	Saadiya Adam	Gregory Driscoll (Ms. Lee)
	Michael Ashley (Days 1 & 3-5)	Jens Engelhardt (Mr. Poll)
	Vania Borgerth	Laura Friedrich (Mr. Friedrich)
	Sanjiv Chaudhary	Ellen Goria (Mr. Mintzer)
	Laurie Endsley	Marta Kramerius (Ms. Haustermans)
	Brian Friedrich	Gina Maldonado-Rodek (Ms. Gibson) (Days 1-4 & 6)
	Hironori Fukukawa	Ki-Tae Park (Mr. Kim) (Days 1-5)
	Kim Gibson	Andrew Pinkney (Ms. Endsley)
	Liesbet Haustermans	Sundeep Takwani (Ms. Kiryabwire)
	Richard Huesken	Jeanne Viljoen (Ms. Adam)
	Sung-Nam Kim	Kristen Wydell (Mr. McPhee)
	Winifred Kiryabwire	Masahiro Yamada (Mr. Fukukawa)
	Ian McPhee	Xiaoye Yuan (Ms. Wu)
	Andrew Mintzer (Days 2, 5 & 6)	
	Jens Poll	
	Yaoshu Wu	
Apology:		Kemisha Soni (Mr. Chaudhary)

Non-Voting Observers

Present: Gaylen Hansen, IESBA Consultative Advisory Group (CAG) Chair, and Jumpei Kato, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Robert Buchanan

IESBA Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Kam Leung, Szilvia Sramko, Carla Vijian, Astu Tilahun, Diana Vasquez

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He also welcomed Ms. Sylvie Soulier, Chair of the Engagement Team – Group Audits Independence (ET-GA) Task Force; Ms. Denise Canavan, Member of the ET-GA Task Force; Mr. Richard Fleck, Chair of the Long Association Post-implementation Review (LAPIR) Working Group and member of the Benchmarking and NAS & Fees Rollout Working Groups (WGs); Ms. Michelle Brody, IFAC Head of Intellectual Property (for the session on eIS); and Messrs. Scott Hanson and David Madon, IFAC Directors, Public Policy and Regulation (for the presentation on developments in sustainability assurance). Dr. Thomadakis gave a special welcome to Mr. Peter Oastler on joining the Benchmarking WG as an external expert. In addition, he welcomed Ms. Josephine Jackson, the Definitions of Listed Entity and Public Interest Entity (PIE) Task Force IAASB correspondent member and member of the International Auditing and Assurance Standards Board (IAASB) for the PIE session. Dr. Thomadakis acknowledged and credited the IESBA's virtual meeting arrangements for the significant increase in access to public observers who observed the 2020 and 2021 Board meetings live via the IESBA's YouTube Channel.

Among other matters, Dr. Thomadakis highlighted the following in his introductory briefing to the Board:

- The activities of the Planning Committee during the quarter which included updates on workstreams and the meeting with representatives of the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group; consideration of the PIOB's updated list of public interest issues as of August 2021; review of the revised proposed guidelines for IESBA involvement in the development of non-authoritative material (NAM); an update on the transition planning regarding the Monitoring Group recommendations to strengthen the international audit and ethics standard-setting system; and an update on a recent discussion between IESBA and IAASB leaderships with the Sustainability Task Force of the International Organization of Securities Commissions (IOSCO).
- The outreach activities since the June 2021 IESBA meeting.

APPROVAL OF MINUTES

The IESBA approved the minutes of the June 2021 public session as amended.

2. Definitions of Listed Entity & Public Interest Entity

Mr. Ashley introduced the session by providing a high-level breakdown of the 69 respondents that had submitted comment letters to the Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (PIE ED). He also informed the Board that representatives from both the IAASB CAG and the IESBA CAG were generally supportive of the Task Force's proposals at the September 2021 joint-CAG session.

Mr. Ashley summarized the significant comments received to Questions 1 to 14 in the PIE ED as well as the Task Force's responses to those comments and its revised proposals. He also provided a high-level overview of the IAASB's preliminary discussion on respondents' feedback to Question 15 of the ED that pertains to IAASB-related matters.

Overarching Objective

The IESBA was generally supportive of the Task Force's responses and its proposed revisions to paragraphs 400.8 to 400.10. Amongst other matters, the following comments were raised by IESBA members:

- How the overarching objective set out in paragraph 400.8 relates to "non-PIEs" with respect to which firms have determined to apply the independence requirements for the audits of PIEs in accordance with paragraph 400.17 A1. In response, Mr. Ashley agreed that the Task Force would review paragraph 400.17 A1 with a view to clarifying that there was not a separate category of "non-PIE" PIEs, but rather that firms may determine that certain additional entities should in fact be treated as PIEs for independence purposes.
- Whether the Task Force's proposed refinement to paragraph 400.8 sufficiently explains the term "financial condition" as some might perceive "financial well-being" as simply a synonym. In response, Mr. Ashley pointed out that the proposed refinement should further reinforce the concept to stakeholders and that the Task Force intends to include further explanations in the Basis for Conclusions.

Approach to Developing the PIE Definition

The IESBA continued to express support for the overall approach to developing the PIE definition proposed in the PIE ED. This overall approach or framework included, amongst other matters, a top-down list of mandatory categories of PIEs in the Code that require refinement at the local level and a bottom-up list of categories that might be added by the relevant local bodies.

Public Traded Entity

The IESBA generally supported the Task Force's proposal to retain the term "publicly traded entity" as a replacement for the term "listed entity" and agreed that the term "financial instruments" does not need to be defined in the Code. The IESBA was also supportive of the Task Force's proposed description of "listed entity" as an example of a publicly traded entity.

Amongst other matters, the following comments were raised by IESBA members:

- Whether the proposed phrase "traded through a publicly accessible market mechanism" is sufficiently clear. In response, Mr. Ashley pointed out that it will depend on the specific circumstances such as whether a potential party is seeking a bilateral trade via the assistance of a broker or whether there is a public market for the financial instruments to be traded.
- Whether the word "example" in the description relating to listed entity that is attached to the definition of a publicly traded entity should be replaced with "category."

Other Categories of PIE

Mr. Ashley provided an overview of the Task Force's proposal to remove entities whose main function is to provide post-employment benefits (PEBs) and collective investment vehicles (CIVs) from the proposed list of mandatory PIE categories (paragraph R400.14 (d) and (e) of the PIE ED). In explaining the Task Force's rationale, Mr. Ashley also briefed the Board regarding the PIOB's concern as stated in its August 2021 public interest issues list about removing these two proposed categories. In this regard, Mr. Buchanan reiterated the PIOB's concern, noting that the categories themselves have public interest benefits and, as

such, the IESBA should not allow specific issues such as size to be a determining factor in deciding whether to remove the categories from the mandatory list.

