Agenda Item 1-D

Draft Minutes of the Public Session of the Meeting of the

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULATIVE ADVISORY GROUP (CAG)

Held Virtually on September 7, 20, 2021

PRESENT

Gaylen Hansen	IESBA CAG Chair
Hilde Blomme	Accountancy Europe (AE)
Dr. Christian Orth	AE
Robert De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Dr. Claes Norberg	Business Europe (BE)
Mohini Singh	CFA Institute
Prof. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Paul Thompson	EFAA
Jazmin Gamboa	Financial Executives International (FEI)
Paul Sobel	Institute of Internal Auditors (IIA)
Daniel Sarmiento Pavas	Inter-American Accounting Association (IAA)
Dr. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Akihito Ishiwata	International Organization of Securities Commissions (IOSCO)
Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Paul Munter	IOSCO
Huseyin Yurdakul	IOSCO
James Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Inanc Yazar	Organisation for Economic Cooperation and Development (OECD)
Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Juan Carlos Serrano-Machorro[1]	World Bank (WB)
Wei Meng	World Federation of Exchanges (WFE)

[1] As agreed with the CAG Chair, Mr. Serrano-Machorro attended on behalf of Ms. Morel as the Representative for IMF with speaking rights.

Observers

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)
Lillian Ceynowa[2]	U.S. Public Company Accounting Oversight Board (PCAOB)
George Kabwe	International Money Fund

Public Interest Oversight Board (PIOB)

Dr. Yugui Chen

IAASB and IESBA Members and Staff

Dr. Stavros Thomadakis	IESBA Chairman
Caroline Lee	IESBA Deputy Chair
Jens Poll	IESBA Member and Tax Working Group Chair
Michael Ashley	IESBA Member and PIE Task Force Chair
James Gunn	IESBA Managing Director, Professional Standards
Ken Siong	IESBA Senior Technical Director
Diane Jules	IESBA Deputy Director
Geoffrey Kwan	IESBA Principal
Kam Leung	IESBA Principal
Szilvia Sramko	IESBA Manager
Carla Vijian	IESBA Manager

APOLOGIES

Members

Dr. Bello Lawal Danbatta	Islamic Financial Services Board (IFSB)
Xiomara Morel	World Bank (WB)

[2] Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or other Board members or staff.

A. Opening Remarks

Mr. Hansen welcomed all participants to the meeting. He welcomed, in particular, Dr. Yugui Chen as the PIOB observer. He also welcomed Mr. Akihito Ishiwata, who is replacing Takeshi Hirai as the new representative for IOSCO and Mr. Juan Carlos Serrano, who is representing World Bank for this meeting as Xiomara Morel is unable to attend.

Mr. Hansen also bid farewell to Mr. Takeshi Hirai (IOSCO Representative) thanked him for his contributions over the years not only as a CAG member but also a member on the IESBA CAG Membership Panel.

Approval of Minutes

The CAG approved the minutes of the March and May 2021 public session as presented.

Update on the IESBA's Quality Management-related Conforming Amendments

The CAG received an update from Mr. Siong on the Quality Management-related Conforming Amendments project

B. Tax Planning and Related Services

Prof. Poll, Chair of the Tax Planning Working Group (WG), introduced the topic, informing CAG representatives of the objectives of the session. He then recapped the key emerging themes described in the WG's preliminary report as presented at the May 2021 CAG meeting before providing the CAG with an update on the project proposal.

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. He informed the CAG that the WG intends to seek the IESBA's approval of the project proposal at the upcoming September meeting and to form a Task Force to undertake the project.

CAG representatives broadly supported the project proposal. Amongst other matters, the representatives raised several matters, including the following:

- Mr. Hansen sought clarification as to whether there is an intention to differentiate between public interest entities (PIEs) and non-PIEs as the project progresses. He also reminded the WG that during the CAG meeting in May 2021, CAG representatives had also asked whether there was an intention to review types of tax structures or tax havens as part of the project. Prof. Poll explained that there should be no differentiation between PIE and non-PIEs when developing ethical principles. However, there might be a need to acknowledge a differential approach with respect to communication with those charged with governance (TCWG). Prof. Poll, however, acknowledged the point and noted that the WG would consider reflecting it in the project proposal. On the issue of transactional structures or arrangements, Prof. Poll responded that the factors mentioned are indicators the future Task Force will be considering. He added that the project would also consider the economic substance of non-transaction-driven tax structures.
- Ms. Blomme noted Accountancy Europe's support for the WG's proposal to move to a standard-setting project with the presentation of the project proposal. She pointed out that this is a topic of much discussion in Europe and the UK, and Accountancy Europe has also produced considerable

