

## Agenda Item

# 1-C

**Meeting:** IESBA  
**Meeting Location:** New York City, NY  
**Meeting Date:** March 13-15, 2017

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULATIVE  
ADVISORY GROUP (CAG)**

**Held on September 14, 2016**

**New York City, NY**

### **PRESENT**

Kristian Koktvedgaard (Chair)

Vânia Borgerth

Myles Thompson

Nicolaas van der Ende

Mohini Singh

Matthew Waldron

Dr. Juan-Maria Arteagoitia

Erik Bradbury

Francis Nicholson

Anne Molyneux

Atsushi Inuma

Jim Dalkin

Gaylen Hansen

Lucy Elliott

Gayani Perera

### **Member Organizations**

BusinessEurope

Associação Brasileira de Instituições Financeiras de Desenvolvimento

Accountancy Europe (AE)

Basel Committee on Banking Supervision (Basel Committee)

CFA Institute

CFA Institute and IAASB CAG Chairman

European Commission (EC)

Financial Executives International (FEI)

Institute of Internal Auditors (IIA)

International Corporate Governance Network (ICGN)

International Organization of Securities Commissions (IOSCO)

International Organization of Supreme Audit Institutions (INTOSAI)

National Association of State Boards of Accountancy (NASBA)

Organisation for Economic Cooperation and Development (OECD)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

Henri Fortin World Bank (WB)

Irina Lopez WB

**Observer Organizations**

Simon Bradbury International Monetary Fund (IMF)

Dawn McGeachy-Colby IFAC Small and Medium Practices (SMP) Committee

Yukako Sato Japanese Financial Services Agency (JFSA)

Lillian Ceynowa\*\* U.S. Public Company Accounting Oversight Board

**IESBA Members and Staff**

Dr. Stavros Thomadakis IESBA Chairman

Richard Fleck IESBA Deputy Chair

Helene Agélii (by teleconference for Part C) IESBA Member and Task Force Chair

Gary Hannaford IESBA Member and Task Force Chair

Lisa Snyder IESBA Member

Sylvie Soulier IESBA Member

Don Thomson Task Force Chair and former IESBA Member

James Gunn Managing Director, Professional Standards

Ken Siong Technical Director

Diane Jules Deputy Director

Kaushal Gandhi Manager, Standards Development and Technical Projects

Elizabeth Higgs Manager, Standards Development and Technical Projects

**Public Interest Oversight Board (PIOB)** Chuck Horstmann

**APOLOGIES**

Marie Lang

**Member Organizations**

European Federation of Accountants and Auditors for SMEs (EFAA)

**APOLOGIES**

Noémi Robert

**Member Organizations**

AE

Dr. Obaid Saif Hamad Ali Al Zaabi

Gulf States Regulatory Authorities (GSRA)

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\*\* 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.

Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Sherif Ayoub	IFSB
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Wei Meng	World Federation of Exchanges (WFE)

## A. Opening Remarks

Mr. Koktvedgaard welcomed all participants to the meeting. He welcomed in particular, Mr. Horstmann as the PIOB Observer; Dr. Thomadakis, IESBA Chairman; and the new Representatives, Messrs. Henri Fortin (replacing Ms. Lopez as the World Bank Representative) and Yukako Sato (sitting in for Mr. Norio Igarashi as representative of the JFSA). Mr. Koktvedgaard noted that the CAG Membership Panel had approved Mr. Paul Sobel as the new representative for IIA, replacing Ms. Miller, but was an apology for the meeting.

Apologies were also noted for Mss. Lang, Robert, and Meng and Messrs. Ahmed, Al Zaabi, Michel, and Yurdakul. Mr. Koktvedgaard noted that Ms. Lopez, Ms. Miller and Mr. Nicholson had completed their CAG terms and thanked them for their contributions.

The minutes of the March 2016 CAG physical meeting and the June 2016 teleconference on Safeguards were approved as presented.

## B. Structure of the Code (Structure)

Mr. Thomson introduced the topic, outlining the objectives, key themes and progress of the project. Among other matters, he highlighted respondents' widespread support of the December 2015 Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase I](#) (Structure ED-1), and provided an overview of their comments and the Task Force's revised proposals.

### RECURRING LANGUAGE ABOUT THE REQUIREMENT TO APPLY THE CONCEPTUAL FRAMEWORK

Mr. Thomson explained that in response to respondents' comments, the Task Force had revised the recurring language in all but the general sections (i.e., Sections 120,<sup>1</sup> 200,<sup>2</sup> 300,<sup>3</sup> 400<sup>4</sup> and 900<sup>5</sup>) of the proposed restructured Code, thus eliminating the repeated requirement to apply the conceptual framework. He explained that a statement referring to the requirement to apply the conceptual framework set out in Section 120 is included in the introduction to each section. He also explained that the Task Force had agreed to revisions that emphasize the requirement "to be independent" in the general independence sections of the proposed restructured Code (i.e., Sections 400 and 900.)

Among other matters, the following were raised:

- Mr. Dalkin complimented the Task Force on the project's progress but commented that the Code can sometimes seem repetitive because of frequent references to the conceptual framework. He

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<sup>1</sup> Proposed restructured Code, Part 1, Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework* (Extant Part A, General Application of the Code, Section 100, *Introduction and Fundamental Principles*)

<sup>2</sup> Proposed restructured Code, Part 2, Professional Accountants in Business, Sections 200, *Applying the Conceptual Framework - Professional Accountants in Business*, (Extant Part C, Professional Accountants in Business, Section 300, *Introduction*)

<sup>3</sup> Proposed restructured Code, Part 3, Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework - Professional Accountants in Public Practice* (Extant Part B, Professional Accountants in Public Practice, Section 200, *Introduction*)

<sup>4</sup> Proposed restructured Code, Part 4A – Independence for Audits and Reviews, Section 400, *Applying the Conceptual Framework to Independence for Audits and Reviews* (Extant Part B, Section 290, *Independence – Audits and Reviews*)

<sup>5</sup> Proposed restructured Code, Part 4B – Independence for Audits and Reviews, Section 900, *Applying the Conceptual Framework to Independence for Other Assurance Engagements* (Extant Part B, Section 291, *Independence – Other Assurance Engagements*)

agreed with the Task Force's observation that commonly, professional accountants (PAs) tend just to read the portion of the Code that applies to their specific situation rather than the whole Code. He supported the efforts aimed at developing an integrated Code. He added that it is important to achieve the right balance between the degree of repetition needed to provide guidance for PAs in each Part of the Code, while taking into account how the Code is read. Mr. Thomson responded that the Task Force is focused on minimizing the repetition of material in the Code. He explained that the Guide to the Code (the Guide) provides guidance to assist users understand each part of the Code. The Guide states that in considering a particular topic it is necessary for a user to understand and apply Part 1 of the Code, which includes the requirement to comply with the fundamental principles (FPs) and apply the conceptual framework. He explained that in addition to the material in the Guide, the introduction of each section of the Code will help users navigate across the Code to understand what is required. Mr. Thomson also explained that PAs will need to consider all the requirements and application material in the entire Section, including related subsections in order to ensure that they are aware of, and comply with, the provisions in the Code.