Taking into account the Task Force's rationale, the IESBA strongly supported the proposal to remove PEBs and CIVs from the list of mandatory PIE categories. The IESBA agreed that these categories can be added by local bodies to their local definitions of PIE based on national circumstances. Mr. Hansen also pointed out that the IESBA and IAASB CAGs were supportive of the Task Force's direction of travel. Amongst other matters, the following comments were raised by IESBA participants:

- Notwithstanding the public interest significance of PEBs and CIVs, market and economic evolutions have led to a high degree of heterogeneity of legal structures, management and governance forms, and regulatory oversight for these two categories. As a result, they are not as standardized as the banking and insurance industries. The inclusion of these categories in the list of mandatory PIE categories might impose an inordinate burden on local regulators and national standard setters to determine what should be scoped in or out.
- Exclusion from the proposed list of mandatory PIE categories does not mean PEBs and CIVs will be excluded from the local definitions as it would be the role of local bodies to consider including them in their PIE definitions at the local level.
- By removing these two categories from the list of mandatory PIE categories, the concern about larger entities not being scoped in as PIEs can be addressed through other means such as the use of application material to emphasize the significance of these two categories as potential PIE categories that can be added at the local level.
- The definition must be globally operable and the inclusion of these categories in the mandatory list might not work in a number of jurisdictions, such as in the case of CIVs in France. Accordingly, removing PEBs and CIVs from the mandatory list would help derisk the model.
- To assist local bodies in assessing and determining what additional categories should be included in the local definition of PIE, the IESBA should commission the development of appropriate guidance material to help guide local bodies to properly consider what other entities should be PIEs within their jurisdictions

ROLE OF FIRMS

Encouragement for Firms to Treat Other Entities as PIEs

The IESBA was generally supportive of the Task Force's proposal to revert the proposed new requirement for firms to determine if additional entities should be treated as PIEs to application material as an encouragement for firms.

A few IESBA members pointed out that the proposed paragraph 400.17 A1 may create the perception that there is a third class of entities, in addition to PIEs and non-PIEs, for the purposes of Part 4A of the Code. In response, Mr. Ashley agreed that the Task Force will revisit the proposed text to clarify that firms are encouraged to treat an audit client as a PIE for the purposes of Part 4A because of the nature of the entity.

In response to a concern raised by the PIOB Observer at the September 2021 joint IAASB-IESBA CAG session that the Task Force's proposals regarding the role of firms might be perceived as an attempt to appease the firms, Mr. Hansen noted that he did not consider there was any cause for such concern. He expressed the view that the Task Force's proposal was a reasonable attempt to address the comments raised by respondents to the PIE ED.

Transparency Requirement

The IESBA was generally supportive of the Task Force's proposal to retain the requirement in paragraph R400.18 for firms to disclose that PIE independence requirements have been applied to the audit of an entity other than a PIE if that were the case. It was also noted that the two CAGs were supportive of the Task Force's proposal and that a few CAG Representatives have expressed the view that the auditor's report would be the most suitable way of making the disclosure.

Amongst other matters, the following matters were raised by IESBA members:

- Whether disclosure in the auditor's report would be sufficient in circumstances where the auditor's report has limited distribution. It was further suggested that it may be appropriate to provide additional explanation in the Basis for Conclusions to address these circumstances. In response, Mr. Ashley suggested that it would be rare that if there is significant public interest in an entity's financial condition, the auditor's report for the entity would not be widely available.
- How the auditor should deal with the potential inadvertent signaling that an audit client is going for an initial public offering (IPO) as a result of disclosing that additional PIE independence requirements have been applied. It was further noted that compliance with the proposed transparency requirement may be in conflict with legal or regulatory restrictions on disclosure under these circumstances. There was a view that the confidentiality issues may be more relevant in relation to mergers or acquisitions of companies given that an entity pursuing an IPO is not yet trading in public markets. In response, the Task Force Chair expressed the view that such instances might be rare but agreed that the Task Force would consider this point, including whether to provide additional explanation in the Basis for Conclusions.
- In the light of the IAASB's future work to explore whether the auditor's report is a suitable location for disclosing that a firm has applied the independence requirements for PIEs, whether there is a need to provide guidance for firms in the interim regarding the appropriate disclosure mechanisms that would achieve the requirement in the Code. In response, Mr. Ashley noted that it may not be appropriate to include examples of other disclosure mechanisms in the Code at this time given that the IAASB is yet to consider the issue. A suggestion was to explain this timing issue in the Basis for Conclusions and to indicate that the IESBA will consider the need for any further action once the IAASB has finalized its work and deliberations on this matter.

OTHER MATTERS

The IESBA was supportive of the Task Force's proposal not to review or make any further revisions to the definition of "audit client" in paragraph R400.20 as well as not to make any revisions to Part 4B of the Code.

The IESBA agreed to postpone its discussion on the effective date of the final approved revisions until the November-December 2021 meeting, allowing the Task Force more time to consider this matter and to take into account the upcoming IAASB discussions in October 2021 on the topic of PIE.

PIOB OBSERVER'S REMARKS

Mr. Buchanan acknowledged the Board's rich discussion on the topic and its effort to be responsive to the public interest and to address the PIOB's concerns. Amongst other matters, Mr. Buchanan also noted the following:

- The Board has given a clear signal of its preferred way forward with regards to PEBs and CIVs and there were some useful points that the PIOB could reflect on. He looked forward to considering how the package of actions, including the additional application material and proposed post-implementation review, would respond to the PIOB concern.
- If the Board moves forward with removing PEBs and CIVs from the list of mandatory PIE categories, whether any consideration could be given to the proposed firm requirement to determine if additional entities should be PIEs becoming more relevant in the framework.
- It was encouraging to observe the two Boards' level of coordination with respect to the issue of disclosure in the auditor's report. Nevertheless, with respect to the effective date, December 2024 seems a long way out. He encouraged the two Boards to reflect on timeliness.

WAY FORWARD

The IESBA asked the Task Force to consider the feedback from the Board and present its final proposed revisions for consideration with a view to approval at the November-December 2021 IESBA meeting.

3. NAS & Fees Rollout

Ms. Gibson, Rollout WG Chair, presented an update on the activities being undertaken to promote awareness, adoption and implementation of the revised non-assurance services (NAS) and fee-related provisions to the Code. She provided a brief update on the development of the NAS and Fees frequently asked questions (FAQs) staff publications and reminded IESBA members to submit their input to IESBA staff via email. Mr. David Johnson, IFAC Senior Manager, Communications, then briefly explained the nature of the various communication and promotional approaches being undertaken, including global and regional webinars, and social media campaigns.

IESBA members noted the updates and supported the efforts.

4. Benchmarking

Ms. Friedrich, Chair of the Benchmarking WG, and Mr. Fleck, WG member, briefed the IESBA on the progress made in Phase 1 of the Benchmarking initiative. Phase 1 focuses on the comparison of the Code's independence provisions relevant to the audit of PIEs with the independence rules and provisions of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB). The presentation included an update on the focus areas of the benchmarking, the proposed outputs from Phase 1, and the WG's observations based on the analysis completed to-date.