work in this area. Notably, the matter of defining the various key terms is not straightforward, and it would be difficult to define and differentiate concepts such as "aggressive tax planning," "tax planning," and "tax evasion" at a global level. Ms. Blomme encouraged the future Task Force to progress the project having regard to international efforts, such as the OECD's Pillar 2 efforts in shifting the global effective tax rates, which she felt would support the project. She noted that the work of the OECD, Accountancy Europe and others in the European Union (EU could guide the discussion forward, especially concerning the tax professions in general. She noted for example that other than PAs, the legal profession also executes tax planning activities in certain jurisdictions such as France. She believes that there is scope for the future Task Force to reach out to various stakeholders other than the accounting profession to understand the ethical scope that applies to tax advisors. She also mentioned that CFE Tax Advisers Europe had recently issued a consultation paper *Professional Judgment in Tax Planning – An Ethics Quality Bar for All Tax Advisers*, seeking to guide tax advisors in navigating their ethical compass when providing tax advice.

Prof. Poll noted Ms. Blomme's observations and clarified that there is no intention for the project to "reinvent" the wheel. He acknowledged the diversity of terminologies in the market on the topic of tax planning. He assured representatives that the project will be prudent in finding the right approach, i.e., by investigating the characteristics or factors that relate to tax planning rather than constructing new sets of terminology. He also informed representatives that the WG had planned an upcoming engagement with CFE Tax Advisers Europe as part of its outreach activities.

- Ms. McGeachy-Colby expressed her appreciation for the breadth of the project, noting that the future Task Force is tasked to investigate an extensive topic. She added that the SMPAG continues to have concerns about trying to define "aggressive tax planning," as raised during the May 2021 CAG discussion. She also queried if the future Task Force would be cognizant of how the proposed provisions may interact with local regulations such as the General Anti-Avoidance Rules (GAAR) in some jurisdictions. She cautioned the WG on setting provisions that may be stricter than the local tax legislation. She was concerned that this may create a hostile environment for PAs to operate with more restrictions on tax planning activities.
- Mr. Munter observed that the future Task Force has a challenging task of determining the suitable terminology to use as the project progresses. He also wondered whether consideration had been given to the different responsibilities of those who carry out tax planning activities in different capacities such as PAIBs versus auditors. He was of the view that motivation is an important issue, for example, whether an entity intends to adopt a certain tax strategy as part of its business as opposed to one that is "tax motivated," and the threshold for the strategy to be deemed permissible. On the other hand, he noted that auditors need to consider their independence in terms of where they might be advocating for their clients. In such an instance, he was of the view that it is difficult to determine the appropriate safeguards to deal with the advocacy threats.

  Prof. Poll responded that motivation is very important and accordingly, there is a need to consider the circumstances of a tax transaction or structure. He added that the threshold issue should be left to the future 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. Prof. Poll also acknowledged that the extant Code currently has provisions in place to deal with auditors providing non-assurance services (NAS) such as tax planning services in Section 604 of the Code.
- Ms. Meng conveyed her support for the WG's direction in terms of the proposals in the project proposal. She emphasized the importance of understanding the economic substance of the tax

transactions as the project develops provisions and suitable terminology to deal with tax planning. At the same time, she encouraged the project to maintain a principles-based approach.

- Mr. Cela noted the excellent work that the WG had undertaken and agreed that the best way forward is Option A, which is to develop overarching material in the Code that will assist PAs in complying with the fundamental principles and apply the conceptual framework. He also concurred with Mr. Hansen's observation that there should be no differentiation between PIEs and non-PIEs. Mr.Cela also noted his full support for the future Task Force to advance work in this area to assist professional bodies in guiding their members in the ethical conduct expected when carrying out tax planning services.
- Ms. Mubarak commented on the clear explanation provided by the WG for the IESBA to undertake this project and supported the way forward. From a regulator's perspective, she welcomed the WG's recommendation for Option A as she believes this will improve the profession's accountability and transparency when carrying out tax planning services. She shared observations from her experience where tax professionals seemed to have abused the loopholes in tax laws, for example, via transfer pricing for profit-shifting. She noted that the tax regulations are complex and subject to misinterpretation by various parties.

  Prof. Poll confirmed that this project will address all tax-planning related activities carried out by PAs while the current NAS provisions will deal with independence considerations for tax-related NAS provided to audit clients.
- Mr. Hansen encouraged the future Task Force to consider engaging with the legal profession. He also noted that it was difficult to see a link between this project and the societal issues related to the Environmental, Social and Governance (ESG) movement mentioned in the project proposal.