#### RESPONSIBILITY FOR COMPLIANCE

Mr. Thomson explained that both PAs and firms have responsibilities for compliance with the provisions in the Code, and that in response to respondents' comments the Task Force had clarified its proposals with respect to responsibility for compliance. For example, the discussion about responsibility is now referenced in the conceptual framework set out in Section 120; is moved closer to the beginning of Section 400; and is more closely aligned to the wording in the International Auditing and Assurance Standards Board's (IAASB) ISQC 1.<sup>6</sup>

Among other matters, the following were raised:

- Ms. Elliott expressed support for the clarifications relating to the use of the word "firm."
- Ms. Molyneux expressed support for the Task Force's more prominent discussion of independence in the conceptual framework and in Section 400, and was pleased to see that the description of independence continues to encompass "independence of mind" and "independence of appearance." She observed that although actual independence is important, public perceptions of independence were also relevant.
- Mr. Thompson expressed support for the Task Force's revisions to better align the provision in the Code to the IAASB's standards, in particular with regard the discussion about responsibilities for independence in the Code and in ISQC 1. Mr. Thomson noted that the IESBA and the IAASB are aware of their stakeholders' expectations that their work and approaches be coordinated.

#### DISPROPORTIONATE OUTCOMES AND ETHICAL CONFLICT RESOLUTION

Mr. Thomson explained that the proposals regarding disproportionate outcomes in Structure ED-1 encouraged consultation if applying a requirement was considered disproportionate or not in the public interest. He explained that in response to respondents' comments, the proposed provision regarding disproportionate outcomes had been clarified, and was no longer grouped with the provisions relating to ethical conflict resolution. He also explained that the Task Force had agreed to reinstate in the Code the

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<sup>6</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

provisions relating to disproportionate outcomes and ethical conflict resolution, which were included in the Guide in Structure ED-1.

Mr. Kockvedgaard commented that the Guide seemed to steer PAs to comply with the requirements in the Code and wondered whether it should focus more on compliance with the FPs. He observed that the accounting standards included provisions for “a true and fair view” and asked whether the overarching requirement for PAs to comply with the FPs in the Code was intended to be equivalent to it. Mr. Thomson explained that disproportionate outcomes related to where users felt that there is a conflict in trying to comply with different aspects of the FPs. He also explained that the Code’s emphasis was on the need to comply with the FPs and that the requirements and application material are to help achieve that.

#### AUDIT AND REVIEW

Mr. Thomson explained that a substantial proportion of respondents supported the proposal in Structure ED-1 to have the word “audit” in the Code mean “audit and review.” He noted that in response to a suggestion from respondents, the explanation for this convention is now included in the body of the Code rather than in a footnote.

Messrs. Dalkin and Mr. Hansen expressed support for the clarifications made in the body of the Code to explain that the term “audit” in the proposed restructured Code means “audit and review.”

#### THE GUIDE AND ELECTRONIC ENHANCEMENTS

Mr. Thomson explained that support for the Guide was widespread but that respondents suggested that it should not be part of the Code because it was non-authoritative guidance.

- Ms. Molyneux inquired if the Task Force was anticipating the inclusion of supportive explanatory material such as case studies in the Guide, which in her view would be helpful to users of the Code. Ms. Elliott and Mr. Dalkin supported Ms. Molyneux's suggestion. Mr. Thomson explained that the scope of the Task Force’s work was limited to restructuring the extant Code, but that there might be a need for a consideration of additional tools, such as case studies after the completion of the restructuring. He added that the Task Force had given consideration to whether tools and other resources should be developed to assist PAs and firms implement and adopt the proposed restructured Code more broadly. He noted that the Task Force had learned that some stakeholders are cautioning the IESBA against the development of materials such as case studies that interpret the Code because in their view the Code should stand on its own. Mr. Thomson wondered whether others, such as national standards setters and IFAC member bodies might also have a role in developing tools and other resources to support the implementation of the Code.
- Mr. Dalkin cautioned against IESBA development of tools such as case studies given its role as a standard-setter. He was also of the view that PAs might overly rely on those tools and their use over time might inhibit PAs’ appropriate exercise of professional judgment. He also commented that support materials might create confusion (e.g., by bringing into question whether certain concepts in the Code are not self-explanatory).

Mr. Thomson responded that the IESBA was aware of the potential benefits and pitfalls that might arise with developing tools and other resources. He observed that some of the more established IFAC member bodies have developed case studies which are publicly available. He added that consideration might be given to whether there is a role for the IESBA in facilitating the exchange of such information without issuing it at a board level, for example, through its regular meetings with national standard setters.

*The Status of the Guide and Application Material*

- Mr. Fortin commented that the Guide appeared to be more akin to a preface, and suggested that the Guide and the Preface be merged. He added that taking on his suggestion would have the advantage of having the placement of the Guide and Preface in the Code be more consistent with their placement in the IAASB's standards.
- Mr. Hansen questioned the purpose of the Guide (i.e., whether it was a preamble to the Code or user guide for the Code).
- Mr. Fortin commented that during the IAASB CAG meeting there was a discussion about the status of the application material within the standards and it was clarified that application material was not a requirement but was important to the proper application of the requirements in the IAASB's standards. He questioned whether there is a parallel between the positioning of the Guide within the Code and the status of requirements and application material in comparison to the IAASB's standards. Mr. Gunn observed that the constructs being applied in the Code and the IAASB's standards are similar.

Mr. Thomson explained that the Guide was intended to be a user guide for the Code. He added that the Guide was drafted from the perspective of a user unfamiliar with the Code and as such includes "signposts" to help users navigate important topics. Mr. Thomson added that the Guide is not intended to add new material to the Code and is not a necessary component of the Code, but rather should be read as a standalone document.

Mr. Thomson explained that in developing Structure ED-1, the IESBA considered using the commonly used word "guidance" rather than "application material." The IESBA determined to use the term "application material" instead of "guidance" because the former denoted material relevant to the application of the requirements as opposed to material that was merely an optional consideration. Mr. Thomson explained that while application material is different from requirements, consideration of the application material is required by PAs in order for them to properly apply the requirements in the Code.