STRUCTURE AND GRANULARITY OF THE FINAL REPORTS

The IESBA generally supported the WG's proposal to publish a detailed report alongside a shorter summary report as outputs of Phase 1. There was agreement that the two reports will be beneficial to (a) the IESBA as they would inform the upcoming development of the strategy and work plan for 2024-2028, and (b) many stakeholders such as national standard setters (NSS), firms and academics. Among other matters, the following were raised:

- A few IESBA members suggested that the WG identify the targeted audience(s)/user(s) of the final reports and take into account their varied levels of interest in each of the focus areas in determining the granularity of the reports. In particular, it was observed that non-practitioners might find the detailed report overwhelming and lengthy, whereas NSS, firms and academics might ~~be~~ find such

details useful to better understand the Code and the similarities and key differences between the two frameworks.

- An IESBA member pointed out that the draft detailed report was already quite long and suggested that the WG consider breaking it down into multiple stand-alone shorter installments that compare the overarching approaches, topics relating to personal independence, and topics relating to firms' independence. There was a view that such an approach might better resonate with readers given the varied nature of their interests. Ms. Friedrich explained that the summary document will be shorter and will be easy to navigate with links to the detailed and more comprehensive report. She pointed out that publishing separate installments might not place sufficient emphasis on the matters covered in the introductory section of the report and the comparison of key concepts and definitions. Mr. Siong added that some stakeholders, such as NSS, are interested in a detailed comparison of certain topic areas (e.g., the NAS provisions) which would not be provided in a high-level summary report. He advised that the WG seek to present a level of granularity and information in each report that is balanced and objective.
- There was a question about whether the report would cover the recent changes to the Code (i.e., revisions arising from Fees, NAS, PIE and Technology projects). If so, it was suggested that there should be clear and specific statements to indicate which provisions are already effective. Ms. Friedrich explained that the report will include the revisions to the Code that have been adopted by the IESBA as of December 2020, and that it will clearly indicate their effective dates.
- An IESBA member questioned whether the WG planned to obtain views from NSS regarding potential issues/topics that might be considered. It was suggested that the matters NSS believe the IESBA should focus on as part of its future strategy and work plan could be leveraged and considered in developing the final reports from the Benchmarking initiative. Mr. Fleck clarified that it is not the WG's mandate to produce a public document on possible future revisions to the Code.

Dr. Thomadakis pointed out that during his outreach activities, stakeholders typically have asked questions about how the Code compares with the independence frameworks of major jurisdictions. He explained that although stakeholders recognized that a globally applicable Code and national frameworks are different, some were concerned about the robustness and comprehensiveness of the Code. He suggested that the Benchmarking initiative could serve to enhance stakeholders' understanding of the Code and the International Independence Standards, and inform the IESBA about possible gaps or alternatives in the Code relative to other Codes or independence standards.

Draft Conclusions regarding Key Similarities and Differences

IESBA members noted the WG's observations and preliminary conclusions regarding the key similarities and differences between the Code and the US SEC and PCAOB rules and provisions. Among others, the following matters were raised:

- The WG was cautioned against implying in the commentary section of the report that one framework is more stringent than the other. It was also suggested that the WG avoid using terms such as "stricter" or "broader in scope." Ms. Friedrich indicated that the WG recognized the sensitivity around the terminology used in the commentary, and that the WG intended for the report to be as objective and factual as possible.
- A few IESBA members provided drafting suggestions and clarifications in relation to the discussions in the draft report about:

- The similarities and differences between the Code's and the US SEC's conceptual approaches.
- The requirements/rules that prohibit firms from assuming a management responsibility for an audit client, or acting as management of the audit client.
- The requirements/rules that apply to related entities and affiliates of an audit client.
- The meaning of the concept of the "entity under audit."

PIOB OBSERVER'S REMARKS

Mr. Buchanan emphasized the need to identify the target audience(s)/user(s) and noted the value in having two separate reports that could meet the varied levels of interest of stakeholders. He agreed with commenters who suggested that:

- The comparisons should not provide interpretations of the Code or the US SEC/PCAOB rules and provisions.
- The WG should avoid using words such as "stricter" in the commentary section of the reports. Instead, he suggested that the WG's observations and conclusions should focus on explaining the differences and similarities in the objectives of the different frameworks.

NEXT STEPS

The IESBA will receive an update on the WG's progress at its November-December 2021 meeting.

5. Emerging Issues and Outreach Committee

Messrs. Hanson and Madon provided an overview of the June 2021 joint report issued by IFAC and the Association of International Certified Professional Accountants (AICPA-CIMA) titled the *State of Play on Sustainability Assurance.* The IESBA also received an update from the EIOC on the topic of environmental, social and governance (ESG) developments and ethics from Ms. Borgerth, a member of the EIOC. Ms. Borgerth briefed the Board on:

- The role of professional accountants (PAs) in relation to ESG matters;
- The applicability of the Code to ESG reporting and assurance; and
- Potential ethics and independence issues that the EIOC has identified in relation to preparing, presenting and providing assurance on ESG information.

The IESBA welcomed both presentations, noting that they were important and timely. IESBA members thanked the presenters for their insights and engaged in lively discussion. Among other matters, the following were raised:

- It was noted that the IFAC-AICPA survey did not involve a consideration of the objectivity or independence of those providing assurance on sustainability or ESG disclosures, especially in the case of services providers who are not PAs. The preparers of the survey/study aimed to consider a broad range of information about sustainability assurance around the world instead of undertaking a deep dive in particular areas.
- It was suggested that the IESBA should undertake further fact finding to identify and better understand the implications for PAs' or firms' objectivity and independence when they provide assurance on ESG information. In this regard, the following suggestions were made:

- As a potential next step, consideration could be given to exploring the need for potential revisions to Part 4B of the Code.
- Before considering an ESG standard-setting project, it is important to highlight the relevance of the Code to ESG matters, and the potential areas where further clarification is needed.

Mr. Hansen observed that in some jurisdictions, firms are undertaking engagements to prepare non-financial information, including on sustainability and ESG matters. He questioned whether there are underlying ethical or independence issues. In terms of risks to the financial statement model, Mr. Hansen observed that the "risks to society" that arise in the context of sustainability and ESG reporting and assurance could potentially raise new self-interest and conflict of interest issues for firms.

Mr. Siong pointed to the rapidly changing regulatory environment relating to sustainability and ESG, including IOSCO's recent public consultations in this area and the plans for establishing the new International Sustainability Standards Board. He suggested that the IESBA continue its liaison and coordination with IOSCO and the IAASB on this topic. As a potential next step in the immediate future, Mr. Siong noted a need to consider the concerns that have been raised by the regulatory community, including IOSCO, regarding the issue of "greenwashing" which seems to manifest in three areas: at the level of corporates when reporting on ESG information; at the level of the asset management firms when investment products are marketed as green-oriented; and at the level of the investment funds when they are characterized as green funds pursuing sustainability goals. Mr. Siong explained that the Code's fundamental principle of integrity is directly relevant to the issue of greenwashing. He suggested that the IESBA explore how best to showcase the Code's relevant provisions that could already address sustainability/ESG-related concerns.

