# Agenda Item 1-C

**Draft Minutes of the 77th Meeting of the**

**INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on June 6-8, 2022 in New York in Hybrid Format[1]**

| | Voting Members | Technical Advisors |
|---|---|---|
| Present: | Gabriela Figueiredo Dias (Chair) | Keith Billing (Mr. Babington) |
| | Caroline Lee (Deputy Chair) | David Clark (Mr. Huesken) |
| | Saadiya Adam | Gregory Driscoll (Ms. Lee) |
| | Mark Babington | Jens Engelhardt (Prof. Poll) |
| | Vania Borgerth | Laura Friedrich (Mr. Friedrich) |
| | Sanjiv Chaudhary | Ellen Goria (Mr. Mintzer) |
| | Laurie Endsley | Marta Kramerius (Mr. Nisoli) |
| | Brian Friedrich | Ki-Tae Park (Mr. Kim) |
| | Hironori Fukukawa | Andrew Pinkney (Ms. Endsley) |
| | Richard Huesken | Kemisha Soni (Mr. Chaudhary) |
| | Sung-Nam Kim | Bruno Tesnière (Ms. Martin) |
| | Christelle Martin | Chris Twagirimana (Mr. Muvunyi) |
| | Andrew Mintzer | Kristen Wydell (Mr. Wijesinghe) |
| | Felicien Muvunyi | Jeanne Viljoen (Ms. Adam) |
| | Luigi Nisoli | Masahiro Yamada (Mr. Fukukawa) |
| | Jens Poll | Xiaoye Yuan (Ms. Wu) |
| | Channa Wijesinghe | |
| | Yaoshu Wu | |

**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 (Program and Senior Director), Diane Jules (Director), Geoffrey Kwan (Director), Kam Leung, Carla Vijian, Szilvia Sramko, Shizuka Kaneda, Astu Tilahun, Diana Vasquez

[1] The June 2022 IESBA meeting was a hybrid meeting during which some participants joined in person and others via videoconference.

## 1. Opening Remarks

WELCOME AND INTRODUCTIONS

Ms. Dias welcomed all participants and public observers to the meeting. She welcomed, in particular, Mr. Richard Fleck, Chair of the NAS & Fees Rollout Working Group (for the Technology and Executive sessions); Ms. Denise Canavan, Member of the Engagements Team – Group Audits Independence (ET-GA) Task Force (for the ET-GA session); Mr. Sundeep Takwani, Member of the Technology Working Group (for the Technology session); and Ms. Helen Partridge, IFAC Director, Accountancy Education (for the International Panel on Accountancy Education (IPAE) update). In addition, she welcomed Mr. David Madon, IFAC Director, Public Policy and Regulation (for the Sustainability session); and Ms. Natalie Klonaridis, Director, International Auditing and Assurance Standards Board (IAASB), and Ms. Kalina Savovska, IAASB Senior Manager (for the PIE Rollout session).

Among other matters, Ms. Dias highlighted the following in her introductory briefing to the Board:

- New Technical Advisor appointments:
    - Mr. Bruno Tesnière (France), Technical Advisor to Ms. Martin
    - Ms. Kristen Wydell (Australia), Technical Advisor to Mr. Wijesinghe
- New Secondee appointment:
    - Ms. Shizuka Kaneda, Japanese Institute of Certified Public Accountants (JICPA)

Ms. Dias welcomed Mr. Tesnière and Mss. Wydell and Kaneda.

Ms. Dias also updated the Board on the activities of the Planning Committee during the quarter, including a debrief on the UK outreach and plans for upcoming outreach, consideration of the progress of the Sustainability Working Group's activities, planning for the June 2022 Board meeting, and consideration of the approach to the 2023 IESBA budget.

APPROVAL OF MINUTES

The IESBA approved the minutes of the March 2022 public session as amended.

## 2. Sustainability

Mr. Babington, Sustainability Working Group Chair, introduced the session by briefing the Board on the recent activities of the Sustainability Working Group (WG). In particular, he walked through the proposed Terms of Reference for the WG, and highlighted the issues to be covered in the forthcoming Staff Publication to address concerns about misleading sustainability information (i.e., greenwashing). Mr. Babington also sought the Board's input on a sustainability stakeholder questionnaire intended to facilitate discussions with stakeholders on sustainability.