TITLE

Mr. Thomson explained that some respondents preferred using the word "Code," while others preferred "standards." Some indicated that using both terms in the title was confusing. He explained that in response to the comments received, the Task Force proposed to revise the title as follows:

*International Code of Ethics for Professional Accountants  
(including International Independence Standards)*

Among other matters, the following were raised:

*Use of the Term "Professional"*

- Mr. Koktvedgaard noted that the Code covers PAs as part of a professional organization and that dropping the word "professional" would shorten the title. Mr. Hansen supported Mr. Koktvedgaard's view that the word "professional" was not a necessary inclusion in the Code's title and noted that the title does not mention "firms." Mr. Fortin felt that for continuity and consistency the word "professional" should be retained in the title.

Mr. Thomson noted that although the IESBA considers the Code applicable to PAs, there are different views about what it means to be an "accountant" versus a "PA". He explained that having the word

“professional” in the title makes it clear that the Code is applicable to PAs, a term that is defined in the Code.

*Use of the Term “International”*

- Mr. Hansen expressed a view that the word “international” might be overused, bearing in mind that the Code is published by the International Ethics Standards Board for Accountants. Ms. Elliott commented that while the word “international” might not be necessary in the title of the Code, having it adds credibility with stakeholders and contributes to the Code’s brand. She suggested that the term “international” be retained.

Mr. Siong noted that the IESBA had long deliberations about the use of the term “international” and agreed that it is very important to retain the word “international” in the Code’s title. It was not only because it would bring the Code up to par with other sets of international standards, for example, the standards of the IAASB, but also because the IESBA believes that having the word “international” in the title was important for branding a Code that is intended for global application.

*Other Matters*

- Mr. Koktvedgaard asked about whether there was a new acronym for the proposed restructured Code and suggested “ICEPA.”
- Mr. Inuma asked whether the IESBA had considered using the word “Standard” versus “Code” in the title. Mr. Hansen agreed and commented that many people refer to documents such as the “Code” as a standard. He supported the use of parentheses in the second line of the title.

Mr. Thomson explained that the Task Force’s expectation was that the document would continue to be referred to as the “Code” because of its longstanding tradition. He added that the reference to “International Independence Standards” in the title is intended to give it more prominence and brand recognition. He noted that the IESBA had agreed to the acronym “IIS” for the “International Independence Standards.”

OUTREACH

Ms. Borgerth complimented the Task Force’s work, and suggested that efforts be taken for it to be further publicized and promoted. She was of a view that the IESBA should actively engage with academics and that the Code should be taught to students in universities so that it could remain relevant to future accountants. She also suggested the need for more interactions between the IESBA members and IFAC member bodies as a way of publicizing the IESBA’s work. Ms. Molyneux agreed and encouraged the IESBA to engage with others more broadly, not just the accountancy profession. She noted that the Code is relevant to other professionals (e.g., those in the corporate governance community) who worked with PAs because they need to be aware of PAs expected behavior.

Dr. Thomadakis explained that the IESBA is committed to raising global awareness of the Code, in particular, to publicize its mission, and important projects and achievements to-date (e.g., NOCLAR, and the Structure projects). Mr. Siong added that Ms. Borgerth’s question was important because not all PAs are familiar with the provisions in the Code. For example, professional accountants in business (PAIBs) do not use the Code on a daily basis. He commented that awareness of the Code is a perennial issue and that there was a role for IFAC to work more broadly with its member bodies to further promote the Code and ethical behavior more broadly. Mr. Siong commented that the IESBA could also work with the

International Accounting Education Standards Board (IAESB) to explore how to promote the Code in educating PAs and aspiring PAs.

#### WAY FORWARD

Mr. Siong explained that the IESBA will consider for approval exposure drafts for Phase 2 the Structure and Safeguards projects (i.e., Structure ED-2 and Safeguards ED-2) in December 2016. He added that the planned release dates for Structure ED-2 and Safeguards ED-2 is January 2017; and that subject to the IESBA's concurrence, the exposure periods will be:

- 120 days for Structure ED-2, which would allow stakeholders sufficient time to consider a staff-prepared compilation of the texts for Phases 1 and 2 of the Structure and Safeguards projects.
- 90 days for Phase 2 Safeguards ED.

Mr. Siong noted that the IESBA anticipates approval of the restructured Code in December 2017.

Mr. Thomson thanked representatives for their input and indicated that he would ask IESBA members to consider the feedback from Representatives at the September 2016 IESBA meeting.

#### **C. Safeguards**

Mr. Hannaford introduced the topic, noting that the objectives of the session were to:

- Report back on the March 2016 CAG meeting and June 2016 CAG teleconference discussions;
- Provide a summary of the feedback received on the December 2015 Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (Safeguards ED-1) to build on the highlights discussed during the June 2016 CAG teleconference.
- Obtain input on the Task Force's further revisions to Safeguards ED-1 based on the feedback on the June 2016 draft that was discussed during the June 2016 IESBA meeting and CAG teleconference as well feedback from the June 2016 IESBA-National Standards Setters meeting.
- Obtain input on the Task Force's proposed revisions relating to Phase 2 of the project, including those related to the safeguards in the non-assurance services (NAS) section of the Code.

He noted that some of the feedback received on Structure ED-1 is relevant to the revisions to Safeguards ED-1 and vice versa. Accordingly, the Safeguards and the Structure Task Forces continue to coordinate closely in developing revisions to their initial proposals.

Among other matters, the following were raised:

#### **SAFEGUARDS PHASE 1 – SUMMARY OF FEEDBACK ON SAFEGUARDS ED-1 AND REVISED PROPOSALS**

- Messrs. Dalkin and Hansen expressed support for the Task Force's proposals. Mr. Dalkin added that in his view the revised proposals for Phase 1 of the project achieved the right balance between principles-based provisions and sufficient guidance for PAs.

#### *Stages of the Conceptual Framework*

Representatives were asked whether they agreed with the proposed revisions to clarify the stages in the conceptual framework, in particular to explain the timing for re-evaluating threats and performing the overall assessments. The following matters were raised, among others:

- Messrs. Dalkin and Hansen expressed support for having a simple three stage conceptual framework that requires PAs to identify, evaluate and address threats to compliance with the FPs. They also supported the revisions to:
  - Clarify that the requirement to re-evaluate threats included in Safeguards ED-1 is not an additional stage in the conceptual framework, but instead forms part of the PA's responsibility in evaluating threats to compliance with the FPs, by considering new information or changes in facts and circumstances.
  - Clarify that the requirement to perform an overall assessment is not an additional stage in the conceptual framework, but instead forms part of the PA's responsibility to consider significant judgments made and overall conclusions reached in addressing threats to compliance with the FPs.
- Mr. Dalkin was of the view that it was important for the Code to include provisions that require PAs to “step back” to rethink conclusions reached and decisions made.