  Prof. Poll clarified Mr. Hansen's query on ESG by noting a movement towards sustainability reporting by organizations today. There are many such frameworks in place, such as the GRI and ESG reporting. These frameworks encourage transparency in reporting, especially of the various tax strategies and risk policies and procedures adopted by organizations. Ms. Blomme agreed with Prof. Poll, noting that the ESG movement is prevalent in Europe, with tax transparency definitely being part of the long-term view. She felt that where there was less of a link was in relation to inducements. However, she was of the view that there is definitely a link to the governance part of the ESG developments.

  Prof. Poll explained that the intent in introducing the inducements concept in this project was more in relation to how inducements are approached in the extant Code. As noted by Mr. Munter, intention is very important and PAs' environment can contribute to certain behaviors that encourage PAs to undertake risky or poor judgments. Prof. Poll added that he hoped the future Task Force would developing an understanding of the various factors that can assist PAs in overcoming such pressures.

Dr. Thomadakis thanked the CAG representatives for their contributions. He explained that the project will address matters identified in the project proposal and not extend to NAS provided to an audit client. He emphasized the complexity of tax laws globally and the uncertain nature of acceptable versus unacceptable tax planning. He stressed that it will be a challenging project and that the Board should be careful not to venture into the tax policy area.

PIOB OBSERVER'S REMARKS

Dr. Chen commented that he was impressed by the in-depth discussions during the meeting. He pointed out that the PIOB supports the initiative and welcomes the good direction taken by the WG, especially in the area of sustainability reporting. Dr. Chen encouraged the WG to continue having an open conversation with key stakeholders such as the OECD and tax authorities. Finally, he observed that the topic of inducements is of a narrower scope than tax planning. As tax planning is of great public interest significance and affects society at large, he encouraged the future Task Force to consider setting a high bar when it comes to ethical behavior expected of the profession in carrying out tax planning services.

WAY FORWARD

Prof. Poll thanked the Representatives for their valuable input and informed the CAG that the IESBA will consider the WG's final report, the project proposal and the CAG's feedback at its September 2021 meeting.

C. Technology

Mr. Brian Friedrich, Chair of the Technology Working Group, reported back on the discussion on the Technology initiative at the March 2021 meeting. He then provided the CAG representatives with an update on the Working Group's activities to progress its remit to (1) develop, or facilitate the development of, technology-related thought leadership and other material, and (2) undertake fact finding on the impact of technology developments in areas beyond Artificial Intelligence and Big Data/Data Analytics, such as Blockchain, Cybersecurity and Cloud Computing on the ethical behavior of professional accountants (PAs) in both business and public practice.

CAG representatives noted the Working Group's progress and anticipated timeline for the release for upcoming materials. Mr. Hansen questioned whether any materials would be developed with respect to the topics of confidentiality and data hosting. Mr. Friedrich highlighted that the thought-leadership materials being developed raise awareness of the ethical implications underlying both topics. He also pointed out the Technology Task Force's work in developing revisions to the Code on both topics and stressed the importance of the Working Group not providing any preemptive or interpretative guidance before the proposed revisions are finalized.

Mr. Friedrich then outlined the Working Group's proposed next steps to:

- Develop a report of the Working Group's insights gained from its fact finding, anticipated to be finalized in September 2022.
- Establish a Technology Advisory Group (IESBA TAG) consisting of external members such as technologists to support the Working Group's activities. The objective of the IESBA TAG would be to (1) provide a forum for knowledge sharing, and (2) be a sounding board for the Working Group's thought-leadership and other materials.

Support was expressed for establishing the IESBA TAG, with Mr. Hansen noting that the IESBA TAG would be a helpful avenue to obtain knowledgeable insights from technologists.

<u>Technology Project</u>

Mr. Hansen then invited Mr. Huesken, Chair of the Technology Task Force, to provide a brief overview of the responses to the 2020 technology surveys, *Technology and Complexity in the Professional Environment* and *The Impact of Technology on Auditor Independence.* In response to an observation from

Mr. Hansen that the majority of the respondents seemed to be from the accounting profession, Mr. Huesken highlighted that generally, the IESBA's public consultations and surveys about its work are circulated to a wide range of stakeholders and are readily accessible on the IESBA's website. In addition, the IESBA promotes them via social media and targeted outreach. Mr. Huesken noted that the 2020 technology surveys followed the same wide dissemination and accessibility.

