

Meeting: IESBA

Meeting Location: Hybrid (New York)

Meeting Date: March 14-16, 2022

Agenda Item 5

Benchmarking Independence Provisions for Audits of Public Interest Entities

Phase 1 –Comparison of IESBA and US SEC/PCAOB Frameworks

Objectives

1. To:
 - (a) Receive the final report arising from benchmarking the International Independence Standards (IIS) Phase 1; and
 - (b) Consider the observations set out in an accompanying executive summary.

Background

2. In June 2020, the IESBA launched the [Benchmarking Initiative](#) to compare the Code, in particular, the IIS that are applicable to audits of PIEs against the relevant independence requirements that apply in major jurisdictions, starting first with the independence rules and standards of the US Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) (Phase 1). Future phases to benchmark the Code against the independence frameworks of other jurisdictions will be considered as part of the ongoing planning of IESBA Staff projects.
3. Section I, A of **Agenda Item 5-A** sets out the purpose of the benchmarking initiative, including the objectives of Phase 1.
4. At its November/ December 2021 meeting, the IESBA received an update from the Benchmarking Working Group on the progress of the Phase 1 work. In particular, the IESBA was briefed on the revisions made to the draft report since the September 2021 draft, including the changes made to address the comments raised by IESBA members and representatives of the IESBA's Consultative Advisory Group (CAG).

Activities since IESBA November/ December 2021 Meeting

5. The WG met three times via videoconference to develop the agenda materials for the March 2022 IESBA meeting.

About the Final Benchmarking Reports

6. As previously communicated to the IESBA, the outcomes arising from Phase 1 of the benchmarking initiative consist of two staff-prepared documents, namely:
 - (a) A detailed report: *Benchmarking International Independence Standards Phase 1 Report (Agenda Item 5-A)* which provides a detailed analysis of the Code's provisions and the SEC/PCAOB rules by topic/focus area, followed by the IESBA staff's commentary regarding

the similarities and differences between the two independence frameworks.

- (b) A summary report: Executive Summary: Benchmarking International Independence Standards Phase 1 Report (Agenda Item 5-B) which is a shorter document that provides an overview of the key similarities and differences set out in the detailed report. This accompanying executive summary is based on the material, especially the commentary sections set out in the detailed report. The matters in the executive summary report indicate areas where IESBA Staff (and the Working Group) believe the application of the Code and the US SEC/PCAOB rules might result in a different outcome in practice.
7. **Agenda Items 5-A** reflects the IESBA Staff's understanding of the respective frameworks being compared. It incorporates the directional input and drafting suggestions of the Working Group, as well as comments and suggestions from IESBA members and technical advisors; the IESBA's CAG; and the IESBA-National Standard Setters (NSS) Liaison Group. The input of the IESBA, CAG and NSS was of particular importance in deciding on the focus areas and topics¹ in the report, which are intended to represent the matters that are of greatest interest to IESBA, users of the Code, and other stakeholders.

Focus areas and Topics Covered

8. **Agenda Item 5-A** includes the consideration and comparison of overarching principles and approach (including the provisions/ auditing standards relating to non-compliance with laws and regulations), key definitions, and the following focus areas and topics:
- Fee-related Provisions
 - Non-Assurance/ Non-audit Services – General Provisions
 - Non-Assurance/ Non-audit Services – Specific Provisions
 - Communication with Those Charged with Governance (TCWG)
 - Financial Relationships
 - Business Relationships
 - Partner Rotation/Long Association
 - Gifts and Hospitality

IESBA Input Since November/December 2021 Meeting

9. In early February 2022, IESBA meeting participants were provided an opportunity to provide input on a draft of the completed detailed report (updated from the [November/ December 2021 draft](#)) via e-mail. The IESBA staff has carefully considered the comments and suggestions received, and worked closely with the Working Group to address them.

Matters for IESBA Consideration

10. During the meeting, the Chair of the Working Group and Staff will highlight the most substantive comments received on the draft that was circulated via email and will explain how these comments

¹ In deciding on the focus areas and topics in **Agenda Item 5-A**, consideration was given to stakeholders' most frequently asked questions about international and jurisdictional level independence standards, especially in the context of how the Code compares to the US SEC/PCAOB independence provisions.

have been addressed in **Agenda Item 5-A**. As part of that presentation, the Chair and Staff will present highlights of the executive summary report set out in **Agenda Item 5-B** and will respond to questions.

11. In addition, the WG Chair and Staff will present overall reflections and observations having completed the Phase 1 of the Benchmarking initiative and will facilitate a discussion about:
 - Whether the outcome of the Phase 1 Benchmarking indicate independence matters that warrant specific attention from a standard-setting perspective by the IESBA.
 - The planned approach to rollout and promote the outcome of Phase 1 of the Benchmarking.²
 - The timing and approach for future benchmarking phases to compare the Code to the independence frameworks/standards of jurisdictions other than the US.

Next Steps

12. Following the IESBA's March 2022 meeting, IESBA staff will update the reports as appropriate, including to reflect changes arising from final quality control and consistency review checks. The reports will then be finalized and issued in a design-enhanced format. They will be available on the IESBA's website.
13. The Working Group is planning to brief the CAG and the NSS on the key outcomes of Phase 1 of the benchmarking initiative at their March 31, 2022, and May 10, 2022, meetings.

Action Requested

14. During the March 2022 meeting, IESBA members will be asked to note and react to the benchmarking presentation.

Materials Presented

Agenda Item 5-A	Draft Benchmarking International Independence Standards Phase 1 Report (as of March 2022)
Agenda Item 5-B	Draft Executive Summary Benchmarking International Independence Standards Phase 1 Report (as of March 2022)

² The IESBA Staff is liaising with the staff of IFAC Communications to establish a communication plan focused on promoting awareness of the final reports so that it is accessible to a broad range of stakeholder groups, including regulators and audit oversight authorities, national standard setters, firms, academics, TCWG, academics, etc.