*Reasonable and Informed Third Party (RITP)*

Mr. Hannaford asked for views about the revised the description of the RITP. He noted that the Task Force was of the view that:

- The RITP test involves the PA's consideration of whether the same conclusions would likely be reached by another person, who effectively meets the description of a RITP.
- The RITP would possess sufficient knowledge and experience to objectively evaluate the appropriateness of the PA's conclusions, and weigh all the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time the conclusions were made.

Mr. Koktvedgaard encouraged the CAG to comment, noting the RITP was a very important public interest topic. The following matters were raised, among others:

- Messrs. E. Bradbury, S. Bradbury, Dalkin, van der Ende and Waldron, and Mss. Borgerth, Perera and Singh expressed support for the revised description of RITP. Mr. Dalkin added that he agreed with the Task Force's view that the RITP test does not involve an actual person but rather was an important concept in the Code that assists PAs in applying the conceptual framework to comply with the FPs.
- Ms. Ceynowa questioned whether the use of the words “knowledge and experience” in the RITP description meant that the RITP should be aware of the matters in the Code. She observed that the use of those words seemed to suggest that the RITP can only be another PA. Mr. Hannaford asked whether Ms. Ceynowa believed that the Code should include a description of the meaning of “...sufficient knowledge and experience.”
- Mr. Hannaford explained that in developing the description, the Task Force believed it was important to explain the meaning of “informed” as used in the term RITP. He added that in the Task Force's view the RITP does not need to be another PA, and did not have to be knowledgeable about all the matters in the Code, but needed to have enough “business acumen” to understand the issues that PAs would be dealing with as part of their work and the public's expectations of PAs more broadly. Mr. Thompson agreed and expressed a view that it is important to achieve the right level of “knowledge and experience” an RITP should have. He expressed support for the Task Force's approach, noting that in his view the level of “knowledge and experience” of a RITP should

generally be more than that of a “lay person”/ “man on the bus” but does not need to be that of another PA. Ms. Ceynowa clarified that in her view the RITP test should not be performed from the perspective of the PA or “a lay person”/ “man on the bus.”

- Mr. Inuma reiterated the comments raised by IOSCO in its comment letter and suggested that the RITP description clarify that the RITP does not need to be a PA.
- Ms. Molyneux was of the view that the RITP should not be a PA, but needs to be a reasonably qualified “professional” that is able to understand the “professional decisions” that the PA is required to make. Mr. Hannaford explained that the Task Force intended for the RITP to possess the “knowledge and experience” of a “business professional” and questioned whether Ms. Molyneux was using the word “professional” to mean “business professional.”
- Ms. Ceynowa noted that that the US PCAOB’s standards that are applicable to audits of listed entities do not require the application of a “threats and safeguards” approach. She explained that in her view the reason is because the “threats and safeguards” approach calls for PAs to perform a “self-analysis” and the PA’s own bias might factor into performing this “self-analysis.” Reflecting on the discussion, Mr. Dalkin added that in his view, sometimes PAs apply safeguards without sufficient regard or thought about their appropriateness and whether they address the threats identified. He explained that it is important for PAs to exercise professional judgement in determining whether safeguards are available to address threats in light of the facts and circumstances of a particular engagement.
- Ms. Ceynowa and Mr. Hansen questioned the need for the words “...at the time the conclusions were made...” in the RITP description. Ms. Ceynowa was of the view that having these words seemed to suggest that the PA does not need to revisit any new information, or changes facts or circumstances. Mr. Hannaford explained that the Code requires PAs to re-evaluate threats when facts or circumstances change or if new information becomes available. Messrs. S. Bradbury and Thompson expressed support for retaining the words “... at the time the conclusions were made....” Mr. S. Bradbury added that in his view it is important for the RITP test to be based on the information available at the time that the PA’s work was performed.
- Mr. Fortin questioned whether the Task Force had considered describing the word “reasonable” so as to convey the need for the RITP to be objective. He also expressed a view that the description of a RITP might need to change depending on facts and circumstances and that in some situations he did not think that the RITP test should be applied from the perspective of a “lay person/ man on the bus.” Ms. Lopez expressed support for the Task Force’s proposed description, in particular the decision to delete the word “skills” that was included in Safeguards ED-1. She agreed with the Task Force’s view that the RITP should possess “sufficient knowledge and experience” in order to be informed about the issues being considered by the PA.
- Messrs. Hansen and S. Bradbury were generally supportive of the revised RITP description but believed that the word “sufficient” should be replaced with the word “relevant.”
- Dr. Arteagoitia noted that the RITP is not new, and wondered whether the description should be modernized to reflect the role that regulators or supervisors have in influencing and ultimately approving the PAs’ decisions. Mr. Koktvedgaard noted the suggestion for regulators and supervisors to be RITPs, and wondered whether investors should also be RITPs.
- Mr. Nicholuson shared reflections about how the legal profession uses the concept of a RITP and observed that in his view there are practical challenges with its use in accounting because the PA

performs the RITP test.

- Mr. Horstmann expressed support for the Task Force's proposed RITP description and was of the view that it represented a thoughtful balance on a very important public interest issue.

#### *Acceptable Level*

Mr. Hannaford asked for views about the revised description of acceptable level which "is a level at which a PA applying the RITP test would likely conclude that the accountant complies with the FPs."

Ms. Singh expressed support for the proposed description of acceptable level, including the approach to have it be in the affirmative.

#### *Addressing Threats*

Mr. Hannaford noted that there was general support for the following proposals in Safeguards ED-1, and that the Task Force was of the view that they should be retained:

- The proposed requirement for PAs to address threats by either:
  - Eliminating circumstance, including interests or relationships creating the threat;
  - Applying safeguards, where available and capable of being applied; or
  - Declining or ending the professional activity.
- The proposed description that "safeguards are actions, individually or in combination, that the PA takes that effectively eliminate threats to compliance with the FPs or reduce them to an acceptable level."
- Withdrawal of certain activities which were formerly characterized as safeguards (i.e., firm-specific safeguards, safeguards created by the professional or legislation, safeguards in the work environment and safeguards implemented by the entity). Those activities are now characterized as conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization which might promote PAs acting ethically.

Mr. Hannaford also explained that the Task Force had clarified the proposed application material that was intended to explain that "there are some situations in which the circumstances creating the threats cannot be eliminated and there are no safeguards to eliminate the threats created or reduce them to an acceptable level." He explained that in these situations, the PA is required to decline or end the specific professional activity.

