Agenda Item 1-B

Draft Minutes of the 62nd Meeting of the

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on December 3-5, 2018 in New York, United States

	Voting Members	**Technical Advisors**
Present:	Stavros Thomadakis (Chairman)	Saadiya Adam (Mr. Mihular)
	Richard Fleck (Deputy Chair) (Days 2 & 3)	James Barbour (Mr. Ashley)
	Michael Ashley	Denise Canavan (Ms. Haustermans)
	Brian Caswell	David Clark (Ms. Soulier)
	Brian Friedrich	Gregory Driscoll (Ms. Lee)
	Hironori Fukukawa	Jens Engelhardt (Mr. Poll)
	Kim Gibson	Ellen Goria (Mr. Caswell and Ms. Madden)
	Liesbet Haustermans	Selene Ho (Mr. Leung)
	Robert Juenemann	Ian Hutchinson (Mr. Friedrich)
	Winifred Kiryabwire	Gina Maldonado-Rodek (Ms. Gibson)
	Caroline Lee	Andrew Pinkney (Ms. Mulvaney)
	Alden Leung	Sundeep Takwani (Ms. Kiryabwire)
	Myriam Madden	Toshihiro Yasada (Mr. Fukukawa)
	Ian McPhee	
	Reyaz Mihular	
	Patricia Mulvaney	
	Jens Poll	
	Sylvie Soulier	

Non-Voting Observers

Present: Kristian Koktvedgaard, IESBA Consultative Advisory Group (CAG) Chair, and Yoshiharu Kawada, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Claudia Deodati

IESBA Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Szilvia Sramko, Carla Vijian

1.   **Opening Remarks**

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He also welcomed Mr. Don Thomson, Chair of the e-Code Working Group (WG); Mr. Gary Hannaford, Non-Assurance Services (NAS) Working Group member; Ms. Carla Vijian, new IESBA Technical Manager; Ms. Misha Pieters, Senior Project Manager from New Zealand External Reporting Board (XRB) who is providing technical support to the e-Code Working Group; and Mr. Peter Hughes, former IESBA member who is providing technical support to the Part 4B[1]–ISAE 3000 (Revised)[2] Alignment Task Force.

Among other matters, Dr. Thomadakis highlighted the following in his introductory briefing to the Board:

- Rotations, re-appointments and new member appointments:

  o   Messrs. Caswell and Mihular who will be rotating off at the end of the year.

  o   Mr. Masahito Tamada who is replacing Mr. Toshihiro Yasada as technical advisor to Mr. Hironori Fukukawa.

  o   PIOB approval of the following re-appointments and new appointments:

    ▪   Dr. Thomadakis as the Chairman of IESBA for another year;

    ▪   Mr. Ashley for a term of 3 years;

    ▪   Ms. Haustermans for a term of 3 years;

    ▪   Mr. Juenemann for a term of 2 years;

    ▪   Mr. Richard Fleck as the Deputy Chair for 2019;

    ▪   Mr. Andrew Mintzer as new Board member for a term of 3 years; and

    ▪   Mr. Sanjiv Chaudhary as new Board member for a term of 3 years.

- The arrangement with Ms. Pieters is a creative response to the IESBA's resource challenges and strengthens the IESBA's collaborative relationship with XRB.

- The outreach activities since the last Board meeting, which included the World of Congress of Accountants in Sydney and the outreach program in Australia and New Zealand. Dr. Thomadakis thanked everybody who participated in the outreach activities and encouraged all Board members and technical advisors to identify opportunities to be actively involved in outreach.

APPROVAL OF MINUTES

The Board approved the minutes of the September 2018 public session meeting as presented.

2.   **Technology**

Ms. Mulvaney introduced the topic and briefed the Board on the Working Group's stakeholder engagement activities. These were not only with the accountancy profession but also with other business professionals,

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[1]   International Independence Standards, Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

[2]   International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

including academics and educators, as well as other ethics organizations. She informed the Board of her discussion with Mr. Bob Dohrer, the IAASB's Data Analytics Working Group Chair, as part of the IESBA's and the IAASB's broader coordination efforts.

Ms. Mulvaney then highlighted the key factors or other matters that were considered in developing the proposed Working Group Terms of Reference (ToR), which included the following:

- The initiative should be focused on ethical considerations that impact the behavior of professional accountants (PAs) when encountering and using technology. The ToR should expressly address the impact of technology on professional accountants in business (PAIBs) given their roles in private and public sector organizations.

