

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 7 & 31, 2022

Agenda Item F

Benchmarking Independence Provisions for Audits of Public Interest Entities

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

Objectives

1. To:
 - (a) Report-back on the September 2021 IESBA CAG discussion; and
 - (b) Receive an overview of the key outcomes of the Phase 1 work related to benchmarking the International Independence Standards (IIS) against the independence rules and standards of the US Securities and Exchange Commission (SEC)/ Public Company Accounting Oversight Board (PCAOB).

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 SEC and the 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 F-1** sets out the purpose of the benchmarking initiative, including the objectives of Phase 1.

Activities since the September 2021 CAG Meeting

4. Since the September 2021 IESBA's Consultative Advisory Group (CAG) meeting, the staff-prepared draft report arising from the Benchmarking Phase 1 initiative has been updated to reflect input from CAG, IESBA members in close coordination with the Benchmarking Working Group (WG).¹

¹ The Benchmarking Working Group comprise:

- Laura Friedrich, Working Group Chair and IESBA Technical Advisor
- Richard Fleck, NAS Task Force Chair
- Richard Huesken, IESBA Member
- Peter Oastler, Independence Expert
- Kristen Wydell, IESBA Technical Advisor

5. During its December 2021 meeting, 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 CAG.
6. In October 2021, the Working Group Chair presented the draft analysis and conclusions to date to the IESBA National Standard Setters (NSS) Liaising Group and asked for Representatives' input on the conclusions regarding the key similarities and differences.
7. The final draft report, *Benchmarking International Standards Phase 1 Report* (**Agenda Item F-1**) and the accompanying *Executive Summary* (**Agenda Item F-2**) is provided for CAG information. During its March 2022 meeting, the CAG will receive a presentation on:
 - The key observations and findings of the Phase 1 Benchmarking initiative; and
 - A summary of the March 14-16, 2022, meeting discussions.

Report Back on September 2021 CAG Discussion

8. Below are extracts from the draft minutes of the September 2021 CAG meeting and an indication of how the WG or IESBA has responded to the CAG's comments.

Matters Raised	WG/ IESBA Response
Mr. Hansen asked whether both the detailed and the summary reports for Phase 1 would be public.	<p>Point accepted.</p> <p>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.</p> <p>The final report, <i>Benchmarking International Standards Phase 1 Report</i> and the accompanying <i>Executive Summary</i> will be issued by early May 2022 and will be available on the IESBA's website. Drafts of the final report and executive summary are set out in Agenda Items F-1 and F-2.</p>
Ms. Blomme referred to previous comparisons between the Code and the EU independence framework carried out by Accountancy Europe (AE). ² 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.	Point noted.
Ms. Blomme suggested that the WG complete its analysis and preparation of the detailed	Points taken into account.

² AE published a publication, [EC Recommendation on Statutory Auditor's Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants](#) in 2004.

Matters Raised	WG/ IESBA Response
<p>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.</p>	<p>During the meeting, 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.</p> <p>Agenda Items F-1 and F-2 include a draft of the final report and accompanying executive summary. The documents reflect a consideration of the overarching principles, approach and definitions set out in the two sets of independence frameworks, as well as focus areas and topics that are of greatest interest to IESBA, users of the Code, and other stakeholders.</p>
<p>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.</p>	<p>Support noted.</p>
<p>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.</p>	<p>Support noted, and point accepted.</p> <p>A discussion of the difference between the Code’s conceptual framework and the US SEC General Independence Standard is set out in paragraphs 26 to 34 of the draft report in Agenda Item F-1.</p>
<p>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.</p>	<p>Point accepted.</p> <p>Paragraph 4 of the draft report in Agenda Item F-1 provide important contextual information about the report. In addition, Section III, A, <i>Key Definitions</i> of the draft report (in particular, paragraphs 56-61) explain the difference between “audit client” in the Code versus SEC/PCAOB rules.</p>
<p>Acknowledging the different conceptual approaches and objectives of the two</p>	<p>Point taken into account.</p>

Matters Raised	WG/ IESBA Response
<p>independence frameworks, Dr. Manabat questioned what the IESBA aims to achieve with the Benchmarking initiative.</p>	<p>Paragraphs 1-3 of the draft report in Agenda Item F-1 provides the objective of the IESBA's Benchmarking Initiative.</p> <p>During the meeting Mr. Fleck responded to Dr. Manabat and pointed out 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.</p> <p>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.</p>
<p>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.</p>	<p>Point accepted.</p> <p>As noted in paragraph 2 of the draft report in Agenda Item F-1, the comparison is intended to highlight the similarities and differences between the Code and the different jurisdiction-level independence rules and regulations. The IESBA's Benchmarking Initiative is not intended to make judgments as to the relative merits of the different approaches, rules or regulations.</p>

Matters for CAG Information

About the Final Benchmarking Reports

9. As previously communicated to the CAG, 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 F-1)* 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 F-2)* 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.
10. **Agenda Items F-1** 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 NSS Liaison Group. The input of the IESBA, CAG and NSS was of particular importance in deciding on the focus areas and topics³ 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

11. **Agenda Item F-1** 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

³ In deciding on the focus areas and topics in **Agenda Item F-1**, 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.

Next Steps

12. Following the March 2022 CAG meeting, the 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.⁴ **CAG representatives will be asked to assist in promoting awareness of the final reports.**
13. The Working Group is planning to brief the NSS on the key outcomes of Phase 1 of the benchmarking initiative at its May 10, 2022 meeting.

Action Requested

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

Materials Presented

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| Agenda Item F-1 | Draft Benchmarking International Independence Standards Phase 1 Report (as of March 2022) |
| Agenda Item F-2 | Draft Executive Summary Benchmarking International Independence Standards Phase 1 Report (as of March 2022) |

⁴ 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 etc.