Among other matters, the following were raised:

- Mr. Hansen was of the view that it would be useful to be clear by stating explicitly in paragraph 120.5 A1 that "certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization..." are not safeguards. He expressed support for the Task Force's position but believed that it is important to signal this significant change to PAs who are used to the extant Code's description of safeguards. Mr. Hannaford explained that the Task Force had considered Mr. Hansen's suggestion. The Task Force agreed to emphasize the new description of safeguards in the basis for conclusions for the final pronouncement and explain that certain conditions, policies and procedures characterized as safeguards in the extant Code are no longer safeguards.

- Mr. Inuma expressed appreciation for the revisions made to the safeguards provisions, but reiterated a comment raised by IOSCO in its comment letter that the definition and examples of safeguards should be linked to the threats. Mr. Hannaford explained that the proposals in the agenda material are intended to be responsive to the IOSCO comment, but that the Task Force would reconsider the matter in light of Mr. Inuma's comment.

*Matters Pertaining to the Revision of Proposed Section 300*

Mr. Hannaford provided an overview of the revisions made to Section 300 in response to the comments received on Safeguards ED-1. He explained the refinements that were made to Section 300, including to the examples of safeguards. He pointed out that IESBA had agreed during its June 2016 meeting to delete as an example of safeguards "consulting or seeking approval from those charged with governance or an independent third party..."

No comments were received from Representatives on the revisions made to Section 300.

Mr. Koktvedgaard noted that the IESBA was planning to agree in principle the text for Phase 1 of the Safeguards project during its December 2016 meeting. He encouraged the CAG to share any comments. Mr. Hannaford added that in concluding the second phase of the Safeguards project, the IESBA would review the agreed-in-principle text for Phase 1 for any necessary conforming amendments and matters of general consistency.

**SAFEGUARDS PHASE 2 – NAS**

Mr. Hannaford provided an overview of safeguards revisions that the Task Force made to the NAS provisions as well as other enhancements that were made to the NAS section of the Code either because of its restructuring (i.e., the Structure project), or because of changes arising from the IESBA's April 2015 pronouncement, *Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients*.

Mr. Hannaford explained that Task Force had worked closely with Structure Task Force to develop a consistent layout for the general provisions and each NAS subsection. He added that in developing this layout, the Task Force tried to give prominence to the requirements that prohibit the provision of certain NAS to audit clients that are public interest entities (PIEs) as well as for those entities that are not PIEs by having them positioned in a consistent manner.

Among other matters, the following were raised:

- Ms. Molyneux expressed support for emphasizing the provisions that already exist in the extant Code to prohibit the assumption of management responsibilities when providing NAS to audit clients. She supported having this in the general provisions of Section 600, as opposed to in stand-alone subsection under heading titled "Management Responsibilities."
- Ms. McGeachy-Colby pointed to:
  - The proposed requirement in paragraph R600.11 which explains how to avoid the risk of assuming management responsibility when providing NAS to an audit client; and
  - The proposed requirement for providing recruiting services in R610.5 which states that "a firm or a network firm shall not provide a recruiting service to an audit client with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements"

on which the firm will express an opinion if the service involves: (a) Searching for or seeking out candidates for such positions; and (b) Undertaking reference checks of prospective candidates for such positions.”

She questioned whether a firm or network firm might still be able to review job applications and provide advice to audit clients about a candidate’s suitability for the post, if the firm or the network firm does not assume management responsibilities. Mr. Hannaford responded that in providing recruiting services, it is important that firms and network firms be careful to avoid involvement in negotiations or in making decisions about hiring. Mr. Hannaford explained that the requirement in R610.5 is intended to apply to the provision of recruiting services relating to “...directors or officers of an entity or a senior management in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion...” He explained that the Task Force does not believe that there are safeguards available or capable of addressing the threats that might be created by providing such a recruiting service to any audit client.

- Dr. Arteagoitia pointed to the statement in paragraph 600.2 “Providing NAS to audit clients might create threats to compliance with the FPs and threats to independence” and suggested that the word “might” should be replaced with “may” because in his view the word “may” was a more definitive statement of fact which was more appropriate in this circumstance. Mr. Hansen suggested deleting the word “might.” Mr. Hannaford explained that the words “may” and “might” are used in a consistent manner throughout the Code in accordance with the new structure and drafting conventions for the Code. He also noted that the Task Force believes that it is important to have a qualifier such as the word “may” or “might” in the sentence to convey the circumstances in which providing a NAS to an audit client may not create threats. Mr. Thomson added that word “might” is used in the Code to convey “possible in circumstances” while the word “may” is intended to convey “permissibility.” Dr. Arteagoitia acknowledged Mr. Thomson’s explanation but questioned whether other readers might understand it in the way that it is intended given that the proposed meaning is not the same as the English dictionary’s definitions of the words “may” and “might.” Messrs. Hannaford and Thomson agreed to reflect on the feedback received with the IESBA and the Safeguards and Structure Task Forces.
- Mr. Koktvedgaard questioned whether there was enough emphasis on the threats to independence in Section 600. Mr. Hannaford explained that the word threats in Section 600 is intended to mean “threats to independence” as well as “threats to the FPs.” Mr. Koktvedgaard acknowledged the explanation, and added that in his view it would be useful if the Code would refer to specific threats to independence in the same way that explicit reference is made to “self-review” or “self-interest” threats. Pointing to paragraph 120.12 A of the proposed text for Phase 1, Mr. Hannaford explained that the Structure and the Safeguards Task Forces are of the view that the categories of threats to the FPs and to independence are the same.
- Mr. E. Bradbury questioned whether Task Force had considered requiring firms or network firms to obtain a certification from the NAS client regarding management’s assumption of its responsibilities. Mr. Hannaford noted that paragraph 600.10 includes a description of, and provide examples of what would ordinarily constitute management responsibilities. He added R600.11 includes a requirement for how firms and network firms should avoid the risk of assuming management responsibility when providing NAS to an audit client. Mr. Koktvedgaard commented that based on his observations, the smaller the client the more difficult it would be for a firm or network firm to comply with the requirements in paragraph R600.11.