Reflecting on participants' comments, Ms. Borgerth urged the IESBA to stay involved in the global debate on ESG developments and promote the applicability and relevance of the Code. She was of the view that the IESBA should be proactive in the area of ESG standard-setting rather than following the work of regulators and other bodies.

Ms. Kiryabwire, EIOC Chair, added that EIOC is not yet in a position to provide any recommendation for the IESBA regarding the way forward. She proposed that the Board agree on the next steps. IESBA members agreed that PAs have a significant role to play in this area and given the widespread stakeholder interest, there would be merit in prioritizing the topic of ESG in the IESBA's next strategy and work plan. Dr. Thomadakis indicated that the Planning Committee would further consider the EIOC's work and develop recommendations for the Board in due course.

PIOB'S OBSERVER'S REMARKS

Mr. Buchannan endorsed IESBA members' comments and complimented the IESBA on being proactive in exploring issues related to the rapid ESG developments. He indicated that the PIOB's recently issued Public Interest Framework could serve as a guiding framework for the IESBA's future work in this area.

WAY FORWARD

The IESBA will receive a further update from the EIOC on ESG and ethics at its March 2022 meeting.

6. Technology Non-authoritative Material & Fact Finding

The IESBA received an update on the Working Group's collaborative efforts with other organizations and other activities in Q3 2021 to progress its fact finding in a number of technology areas and the development of technology-related thought leadership and other materials.

The IESBA considered and supported the Working Group's proposals to:

- Continue fact finding beyond 2021 and issue a report summarizing the outcomes of its fact-finding work, anticipated in September 2022.
- Establish an external advisory group, the IESBA Technology Advisory Group (IESBA TAG), comprising individuals with expertise and practical experience in technology to support and provide input to the Working Group. The IESBA asked the Working Group to further discuss the establishment of the IESBA TAG with NSS and explore their interest in participating in the TAG at the October 2021 IESBA-NSS meeting.

Clarifying questions were received as to the scope of the Working Group's remit and the timeline for the anticipated report. Mr. Friedrich reminded the IESBA that the Working Group's remit is to:

- Undertake fact finding to identify and assess the potential impact of technology developments on the accounting profession in relation to ethics and independence.
- Develop or facilitate the development of technology-related thought leadership and other materials in relation to ethics and independence for PAs and the wider stakeholder community.

He further explained that as the Working Group has progressed its work, Working Group representatives have continued to raise awareness about the Code and its relevance to technology-related issues as well as the ethical impact of technology on PAs and the wider stakeholder community.

In terms of the timeline for the anticipated report, Mr. Friedrich observed that September 2022 would allow consideration of the inputs received from planned Q1 2022 multi-stakeholder outreach events and the IESBA's decisions relating to the approval of the Technology Exposure Draft (ED), expected in December 2021.

The IESBA also received a presentation on *Cybersecurity and the Accounting Profession: A Discussion of Ethical Implications* from Dr. Thomas Calderon, Professor of Accounting at the University of Akron, USA.

WAY FORWARD

The IESBA will receive a further update on this work stream at the November-December 2021 meeting.

7. Technology Project

Mr. Huesken walked the IESBA through the Technology Task Force's proposed changes to the Code (September draft). He reminded the IESBA that the September draft was developed with consideration of IESBA input on the June draft at its June 2021 meeting and IESBA input on the August draft through email during August 2021.

SECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

Mr. Huesken briefed the IESBA on the rationale for the Task Force's proposed changes to the Code in Section 113, which are intended to be:

- Responsive to Recommendation 6 *Enabling Competencies and Skills* of the Phase 1 report. Proposed paragraph 113.1 A1 in particular highlights the importance of professional or "soft" skills and provides examples of emergent skills important in the digital age, such as interpersonal, communication and organization skills.
- Responsive to Recommendation 3 *Suitability of the Fundamental Principles: Transparency* of the Phase 1 report. Proposed paragraph 113.3 A1 expands on the PA's responsibility to be transparent by prompting PAs to use the reasonable and informed third party (RITP) test to evaluate whether the information to be provided about a professional service or activity would be sufficient to enable the recipient of that information to understand the nature of such services or activities and any limitations inherent therein.

Mr. Huesken explained that the material in paragraph 113.1 A1 builds on the Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants and considered the International Education Standard (IES) 3 *Professional Skills*, which was revised to reflect the increasing need for accountants to be skilled in information and communications technologies while further emphasizing professional skepticism skills and behaviors.

The IESBA expressed broad support for the proposals and among other matters raised the following for the Task Force's further consideration:

- Questions about why the RITP test is explicitly being pointed out in proposed paragraph 113.3 A1, since using the RITP test is already a requirement when PAs apply the conceptual framework (CF) as stated in extant paragraph R120.5.
- A suggestion to include within Section 113: (a) a direct reference to the IESs so that there is a reference point for standards of professional competence, and (b) the terms "transparency" and "explainability" as commonly referred to in various artificial intelligence (AI) principles.

SECTION 114 – CONFIDENTIALITY, AND THE DEFINITION OF CONFIDENTIAL INFORMATION

Mr. Huesken briefed the IESBA on the rationale for the Task Force's proposed changes to the Code in Section 114, which are intended to be:

- Responsive to Recommendation 5 *Suitability of the Fundamental Principles: Confidentiality* of the Phase 1 report. Proposed paragraph 114.1 A2 in particular highlights that maintaining the confidentiality of information acquired in the course of professional and business relationships involves the PA taking appropriate action to secure such information, including in the course of its collection, use, storage, dissemination and lawful destruction. Furthermore, the proposed definition of confidential information makes it explicit that any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not in the public domain is confidential.

Mr. Huesken explained that the proposals took into consideration the increased availability and use of personal and other sensitive data and privacy-related matters as stated in recommendation 5, through the proposed definition of confidential information. That definition is all encompassing and hence inherently includes privacy-related matters which are generally rooted in laws that might vary across jurisdictions. He further explained that the need to actively protect information as stated in recommendation 5 is explicitly emphasized in the proposed material through prompting a PA to take "…appropriate action to secure information, including in the course of its collection, use, storage, dissemination and lawful destruction."

The IESBA broadly supported the proposals and among other matters raised the following for the Task Force's further consideration:

- A few drafting refinements to enhance the clarity of the material.
- A suggestion to include in the proposed definition of confidential information a reference to the term "privacy" so that it is searchable in the eCode.

