

**Draft Minutes of the Meeting of the
IESBA Consultative Advisory Group
Held on January 11, 2017 via Teleconference**

Present: **Representatives of Member Organizations**

Kristian Koktvedgaard (Chair)	Business Europe
Noémi Robert	Accountancy Europe (AE)
Myles Thompson	AE
Marie Lang	European Federation of Accountants and Auditors for SMEs
Paul Sobel	Institute of Internal Auditors (IIA)
Jean-Luc Michel	International Association of Financial Executives – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Atsushi Iinuma	International Organization of Security Commissions (IOSCO)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Gayani L Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board

Observers

Eddy Wymeersch	Public Interest Oversight Board (PIOB)
Dawn McGeachy-Colby	IFAC SMP Committee

IESBA

Dr. Stavros Thomadakis	IESBA Chairman
Richard Fleck	IESBA Deputy Chair and Long Association Task Force Chair
Brian Caswell	IESBA Member and Long Association Task Force Member
Gary Hannaford	IESBA Member and Long Association Task Force Member
Chishala Kateka	IESBA Member and Long Association Task Force Member

IESBA Staff

James Gunn	Managing Director, Professional Standards
Ken Siong	Technical Director
Diane Jules	Deputy Director

Regrets: **Representatives of Member Organizations**

Conchita Manabat	Asian Financial Executives Institutes
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Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento (ABDE)
Nic van der Ende	Basel Committee on Banking Supervision (BCBS)
Mohini Singh	CFA Institute
Dr. Juan Maria Arteagoitia	European Commission (EC)
Erik Bradbury	Financial Executives International (FEI)
Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Anne Molyneux	International Corporate Governance Network (ICGN)
James Dalkin	International Organisation of Supreme Audit Institutions (INTOSAI)
Nigel James	IOSCO
Hüseyin Yurdakul	IOSCO
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Henri Fortin	World Bank (WB)
Wei Meng	World Federation of Exchanges (WFE)
Observers	
Simon Bradbury	International Monetary Fund (IMF)
Lillian Ceynowa	U.S. Public Company Auditing Oversight Board (PCAOB)

A. Opening Remarks

Mr. Koktvedgaard welcomed all participants to the meeting. He welcomed in particular Mr. Wymeersch, the PIOB Observer; Dr. Thomadakis, the IESBA Chairman; and Mr. Fleck, the IESBA Deputy Chair and Chair of the Long Association Task Force.

Mr. Koktvedgaard noted that the objective of the teleconference was to receive a report-back on the outcome of the IESBA's deliberations regarding the Long Association project at its December 2016 meeting in the light of comments raised by the PIOB. He added that the IESBA had approved the final standard in December and, accordingly, the purpose of the teleconference was not to seek further advice from the CAG on the content of the standard.

B. Long Association

Mr. Fleck introduced the topic, noting that at the December 7, 2016 CAG teleconference, he had briefly mentioned some recent developments on the Long Association project and that the IESBA would be considering some changes to the provisions at its December 2016 meeting. He then summarized the events leading to the proposed changes to the provisions. In particular, in October, after the IESBA had finalized the Long Association close-off document¹ at its September 2016 meeting, the PIOB had communicated a number of concerns on the close-off document and indicated that its approval of the document would likely not be forthcoming. At the request of IESBA representatives, PIOB representatives shared their detailed comments with the IESBA Chairman and Deputy Chair. The IESBA Deputy Chair subsequently met with senior representatives of the PIOB to discuss their comments. As a result, the PIOB's concerns were narrowed to three issues, namely (a) the "jurisdictional provision;"² (b) the exception to the prohibition on the engagement team consulting with the engagement partner (EP) or engagement quality control reviewer (EQCR) on technical or industry-specific issues after two years have elapsed during their cooling-off period; and (c) transitional provisions for the revised document.

Mr. Fleck then outlined the PIOB's specific concerns regarding each of the three issues. In particular, there was concern regarding a perceived complexity in the jurisdictional provision and a perception that it diluted the 7/5 rotation regime for EPs on public interest entity (PIE) audits. As a result, a reformulation of this provision was tentatively agreed with the PIOB representatives. The PIOB was also concerned that the exception to the prohibition on consultation with the EP or EQCR during their cooling-off period diluted the revised cooling-off regime under the Code, even though the PIOB appreciated the practical challenges smaller firms face in auditing PIEs given constraints on specialist resources. The PIOB also did not believe that transitional provisions were needed for the revised long association provisions.

Mr. Fleck reported that he subsequently attended the PIOB meeting in early December 2016 to further discuss its concerns. The proposed changes were then presented at the December 2016 IESBA meeting. Two main concerns arose from the IESBA discussion, i.e., a lack of clarity regarding the circumstances that led to the PIOB raising its concerns at such a late stage; and a concern that the changes would not benefit the long association section as a whole. There were in particular concerns that the revised jurisdictional

¹ A "close-off document" refers to new or revised provisions developed under the extant structure and drafting conventions. These provisions will not be formally released until after they have been restructured using the new structure and drafting conventions of the Code.