- Given the relatively limited volume of published material focusing on the impact of technology on ethical behavior (including that of PAs), the Working Group will seek to obtain more information and views from discussions with stakeholders as part of targeted outreach activities.

- As part of its information gathering and to assess how technology impacts threats to compliance with the fundamental principles of ethics and to independence requirements, and the related behaviors expected of PAs, the Working Group will focus on a limited number of key technology categories. Doing so will be more effective than initially scoping the initiative too broadly. In this regard, the Working Group has agreed to initially focus on data analytics and big data (Data Analytics) and artificial intelligence and robotics process automation (AI).

- There is a need to achieve the right balance between taking the time needed for diligent research and reflection, and producing timely output that would raise the visibility of the IESBA's work on, and commitment to, addressing the technological challenges and opportunities for PAs.

APPROVAL OF THE TERMS OF REFERENCE

The IESBA discussed various revisions to the proposed ToR, and after careful consideration of the comments below, unanimously approved the ToR.

Amongst other matters, the following were raised:

- It would be helpful to highlight that the overall objective of the initiative falls within Strategic Theme 1 of the IESBA's Strategy and Work Plan, 2019-2023 (SWP) relating to "Advancing the Code's Relevance and Impact."

- The objectives of the initiative should align better with the language in the Code which is about compliance with the fundamental principles of ethics. The initiative should seek to explain the threats but should also explain how technologies could be used to support and enhance compliance with the fundamental principles.

- The ToR should expressly include reference to national standard setters (NSS) and regulators as key stakeholders. It should also specify outputs, at least for Phase 1, as a way to demonstrate the IESBA's focus responsiveness to the developments in technology.

- Consideration should be given to including the topic of cryptocurrency in the Working Group's initial fact finding, taking into account that the issues may be narrow (e.g., they may relate to only compliance with independence requirements). In response, Ms. Mulvaney clarified that the Working Group will eventually deal with other technology topics such as cryptocurrencies, but not during Phase 1. She explained that the Working Group is planning to be nimble and systematic in its

approach, and will prioritize certain ethical issues that require immediate attention. Mr. Siong suggested that the Working Group explore whether IESBA Staff Alerts or other non-authoritative publications might be a way to respond to specific issues.

- Mr. Gunn noted that in his view global conversations about technology have not always been focused on ethical behavior. He supported the Working Group's focused approach and emphasized the importance of allowing sufficient flexibility in the ToR so that the Working Group can be innovative in its approach and responses.

WAY FORWARD

Ms. Mulvaney informed the Board that the Working Group had scheduled a series of outreach meetings with stakeholders for January 2019 in London.

The Board asked the Working Group to provide an update at the March 2019 IESBA meeting.

3.   Fees

Mr. McPhee briefed the Board on the activities of the Fees Task Force since the Board approved a project proposal at its September 2018 meeting. He outlined the planned approach for the Task Force's activities in preparation for the March 2019 IESBA meeting. He also summarized the timeline for the project.

IESBA members suggested that the Task Force take into account the provisions in the International Auditing and Assurance Standards Board's (IAASB) proposed quality management (QM) standards[3] that might be relevant to the topic of fees, in particular provisions in proposed ISA 220 (Revised), as well as jurisdictional laws and regulations that address the topic of audit fees and related considerations pertaining to the resources necessary to undertake audit engagements in accordance with professional standards.

WAY FORWARD

The IESBA asked the Task Force to present issues and Task Force proposals, including possible revisions to the fee-related provisions in the Code, at the March 2019 IESBA meeting.

4.   EIOC

Mr. Mihular introduced the topic and briefed the Board on recent EIOC activities. He then presented matters that the EIOC had identified as warranting Board action or Board noting. In particular, the Board discussed and agreed to the EIOC's recommendation for the Board to commission IESBA Staff to develop additional Frequently Asked Questions (FAQs) in response to some requests that IESBA Staff had received regarding clarification about how to apply certain aspects of the revised Long Association provisions that came into effect in December 2018.

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[3]   IAASB's QM EDs comprise:

- Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* and
- Proposed ISQM 2, *Engagement Quality Reviews*

The Board also exchanged views about the independence requirements that should apply when the group auditor and the component auditor are from different network firms. It was agreed to defer further consideration of this matter pending the IAASB restarting its ISA 600 project in Q1 2019.[4]

WAY FORWARD

The IESBA will receive its next update from the EIOC in June 2019.