TERMS OF REFERENCE

Among other matters, the following comments were made in relation to the proposed Terms of Reference:

- There were strong views that the IESBA needs to be proactive and responsive in progressing its sustainability workstream in a timeframe that is aligned with others, especially the International Sustainability Standards Board (ISSB) and the IAASB. It was suggested that the WG develop a vision for sustainability-related ethics (including independence) standards, It was also suggested that,

instead of developing a fact-finding report with recommendations which would take another year, the WG should put forward a sustainability project plan for the IESBA's consideration by the end of 2022. In particular, it was suggested that the WG:

- Develop a plan and approach to developing ethics standards on a more timely basis in relation to sustainability.
- Consider an appropriate architecture for International Independence Standards (IIS) in relation to sustainability assurance engagements. After deliberation, the IESBA asked the WG to develop options with pros and cons for the Board to consider in September, taking into account the following:
  - Whether there would be merit in developing a standalone Part (e.g., Part 4C or Part 4B+) to deal with sustainability assurance engagements. However, some caution was raised that developing a standalone Part on sustainability could take too long given the need for timely outputs to meet stakeholders' needs.
  - There is already a provision in Part 4B that directs firms to the applicable provisions in Part 4A, so there may not be a need to change the Code as Part 4B is already complemented by the provisions in Part 4A.
  - Whether Part 4B could be enhanced to deal more explicitly with sustainability-related topics.

- A few Board members noted that assurance practitioners are overly focused on independence and do not devote sufficient attention to ethics-related matters. In this regard, it was suggested that the WG should consider how to better emphasize the ethics provisions that are already applicable with respect to the reporting and assurance of sustainability-related information.

*Awareness Raising*

IESBA meeting participants expressed support for the WG's plans for promoting awareness of how the extant Code is already relevant and applicable to PAs involved in activities related to sustainability reporting and assurance. In this regard, the WG encouraged all Board members to join in undertaking awareness-raising activities, including engaging with stakeholders in their jurisdictions, authoring articles or thought-leadership pieces, or participating in webinars or other virtual events.

The Board noted that IESBA staff is working with IFAC communications to establish a webpage that will highlight ethics and independence considerations in sustainability reporting and assurance.

*Stakeholder Outreach and Fact finding*

IESBA meeting participants were supportive of the WG's plans for outreach and fact finding. In relation to the proposed stakeholder questionnaire, IESBA members agreed with the WG's approach of having questions for all categories of stakeholders, including PAs in business and in public practice as well as sustainability assurance practitioners who are not PAs. In addition to editorial matters, the following were raised:

- The timing for issuing the stakeholder questionnaire. While there was general agreement that the questionnaire should be released as soon as possible, there was also a concern that stakeholders are experiencing consultation fatigue. It was suggested that ample time be provided to allow for meaningful input.

- A question about the complexity of the information being requested and how it might affect the response rate. While there was acknowledgement that the WG needs this information, there was a concern about the burden on stakeholders who are already experiencing "survey exhaustion." It was suggested that the WG streamline and simplify the questionnaire to make it even more accessible.

IESBA STAFF PUBLICATION ON GREENWASHING

IESBA meeting participants noted the various topics to be covered in the staff publication on greenwashing and expressed support for progressing the document in the timeframe put forward by the WG. IESBA members noted that the draft publication would be circulated via email with a request for input and that an updated draft would be circulated in due course for fatal flaw review before finalization and issuance shortly after the September 2022 meeting.

PIOB OBSERVER'S REMARKS

Mr. Buchanan noted that the PIOB is supportive of the IESBA's sustainability initiative. He emphasized that it is important that the IESBA coordinate its work with the IAASB and other standard setters, and engage with a wide range of stakeholders. He appreciated the Board's discussion on prioritizing the sustainability initiative and supported the focus on timely outputs.

WAY FORWARD

The IESBA will consider the way forward on the sustainability initiative at its September 2022 meeting.

## 3. Rollout of "Definitions of Listed Entity and Public Interest Entity (PIE)" Revisions

Mr. Mintzer commenced the session by reporting back on the global webinar held in May 2022 that provided a high-level overview and explanations of the revisions to the definitions of listed entity and PIE and related provisions in the Code (IESBA PIE revisions). He also provided an update on the PIE rollout activities, including two discussions to assist local bodies with adoption and implementation of the PIE revisions in Q4 2022.

IAASB PIE TASK FORCE PROPOSALS

Mr. Kim then provided an update on the IAASB PIE Task Force's draft IAASB Exposure Draft, *Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities* (draft IAASB PIE ED).