SECTION 120 – CONCEPTUAL FRAMEWORK

Mr. Huesken briefed the IESBA on the rationale for the Task Force's proposed changes to the Code in Section 120, which are intended to be:

- Responsive to Recommendation 2 *Complexity of the Professional Environment* of the Phase 1 report Specifically:
    - Proposed paragraph 120.6 A5 highlights factors for a PA to consider when identifying threats to the fundamental principles threats in relation to use of technology, the output of which a PA might rely on.
    - Proposed paragraphs 120.13 A1 to A3 highlight the increased challenges of applying the CF when circumstances are complex and provide guidance on actions to assist a PA in managing such circumstances.
- Responsive to Recommendation 1 *Building Trust* of the Phase 1 report. Proposed paragraph 120.14 A3 more clearly highlights a broader societal role for PAs by prompting PAs to demonstrate ethical behavior in dealings with businesses, firms and other organizations.

The IESBA expressed broad support for the proposals and among other matters raised the following for the Task Force's further consideration:

- A concern that the location of the proposed material in paragraph 120.6 A5 compromises the building blocks approach, diverges from the structure of the Code, and weakens the foundation laid by the CF in Section 120 by focusing on just one aspect that could create a threat – i.e., technology – whereas PAs should consider facts and circumstances more generally when identifying threats to the fundamental principles (i.e., extant paragraphs R120.6 to 120.6 A4). In this regard, it was suggested that such material would be better placed in Parts 2 and 3 of the Code as it will prompt PAs in business (PAIBs) and in public practice to consider such matters before using particular types of technology, in addition to applying the CF as described in Section 120.
- Questions about the material on complex circumstances, including whether PAs would be able to consistently understand the description of complex circumstances contained in proposed paragraph 120.13 A2 and whether the proposed application material is a necessary addition to the Code. There were a few views that the guidance in the Code is already sufficient to deal with complex circumstances, since such circumstances are not new to PAs. In this regard, Mr. Huesken pointed to the survey on Complexity and Technology in the Professional Environment, where 82% of survey respondents expressed support for such guidance in the Code.
- Observations that paragraph 120.14 A3 had just been revised by the Role and Mindset project, and questions on whether layering on an additional change to the same paragraph might impact adoption and implementation.
- Drafting refinements to enhance the clarity of the material.

SECTIONS 220 AND 320

Mr. Huesken briefed the IESBA on the rationale for the Task Force's proposed changes to the Code in Sections 220 and 320, which are intended to be responsive to Recommendation 4 *Suitability of the Fundamental Principles: Accountability* of the Phase 1 report. Proposed paragraphs 220.7 A2 and 320.10 A2 in particular introduce factors that are relevant for PAs to consider when determining whether reliance on, or use of, technology is reasonable.

Mr. Huesken explained that the Task Force had considered whether it is feasible for all PAIBs to be able to determine whether reliance on technology is reasonable. He highlighted, for example, scenarios where "entry level" PAIBs might just be given data and technological tools to perform a task without the ability to obtain necessary information to determine whether reliance on such technology is reasonable. To address this, the Task Force proposed application material in paragraph 220.7 A3 to acknowledge that a PA's position in an employing organization might impact that person's ability to obtain the necessary information to determine whether reliance on the work of others or on technology is reasonable.

Mr. Huesken also elaborated that the Task Force had further considered incorporating the concept of accountability in the fundamental principles but determined that the revisions arising from the Role and Mindset project, and the proposals in 220.7 A2 and 320.10 A2 specific to technology, were sufficient to address this concept.

IESBA members broadly supported the proposals and asked clarifying questions about the application of proposed paragraph 220.7 A3 and suggested related drafting refinements to enhance clarity.

PART 4 INTERNATIONAL INDEPENDENCE STANDARDS

Mr. Huesken briefed the IESBA on the rationale for the Task Force's proposed changes to the Code in Section 120, which are intended to be responsive to recommendation 7 of the Phase 1 report. The proposals expand on the current guidance in Part 4A of the Code as revised by the non-assurance services project. In relation to the following sections, the proposals:

Section 600 Non-assurance Services

- Clarify that the NAS provisions apply in circumstances where technology is used by a firm or network firm to provide a NAS, and where a firm or network firm sells or licenses technology to an audit client and that technology is developed or designed by, or incorporates the expertise or judgment of, the firm or network firm.
- Add a new factor relevant when identifying the different threats that might be created by providing a NAS to an audit client. That factor explicitly takes into account the client's dependency on the service, including the frequency with which the service will be provided (i.e., technology might enable continuous insights provided from a NAS).

Subsection 606 IT Systems Services

- Expand the scope of IT systems services addressed by the Code beyond design and implementation.
- Provide new examples of IT system services that involve an assumption of management responsibility.
- Provide new examples of IT system services that might create a self-review threat.

Section 400 and Subsection 601 Accounting and Bookkeeping Services

- Emphasize that regardless of the nature or extent of technology used in performing a service or activity (i.e., it does not matter if the technology-enabled service is automated, routine or mechanical), the prohibition on assuming management responsibility is still applicable.
- Explain that automated services do not necessarily meet the description of "routine or mechanical" as revised by the NAS project. The proposals provide new guidance that prompts a PA to consider how the technology functions and whether the technology is based on expertise or judgment attributable to the firm or a network firm.

Sections 520 Business Relationships and 600 Non-assurance Services

- Provide a new example of when technology jointly developed by a firm or a network firm and an audit client creates a close business relationship.

Part 4B Independence for Assurance Engagements Other than Audit and Review Engagements

- Extend the related enhancements to the independence provisions for assurance engagements other than audit and review engagements, specifically noting that such provisions apply to assurance on an entity's non-financial information such as environmental, social and governance (ESG) disclosures.

The IESBA expressed broad support for the proposals and among other matters raised the following for the Task Force's consideration:

- Clarifying questions about the scope of the proposed material in Section 600 with suggested drafting refinements to enhance clarity.
- Questions about whether all the examples of IT systems services that might create a self-review threat actually always involve the assumption of a management responsibility.
- A suggestion that the drafting in Part 4B could be better refined to align with the terms and concepts in the IAASB's ISAE 3000 (Revised).[1]

PIOB OBSERVER'S REMARKS

Mr. Buchanan commended the IESBA on the progress made in this project. He noted that the depth of the discussion reflects the inherent complexity in the project, observing the difficult balance to manage among all the comments expressed. He emphasized the importance of the Code being clear and explicit and not overly detailed, but at the same time not freezing the Code at a point ~~o~~in time. He also observed the public interest importance of the proposals on auditor independence, and in particular, independence in appearance in relation to hosting and other IT systems services.

WAY FORWARD

Dr. Thomadakis and Mr. Huesken thanked the IESBA for the input. Mr. Huesken noted that all comments will be duly considered by the Task Force and an updated draft text would be circulated to the IESBA out-of-session for further feedback ahead of the December 2021 meeting. He also noted that input from

[1] International Standards on Assurance Engagement (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Monitoring Group members IOSCO and IFIAR, the IFAC Small and Medium Practices (SMP) Advisory Group, national standard setters and the Forum of Firms would be sought on the updated draft text during Q4.

A revised draft of the proposed revisions to the Code will be presented to the Board with a view to approval for exposure at the November-December 2021 IESBA meeting.