5.   Revised and Restructured Code Rollout

PROMOTING AWARENESS AND ADOPTION OF THE CODE

Ms. Gibson introduced the topic and briefed the Board on the status of the "rollout" initiatives aimed at promoting awareness, adoption and implementation of the revised and restructured Code. Ms. Gibson provided an overview of the current status of adoption of the revised and restructured Code. She explained that the Working Group would monitor the progress made towards adoption based on interactions with the IFAC Quality and Development team and discussion at the upcoming IESBA-NSS meeting in May 2019.

With respect to responsibilities for facilitating adoption and implementation of the Code, it was agreed that adoption should be a common goal for both the IESBA and IFAC.

Dr. Thomadakis explained that the Working Group's work is short term in nature and is expected to wind down by June 2019, the Code's effective date. He noted that there is a need for a longer-term plan that should be led by IFAC and/or another IESBA Working Group which could build on the work of the Rollout Working Group. He supported the Working Group's approach to further influence and promote adoption of the 2018 edition of the Code among members of the Forum of Firms (FoF), as well as IFAC member bodies in support of their membership obligations.

Mr. Siong suggested that the Board discuss the longer-term plan prior to the new Code coming into effect in June 2019. He also reminded the Board that continued collaboration with IFAC's Compliance Advisory Panel is a strategic priority in the SWP. In this regard, it was suggested that IFAC or IESBA should consider making publicly available a "dashboard" that periodically communicates the status of global adoption of the Code in order to build momentum and stimulate "buzz" about adoption.

Webinars

The Board agreed to the Working Group's proposal to use webcasts and social media activity to promote awareness and adoption of the Code.

Decoding the Ethics Code Series

Ms. Gibson outlined the Working Group's proposal for the launch of a series of short inter-connected publications, tentatively titled "*Decoding the Code of Ethics.*" She explained that each episode would be authored by IESBA members or technical advisors, and would highlight key elements of the Code. By way of illustration, Ms. Gibson walked the Board through the first four episodes of the series which addressed foundational ethics topics, including the fundamental principles and the conceptual framework.

IESBA members generally supported the proposal. In addition to editorial suggestions, they provided various comments on the initial four episodes, including the following:

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4   ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors*

- The content of the series should be leveraged to develop a podcast or webcast.

- It was suggested that the examples used in each episode should remain closely aligned to the Code but also should be more practical in order to be helpful to PAs. Also, it was suggested that the examples highlight specific jurisdictional circumstances. Ms. Gibson explained that she envisaged that future episodes for the series would target specific stakeholder groups and would address topics of interest to all geographic locations. She added that the jurisdictional experiences of the IESBA members and technical advisors who would be authoring the future episodes for the series would inform future examples.

WAY FORWARD

The IESBA asked the Working Group to provide a further update at the March 2019 IESBA meeting.

6. IAASB-IESBA Coordination

Ms. Soulier briefed the Board on the significant matters raised in the various discussions that IESBA representatives had with their IAASB counterparts about the IAASB's proposed QM standards that were being put forward to the IAASB for approval at its December 2018 meeting. She explained that a "triage" approach was used to categorize comments as follows:

- Significant Matters, which were matters deemed to be of a "policy" or fundamental nature.

- Substantive Matters, being areas where IESBA representatives noted potential inconsistencies with the Code or drafting suggestions that they believed would address such inconsistencies.

- Editorial Matters, such as clarifications or other drafting suggestions for IAASB Staff or Task Force consideration.

IAASB Liaison, Ms. Megan Zietsman, and the IAASB Task Force Chairs, Ms. Karin French and Mr. Imran Vanker, explained how each of the significant matters was dealt with by the IAASB's Task Forces. In doing so, they drew attention to Supplement 2 to Agenda Item 5, *IAASB Paper on QM Projects IESBA-IAASB Coordination*.

IESBA members expressed support for the feedback provided by the IESBA representatives. It was agreed that:

- Subject to the IAASB's deliberations at its December 2018 meeting, the explanatory memoranda (the EMs) accompanying the IAASB's exposure drafts (EDs) would include a discussion of the significant ethics and independence issues that are summarized in Supplement 2 to Agenda Item 5 of the IAASB meeting material. It was also agreed that specific questions would be included in the EMs to solicit input on each issue.