Mr. Kim pointed out that the IAASB Task Force's preferred approach to operationalizing paragraph R400.20 of the IESBA PIE revisions (IESBA disclosure requirement) was to revise the requirement set out in paragraph 28(c) of ISA 700 (Revised).[2] He explained that the proposal was to include a conditional element linked to when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence with respect to those entities were applied. Mr. Kim also noted that the proposed revisions to ISA 700 (Revised) included new application material as well as revisions to Illustrations 1 and 2 of an auditor's report in the appendix of that standard.

[2] International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

During the Board discussion, there was a suggestion that the proposed revisions should also require auditors to disclose the reason for applying additional independence requirements for PIEs so there is clarity among users about whether the entity is a PIE according to the relevant standard, law or regulation. There was a thought that some firms might take the view that it is easier to apply the more stringent independence requirements, which are the PIE requirements, to all their audits. In response, Messrs. Mintzer and Siong clarified that the IESBA disclosure requirement is only intended to bring an element of market discipline as firms determine whether to treat entities as PIEs for the purposes of Part 4A if such determination is not required under national regimes. The suggestion about whether an auditor should also be required to disclose the reason for applying additional independence requirements for PIEs in the auditor's report is a matter for the IAASB's consideration.

The Board was supportive of the IAASB PIE Task Force's proposed revisions to ISA 700 (Revised).

Mr. Kim also provided an overview of the IAASB PIE Task Force's proposal to seek initial feedback about whether to revise ISRE 2400 (Revised)[3] to operationalize the IESBA disclosure requirement as it would technically be also applicable to review engagements under the convention in Part 4A to treat audit to mean also review. In this regard, he also noted the proposed question in the draft IAASB PIE ED to gather information on whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement. The information collected would assist the IESBA in determining whether there would be a need to fine-tune the disclosure requirement in PIE revisions.

With regards to a review of interim financial information by an entity's auditor, an IESBA member noted that ASRE 2410[4] issued by Australia's Auditing and Assurance Standards Board (Australia's version of ISRE 2410)[5] already requires the auditor to include a statement that the auditor is independent in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with those requirements. ASRE 2410 also requires the statement to identify the relevant ethical requirements applicable within Australia. Another IESBA member queried whether it would be sufficient if there is disclosure in the auditor's report for the audited financial statements that PIE independence requirements have been applied. It was felt that disclosure in the review report under ISRE 2410 would be a duplication.

The Board was supportive of the draft question in the IAASB PIE ED to assist the IESBA in its consideration of disclosure in the review report.

At its June 2022 meeting, the IAASB unanimously approved the draft revisions to ISA 700 (Revised) and ISA 260 (Revised) for exposure. Comments to the IAASB PIE ED are due by October 4, 2022.

### Draft IESBA Staff Questions and Answers (Q&As)

Mr. Mintzer provided an overview of the draft PIE Q&As aimed at assisting relevant local bodies with adopting and implementing the IESBA PIE revisions. He pointed out that in developing the draft Q&As, the Working Group and Staff have:

- Considered the PIE exposure draft, supplementary guidance material released in 2021 and the Basis for Conclusions.

[3] International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

[4] ASRE 2410, *Review of a Financial Report Performed by the Independent Auditor of the Entity*

[5] ISRE 2410 (Revised), *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

- Sought preliminary input from three professional accountancy organizations (PAOs) and national standard setters (NSS) as well as considered questions raised by participants at the global webinar.

The Board was generally supportive of the draft Q&As. In addition to editorial, suggestions, IESBA members raised a number of matters for the Working Group's and Staff's consideration, including the following:

- With respect to Question 2, whether the reference to environmental, social and governance (ESG) matters might inadvertently raise queries about why ESG factors should not be used to consider if an entity should be treated as a PIE.
- With respect to the explanations of the list of factors under paragraph 400.9 of the IESBA PIE revisions in Question 3:
    - The explanation for Factor #1 appears to contradict that of Factor #3.
    - The reference to public utility entities with respect to Factor #4 might be problematic as the term tends to denote natural monopolies.
    - Whether there could be more specificity given to the example under the explanation for Factor #5.
- With respect to the new term "publicly traded entity," whether there could be further explanations on exchange traded funds that do not have the necessary corporate governance structure as well as certain investment or business trusts that are not legal entities despite being publicly traded or listed.

PIOB OBSERVER'S REMARKS

Mr. Buchanan was encouraged to see the high level of coordination between the IAASB and the IESBA. With regards to the Q&As, he agreed that the focus should be on the relevant local bodies. Mr. Buchanan also sought clarification about the timing of the proposed panel discussions in 2022 and the IESBA's pre-commitment to review collective investment vehicles (CIVs) and pension funds. In response, Mr. Mintzer noted that the Working Group will begin to gather information about these two categories of entities as the work on updating the IESBA's PIE definition database commences later in the year and that any information collected will be used as part of the panel discussions.