Mr. Huesken observed that over the past three years, there have been close to 50 outreach events/meetings to inform the Technology project, including with stakeholders outside of the accounting profession such as the Organisation for Economic Co-operation and Development (OECD), the European Commission (EC), the Committee of European Auditing Oversight Bodies (CEAOB), the IESBA-National Standard Setters (NSS) liaison group and the CAG. However, he highlighted that the opportunity to engage with stakeholders representing those charged with governance was limited. In this regard, Messrs. Hansen and Siong invited CAG representatives to encourage their respective organizations to engage with the IESBA and provide feedback on the technology-related revisions to the Code as the IESBA looks ahead to approving the Technology exposure draft (ED) in December 2021.

Mr. Huesken then walked the CAG representatives through the Task Force's proposed technology-related revisions to the Code. Among other matters, the following were raised:

PARTS 1 TO 3 OF THE IESBA CODE

- Mss. Blomme and Meng observed that some of the proposals, for example, in Section 113 *Professional Competence and Due Care*, extend broadly to all circumstances rather than being technology-specific. They questioned whether the underlying concepts were not already within the Code's principles. In this regard, Ms. Meng recommended that the Task Force provide an explanation in the accompanying Explanatory Memorandum to the ED. Ms. Blomme also noted that the number of proposed revisions appeared overwhelming and urged the Task Force to stand back and evaluate whether all the revisions are necessary.
- Ms. Manabat echoed the sentiments expressed and noted that it is impossible to address all types of emerging technologies in the Code due to the dynamic and evolving nature of technology, citing XBRL as an example of a common place technology which was seen as emerging a few years ago.
- Mr. Dalkin questioned whether there was a documentation requirement in the Task Force's proposals in relation to paragraph 220.7 addressing *Relying on the Work of Others or on Technology*, and how the proposals interact with ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*.

Mr. Huesken thanked the CAG representatives for their questions and input, and in response:

- Confirmed that the Task Force had reflected on the proposed revisions from a "stand-back" point of view and observed that they had already been significantly refocused as compared to the December 2020 strawman. Mr. Fleck further clarified that the Task Force had begun the project with the aim of progressing a set of seven recommendations from the Phase 1 report of the original Technology Working Group. Mr. Fleck added that after several rounds of deliberation, evaluation and feedback from the IESBA, the Task Force had concluded that some of the concepts underlying the recommendations are already inherent in the principles of the Code, as revised by the Role and Mindset project. Mr. Fleck emphasized that the Task Force has endeavored to strike an appropriate balance between necessary changes to the Code and maintaining its principles-based nature.

- Agreed that the proposals in Section 113 are broadly applicable in all facts and circumstances. Mr. Huesken explained the Task Force believes such proposals will enhance the Code as it relates to the execution of a PA's professional activities more generally, which includes technology-specific circumstances. He further noted that the IESBA had expressed caution about ring-fencing the proposals with an explicit linkage to technology given its evolving nature.
- With respect to the proposals in paragraph 220.7 and its interaction with ISA 540 (Revised), Mr. Huesken explained that the proposals pertain to PAs in business whereas ISA 540 (Revised) applies to auditors, i.e., PAs in public practice. Messrs. Hansen and Huesken further noted that documentation requirements in relation to the audit of accounting estimates are covered under the ISAs.

PART 4 OF THE CODE

- Mr. Hansen questioned whether the Task Force had proposed any definition for what constitutes "off-the-shelf" software in Subsection 606. Mr. Huesken responded that no definition had been proposed because although stakeholders typically cite retail software packages directly installed on a computer as a concrete example of "off-the-shelf" software, nowadays the software is likely purchased directly from the software provider and will need some form of customization during implementation. In this regard, the Task Force's view is that implementation of "off-the-shelf" (however defined) accounting or financial software by a firm for an audit client might create a self-review threat.
- With respect to the proposals on data "hosting" services, the following questions were raised:
    - Mr. Hansen questioned whether the proposals about 'hosting' address firm portals that contain financial statement information. He noted the public interest element in these circumstances as there is the risk of the financial statement information being inappropriately edited and thus misleading the public. Mr. Huesken acknowledged this risk, noting that it can be mitigated by having appropriate access controls to such portals.
    - Mr. Dalkin questioned what management's responsibility in respect of hosting is and whether it can be reaffirmed by the client signing a contract acknowledging that it retains such responsibility. Mr. Huesken explained that when a firm is the primary host of the client's data, the firm has assumed management responsibility. This is because the moment there is an issue with the hosting service, it is unavoidable for the host (i.e., the firm) not to be involved in the solution to address the issue. As such, a contract signed by an audit client acknowledging management responsibility would not be sufficient.
    - Ms. Blomme asked how the hosting services proposals in Part 4B of the Code would work in practice. Mr. Huesken explained that the proposals intend that a firm should not be involved in hosting if it provides an assurance report on the related subject matter information or underlying subject matter.
    - Ms. Gamboa expressed support that non-financial reporting is being addressed in Part 4B. She encouraged the IESBA to continue to monitor developments in this area.
- Mr. Ishiwata thanked the Task Force for the clear explanations underlying the proposals. He expressed support for the Task Force and Working Group to continue considering the IAASB's ongoing projects that are addressing technological developments (for example, ISA 500 *Audit*