- Ms. Soulier and IESBA Staff would observe the IAASB's December 2018 meeting and would be available as needed to provide advice to, and respond to any questions from, the IAASB's Task Forces.

The IESBA noted that the IAASB aimed to issue its EDs as a package by the end of January 2019, with a 5-month comment period.

WAY FORWARD

The IESBA will receive a further update on IAASB-IESBA coordination activities in due course.

7.   Strategy and Working Plan

Dr. Thomadakis introduced the session and noted that the objective of the session was to seek Board approval of the proposed SWP. He also summarized the key issues raised by respondents; the feedback from the September 2018 CAG and IESBA meetings; and the Planning Committee's (PC's) related considerations and responses. He highlighted the specific areas that the PC had discussed since the September 2018 meeting, including:

- The timing for implementation reviews for NOCLAR, Long Association (LA), and the revised and restructured Code, and the PC's recommendation to bifurcate the implementation review for LA into two separate work streams, starting first with the review of the implementation of the "jurisdictional provision."

- The strategy for implementation reviews and implementation support and the important role that IFAC should play, both within IFAC's own strategy and in collaboration with the IESBA.

- The need to enhance interactions with the academic community.

APPROVAL OF SWP

After careful consideration of revisions to address the following substantive comments, the IESBA unanimously approved the final SWP with the affirmative votes of 18 out of the 18 IESBA members present.

The IESBA assessed whether there was a need to re-expose the document or seek further input on any specific matter, and concluded neither was necessary. Mr. Siong advised the IESBA that it had adhered to due process in finalizing the SWP.

Dr. Thomadakis congratulated the IESBA on finalizing the SWP, and thanked the PC and Staff for their hard work in bringing the document to successful completion. The SWP represents the IESBA's commitment to an ambitious and comprehensive work program for the 5 years ahead. Subject to PIOB approval at its March 2019 meeting, the SWP is expected to be issued by mid-April 2019.

Feedback on Draft SWP Discussed During Meeting

In addition to various editorial suggestions provided during the meeting, IESBA participants agreed that the SWP should:

- In relation to the IESBA's commitment to promoting global adoption and effective implementation of the new Code, indicate that the IESBA will articulate its strategy for implementation reviews and implementation support in 2019 after further discussion with IFAC.

- In relation to the criteria for determining actions and priorities, include an amendment to the last criterion so that it is about the feasibility of an effective outcome within a reasonable timeframe.

- In relation to the topic of Technology, indicate that the IESBA intends also to develop an understanding of opportunities that technology creates with regard to facilitating compliance with the fundamental principles and, where applicable, independence requirements.

- Regarding the implementation review for the LA provisions, indicate that:

  o   Phase 1 will commence in Q3 2020 and will involve a review of the implementation status of the five-year cooling-off requirement for engagement partners on audits of public interest

entities (PIEs), and any issues arising from the implementation of such requirement before the expiry of the transition period for the jurisdictional provision; and

- o Phase 2 will commence in Q2 2023 and will involve a review of how effectively the other revised LA provisions in the Code are being implemented in practice (taking into account legislative or regulatory developments relating to other regimes around the world that are intended to address LA, such as mandatory firm rotation and mandatory retendering).

- Given the critical importance of education in support of ethics for PAs, indicate that the IESBA will proactively pursue coordination with the International Accounting Education Standards Board (IAESB) (and its successor) on topics of mutual interest.

PIOB Observer's Remarks

Ms. Deodati noted that, overall, the PIOB was supportive of the SWP, including:

- The greater clarity regarding the description of the various strategic commitments and the nature and timing of the deliverables;

- The IESBA's clear commitment regarding coordination with the IAASB and IAESB (including explicitly recognizing that there will be a successor to the IAESB); and

- The upfront acknowledgement in the SWP of the uncertainties arising from the Monitoring Group's review of the governance and oversight of international audit-related standard setting. In this regard, she emphasized the PIOB's continuing belief that there should be a separate independent standard-setting board for ethics, with a mandate on the whole profession (i.e., PAs in professional practice and PAIBs).

Ms. Deodati also noted the PIOB's appreciation for the IESBA's responsiveness in relation to the pre-commitments for which the PIOB has always attached great public interest importance, including Non-assurance Services (NAS), Fees, and "Professional Skepticism" (now "Role and Mindset"). She added that the PIOB looked forward to a substantial revision of NAS. She also noted that there was still some concern in relation to the expected dates for completion of some of the pre-commitments, and that the PIOB believed that some of expected completion dates (Q4 2020 and Q1 2021), such as for NAS, Fees and Role and Mindset, are quite long.