WAY FORWARD

The Working Group will provide an update on the PIE rollout activities at the September 2022 IESBA meeting.

## 4. Update on IFAC International Panel on Accountancy Education's Activities

The IESBA considered a presentation from Ms. Helen Partridge, Director, Accountancy Education, IFAC regarding the IFAC IPAE's current projects and priorities of relevance to the IESBA. Among other matters, the IESBA noted:

- The IPAE's ongoing activities to support the development, adoption, and implementation of the Code.
- The importance of having in place a process for identifying specific topics and areas that overlap the remits of the IESBA and IPAE.
- The recently completed and planned collaboration and coordination activities between the IPAE and IESBA, including those related to the IESBA's technology-related workstreams.

IESBA participants exchanged some reflections on the presentation, including how the IPAE's work is commendable in helping to enable trust in the profession by influencing the mindset and behavior expected of PAs early on in their education and professional development, for example, in university curricula. It was also remarked that the younger generation can be attracted to the profession through a sense of purpose as they are educated on what it means to act in the public interest.

Ms. Dias thanked Ms. Partridge for the interesting and informative presentation, noting the importance and relevance of the IPAE's work to the IESBA through the IPAE's educational efforts and initiatives not only to advance knowledge and understanding of the IESBA's standards, but also to enhance the trust in, and appeal of, the profession.

## 5. Tax Planning and Related Services

Prof. Poll provided a brief overview of the agenda for the session, starting with a discussion on the Tax Planning Task Force's (TF) summary of the significant feedback received from the three global virtual roundtables held in April 2022. This would be followed by consideration of the TF's preliminary views and responses to the roundtable input on the key elements of the proposed ethical framework to guide PAs' ethical judgments and actions when providing tax planning (TP) services.

The IESBA considered the common themes and key messages received across the three roundtables, and the TF's preliminary views and responses. Among other matters, the following were raised:

"GRAY ZONE"

- The provision of TP services in the gray zone can be challenging as PAs may need to navigate poorly drafted legislation or different interpretations of law in different jurisdictions. Also, facts are sometimes unclear, and opinions may differ. These considerations call for guidance regarding how a professional accountant (PA) should assess the situation and apply their professional judgment.
- Consideration should be given to describing the indicators of the gray zone rather than trying to define the gray zone. In this regard, concerning the uncertainty aspect of the gray zone, it was observed that tax legislation is ever evolving, and PAs should start first with assessing the legality of the transaction.
- TP can be classified differently across different jurisdictions, for example, in terms of whether it is legal or illegal, acceptable versus non-acceptable. What is legal in one jurisdiction may be unacceptable in another.
- Some roundtable participants highlighted that consideration should be given to the enforceability of the proposed provisions in the Code. The matter of enforceability is a subject that is being discussed on the global stage and is a key focus of work for some major bodies such as the European Parliament. In this regard, Prof. Poll indicated that it would be for the IESBA to engage with other players such as tax authorities and firms.
- Grounding the PA's judgment based on the legal aspect of the transaction is appropriate. However, it may not be sufficient to go back to legality because there are issues of reputation and public perceptions. Nevertheless, the project should not deal with the issue of tax morality. Prof. Poll explained that tax morality is beyond the project's scope as it is a measurement of how society perceives the obligations of the general population at large when it comes to paying taxes.

Notwithstanding the work of global bodies such as the OECD,[6] tax morality would be hard to define and codify in an ethical framework for PAs, and applied in practice.

- Court interpretations of the law can vary at different points in time. Prof. Poll acknowledged that the temporal aspect of TP would merit some further consideration. TP services carried out at a particular time may not have been uncertain or improper at the time. However, over time, they might become so. In these instances, guidance regarding how the PA should document and disclose the professional judgments applied is crucial.
- Transparency should be an important aspect of the TF's proposals because it can always be a tool to help address issues. Even in guidance issued by global bodies such as the GRI 207,[7] individuals and organizations are encouraged to disclose the adopted tax strategies as best practice. However, experience in practice has been that it is challenging to convince companies to make disclosures.
- There are parallels to be drawn around the issue of uncertainty between this project and the Technology and Sustainability workstreams, even though there are issues unique to each workstream. Consideration should be given to designing the core guidance addressing uncertainty in a way that would make it applicable in other areas whenever PAs are navigating through uncertain environments.
- Transactions that are lacking in commercial purpose and substance are not acceptable. However, many PAs work based on judgments about what is "likely to prevail." It was therefore suggested that the TF explore concepts that would be capable of being applied across different jurisdictions. It would also be useful to draw out and clarify the notion of commercial purpose as it is an important factor.
- Whether the term "legitimate" is a possible alternative to describing TP services as this term would not hinge solely on the legality of the transaction but would also relate to the appropriateness of the transaction.