Evidence), the latest finalized revisions to the ISAs as well as emerging technology developments in order to maintain consistency between the IESBA's and IAASB's standards.

PIOB OBSERVER'S REMARKS

Dr. Chen noted that the Working Group's proposed IESBA TAG is an interesting undertaking as it would allow an avenue for technologists to share their knowledge and experience. He reminded the Working Group that the TAG's remit should avoid undue influence from the accounting profession. Dr. Chen then expressed support for the Task Force's proposals to highlight that the sale or licensing of technology might create a threat to independence and to emphasize the applicability of the Code's NAS provisions in those circumstances. As noted in the PIOB's August 2020 Public Interest Issues communication, Dr. Chen emphasized that the use and impact of technology are one of the most important issues the accounting profession is facing, and that the impact has intensified with the COVID-19 pandemic.

Dr. Stavros Thomadakis thanked the CAG representatives for their input to the technology workstreams. He noted that the Technology ED anticipated to be approved in December 2020 will be a good test for (1) whether stakeholders view the balance of enhancements to the Code as appropriate, and (2) whether specific issues might benefit from the development of non-authoritative guidance.

D. Engagement Team-Group Audits Independence

Mr. Hansen introduced the session and invited Ms. Soulier, Task Force Chair, to present the topic. Ms. Soulier briefed the CAG on the coordination efforts with the IAASB's ISA 600[3] Task Force since May 2021. During the meeting, she reminded the CAG that the Task Force's work is dependent on the progress of the ISA 600 Task Force's work.

Ms. Soulier also briefed the CAG on the feedback received from various outreach activities held with the NSS and representatives from IOSCO,[4] IFIAR,[5] and some large firms.[6] Among other matters, the CAG was informed of the stakeholders' general support for the coordination efforts between the IESBA and the IAASB on this project and the ISA 600 project, the proposed principles on independence concerning non-network component auditors (CAs), and the proposed approach when a breach of independence is found at the CA level. CAG representatives encouraged the Task Force to coordinate closely with the IAASB regarding the effective date of the proposed standard.

Ms. Soulier then outlined the draft text proposed in Section 400 for Engagement Team and Section 405 *Group Audits*. CAG Representatives noted the presentation and exchanged views about the Task Force's observations and proposals to date. Amongst other matters, the following were raised:

NEW DEFINITIONS

- With respect to the role of a group auditor (GA), Mr. Hansen queried if a GA can take on the dual role of a CA at the same time. Ms. Soulier explained that audit work on a component can be done by three different types of firms: the GA firm, a network firm of the GA firm, and a firm outside the GA firm's network. She added that the GA firm will have the highest independence expectations. In

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3 Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

4 International Organization of Securities Commissions

5 International Forum of Independent Audit Regulators

6 Some of these firms are members of the Forum of Firms

the extant Code, the GA firm and its network firms are subject to the independence requirements in carrying out audit engagements in a group audit context. With the proposed revisions, there will be greater clarity as to the independence requirements that apply to CA firms outside of the GA firm's network as part of the group audit.

- Referencing the partner in charge of the group audit engagement, Ms. Manabat wondered whether the term "lead audit partner" on the group audit engagement could be introduced. Ms. Soulier indicated that the correct terminology is group engagement partner. There is only one group engagement partner on a group audit engagement as defined in ISA 600 (Revised).
- As noted at a previous IAASB CAG meeting, Mr. Yurdakul highlighted some confusion around the definition of a CA. As per proposed ISA 600 (Revised), the definition states that the CA is engaged at the request of the GA to perform work on the group audit engagement. In practice, he pointed out that this may be an exception as the norm would be for the group audit client or the component audit client to engage the CA. He suggested that the definition of the CA should be updated to reflect these circumstances in practice. Mr. Hansen also shared a similar observation regarding the selection of CAs by component audit clients.