Dr. Thomadakis noted that the IESBA had made an extraordinary effort in the SWP to be responsive to the PIOB's comments. In relation to the indicative timing for the completion of the pre-commitments, he explained that sufficient time was needed to allow for due process. He mentioned that feedback from the four global roundtables were helpful in accelerating the timelines for the NAS and Role and Mindset projects.

CONSIDERATION OF FURTHER ISSUES

The IESBA considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the PC, which should have been discussed by the Board. The IESBA also noted the PC's confirmation that the significant matters the PC had identified as a result of its deliberations since it started work on developing the SWP, and the PC's considerations thereon, had all been reflected in the issues papers, draft consultation paper, and draft SWP presented to the Board. The IESBA also received the PC's confirmation that there were no significant matters discussed within the PC in developing the SWP that had not been brought to the Board's attention.

8. e-Code

Mr. Thomson introduced the session and invited co-presenter Mr. Jeff Nordstedt of Finn Partners to demonstrate a staged website of the developing e-Code. Mr. Thomson recapped the objectives of the e-Code initiative, i.e., to develop a tool that leverages technology to support and facilitate the adoption and implementation of the revised and restructured Code by way of a digital platform that demonstrates the "building blocks" approach in the Code and its scalability. Mr. Nordstedt then presented updated design elements, features and functionalities of the proposed e-Code that were responsive to the feedback received from the Board at the September 2018 meeting. Mr. Thomson outlined the timeline for the product, including plans to launch by mid-June 2019.

FEEDBACK ON PROPOSED E-CODE

IESBA members were supportive of the progress made on the e-Code, including the changes made to address the matters previously raised. With respect to Phase 1, IESBA meeting participants offered the following further suggestions to improve the product:

- Consideration should be given as to how different versions and effective dates of future versions of the Code will be addressed.

- When navigating using the table of contents, important sub-headings should be visible to improve the user experience.

- Whilst supportive of linking to non-authoritative material, it should be clearer to the user that they have left the authoritative text of the Code.

- Further refinements were needed to the search function, including reflecting the order of importance of the search results, highlighting the Boolean features, and the need for a search for PIE prohibitions. There is a need to highlight to the user that the search output is not providing the answer but rather that there is ongoing need for the exercise of professional judgement.

- Consideration should be given as to how to share multiple paragraphs at once.

- A walkthrough tutorial should be developed to highlight usage and functionality.

- Consideration should be given as to how the e-Code will accommodate translated versions and tracking of adoption, including identification of changes made in each jurisdiction.

- The need to track matters related to the Code's structure and usability when developing the e-Code to inform future drafting of the Code, e.g., position of material.

BETA TESTING

The Board asked that the Working Group arrange to beta test the e-Code in advance of its being launched. The Board agreed that the beta testing should include individuals from all stakeholder groups, including academics and aspiring accountants (including students and future generations of PAs), and regulators. During the meeting, some IESBA Technical Advisors volunteered to be beta testers.

OTHER MATTERS

Ms. Prinsloo, IFAC Executive Director, Quality and Development, affirmed that IFAC is very supportive of the e-Code initiative and recognizes the need to respond to concerns relating to user access and

permissions. She acknowledged the importance of IFAC considering solutions that are both responsive to the need to facilitate user access and the need for the necessary protections of IFAC's intellectual property.

Mr. Koktvedgaard expressed support for the e-Code and requested that arrangements be made for CAG representatives to be provided an opportunity to try out the proposed e-Code at the March 2019 meeting.

PIOB Observer's Remarks

Ms. Deodati complimented the WG and the Board for the progress made on the e-Code initiative and also requested an opportunity for the PIOB to try the proposed e-Code.

WAY FORWARD

The IESBA will receive a further progress report at its March 2019 meeting and anticipates the launch of Phase 1 of the e-Code by June 2019.

9. Role and Expected Mindset of PAs

Mr. Fleck introduced the topic and explained that the Task Force was seeking input on its proposed direction, including the preliminary draft text.