ROLE OF THE PA ACTING IN THE PUBLIC INTEREST

- Consideration should be given to the connection between the PA's responsibility and that of the client, especially those charged with governance, in dealing with the gray zone, including through transparency. The responsibility to act in the public interest (PI) does not rest solely with the PA, as clients have an equally important role in promoting ethical behavior for the greater good of society.
- A specific application of the phrase "acting in the PI" in the Code is in the context of a PA responding to non-compliance with laws and regulations (NOCLAR). As the IESBA will carry out a post-implementation review (PIR) of the NOCLAR provisions, it was suggested that consideration be given to the feedback from the PIR to understand some of the practical aspects and challenges PAs need to consider when acting in the PI. It was also noted that in some jurisdictions, there may be requirements to make disclosure to the relevant tax authorities even if a particular tax transaction is not illegal.
- It may be challenging to operationalize an ethical framework that does not contradict local tax laws' intent. An observation was shared that a tax structure may be considered legal in a low-tax jurisdiction as low taxes are the fiscal instrument to support economic development in that jurisdiction. However,

[6] Organisation for Economic Co-operation and Development

[7] Global Reporting Initiatives 207: Tax

if a PA were to execute the tax transaction per the intent of local tax laws, they may face public outrage for not having acted in the PI and hence be perceived as not having acted ethically.

- A PA can act in good faith and ensure that their advice is supported by elements of good practice, such as evidencing and documenting the basis of their judgments. However, a change in the tax laws may cause the tax treatment to become illegal in the future. If the PA acted ethically at the time, such an outcome would be acceptable because it was not something that the PA could have foreseen based on their interpretation of the tax law at the time.
- An element that is closely tied to acting in the PI is reputational risk. However, the TF was cautioned not to focus too much on reputation as it is motivated by fear.
- It is appropriate to go beyond legality because not everything that is legal is necessarily ethical. This needs to be further addressed in the project.
- The description of PI is challenging as it subscribes to the concept that what is legal is not necessarily ethical. It is not clear where the emphasis lies, whether it is the legality of the tax transaction or its ethical dimension.
- A practical issue is in relation to where liability rests when a TP arrangement goes "wrong." While a PAIB may have provided the tax advice, in most cases the liability falls on the employing organization. This is a significant public interest issue that merits consideration.

ETHICAL FRAMEWORK – SPECIFIC ELEMENTS

- PAs may be engaged to consider different transactions, some potentially illegal or unethical. This should not preclude PAs from being engaged to examine the transaction and advising the client accordingly. The term "engage" should be clarified in this context.
- PAs should not engage in transactions that do not have a credible basis la. However, tax laws can add to the complication due to the uncertainty in interpreting them when carrying out TP services in the gray zone. Consideration should be given to the steps PAs can undertake to address such situations.
- In a scenario where the client engages a PA to provide advice on a structure developed by another provider, consideration should be given to the extent of the disclosure the PA should make in such a scenario.
- Consideration should be given to Section 321[8] with respect to addressing some of the issues regarding advising on a TP arrangement developed by another provider.
- It would be interesting to see how provisions would be developed around establishing a credible basis when carrying out TP services in the gray zone.
- Consideration should be given to relevant principles developed or that may be developed in other workstreams such as Technology and Sustainability, and whether these principles might have applicability to this project.

[8] Section 321 *Second Opinions*

TIMELINE

In response to a question as to the feasibility of seeking approval of an Exposure Draft at the December 2022 IESBA meeting, Mr. Siong acknowledged the ambitious timeline for the project. He highlighted the short timeframe the TF had in organizing the three global roundtables, which enabled the TF to gather valuable input from stakeholders to progress the project. He reminded the Board of the lessons from the NOCLAR project and the importance of socializing early on in a project conceptual issues and proposals where the topic is particularly challenging . He expressed confidence that the TPTF was proceeding in the right direction with the principles-based ethical framework, having regard to the PIOB's PI framework. Mr. Siong concluded that while the TF has a significant task ahead given the ambitious timeline, the level of stakeholder engagement carried out to date will benefit the project in terms of efficiency and effectiveness.