  Ms. Soulier explained that where the audit of a component is performed by a firm within the GA firm's network, the GA firm is responsible for the engagement of the individuals to carry out the audit procedures on the group audit engagement. In practice, there may be situations where the component audit client engages a CA firm outside of the GA firm's network to perform the local statutory audit of the component audit client. In this instance, the component audit client may choose to engage the same CA firm to carry out audit procedures on the group audit engagement to avoid using multiple audit firms. For the purposes of the group audit engagement, the GA firm will be communicating the group audit instructions to the CA firm.

  Ms. Jackson, IAASB correspondent member on the Task Force and member of the ISA 600 Task Force, recapped the proposed ISA 600 (Revised) communication requirements with respect to component auditors carrying out audit procedures in the audit of group financial statements. She added that proposed ISA 600 (Revised) has application material acknowledging that the audit of statutory financial statements may still be in process and could be relevant to the group audit. She noted that other ISA requirements would address the requirements for CAs on a statutory audit engagement.

  Mr. Jui, IAASB Deputy Chair and Chair of the ISA 600 Task Force, acknowledged the queries from CAG representatives, especially nuances where there is a group of investees to be taken into account in the audit of group financial statements. He noted that an important concept in proposed ISA 600 (Revised) is that there has to be direction, supervision and review of CAs. He added that both the Engagement Team – Group Audits Independence and ISA 600 Task Forces are working closely to ensure that comments raised by representatives are being duly considered.
- Mr. Cela noted that, operationally, the inclusion of CAs outside the GA firm's network on the group audit team might impact the independence of the group audit team. Ms. Soulier explained that the inclusion of CAs in the group audit team is driven by the revision to the definition of engagement team in ISA 220 (Revised) as approved by the IAASB. The individuals performing audit procedures on the group audit engagement are considered part of the engagement team for the group audit and now include individuals outside of the GA firm's network.

Ms. Lee, IESBA Deputy Chair and member of the Task Force, provided further clarification that the independence of individuals within the firm and its network firms is already addressed in the extant Code. The Task Force's work is to clarify the independence requirements for all other individuals carrying audit procedures on the group audit engagement, including individuals outside of the GA firm's network.

INDEPENDENCE CONSIDERATIONS

- Concerning the independence considerations applicable to CA firms outside a GA firm's network as per paragraph R405.7, Mr. Hansen sought clarification as to whether other restrictions in the extant Code, such as employment and business relationships, would apply to CA firms outside a GA firm's network as well. Ms. Soulier confirmed that the proposed requirements in paragraph R405.7 apply to all group audit clients, both PIEs and non-PIEs. She noted that the explicit prohibition in paragraph R405.7(b) on holding a financial interest in the parent entity, even if the component audit client is a non-PIE, is based on that in the extant Code. With respect to business relationships, Ms. Soulier explained that there is already a prohibition on close business relationships with respect to the audit client in the extant Code. However, for the parent entity and above, the Task Force is proposing a requirement via paragraph R405.9 to capture them through the application of the conceptual framework.
- Mr. Yurdakul wondered whether the group engagement partner should themselves be a key audit partner (KAP) given that they are signing off on the group audit report. Reflecting on the requirements under the Long Association provisions, Ms. Soulier clarified that the concept of a KAP is relevant to the partner rotation requirements in the Code. These requirements apply to the "lead audit partner," i.e., the group engagement partner, in addition to the engagement quality reviewer and other KAPs on the group audit engagement.

BREACHES OF INDEPENDENCE REQUIREMENTS

- In the case of a breach of independence by the CA, Mr. Yurdakul observed the emphasis on the objectivity of the CA in the draft text. He was of the view that there should be consideration of the other fundamental principles, especially integrity and professional competence and due care. Ms. Soulier confirmed that compliance with the five fundamental principles is the baseline for compliance with the Code. In the draft text for the section on breaches of independence requirements, the emphasis on objectivity is really on the ability of the group engagement partner to use the CA's work. In that context, therefore, objectivity is the critical fundamental principle. She added that the fundamental principles of integrity and professional competence and due care are already addressed by the Code and within proposed ISA 600 (Revised).
- Mr. Ishiwata wondered about the Task Force's thinking regarding a CA's finding of a breach and the reporting requirements. He queried if the Task Force would include consideration of reporting other matters to TCWG so that all matters relevant to the group audit engagement are reported and all needed responses from the GA are considered. Ms. Manabat echoed a similar observation and wondered whether the Task Force intends to cover reporting of all instances of breaches to TCWG.