8. eIS / eCode 2.0

Ms. Brody provided an update on IFAC's electronic standards initiative, including a demo of the new digital platform for the International Standards issued by the IESBA, IAASB and International Public Sector Accounting Standards Board (IPASAB) – the electronic International Standards (eIS). The platform includes the next version of the eCode (eCode 2.0). Ms. Brody noted that with the new platform, the eCode will have a new look and will contain broadly the same set of features and functionalities as is now available. She then informed the IESBA of the next steps that IFAC plans to take before launching the platform, including finishing touches to the platform to incorporate the various inputs from IESBA representatives who participated in beta testing. Ms. Brody reminded IESBA members that the platform is being progressed by a staff-led cross-functional team (including representatives of the IAASB, IESBA and IPSASB staff) that is working with the external developer. She noted that during the initial phase of the initiative, there was periodic engagement with each standard-setting board Chair to ensure all perspectives are considered, and that in the case of the IESBA, the team had also obtained input from members of the IESBA eCode Advisory Group.

IESBA participants complimented Ms. Brody and the team on the progress made. An IESBA member questioned whether the current version of the eCode will continue to be available once the eIS is launched. Ms. Brody explained that there will be a transition period and that over time, visitors to www.IESBAeCode.org will be redirected to the eIS platform.

Dr. Thomadakis thanked Ms. Brody and IFAC for the work done to develop the new platform, noting the strategic importance of the eCode in the context of the IESBA's efforts to increase global awareness, adoption and use of the Code. He noted that he anticipates that the IESBA will continue to partner closely with IFAC to ensure that the eIS platform reflects revisions and enhancements to the Code as they are issued. He also suggested that IFAC consider exploring features that facilitate: (i) translation of the international standards; and (ii) transferring the eIS platform to NSS and professional accountancy organizations (PAOs) interested in adopting it.

WAY FORWARD

The eIS was launched in November 2021 and is available at: https://eis.international-standards.org/.

9. Tax Planning & Related Services

Prof. Poll introduced the session, recapping the Tax Planning WG's activities in Q3 2021, including outreach to the IESBA CAG in September 2021. He reported back the significant feedback from the CAG on the final report and project proposal.

FINAL REPORT

Prof. Poll presented the WG's final report summarizing the outcome of its fact-finding work on the Tax Planning and Related Services initiative, including the WG's recommendation for the IESBA to undertake a project to develop enhancements to the Code on the topic.

Overall, the Board supported the WG's analysis of the various matters presented in the final report. Subject to refinements arising from the project proposal discussion, the Board accepted the WG's final report and recommendations as presented.

PROJECT PROPOSAL

Prof. Poll presented the project proposal to develop revisions to the Code addressing the ethical implications for professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs) when they provide tax planning and related services to employing organizations and clients, respectively.

IESBA members broadly supported the project proposal, noting that it was balanced, measured, and thorough. In addition to editorial suggestions, IESBA participants raised several matters for clarification, including the following:

- Whether the project scope should include Part 4A of the Code, Prof. Poll explained that the project will focus on Parts 2 and 3 of the Code rather than the independence provisions, which already address tax planning services under the NAS section (Section 600).
- Whether the project proposal could highlight revisions that would influence changes in PAs' behavior. In particular, it was observed that the project proposal seemed to emphasize guidance and application material rather than requirements. It was also suggested that the Task Force coordinates with the Technology Task Force as the Technology project is already considering some amendments to Part 1 of the Code. Prof. Poll noted that there is no intention to limit the project to application material only and that it would be up to the Task Force to consider where enhancements could best be made. He added that the Working Group would also consider linking the project proposal to the Technology project.
- A definitional challenge remained in that the project proposal referred to providing guidance to PAs in assessing what would be "unacceptable" tax planning behavior. It was suggested that the focus should instead be more on what would be deemed professional behavior in relation to tax planning, i.e., through linking to the fundamental principles. Prof. Poll explained that the project proposal used terms such as "acceptable" and "unacceptable" to generally refer to tax planning conduct that is not unlawful. Nevertheless, he added the Task Force should consider how best to leverage existing concepts and principles in the Code.
- The guidance the project will develop could be envisioned to be along the lines of the IFAC Tax Guide for PAOs. However, concerning considerations set at a practical level in the project proposal, there was a concern about speaking to the 'intent' behind tax structures or transactions through the reference to the intent test under the inducements provisions in the Code. If that approach were taken, it was suggested that there would be a need for a framework to determine what is acceptable or unacceptable. Prof. Poll clarified that the WG intended to outline a possible approach to tackle the "gray zone" but not to pre-judge that this approach would be the solution.

- There should be no differentiation between PIE and non-PIE entities in terms of the principles, although there might be a need to acknowledge differential risks from a perception point of view. Prof. Poll acknowledged the point and noted that the WG would consider reflecting it in the project proposal. In this regard, it was noted that from the perspective of public perceptions, the most egregious tax scandals in the UK had concerned primarily wealthy individuals and not corporate entities.
- The project will be addressing a sensitive matter as every jurisdiction will be concerned if there is an attempt to impinge on its sovereignty to set tax laws and regulations. Accordingly, a good communication strategy will be key.
- Clarification is needed as to the circumstances in which a PAIB would need to communicate with those charged with governance (TCWG) in the context of tax planning. Prof. Poll noted that in the WG's outreach to CFOs and tax directors, some had pointed to the relevance of internal policies or procedures regarding reporting matters to TCWG.
- A perceived inconsistency in that the project proposal indicated that the project would not address tax morality, and yet it seemed to address societal issues related to the Environmental, Social and Governance (ESG) movement.
- Concerns about PAs being held responsible for tax strategies their jurisdictions have chosen to pursue and, in targeting the economic substance of transactions, potentially overriding national tax laws and regulations. In this regard, it was noted that there would be a potential for tax planning work to be diverted to unregulated parts of the tax advisory market. Prof. Poll acknowledged the concerns and the need for caution. He noted that there was no intention for the project to override national laws and regulations and that this point would be emphasized in the project proposal. He added that the WG's intent was to develop a proper approach to guide PAs' conduct when undertaking tax planning activities, noting that the Code currently lacks a framework to assist them in this regard.
- Tax planning is an area where the profession is exposed to reputational risk, potentially impacting public trust. That said, the Task Force should be entrusted with the task of articulating the ethical threshold. In this regard, it was noted that one of the fundamental issues is the threshold issue, i.e., the likelihood that a tax position would be defensible if challenged by a tax authority. Prof. Poll responded that the threshold issue should be left to the Task Force to consider, potentially in the context of assessing whether the reasonable and informed third party (RITP) test would be an appropriate test to apply.

Dr. Thomadakis closed the discussion by noting the complexity of tax laws globally and the uncertain nature of what is considered legal versus illegal and acceptable versus unacceptable tax planning. He congratulated the WG on the diligence and prudence of the approach it has taken. He emphasized that it will be a challenging project and that the Board should be careful not to venture into the tax policy area. Equally, he emphasized that the Board should not prejudge the project's outcome and that the Task Force should be as open-minded as the WG has been.