- Ms. Molyneux questioned whether the Task Force had considered the practical challenges being experienced with implementing the NAS provisions in the extant Code in developing its proposals. Mr. Hannaford explained that the Task Force had received input from various jurisdictions as part of the responses to Safeguards ED-1 and from the feedback from national standard setters during the June 2016 IESBA-NSS meeting.
- Ms. Ceynowa questioned the permissibility of NAS services that involve monitoring activities that form part of an entity's internal control over financial reporting. Ms. Soulier explained that the application material in paragraph 600.10 A2 retains the wording in the April 2015 NAS pronouncement. She noted that the determination of whether an activity is a management responsibility depends on the circumstances, and requires the exercise of professional judgment. She indicated that the Code includes specific examples of activities that would be considered a management responsibility. One of those examples is taking responsibility for designing, implementing, monitoring and maintaining internal control. Ms. Soulier further explained that the subsections that deal with information technology services and internal audit services include application material to explain that:
  - Designing or implementing IT systems that are unrelated to internal control over financial reporting does not constitute assuming a management responsibility and is permissible.
  - Taking responsibility for designing, implementing, monitoring and maintaining internal control are exemplified of internal audit services that involve assuming management responsibilities and are, therefore, prohibited.
- Mr. Hansen observed that the word materiality has a specific meaning in the auditing standards and questioned whether the meaning was the same in the Code. He wondered whether the word significance would be more appropriate in the context of the Code. Mr. Hannaford explained that the application material in Section 600 is to explain materiality in relation to an audit client's financial statements and refers users of the Code to the same definition of materiality in the auditing standards. Mr. Koktvedgaard suggested the Task Force revisit the matter based on feedback from respondents to the Safeguards Phase 2 exposure draft.

#### SAFEGUARDS PHASE 2 – OTHER

- Mr. Hannaford explained that in developing its proposed revisions to Section 600, the Task Force had identified certain matters that were beyond the Safeguards project scope. For example:
  - Exploration of how to minimize the duplication of the same “examples of safeguards” in the NAS section of the Code;
  - Consideration of provisions relating to communication about TCWG;
  - Assessing whether the Code should continue to have differential requirements for PIEs vs non PIEs;
  - Consideration of how to address evolving trends in taxation that might affect threats and safeguards; and
  - Consideration of documentation requirements in light of revisions to the conceptual framework.
- Mr. Fortin expressed a view that consideration of how to address evolving trends relating to providing taxation services should include broader considerations about perceptions about threats

to independence because there are some who are of the view that auditors should not be in the business of providing taxation services, e.g., tax planning services. Ms. Soulier acknowledged the comment and expressed a view that there is an opportunity to build on the tax provisions that already exist in the Code by having more provisions that expressly deal with threats to independence in appearance.

Mr. Hannaford thanked the Representatives for their input and noted that he would report their comments to the IESBA at the September 2016 IESBA meeting.

#### **D. Revision of Part C of the Code – Applicability and Inducements**

Standing in for the Chair of the Task Force, Ms. Agélii, who participated in the meeting via teleconference, Ms. Snyder introduced the topic. She provided a brief summary of the Part C project, including an update on the various phases of the project. Ms. Snyder explained that Phase 1 of the project was completed in December 2015, under the structure and drafting conventions for the extant Code, with IESBA approval of the close-off Document [Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles](#) (“close-off document”). She noted that as part of the Structure project, the Task Force was restructuring extant Part C as amended by the close-off, including retitling it “Part 2, *Professional Accountants in Business*,” and that the IESBA would consider the restructuring changes at its September 2016 meeting.

##### *Phase 2 - Applicability of Part C to Professional Accountants in Public Practice (PAPPs)*

Ms. Snyder summarized the IESBA’s and the Task Force’s deliberations about the applicability of provisions in extant Part C to PAPPs. She explained that the IESBA had agreed to consider for exposure proposals to clarify that circumstances exist in which the content of extant Part C might be applicable to PAPPs. Ms. Snyder explained that the proposals would have significant implications for jurisdictions in which PAIBs are not part of the local IFAC member body (i.e., extant Part C does not form part of their local codes). Those jurisdictions would now need to consider whether to include extant Part C into local codes.

Representatives did not provide any comments.

##### TITLE OF SECTION 350<sup>7</sup>

Ms. Snyder explained that the IESBA had asked that the Task Force to consider whether the title of “Inducements” needed to be revised as it had a negative connotation. An alternative of “Gifts and Hospitality”, proposed at the June 2016 IESBA meeting, was thought to unduly narrow the scope of the Section.

At the September 2016 IESBA meeting, the Task Force would be proposing “Gifts, Hospitality and other Inducements”. The Task Force felt that this would:

- Maintain the scope of the Section;
- Assist with searches performed in an electronic code (which would likely be on the terms “gifts” or “hospitality”);
- Be consistent with the title of Section 260, *Gifts and Hospitality*; and

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<sup>7</sup> Extant Part C, Section 350, *Inducements*

- Challenge the negative connotation of “Inducements” by indicating that not all inducements are intended to elicit inappropriate behavior.

Among other matters, the following were raised:

- Mr. Bradbury expressed a view that the word “Inducement” should not be considered neutral. He explained that in his view an inducement is intended to encourage an individual to perform an action that would not have otherwise been taken. He questioned whether the proposed title for Section 250, “Gifts, Hospitality and other Inducements,” might imply that all gifts and hospitality are intended to induce a PAIB to do something that the PAIB would not have otherwise done. Ms. Snyder explained that the proposals set out in the “strawman” require PAIBs to assess the actual or perceived intent of an inducement and whether the actual or perceived intent is to influence an individual’s behavior, thus possibly creating a threat to compliance with the FPs. She explained further that once the PAIB has established that there is no adverse intent, the PAIB would need to evaluate the level of any threats to compliance with the FPs and address those threats, including implementing safeguards. She also noted that the Task Force had acknowledged that not all gifts and hospitality are intended to inappropriately affect behavior, but they would still be considered inducements.

Representatives offered the following editorial suggestions in relation to the title:

- Mr. Hansen suggested that the title be revised to be “Gifts, Hospitality and other Potential Inducements.”
- Mr. Koktvedgaard questioned whether the title should include a reference to threats, e.g. “Inducement Threats.”
- Mr. Nicholson questioned whether the title should capture the phrase “Attempted Inducements.”
- Mr. Fortin supported the Task Force’ proposal to have the title include “Inducement,” but suggested that additional wording be included in the Code to give consideration to the intent and value of the gift or hospitality.

#### EVALUATION OF THREATS

Ms. Snyder summarized the various factors that the Task Force considered appropriate to evaluate the level of threats to compliance with the FPs. She highlighted the addition of a requirement to decline an inducement if the threat associated with it cannot be reduced to an acceptable level.