Ms. Dias noted the importance of the project to the Board, the complexity of tax laws globally, and the sensitivity around public perceptions when it comes to TP services. She congratulated the TF on its diligence and efforts in organizing the global roundtables and collecting valuable insights from stakeholders. She acknowledged that it will be a challenging project and was confident that the TF had established solid grounds to move forward in a purposeful way. Ms. Dias acknowledged that the TPTF's efforts in socializing concepts and proposals with stakeholders before drafting revisions to the Code demonstrate that the Board has benefitted greatly from past learnings. As the project is at a turning point on an ambitious schedule, she expressed confidence that the TF would be able to put forth a concrete and good-quality proposal at the next meeting.

PIOB OBSERVER'S REMARKS

Mr. Buchanan commended the TF's diligence in gathering substantive and valuable insights from the roundtable participants as it demonstrated the TF's efforts in understanding the different TP practices and challenges for practitioners operating in the gray zone. He acknowledged the TF's meticulous process of reflecting on the key themes from the roundtables, as was evident during the Board's rich discussion during the session. He noted the PIOB's ongoing support for the Task Force's direction in developing a principles-based ethical framework for TP. He did not underestimate the project's complexity because of the many diverse jurisdictional issues. He acknowledged the Task Force's consideration of the PIOB's Public Interest Framework as it progresses its work.

Mr. Buchanan concluded by encouraging the TF to widen its outreach to stakeholders outside the profession, such as tax authorities and regulators. He noted that while the roundtables had a range of representation of stakeholder groups from 18 different jurisdictions, the topic of TP extends beyond the accountancy profession to include the legal and regulatory communities. Referring to the ambitious timeline for approval of an exposure draft by December 2022, he advised the TF to give the proposals careful consideration for quality.

WAY FORWARD

The TF will present a first read of the proposed revisions to the Code at the September 2022 IESBA meeting.

## 6. Emerging Issues and Outreach Committee (EIOC) Update

Ms. Borgerth, EIOC Chair, updated the Board on the activities of the EIOC since March 2022. She then presented the following topics.

### Ethics and Independence Implications Arising from the Ukraine-Russia War

Ms. Borgerth highlighted queries from stakeholders on ethical matters other than audit and accounting issues as a result of the conflict in Ukraine. Notably, with several jurisdictions placing sanctions on Russia, some topics are of significant concern to stakeholders such as the ethical implications of financial interests held in Russia, and independence relating to audits of Russian entities in group audit situations.

In supporting the EIOC's recommendation to commission the development of an IESBA Staff Alert to raise awareness of provisions in the Code that are especially important in the context of the conflict, IESBA members raised the following matters for the EIOC's further consideration:

- Timeliness and specificity would be key.
- Given staff resource constraints, consideration could be given to prioritizing specific topics as was done with the COVID-19 guidance publications developed in collaboration with NSS, rather than developing one document covering the nine areas identified in the presentation.
- Exploring working with PAOs, especially those in the European Union and the UK, to leverage their knowledge on the topic, especially in relation to the issue of sanctions.

The Board asked Staff to proceed with developing the Staff Alert in consultation with the EIOC and present a draft of the document for its input in due course.

### United Kingdom (UK) BEIS Consultation on Audit Market Reform

Ms. Borgerth invited Mr. Babington to provide an update on the UK's Department of Business, Energy, and Industrial Strategy's (BEIS) consultation on audit market reform.

Mr. Babington noted that the UK government is progressing through the consultation process. He anticipated having a further update on the structure of the new regulatory body, the Audit, Reporting and Governance Authority (ARGA), at the September IESBA meeting. Until then, Mr. Babington highlighted the plan for the current regulatory body, the Financial Reporting Council (FRC), to increase its staff capacity to adapt to its new powers of enforcement and its expanded role and responsibilities as it transitions to ARGA over the next two years. He also highlighted that the UK government will take steps to diversify and strengthen the resilience of the UK audit market.

Among other matters, the Board briefly discussed the impact of the reform on the audit firm rotation requirements in the UK, and the availability of firms to perform audit engagements of PIEs versus non-PIEs.

### European Union (EU) Consultation on Corporate Reporting Reform

Ms. Borgerth provided the IESBA with a brief update on the EU consultation on corporate reporting reform. The European Commission (EC) received over 200 replies to its consultation, with one-third of respondents representing companies or business organizations, and more replies from France than any other Member State (23% of the total). The consultation will directly feed into an impact assessment that the Commission will prepare with a view to identifying problems with the quality of corporate reporting and comparing possible options to remedy these problems.