² The jurisdictional provision dealt with circumstances where jurisdictions have established different legislative or regulatory requirements addressing long association. It allowed for a three-year cooling-off period to be used in place of the five-year cooling-off period for EPs on PIE audits, subject to specified conditions.

provision now no longer came with the strict conditions that were attached to the version approved at the September 2016 IESBA meeting. In addition, IESBA members were concerned that the withdrawal of the exception to the prohibition on consulting the EP or EQCR during their cooling-off period would prejudice smaller firms and jurisdictions. The IESBA, however, accepted the changes because of the overriding public interest in not delaying issuance of the final provisions, which already contained significant enhancements in a number of areas.

Mr. Fleck added that the IESBA had concluded at its December 2016 meeting that the further changes in response to the PIOB concerns would not warrant re-exposure. This was primarily on the grounds that the revised formulation for the jurisdictional clause achieved the original intended objective, and both this issue and the issue of permitting consultation with the EP or EQCR during their cooling-off period had been aired in the earlier Exposure Drafts.

Mr. Fleck concluded his briefing by noting that the IESBA had also discussed the matter of transitioning to the 7/5 rotation regime through a “sunset clause” attached to the revised jurisdictional provision. He indicated that the IESBA had settled in the final analysis on a transitional provision instead of a sunset clause. Under this transitional provision, jurisdictions would be able to avail themselves of a shorter cooling-off period (but no shorter than three years) for EPs on PIE audits for up to five years after the effective date of the final standard. However, the IESBA also committed to review the long association provisions in the intervening period, taking into account *inter alia* of relevant legislative and regulatory developments as well as experience of the application of the provisions in practice.

Mr. Fleck noted that the IESBA had agreed to further discuss with the PIOB the process of communicating PIOB feedback to the IESBA to avoid a similar situation occurring in future.

MATTERS RAISED

Among other matters, the following were raised:

- Ms. Lang observed that this situation was unhelpful. She expressed interest in how to prevent a recurrence in future. Ms. Elliott concurred, noting the importance of the lessons learned and for timely PIOB feedback to avoid a repeat of the situation. Mr. Fleck responded that it would be premature to answer the question of how to avoid a recurrence in future, except to note that both IESBA and PIOB leaderships were committed to taking steps to avoid such recurrence.
- Mr. Linuma expressed surprise that the PIOB was about to veto the document and wondered whether this would have been the first time with an IESBA standard. Dr. Thomadakis responded in the affirmative.
- Referring to the sunset clause, Mr. Thompson wondered if the EC will have changed its rules within five years after the revised long association provisions in the Code become effective. He was doubtful it would have done so. Ms. Robert wondered how the proposed review of the revised provisions would be undertaken. Mr. Fleck responded that it would be inappropriate to attempt to forecast how the EU Audit Regulation would develop over the five years after the revised provisions become effective. However, the IESBA would review how jurisdictions that apply a 7/2 or 7/3 regime, like Australia, are receptive to a 7/5 regime. In addition, the IESBA would need to reflect on how the whole area of long association has evolved in the light of developments around the world concerning mandatory firm rotation, mandatory retendering, etc. On that basis, the IESBA would need to take a view as to whether to revisit the long association provisions in the Code. Any changes to those provisions as a result of this review would be subject to normal due process.

- Messrs. Michel and Sobel expressed support for the revised provisions and for moving forward, believing that this was the best outcome achievable in the circumstances.

CONCLUDING REMARKS AND WAY FORWARD

Mr. Fleck outlined the way forward for the project, noting that the PIOB would be considering the revised provisions for approval at its meeting in early February 2017. Subject to PIOB approval of the revised close-off document, the proposed restructured version of the document would be included in the Exposure Draft of Phase 2 of the Structure of the Code project.

Dr. Thomadakis thanked CAG participants for their comments. He reaffirmed his commitment to have a meaningful and robust dialogue with PIOB leadership to avoid a similar situation of communication gaps and last-minute crisis in future. He noted that the changes to the provisions were consistent with the fundamental objectives of the revised standard as the IESBA and the CAG had debated them. Accordingly, on a principles basis, even though there have been a few changes, the document as a whole remained robust and on target. He acknowledged that the long association provisions are effectively in rules territory and that the regulatory reality around the world is complex.

Mr. Koktvedgaard agreed with the CAG regarding the importance of agreeing a good process of interaction between the IESBA and the PIOB. He added that the CAG would be prepared to contribute as needed to facilitate such a process.

C. **PIOB Observer's Remarks**

Referring to the question regarding PIOB veto, Mr. Wymeersch indicated that a similar situation had arisen in the past with the International Auditing and Assurance Standards Board (IAASB) on the topic of going concern. The PIOB has requested that the IAASB supplement International Standard on Auditing (ISA) 570³ with a statement regarding going concern within two years of the finalization of the standard. He noted that the PIOB does not veto standards. In the case of ISA 570, he indicated that the issue arose because the circumstances were not under good control.

Mr. Wymeersch added that the standard-setting boards (SSBs) should listen more carefully to stakeholders and the PIOB during the process of developing a standard. If not, the SSBs would face the same questions again. In the case of long association, he noted that both the IESBA and the PIOB had to deal with a difficult situation. He concluded his remarks noting that he and Dr. Thomadakis had agreed to further discuss the process of interaction between the IESBA and PIOB.

The IESBA chairman and other IESBA representatives did not consider it appropriate to debate Mr. Wymeersch's remarks, which did not in their opinion reflect fully the actual situation as it developed in the case of Long Association.

D. **Closing Remarks**

Mr. Koktvedgaard thanked the Representatives for their participation in the meeting. He then closed the meeting.

³ ISA 570, *Going Concern*