In addition to editorial suggestions, Representatives provided the following suggestions:

- Mr. Waldron suggested that if an inducement were to be declined, then the reason for doing so should be logged for transparency.
- Mr. Thompson asked whether the RITP test to assess the perceived intent of the inducement would be applied here. Ms. Snyder confirmed that the RITP test would be used to assess the perceived intent and also the perceived adequacy of any safeguards implemented.
- Mr. Bradbury expressed a view that whether an inducement was acceptable would depend on the context in which it was made. Messrs. Hansen and Fortin agreed with this view, with Mr. Fortin adding that the acceptability of an inducement should be linked to how it affects the actions of the recipient.

- Mr. Koktvedgaard noted that global organizations, such as the World Bank and International Monetary Fund, have guidance on bribery and corruption. He suggested that a revised Section 250 could include referencing such guidance. Ms. Snyder noted that the Strawman included the need to understand all applicable laws and regulations and also policies and procedures of the employing organization that address inducements.

#### CULTURAL DIFFERENCES

Ms. Snyder indicated that the Task Force acknowledged that while inducements can vary by culture, cultural differences should not allow for lower standards or be used as a cover for inappropriate inducements. Principles-based guidance should be capable of accounting for cultural differences when assessing threats to compliance with the FPs. The RITP test could be used to assist with this process.

Respondents provided the following views:

- Mr. van der Ende felt that it is important to have guidance on cultural differences, as PAs would invariably assess an inducement from their own cultural perspective. While the RITP test would be useful to assess the adequacy of steps taken by a PA to consider cultural issues, the Strawman could further elaborate on this area. Mr. Inuma and Ms. Singh expressed a similar view, noting that exchanging gifts as part of business relationships, with no negative intent is a major part of Asian culture and thus cultural differences should be addressed within any revised pronouncement.
- Ms. Snyder noted that the Strawman contained (a) requirements for a PA not to offer or accept inducements that could be deemed inappropriate, and (b) guidance on how to refuse the inducement without damaging the relationship with the offeror. Ms. Snyder also noted that the aim of the revised section was to use a principles-based approach to permit consideration of cultural differences while not allowing a lower standard of behavior.
- Mr. Koktvedgaard suggested that the employing organization could be encouraged to have policies to address cultural issues. Ms. Snyder responded that not all PAs are in a position to influence the policies of an employing organization. Hence, PAs could be encouraged, where feasible, to influence the employing organization's policies, but not necessarily be required to do so.
- ADDRESSING THREATS, INCLUDING SAFEGUARDS Mr. Bradbury suggested providing guidance on how an inappropriate inducement could be retrospectively declined when the circumstance at the time of offering, such as a gift being presented at a gala event, is not conducive to declining the offer immediately. Ms. Snyder indicated that the Task Force had considered possible safeguards, such as communicating to the offeror that the inducement cannot be accepted and suggesting an alternative.

Ms. Snyder informed the CAG that the Task Force would consider feedback received from Representatives along with Board views received at the upcoming September 2016 IESBA meeting with the intention of presenting a first read of a revised Section 350 at the December 2016 IESBA meeting. A second read would then be presented at the March 2017 IESBA meeting with a view to seeking IESBA approval of an exposure draft.

#### **E. Long Association**

Mr. Fleck introduced the topic, summarizing the background to the project and outlining recent activities on the project. He noted that the February 2016 re-Exposure Draft (re-ED), *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*, had

focused on three remaining issues in the project, namely the cooling-off period for an engagement quality control reviewer (EQCR) on the audit of a public interest entity (PIE); whether to allow a reduction of the five-year cooling off period for engagement partners (EPs) and (for listed PIEs) EQCRs to three years where a jurisdiction has established alternative requirements addressing long association; and how long an individual should cool off if he or she has served in a combination of EP, EQCR and other KAP roles. He outlined the extent of responses received on the re-ED, noting that the significant matters raised by respondents had been discussed with the IESBA's National Standard Setters (NSS) liaison group in mid-June and with the Board at the end of June.

He then led Representatives through the matters for consideration.

#### COOLING-OFF PERIOD FOR THE EQCR ON PIE AUDITS

Mr. Fleck briefed the CAG on the significant comments from respondents on the re-ED proposal regarding how long an EQCR should cool off with respect to listed and unlisted PIE audits after having served the time-on period. He outlined the Task Force's revised proposals in response to those comments and explained the reasoning for the Board's tentative decision, i.e., a three-year cooling-off period for EQCRs on audits of all PIEs, whether listed or not.

The following matters were raised:

- Mr. Hansen noted that he had originally supported the bifurcation between listed and non-listed PIEs with a longer cooling-off period for EQCRs in the former case. While he continued to believe this would be appropriate, he understood the concerns raised on the re-ED proposal. Accordingly, he accepted the Board's revised position on the matter. He felt that it was time to finalize the provisions. Mr. Waldron agreed with Hansen that it was time to move forward and complete the project.
- Expressing a personal view, Mr. Iinuma agreed with the revised provision. He acknowledged the difficulty of finding a cooling-off period that would satisfy all stakeholders. He suggested that the Board consider a review of the revised provision post-implementation. Mr. Fleck concurred that most stakeholders would agree on the merit of reviewing the revised long association provisions post-implementation.

Representatives raised no other comments on the revised provision.

#### JURISDICTIONAL PROVISION

Mr. Fleck briefed the CAG on the significant comments from respondents on the re-ED proposal regarding the "jurisdictional provision," i.e., that the cooling-off period of five years for EPs (all PIE audits) and EQCRs (listed PIE audits only) may be reduced to three years provided that the jurisdiction has (a) implemented an independent regulatory inspection regime; and established requirements for (b) a time-on period shorter than seven years or mandatory firm rotation (MFR) or mandatory re-tendering of the audit appointment at least every ten years. He outlined the Task Force's revised proposals in response to those comments and explained the reasoning for the Board's tentative decision, i.e., retaining the provision (which would no longer apply to EQCRs given the three-year cooling-off period for them) but not linking it so closely to the EU requirements, and adding a joint audit condition as another option.

The following matters were raised:

- Mr. Fortin indicated that he understood the rationale for the revised proposal, noting that it had merit from an EU perspective. Regarding the reference to an independent regulatory inspection

regime, he wondered about the effectiveness of that regime. He added that this would vary depending on the maturity of the regime. He felt that this was a consideration but nevertheless a difficult issue. Mr. Fleck noted that the reference to an “independent” inspection regime was intended to mean its independence from the audit profession. He added that it is outside the scope of the Code to establish criteria regarding the effectiveness of an audit inspection regime.