Ms. Borgerth concluded the presentation by noting that the EC plans to finalize the reform proposals during the fourth quarter of 2022 or the first quarter of 2023.

POTENTIAL EMERGING ISSUES FOR IESBA CONSIDERATION

Ms. Borgerth briefly outlined a list of topics that the EIOC will be considering further. She then invited views as to whether there were other matters IESBA members believed the EIOC should consider. In this regard, there was a suggestion to consider more substantive outreach to countries outside the G20. There was also a suggestion for an open session at the Board to reflect on emerging developments, for example, in relation to any ethical issues pertaining to cryptocurrency.

PIOB OBSERVER'S REMARKS

Mr. Buchanan indicated his support for the EIOC's work in identifying topics that may impact the IESBA's strategy and the public interest. He agreed that there is a need for broader IESBA engagement with stakeholders outside of the G20, the IESBA being a global Board.

WAY FORWARD

The Board will receive the next update from the EIOC at the September 2022 IESBA meeting.

## 7. IAASB-IESBA Coordination

Ms. Adam, IESBA Coordination Liaison to IAASB, briefed the Board on coordination activities with the IAASB since March 2021. As a reminder, she outlined the coordination principles described in the IAASB-IESBA Coordination Framework and the maintenance of the master workbook by the two Boards' staff. She also reminded the Board of the effective coordination engagements with the IAASB in the past, such as on the "engagement quality reviewer objectivity" and "conforming changes arising from the quality management standards" projects.

Concerning current projects, Ms. Adam noted that coordination matters are being addressed within the projects on an ongoing basis. In particular, in relation to the IAASB's project to revise ISA 500, she noted no significant matters that warrant the IESBA's consideration. With regards to IAASB initiatives that may require coordination, Ms. Adams drew the Board's attention to the IAASB's Fraud and Going Concern projects. She noted that as the IAASB progresses these projects, some matters, such as the definition of fraud and possible additional guidance on the term "professional skepticism," may require input from the IESBA.

The Board noted the importance of the coordination efforts, especially on the sustainability workstream going forward, and thanked Ms. Adams for the update.

## 8. Technology Fact Finding and Thought Leadership (Fact Finding Observations)

Mr. Friedrich, Chair of the Technology Working Group (TWG), introduced the session, noting that it would be focused on one of the TWG's remits as approved by the Board in March 2021, which is to identify and assess the potential impact of technology on the behavior of PAs and the relevance and applicability of the Code. He also provided an overview of the TWG's fact-finding activities that informed the key themes observed, the involvement of the TWG's Technology Experts Group (TEG), and the TWG's analysis and evaluation of such key themes, including whether they have the potential to impact the Code and/or the IESBA's work more broadly.

KEY THEMES

Mr. Friedrich then walked the Board through, in detail, eight key themes observed from the TWG's outreach across various stakeholder groups and supported through its extensive desk research. IESBA members noted the key themes observed and expressed support for the TWG's fact-finding activities and the process of analysis and evaluation outlined.

Among other matters, IESBA participants raised several suggestions for the TWG to consider in finalizing its Phase 2 final report, including the following:

- It is important that the final report reflect the positive opportunities that technology can bring PAs. It was suggested that the key themes be framed in a manner that acknowledges that technology can range from commonly used spreadsheets to emerging technologies such as AI, and that the key themes are set out in a manner that is scalable to the technology being discussed.
- In relation to the observations relating to competence, it was noted that some accounting certification programs already incorporate technology in their curricula. It was further noted that many of the eight key themes ultimately relate to the readying of future professionals and that there is a difference between the impact of technology on the ethical behavior of a PA and the impact on the accountancy profession in general. It was suggested that the TWG connect with accounting certification boards for further outreach and continue collaborating with IFAC's International Panel on Accountancy Education (IPAE).

  Mr. Friedrich pointed out that competence is related not only to the certification of new PAs, but also, importantly, to the upskilling of PAs so that they are aware of, and can address, the threats to the fundamental principles in the context of the digital age.

  There was recognition that the area of data governance is fundamental because data is a key element for technology and the digital age. It is, however, important to obtain a holistic understanding of the extent to which data is being used as well as the implications for data privacy and compliance with laws and regulations across jurisdictions.
- There was support for the TEG's involvement, especially the consideration of real-life use cases that were provided for the TWG's analysis and evaluation. It was suggested that such use cases could be leveraged in the future to inform the development of topic-specific educational materials. There was a view that the TEG lacked geographic diversity and that although TEG members have practical experience with emerging technology, they might not have perspectives as to what the future holds with respect to technology. Mr. Friedrich reiterated that in the context of the relatively small TEG membership, although geographic diversity was a consideration, there was balance in relation to other diversity characteristics, such as specific technology expertise, gender, organization size, and public practice versus industry.