  Ms. Soulier responded that paragraph R405.20 is a requirement for the group engagement partner to communicate independence breaches to TCWG. The key message to take away from the proposed provisions on breaches is the ability of the group engagement partner to issue an opinion on the group financial statements. In the event of a breach by the CA, the group engagement partner will need to perform an assessment of the breach before deciding the next course of action, i.e., if

the group engagement partner can use the work performed by the CA for the purposes of the group financial statements. This assessment also involves discussion with TCWG to ensure that they agree with the group engagement partner's assessment of the breach.

- Mr. Hansen requested the Task Force to reexamine the drafting in paragraph 405.10 A1, which references NAS. He queried the specific mention of inventory as an example and was concerned about the example being read in isolation and opening up the notion of "partial independence."
- Ms. Meng highlighted the importance of coordination with the IAASB, especially on aligning the definitions and addressing the related implications for independence with the ISA 600 Task Force.

Dr. Thomadakis echoed Ms. Meng's observation on the strategic importance of coordination with the IAASB and thanked the CAG representatives for their feedback. Both boards are working closely towards the December 2021 approvals of the ISA 600 (Revised) standard by the IAASB and the ED by the IESBA.

PIOB OBSERVER'S REMARKS

Dr. Chen thanked the Task Force for its hard work. He acknowledged the strong coordination with the IAASB. He also supported the overall direction of the proposals, noting that there has been due regard to the public interest in their development.

WAY FORWARD

Ms. Soulier thanked the Representatives for their valuable input and informed the CAG that the IESBA will consider the Task Force's proposals and the CAG's feedback at its November-December 2021 meeting.

E. Long Association Post-Implementation Review (LAPIR) – Phase 1

Mr. Fleck, Long Association Post-Implementation Review (LAPIR) Working Group Chair, introduced the topic by providing brief background on Phase 1 of the LAPIR workstream which commenced in Q1 2021. He highlighted the focus of Phase 1, being the transition to the 5-year cooling-off period for engagements partners on the audits of PIEs when "the jurisdictional provision" (paragraph R540.19 of the Code) expires for audits of financial statements for periods beginning on or after December 15, 2023.

Mr. Fleck informed the CAG that a global stakeholder questionnaire was released in April 2021 to seek views from stakeholders on the impact of the forthcoming expiry of the jurisdictional provision. A total of 32 responses were received. Mr. Fleck provided an overview of the key issues raised by respondents, the Working Group's proposed responses as well as key comments from IESBA participants at the September 2021 IESBA meeting.

Among other matters, the following were raised:

- Mr. Hansen supported the Working Group's preliminary view not to extend the term of the jurisdictional provision. He expressed the view that if a replacement engagement partner was brought in when an engagement partner who had served the maximum allowable time was rotated off, that replacement partner would likely stay on after the initial 3 years. Accordingly, he did not consider the extension of the cooling-off requirement to 5 years to be of significant concern.
- Ms. Blomme suggested that the IESBA consider extending the term of the jurisdictional provision until the outcome of Phase 2 has been finalized. Ms. Blomme queried how practical or feasible it is for smaller firms to seek an exemption from the local regulators in accordance with paragraph R540.9. She also pointed out that extending the cooling-off period for engagement partners to 5 years may lead to audit market concentration, an actual issue the EU is attempting to address. Given

the potential impact the longer cooling-off requirement might have on smaller firms, this may cause more reluctance amongst some EU member states to adopt the Code. Mr. Fleck noted that the concerns are not new but that the Working Group will consider her feedback.

- Mr. Yurdakul noted that in Turkey, firms have to comply with both the Code's partner rotation requirements and the local mandatory firm rotation (MFR) requirements. He observed that firms have at times objected to the combination of these two sets of requirements. He suggested that the jurisdictional provision should be further considered. He also encouraged the IESBA to consider MFR under Phase 2 of LAPIR. In response, Mr. Fleck confirmed that other legislative or regulatory mechanisms that address long association such as MFR will be taken into consideration when the IESBA reviews the Code's long association provisions as a whole.

Dr. Chen noted that the PIOB welcomes the Working Group's preliminary view not to extend the term of the jurisdictional provision. He suggested that the cooling off period should not be further relaxed.

F. Benchmarking

Ms. Friedrich, the Benchmarking Working Group's (WG) Chair, and Mr. Fleck, WG member, reported back on the March 2021 CAG discussion and provided an update on the progress made in Phase 1 of the Benchmarking initiative. Phase 1 involves comparing the Code's independence provisions relevant to the audit of PIEs to the independence rules of the US Securities and Exchange Commission (SEC) and the independence provisions of the US Public Company Accounting Oversight Board (PCAOB). As part of the update, Ms. Friedrich briefed the CAG on the:

- Focus areas and topics covered by the benchmarking;
- Proposed outputs from Phase 1, and
- The WG's observations based on the analysis completed to-date.