Dr. Thomadakis also noted that the project's scope should encompass not only corporate taxation but also individual taxation. Finally, he felt that a simple test for whether the outcome would be sound should be whether the principles-based framework would hold equally well in a jurisdiction where the tax burden is high and in one where it is low.

PIOB OBSERVER'S REMARKS

Mr. Buchanan acknowledged that the concept of legal privilege in the legal profession presents a challenge in the area of tax planning. Nevertheless, he felt that this project should provide an opportunity to engage with the legal profession to encourage it to develop global ethics provisions like those in the IESBA Code. From the PIOB's perspective, he noted that the project was well-scoped and would provide an excellent opportunity to test the application of the new Public Interest Framework. He supported the WG's approach in linking the project's outcome to public interest objectives. He also welcomed the CAG's support for taking ESG considerations into account in developing the project.

Finally, Mr. Buchanan noted that the PIOB has been focused on the timeline for this initiative. Accordingly, he was pleased that there was now a firm timeline put in place. He recommended that the Board keep a high priority on the project.

APPROVAL

After considering the refinements to the project proposal, the IESBA unanimously approved it.

Dr. Thomadakis announced that all the WG members had agreed to serve on the new Task Force and that it would be chaired by Prof. Poll.

WAY FORWARD

The IESBA will receive a first update on the new project at its December 2021 meeting.

10. Long Association Post-Implementation Review Phase 1

Mr. Fleck introduced the session by informing the IESBA that a total of 32 responses to the global stakeholder questionnaire had been received. The questionnaire was released in April 2021 as part of the Working Group's information gathering under Phase 1 of the LAPIR.

Mr. Fleck indicated that the majority of the respondents did not raise any significant concerns about the upcoming expiry of "the jurisdictional provision" (paragraph R540.19 of the Code) for audits of financial statements for periods beginning on or after December 15, 2023. Most respondents also did not raise any significant concerns about the implementation of the 5-year cooling-off period for engagement partners on audits of PIEs. He noted that one key issue highlighted by some respondents relates to challenges for jurisdictions to adopt the 5-year cooling-off period when they have different partner rotation requirements as well as other long association requirements, such as mandatory firm rotation (MFR). In particular, a number of respondents took the view that local bodies in the EU member states cannot legally impose a longer cooling-off period than the 3 years prescribed in the EU Audit Regulation.[2] He also noted that another key issue raised by respondents relates to the potential impact of a longer cooling-off period on smaller firms and firms in smaller jurisdictions due to the more limited number of suitable partners available, which may result in audit market concentration.

Mr. Fleck noted that upon review of the respondents' comments, the Working Group had reached the preliminary view that there are insufficient grounds for the IESBA to extend the effective term of the jurisdictional provision.

A few IESBA members shared concerns expressed by some respondents that extending the cooling-off period to 5 years for engagement partners will place undue resource pressure on smaller firms and even

[2] Article 17 (7), EU Regulation No. 537/2014

some firms in global networks, potentially adversely impacting audit quality. Those IESBA members suggested extending the term of the jurisdictional provision so that the provision can be reviewed in conjunction with other matters under Phase 2 of the LAPIR. Other IESBA participants supported the Working Group's preliminary view not to extend the term of the jurisdictional provision on the following grounds:

- The jurisdictional provision was included as an exception and a signal to firms that they have an adequate period to take the necessary steps to transition to the longer-cooling off period. As such, if the IESBA reverses that signal now, it risks weakening the incentive for firms to make the necessary adjustments to comply with the revised cooling-off requirement.
- The argument about a 5-year cooling-off period creating an issue for specialist resources would also apply to a 3-year cooling-off period.
- Extending the term of the jurisdictional provision to until the completion of Phase 2 will practically mean that the provision would be extended for at least another 5 years, which would not be in the public interest.
- Extending the cooling-off period for a further 2 years should not cause significant resource issues as firms would need to have arranged for a replacement engagement partner who would generally stay on for more than 3 years given that the maximum time-on period is 7 years.
- It would be more appropriate for firms to seek an exemption from their local regulators in accordance with paragraph R540.9 if they determined they needed a waiver from the stricter cooling-off requirement.
- Phases 1 and 2 have different objectives under the IESBA's Strategy and Work Plan 2019-2023 and they should not be conflated.
- Feedback IESBA staff has received after the finalization of the revised long association provisions indicates that some within the regulatory community have questioned the basis for a lengthy transition to the 5-year cooling-off period.

In response to a query on the adoption status of the 5-year cooling-off period by jurisdictions, Mr. Fleck indicated that the Working Group will provide more information in that regard in its final report. This would include any additional information obtained during the upcoming IESBA-National Standard Setters (NSS) meeting in October 2021.

The IESBA reaffirmed that other long association measures such as MFR, mandatory re-tendering and joint audit should only be considered under Phase 2 of the LAPIR.

Mr. Siong advised the Board that if it concludes at its December 2021 meeting that the term of the jurisdictional provision should not be extended, it should communicate its decision publicly but would not otherwise need to take any further action.

Mr. Buchanan expressed support for the IESBA's direction of travel for Phase 1 of the LAPIR.

WAY FORWARD

The Working Group will present its final report and recommendations for Phase 1 of the LAPIR to the Board at the November-December 2021 IESBA meeting.

11. Engagement Team – Group Audits Independence

Ms. Soulier, Chair of the Task Force, updated the IESBA on certain comments raised by IAASB staff relating to potential Quality Management (QM)–related conforming amendments, arising from the finalization of the IAASB's QM Standards, which the Task Force would further consider as part of this project. She then outlined the draft proposed changes to Section 400 related to the revised definition of engagement team (ET) and Section 405 relating to independence for group audits. She also briefed the Board on the Task Force's coordination efforts with IAASB representatives since June 2021 in relation to the IAASB's project to revise ISA~~s~~ 600.[3] During the meeting, Ms. Soulier also reminded the Board that the Task Force's work is dependent on the progress of the ISA 600 Task Force's work.

DEFINITIONS OF ENGAGEMENT TEAM AND AUDIT TEAM

Following the June 2021 Board meeting, Ms. Soulier informed the Board that the Task Force had taken into account the feedback from Board members in proposing the final refinements to the explanatory paragraphs attached to the definitions of ET and audit team (AT). She reminded the Board that the definition of ET as proposed aligns with the definition in ISA 220 (Revised).[4] Ms. Soulier also clarified that external experts who provide consultation on an engagement may, depending on the nature of the consultation, be considered members of the AT but are not captured within the definition of ET.