Mr. Fleck briefed the Board of the outcome of the most recent quarterly joint IESBA-IAASB-IAESB Working Group Chairs teleconference. He reminded the Board that the teleconferences are routine in nature and are to ensure continued appropriate coordination on topics of mutual interest arising from the IESBA's Role and Mindset project and the IAASB's and the IAESB's Professional Skepticism initiatives. Among other matters, Mr. Fleck noted that the IAESB has agreed to revise its definition of "professional judgment" and plans to do so by drawing from paragraph 120.5 A1 of the revised and restructured Code.

INTRODUCTION TO THE CODE

Mr. Fleck explained that the proposed material aims to remind users of the important role that the accountancy profession plays in society. Given the nature of this proposed material, the Task Force believed that non-technical language should be used and that the material should be positioned immediately after the Preface and before Part 1 of the Code.

The Board extensively discussed the proposed Introduction to the Code and provided the following substantive comments to the Task Force as well as several editorial suggestions:

- The proposed material was too long and did not have a sufficiently clear objective. It was also suggested that the style and content of the proposed material may be more suited for non-authoritative material such as an article or other publication.

- Views about the location for the proposed material varied.

  o Some IESBA members likened the proposed material to a preamble in other national codes of ethics.

  o Some IESBA members suggested that the proposed material should be merged into the Guide to the Code, or be distilled into a few paragraphs and included in Part 1 of the Code. In response, Mr. Fleck commented that the non-technical nature of the proposed material suggests a need to have it positioned before Part 1 of the Code.

- For increased prominence, it might be helpful to convert the proposed overarching objective of the profession into a requirement in Section 100 and include the other proposed material as application material to support that requirement. It was also noted that some may question the enforceability and effectiveness of such a requirement in the Code because of the difficulty involved in observing or evidencing that a PA had an appropriate frame of mind.

- It was unclear, from a translation perspective, whether the terms "confidence" and "trust" were being used interchangeably. It was noted that in some languages these terms translated to the same word.

- Framing the proposed material as the overarching objective of the accountancy profession raised questions about whether the Code should emphasize the role and mindset of PAs rather than the requirement for PAs to comply with the fundamental principles.

- The proposed material should be more closely aligned to the drafting convention of the revised and restructured Code. The Task Force was asked to consider the drafting guidelines that were used for the Structure of the Code project and ensure that the proposed material is consistent with the existing terms that are defined or described in the Code. In particular, it was noted that the use of the term "professional accountants" in the proposed material did not align to the definition in the Glossary.

PAs' Responsibilities to the Public Interest

The Board also had a robust discussion about how PAs' responsibilities with respect to the public interest should be articulated in the Code.

- IESBA members exchanged views about the relationship between complying with the requirements of the Code and acting in the public interest, and whether 'faithful' adherence to the Code should essentially mean that a PA has fulfilled the PA's responsibility to act in the public interest.

- It was noted that given the expectation gaps about what it means for PAs to act in the public interest, it might be helpful if the Code could provide further explanation, similar to how compliance with the International Financial Reporting Standards (IFRS) sets up a rebuttable presumption that the financial statements present a true and fair view.

- It was also suggested that the proposed material should limit the responsibility to act in the public interest to the provision of professional activities. The Task Force was asked to consider how the NOCLAR sections have addressed the public interest issue.

The Board generally supported the Task Force's view that an oath or mission statement is not suitable for inclusion in the Code. There was a suggestion that the references to an oath or mission statement should be removed from the proposed material.

PROPOSED REVISIONS TO SECTION 100

Mr. Fleck explained the purpose of the proposed new material, including the intent to emphasize organizational culture and professional judgment.

- It was suggested that paragraphs 100.1 A1 and 100.1 A2 of the proposed material might have inadvertently expanded the scope and applicability of the Code. For instance, there was a question about whether the proposed material might scope in individuals, organizations and entities that are not PAs (i.e., not covered by the Code). Ms. Deodati asked why a reference to IFAC member bodies was introduced in the text and noted that IFAC member bodies, by definition, need to comply with Statements of Membership Obligations (SMOs) and adopt the Code. She cautioned against

positioning the Code as being applicable to only IFAC member bodies, noting that doing so might deter PAs in jurisdictions which have not yet adopted the Code from voluntarily complying with its relevant provisions.

- With regards to paragraphs 100.1 A3 and 100.1 A4 on organizational culture, there were questions about whether the proposed material was intended to cover network firms. The Task Force was also queried about the rationale for expanding on organizational culture and not the other factors that might assist PAs comply with the Code.