Representatives supported the WG's work and, among others, raised the following matters:

- Mr. Hansen asked whether both the detailed and the summary reports for Phase 1 would be public. Ms. Friedrich explained that both reports are intended to be public; however, the IESBA may decide on different methods regarding their publication and promotion. She clarified that the reports would respond to different interests and fit different purposes. Ms. Blomme referred to previous comparisons between the Code and the EU independence framework carried out by Accountancy Europe (AE). She noted that during that benchmarking work, AE had asked for IESBA Staff's input. She suggested that the WG do the same with the US SEC and PCAOB Staff.
- Ms. Blomme suggested that the WG complete its analysis and preparation of the detailed comparison before reaching any conclusions on the main similarities or differences. She added that the granularity of the information included in the public reports would depend on the targeted audience and the purpose of such reports. She added that if the IESBA planned to consider and act on the differences identified, the outcome of the Benchmarking initiative should be based on a full "paragraph-by-paragraph" comparison. Ms. Friedrich agreed that there are situations when a detailed "paragraph-by-paragraph" comparison would be beneficial. Nevertheless, she highlighted that the challenge of this initiative is to determine the level of information best suited for the public reports for stakeholders' consideration.

- Mr. Dalkin expressed support for the initiative, including the approach aimed at identifying only the key differences and similarities between the different frameworks. He noted that the output would be useful and beneficial not only for some but also for all stakeholders.
- Mr. Hansen also expressed support for the initiative. He noted that while the Code's conceptual framework allows for firms to exercise judgments regarding the threats and the safeguards, the US SEC and PCAOB, as regulators, are involved in enforcement and have extensive consultation processes to deal with breaches. He suggested that the report highlight this point as a fundamental difference between the approaches.
- Ms. Meng noted that the relevant sections of the Code and US SEC rules focus on different entities, i.e., PIEs and issuers. Although there is an overlap between these two categories, she suggested that the report arising from Phase 1 point out that the US SEC rules have no PIE definition.
- Acknowledging the different conceptual approaches and objectives of the two independence frameworks, Dr. Manabat questioned what the IESBA aims to achieve with the Benchmarking initiative. Mr. Fleck responded that an objective of the initiative is to draw out differences that are meaningful for the IESBA's consideration. He further highlighted the WG's challenges arising from determining how the reports should articulate the merits of the different conceptual approaches of the two frameworks. He noted that the initiative aimed to identify areas where there are significant conceptual differences. He also explained that a report focusing on the key similarities and differences could inform the IESBA's future work program.

Regarding the objective of the initiative, Dr. Thomadakis added that the Benchmarking exercise would provide insights that might assist the IESBA in determining whether the Code is on comparable ground. He reiterated that the conceptual gaps identified during this initiative could inform the IESBA's future strategy and work plan. He also pointed out that the Benchmarking initiative could raise awareness of the Code and provide stakeholders valuable information about the rationale for the differences that exist between the International Independence Standards and independence frameworks in some key jurisdictions.

PIOB OBSERVER'S REMARKS

Dr. Chen expressed support for the initiative's objectives and agreed with the goal of promoting an understanding of the Code, rather than making a judgment on which independence framework is more stringent. He cautioned the IESBA against implying that the Code should be aligned to any national frameworks and that the Benchmarking exercise would serve that purpose.

G. PIOB Observer's Remarks

Dr. Chen thanked the CAG for the opportunity to observe the meeting and for the good level of discussions during the meeting.

H. Closing Remarks

On behalf of the CAG, Mr. Hansen bid farewell to Dr. Thomadakis who is due to complete his tenure as the IESBA Chairman at the end of 2021. Mr. Hansen acknowledged Dr. Thomadakis' dedicated and effective leadership of the IESBA since 2015. Dr. Thomadakis thanked the CAG Representatives for their openness in expressing their diverse views, noting that they have been valuable companions on the journey with the IESBA. Dr. Thomadakis added that the IESBA's achievements are the collective achievements of all those, including the CAG, who have been associated with the Board. He highlighted

that the CAG has been an integral part of the IESBA's wide and serious consultation process. He encouraged the CAG to continue sharing the benefit of its views, insights and advice in the public interest.

Mr. Hansen thanked the CAG participants for their contributions and closed the meeting.