- Regarding the reference to joint audits, Mr. Hansen noted that there are a number of reasons to justify their existence, for example, to address the industry concentration issue, to help SMPs grow, etc. He was of the view that the issue is how to define a joint audit. He felt that there was a need to explain that concept to prevent abuse or manipulation, such as a larger firm in a joint audit doing most of the substantive work, leaving the smaller firm to play only a marginal role. Mr. Fleck agreed, noting that there must be substance to a joint audit, i.e., both firms taking substantive part in the audit and sharing responsibility for the audit opinion. He indicated that the Task Force would reflect on wording to convey this principle.
- Ms. Borgerth noted that Brazil has implemented MFR for listed entities. She observed that change is always challenging but that this particular requirement in Brazil has brought a healthy fresh look to the audit.
- Mr. Erik Bradbury noted that from a preparer perspective, a change of audit firms is highly disruptive. He felt that it is important to consider whether there are already adequate safeguards to protect auditor independence. Accordingly, he felt that there is a need for evidence that MFR is helpful. He added that he was not aware of studies of the costs vs. benefits of MFR. In this regard, Mr. Fleck noted that there has been quite an extensive study done by the UK Competitions Authority regarding the burden of MFR on preparers. The study had concluded that there should instead be mandatory retendering.

#### SERVICE IN A COMBINATION OF ROLES

Mr. Fleck summarized the re-ED proposal regarding service in a combination of roles. He then briefed the CAG on the significant comments from respondents on the proposal, the Task Force’s revised proposals in response to those comments and the reasoning for the Board’s tentative decision as outlined in the agenda material.

The following matters were raised:

- Ms. Ceynowa noted that the PCAOB’s independence standards require a two-year cooling-off period before a former EP can move into an EQCR role on the same audit engagement. Mr. Thompson agreed this was an issue to be addressed. Mr. Gunn responded that this particular issue was subject to coordination between the IESBA and IAASB. Both Boards had agreed that there is a gap in the literature that should be addressed but that doing so would require coordination between them. Mr. Fleck noted that it is important to think also about the issue more broadly, for example, from the perspective of the self-review threat.
- Mr. Fortin commented that he found the table illustrating the cooling-off periods for different possible combinations of roles very useful. He suggested that it be included in the Basis for Conclusions or FAQs.
- Mr. Hansen raised a question as to whether serving on an engagement as an EQCR for one quarter would count as service for one year. Mr. Siong responded in the affirmative. He indicated that IESBA Staff had already developed an FAQ addressing this question.

## OTHER MATTERS

Mr. Fleck briefed the CAG on late comments received from IOSCO Committee 1 on the re-ED and the Task Force's and IESBA's responses, as summarized in the agenda material. He also explained that the Board had added guidance in the revised provisions to clarify that references to the time-on period are intended to mean a cumulative and not consecutive time-on period.

Representatives had no comments.

## WAY FORWARD

Mr. Kocktvedgaard noted the CAG's overall support for the Board to finalize the revised proposals. Mr. Fleck thanked the Representatives for their comments and outlined the forward timeline. He indicated that subject to Board and PIOB approval of the revised provisions, the approved "close-off" text would be restructured under the new structure and drafting conventions of the Code for exposure on the restructuring only.

## F. Fees

Mr. Siong introduced the topic by summarizing the history of the fees fact finding initiative. He noted that as a preliminary step, the IESBA commissioned an IESBA Staff publication, [Ethical Consideration Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#) that was released in January 2016. He added that at its March 2016 meeting, the IESBA approved the terms of reference for the Fees Working Group (WG), which set out the scope, focus and approach of its fact finding activities. He explained that:

- The IESBA had commissioned Prof. David Hay, Professor of Auditing, University of Auckland, New Zealand to undertake a review of the relevant academic and other literature on the topic of fees (summary of research).
- The WG is conducting a G20 benchmarking exercise to compare the fee-related provisions in the Code to those in the G20 jurisdictions.
- The WG was planning to engage with various stakeholders to further understand their perspectives on the topic of fees, including their views about the nexus between fees and threats to independence and compliance with the FPs.

Mr. Siong explained that the WG's fact finding is intended to gather information and form a view about fee-related matters, including whether an IESBA project is needed to address the concerns raised about fees. Mr. Siong noted that Prof. Hay will present a preliminary report of his findings to IESBA at its September 2016 meeting and that he will present his final report to the IESBA in December 2016.

Among other matters, the following were raised:

- Dr. Arteagoitia informed that, commencing in June 2016, supervisory bodies within the European Union (EU) Member States are obliged to submit regular market-monitoring information to the European Commission (EC) and to the European Supervisory Authorities.<sup>8</sup> These reports will ultimately be merged into a single report to provide market information and indicators about how the EU Audit Reforms are affecting risk, competition and performance of audit committees within

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<sup>8</sup> European Securities and Markets Authority (ESMA), European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA)

the EU audit market. Some of these indicators will address audit fees and hence this information would be useful to the IESBA.

- Mr. Waldron expressed a view that the investor community would strongly support a project that resulted in improved audit quality. He indicated that the CFA Institute would be willing to assist the IESBA where possible and suggested that the IESBA should consider reviewing work performed by Jack Ciesielski on audit fees.
- Mr. van der Ende asked for clarification on:
  - Actions that the IESBA would take, should the fact-finding efforts conclude that there are no threats to auditor independence. Dr. Thomadakis indicated that the conclusions of the fact-finding would be considered before deciding on further actions.
  - Which industries would be included in the scope of the fact finding, adding that he felt financial services firms should be included and that data be gathered over a period of several years. Dr. Thomadakis responded that the scope of data gathering had not yet been established.
- Mr. Fortin suggested that it would be beneficial to liaise with regulators, noting that some regulators now require listed companies to break down fees between audit services and NAS.

#### *PIOB Observer*

Mr. Horstmann expressed a view that the concern relating to the provision of audit services by a firm that also provides significant NAS is more of a matter for the IAASB to address. He therefore suggested that consideration be given to involving a member of the IAASB's Quality Control Task Force in the IESBA's work. Ms. Ceynowa agreed that the issue related more to audit quality than independence.

Mr. Horstmann also indicated that the PIOB would consider the impact of NAS on audit quality at its public interest workshop later in the week.

Mr. Koktvedgaard closed the discussion by noting Representatives' support for the initiative.

#### **G. PIOB Observer's Remarks**

Mr. Horstmann congratulated Mr. Koktvedgaard on his leadership of the CAG discussions and for a good meeting. He noted that in his view the public interest had been adequately considered and that he was very impressed with the thoughtfulness of the CAG contributions during the discussions of the issues presented.

#### **H. Closing Remarks**

Mr. Koktvedgaard thanked all participants and members of CAG for their engagement and participation to the discussions. He noted that IESBA staff would schedule a teleconference in December 2016 and that the next physical CAG meeting would be on March 6, 2017 in New York. Mr. Koktvedgaard then closed the meeting.