With regards to the proposed application material relating to professional judgment, it was suggested that reference to and discussion of the concept should be retained in Section 120 because of its importance to the application of the conceptual framework. There was a view that positioning guidance about professional judgment in Section 100 might underplay the other two concepts highlighted in paragraph R120.5 (i.e., using the reasonable and informed third party test and remaining alert for new information and changes in facts and circumstances) which are equally important in applying the conceptual framework.

PROPOSED REVISIONS TO SECTIONS 110 AND 120

Mr. Fleck explained the Task Force's current thinking on how the Code should address the linkage between the role, mindset and behavioral characteristics expected of PAs, the fundamental principles and the provisions in the conceptual framework. In particular, he highlighted the proposals being considered by the Task Force which would seek to:

- Add the concept of "courage" to the Code as an enabler to compliance with the fundamental principles.

- Add the concepts of "questioning mindset" and "critical thinking" to the Code.

- Rephrase the description of "objectivity" to be a positive statement supported by new application material, including a more fulsome discussion about "bias" (such discussion might also be included in Section 120 because the concept is not limited to PAs' responsibility to comply with the fundamental principle of objectivity).

Among other matters, the following comments were raised by IESBA participants:

- The Task Force should be careful not to unduly lengthen the Code or to add too many new concepts which may compete with PAs' responsibility to comply with the fundamental principles.

- Questions were raised about the appropriateness of having material in the Code about "courage," particularly in the light of the Board's previous discussions about the concept of "moral courage" at its March 2016 meeting. It was suggested that a different term should be used, such as "confidence," "strength of character" or "determination to do the right thing."

THE BIGGER PICTURE

The Board generally agreed that changing the Code alone will not achieve the changes in mindset and behavior expected of PAs and that other efforts, including professional education initiatives as well as strong and consistent messaging, are needed. Mr. Fleck invited IESBA members to share suggestions and ideas with the Task Force.

WAY FORWARD

The Board asked the Task Force to present revised proposals for its consideration at the March 2019 IESBA meeting.

10.   Non Assurance Services

Mr. Fleck introduced the session. He explained that the Task Force's proposals took into account:

- The approved NAS Project Proposal, which was informed by the feedback from roundtable participants on the various NAS issues set out in the Briefing Paper, *Non-Assurance Services – Exploring Issues to Determine a Way Forward.*[5]

- Preliminary reactions from participants at the October 2018 Forum of Firms (FoF), IFAC SMP Committee and CAG meetings.

Mr. Fleck highlighted relevant feedback received from participants at the November 2018 Committee of European Audit Oversight Bodies (CEAOB) meeting. He then explained the Task Force's current thinking and sought the Board's views on a number of matters relating to the permissibility of providing NAS to audit clients. These matters include whether the Code should:

- Include a prohibition on the provision of NAS to audit clients when self-review threats are created.

- Retain, clarify and/or replace the concept of materiality in the NAS provisions of the Code; and

- Require firms and network firms to obtain pre-approval from those charged with governance (TCWG) in order to provide NAS to audit clients that are PIEs.

GENERAL COMMENTS

IESBA participants complimented the Task Force on its progress and welcomed the level of detail and format of the agenda meeting materials. In relation to the debrief of the FoF meeting, questions were raised about how the nature of the FoF feedback was characterized. It was suggested that the format of the October 2018 FoF IESBA Update session may not have been well suited to obtaining views about specific NAS issues and that the Task Force should consider having more engagement with the FoF as the project progresses.

DESCRIPTION OF NON-ASSURANCE SERVICES

Non-assurance Services/Non-audit Services

IESBA participants deliberated at some length whether the Code should include a description of non-assurance services and whether the term "non-assurance services" should be replaced with "non-audit services." Views on this issue differed.

- IESBA participants who favored establishing a NAS description in the Code pointed out that:

  o   Having a clear description of "non-assurance services" in the Code may help firms distinguish the types of services that do not form part of the audit engagement.

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[5]   The NAS project was informed by four global roundtables which were held in Washington DC, USA (June 11, 2018); Paris, France (June 15, 2018); Tokyo, Japan (July 12, 2018) and Melbourne, Australia (July 16, 2018).

- o Stakeholders often use the term "non-audit services" which is a broader term than "non-assurance services."

- o The description of NAS should be revamped so that it is covers current business practices and technological developments, thus supporting a more "future ready" Code.