INSIGHTS AND SUGGESTIONS FOR MONITORING FUTURE INNOVATIONS IN TECHNOLOGY

Mr. Friedrich walked the Board through a selection of insights to date that, in the TWG's view, have the potential to impact the Code and/or the IESBA's work more broadly. He then outlined the TWG's suggestions for the Board to consider in relation to monitoring innovations in technology going forward.

The IESBA expressed support for the TWG's suggestions for the way forward and the direction of the selection of insights outlined. A question was raised as to whether the TWG had considered the frequency of stakeholder observations in its analysis and evaluation when arriving at such insights. In response, Mr.

Friedrich explained that the TWG's analysis and evaluation incorporate the exercise of professional judgment to balance observation, frequency, quality, and relevance, as well as the connection to its other research work.

PIOB OBSERVER'S REMARKS

Mr. Buchanan applauded the TWG on its fact-finding work, noting that it is responsive to the PIOB's list of public interest issues on IESBA workstreams.

Mr. Buchanan also sought further clarification about the composition of the TEG. In this regard, Mr. Friedrich explained that the TEG has a rotation mechanism to allow compositional changes over time while maintaining diversity, as and when qualified members are identified. Mr. Friedrich also reminded the Board that identifying qualified technology experts who are geographically diverse and able to provide insights on the future direction of technology innovation is challenging, given the pressing demands already being placed on this niche pool of experts.

Mr. Friedrich thanked IESBA participants for the comments and suggestions, noting that the TWG will consider them in developing the final Phase 2 report.

WAY FORWARD

The TWG will present its final fact-finding report to the Board at the September 2022 IESBA meeting.

**9. Engagement Team – Group audits**

The ET-GA Task Force Chair, Ms. Lee, provided a high-level overview of the conceptual comments and questions raised during the global webinars on the Exposure Draft, *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (ED) and in the early comment letters submitted by respondents to the ED before May 30, 2022.

The IESBA noted the update. Among other matters, the following were raised for the Task Force's consideration:

- A few Board members echoed respondents' concerns regarding practical challenges and the potential impact related to the application of the proposed revisions, especially by SMPs. They suggested that the Task Force consider a proportionate approach for independence considerations applicable to those involved in a group audit.
- A Board member believed that the proposed arrangements should be as simple as possible, given that applying different provisions according to the group audit client and moving from tiers would be difficult.
- There were requests for the Task Force to develop visual aids within the guidance to support better understanding of the proposals.

The Task Force Chair explained that the Task Force aims to provide as simple and consistent an approach as possible. However, she added from the public interest point of view that it is also important that the IESBA consider the administrative burden and the practical challenges created by the proposals, especially for component auditor firms outside the group auditor firm's network, and develop a balanced approach.

WAY FORWARD

At its September 2022 meeting, the IESBA will undertake a full review of all significant comments provided by respondents and discuss the Task Force's responses and proposed changes to the ED for first-read.

## 10. PIOB Observer's Remarks

Mr. Buchanan thanked the Board for the opportunity to observe the meeting virtually, and shared his appreciation for the smoothly run hybrid meeting. He praised the Board on its forward-looking agenda and the progress of its workstreams, most on technology and sustainability. He felt that the presentation on sustainability was encouraging and commended the Working Group on the ground it has covered. Mr. Buchanan also highlighted that the sustainability issue is moving at a fast pace and emphasized the importance of the Board remaining as responsive as it was during this meeting.

Mr. Buchanan also acknowledged the robust discussions during the EIOC session. Lastly, Mr. Buchanan echoed Mr. Siong's remark during the technology session about the importance of the Board staying focused on cross-cutting issues.

## 11. Closing Remarks

Ms. Dias thanked the Board for a productive meeting. She praised the open mindset of the Board and its ability to think differently, which allows it not only to embrace change but also to change its perspectives to approach issues in ways that lead to meaningful and impactful outcomes.

Ms. Dias thanked the IESBA staff for the excellent organization of the meeting and for their hard work and commitment towards making it successful. Finally, she thanked the IESBA participants for their contributions and closed the meeting.

## 12. Next Meeting

The next Board meeting is scheduled for September 12-16, 2022, to be held in a hybrid format in Nashville, USA.