Among other matters, IESBA participants raised the following for the Task Force's further consideration:

- Whether independence requirements with respect to service providers, especially those outside a firm's network, could be clarified as it is common for firms to use them, especially on group audit engagements. Ms. Soulier reminded the Board that the concept of "service providers" is defined in ISQM 1[5] and that the Task Force is addressing service providers' independence in the context of group audits in Section 405.
- The purpose of additional application material in Section 400 for terms that will already be defined in the Glossary. Ms. Soulier explained that the Task Force intended to provide further examples of the various individuals considered part of the ET or AT given that questions had been raised in previous Board and CAG discussions regarding who is or is not captured within those definitions. As an illustration, she noted that "network firm" is a defined term in the extant Code and Section 400 clarifies how it is operationalized in the Code via a few scenarios.
- Whether the phrase "depending on the nature of the consultation" could be clarified. Ms. Soulier noted that the Task Force will further consider refinements to the example to clarify the intent.
- Whether further clarification could be provided regarding the individuals captured within the definition of ET and if it includes individuals from component auditor (CA) firms. Ms. Soulier explained that the discussion on individuals from CA firms will be in Section 405 Group Audits, and that the Task Force intends to keep Section 400 generic.

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

4 ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

5 International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement*

UPDATED STRAWMAN SECTION 405

Following the June 2021 Board meeting, Ms. Soulier presented an updated strawman of Section 405, structured to reflect:

- Proposed definitions specific to group audits independence;
- A new subsection addressing the independence of non-network CAs;
- Application material to clarify independence expectations for individual team members; and
- Breaches provisions, including communication with TCWG.

In generally supporting the direction of the strawman, IESBA participants raised the following for the Task Force's further consideration:

Proposed Terms and Definitions

- Concerning the additional explanatory material attached to the definition of a component audit client to clarify the nature of work that could be performed by a CA firm, whether the wording could be simplified by referring to a CA firm carrying out procedures on the component audit client's financial information rather than referring also to work being carried out on its financial statements.

  In this regard, it was noted that it is not within the structure of the Code to place defined terms within Section 405 itself, and instead, those definitions should be in the Glossary of Terms.

  Ms. Soulier confirmed the Task Force's intention to align the terminology in Section 405 with that in ISA 600 (Revised). She informed the Board that CAs could play dual roles with respect to a component audit client and that they would be required to adhere to the independence requirements, even if they may not be expressing an audit opinion as a result. She confirmed that the Task Force intends to capture all types of audit procedures performed by a CA firm and that there was no intention to exclude specific types of engagements.

  The Board agreed to move all the defined terms to the Glossary of Terms. Mr. Siong reminded the Board of the importance of the eCode as there is a mouse-hover function that will exhibit the definition of a defined term within the text of the Code itself.

- Concerning the proposed definition of a component audit client, whether the Task Force's intention to reference a business unit as an example of a component for the purpose of specifying the independence requirements was sufficiently clear. Ms. Soulier explained that the Task Force will pose a question in the explanatory memorandum to seek stakeholders' feedback as to whether they have difficulty understanding the application of the definition of a component audit client.

Independence Considerations Applicable to CA Firms Outside the Group Auditor (GA) Firm's Network

- Regarding the independence considerations for networks firms of the GA firm in paragraph R405.6, whether it would be more appropriate to make clear that all network firms are required to be independent. Ms. Soulier explained that in the extant Code, the network firms of the firm are required to be independent of the audit client regardless of their participation in the group audit.
- Regarding the structure of Section 405 where references are made to other provisions in Part 4A, a caution that readers may misinterpret some of these provisions as drafted given that Part 4A does not deal with group audits. Ms. Soulier indicated that the Task Force would reconsider the wording of the relevant paragraphs in Section 405 to avoid any potential confusion.

Non-assurance Services (NAS)

- Whether the provision addressing NAS would be better placed in a Frequently Asked Questions (FAQs) document.
- Whether the Task Force could revisit the provision as it did not appear to correctly reflect the NAS provisions.

Breaches of Independence by a Component Auditor Firm

- Whether proposed paragraph 405.12 A1, which refers to some provisions in ISA 600 (Revised), was needed given that the provisions in the latter are based on what the Code specifies in terms of the process for dealing with a breach of independence. It was suggested that the other proposed provisions addressing breaches would suitably explain the Task Force's intentions in terms of communication of a breach by the CA firm to the group engagement partner.
- Regarding paragraph 405.12 A2, a suggestion to consider articulating the actions that a CA firm within the GA firm's network would be required to undertake, given that extant paragraph R400.80 refers to the firm and does not technically apply to a CA firm.

TIMELINE

In terms of the preparations for the approval of the exposure draft (ED), an IESBA member queried whether a mid-quarter Board meeting would be needed to consider how the Task Force has addressed all of the matters raised during this meeting and to ensure that the timetable remains on track vis-à-vis coordination with the IAASB's approval of ISA 600 (Revised). Mr. Siong advised that the Task Force be allowed the opportunity to consider the Board feedback from this meeting and consult as needed with the relevant Board members who raised comments, with the Task Force providing a full report-back to the Board in December.

Dr. Thomadakis noted the timeline and recommended that there be open and progressive communication with the ISA 600 Task Force to ensure that both Boards are working in tandem towards the alignment of both projects. He reminded the Board of the demanding coordination work and the strategic importance of successful coordination with the IAASB. He stressed that this is an example where both projects are interdependent in aspects of independence requirements. Both boards are working closely, albeit independently, towards the December 2021 approvals of ISA 600 (Revised) and the ET-GA ED. He then thanked the Board, Task Force, and staff for their determination and efforts in ensuring that the Board achieves a successful outcome.

PIOB OBSERVER'S REMARKS

Mr. Buchannan commended the progress on this project, noting the Task Force's work on addressing the communication between the GA firm and CA firm. He added that the PIOB was focused on the responsibilities of the group engagement partner with respect to independence matters. He encouraged the Task Force to reflect further on the varying levels of independence requirements with respect to PIEs and non-PIEs, including the communication aspect and the breaches requirements. He noted that it is important to articulate the rationale for the various principles in the explanatory memorandum to the ED. He acknowledged the Task Force's continuous effort to coordinate with the ISA 600 Task Force, especially on the matter of service providers' independence. He concluded by encouraging the Task Force to reach

out to the regulatory community for input on the proposals to ensure that the public interest is being fully taken into account.

In this regard, Ms. Soulier noted that the Task Force has previously interacted with IOSCO and IFIAR and will continue to look for opportunities to seek their feedback on the proposals.

WAY FORWARD

The IESBA will consider the final draft of the proposed text at its December 2021 meeting with a view to approving the ED.

12. PIOB Observer's Remarks

Mr. Buchanan complimented the Board on the progress of its projects and thanked the Board for the opportunity to observe the virtual meeting.

13. Next Meeting

The next Board meeting is scheduled for November 30-December 3, 8 & 16, 2021, with the first four days to be held in a hybrid format and the latter two virtually.

14. Closing Remarks

In concluding his remarks, Dr. Thomadakis noted the meeting as a successful one. He then thanked the IESBA meeting participants for their contributions and closed the meeting.