- Other IESBA participants noted that:

  - o The Code includes a description of "assurance" and "audit" and explains that an audit is a type of assurance engagement. Therefore, the meaning of the term "non-assurance" should be sufficiently clear and obvious.

  - o Rather than having a generic NAS description, it would be more helpful to explain the types of new services that firms are currently providing to their audit clients. It was suggested that such descriptions should be drafted in a principles-based manner that can remain relevant over time.

Administrative Services

IESBA participants expressed a preference to retain a dedicated subsection for administrative services in the Code because some of the services are still being provided to audit clients. It was agreed that the Code should continue to make it clear that administrative services involve assisting clients with routine or mechanical tasks, require little to no professional judgment, and are clerical in nature. The Task Force was asked to:

- Update the examples in the Code in light of new and emerging services that firms are providing to clients.

- Consider whether certain examples in the Code should be changed or withdrawn in light of new technologies. It was noted that some services that firms might have provided to clients in the past may be replaced by software products that may have been developed by the firm.

Management Responsibility

Mr. Fleck explained that some stakeholders have questioned whether assuming management responsibility itself is a type of NAS that is generally prohibited, or whether assuming management responsibility creates an unacceptable threat arising from the nature of activities involved in a NAS engagement and/or the capability of management. He also explained that some stakeholders believe that the exceptions in the Code relating to the prohibition on assuming management responsibility undermine it.

Some IESBA participants pointed out that in finalizing the limited scope NAS revisions in 2015, the IESBA had determined that:

- Firms should not assume management responsibility when providing NAS to audit clients because doing so gives rise to multiple threats that cannot be eliminated or addressed with safeguards; and

- Management responsibility is not a type of NAS.

The IESBA reaffirmed this view.

PIES VERSUS NON-PIES

IESBA participants expressed general support for the Task Force's recommendation to retain different approaches in the Code for PIEs and non-PIEs. The Task Force was asked to consider including an explanation for this approach in the Code in light of the new requirements that were being considered for

audits of PIEs. For example, the Task Force was asked to consider whether it would be helpful to highlight that:

- From a user perspective, self-review threats to independence in appearance are higher for audits of PIEs; and

- In the case of PIEs, safeguards may not be available or capable of reducing the self-review threat to an acceptable level.

PROPOSAL TO PROHIBIT NAS THAT CREATE A SELF-REVIEW THREAT (PIES ONLY)

IESBA members extensively deliberated whether the Code should prohibit firms from providing NAS to audit clients when those services create a self-review threat to independence. On balance, there was general support for the principle. Some IESBA participants:

- Emphasized the importance of striking the right balance as the Board sought to address concerns about auditor independence.

- Questioned the need for the prohibition and noted that in their view, the reasonable and informed third party test in the Code is sufficient to deal with perception issues about auditor independence.

- Questioned the rationale for singling out only NAS that creates a self-review threat and whether similar prohibitions should apply for NAS that create self-interest and advocacy threats.

The Task Force was asked to consider:

- Whether it is in the public interest to prohibit firms from providing all NAS to audit clients. There was a view that almost all the NAS that firms provide to audit client create self-review threats.

- Expanding on the description of self-review threat that is included in the current Code in order to provide more guidance about how firms are to identify a self-review threat to independence.

OTHER MATTERS, INCLUDING MATERIALITY

IESBA members generally supported the Task Force's proposals relating to materiality and agreed that it would be helpful to clarify the relevance of the concept in evaluating the level of threats that are created by providing NAS to audit clients.

The Task Force was asked to consider:

- The implications of withdrawing from the existing prohibitions in the Code the reference to the concepts of significance and materiality (i.e., the materiality qualifier test). It was pointed out that doing so would effectively limit the firm's ability to exercise professional judgment in determining whether to provide a NAS to an audit client.

- The fact that the Code already acknowledges that providing NAS to audit clients always create threats, and that the level of such threats (as well as the impact on the financial statements) should be evaluated and, where the level is not acceptable, should be addressed. Questions were raised about the need for establishing a general prohibition for dealing with a specific type of threats. It was suggested that the proposal should be more closely aligned to the underlying principles in the conceptual framework. It was also suggested that the Task Force should explore whether there might be different ways to achieve its objective without limiting individual PAs' ability to exercise professional judgment with respect to providing NAS to audit clients.

- The potential challenges that might exist in terms of implementing the proposal to require firms to obtain pre-approval from TCWG for providing NAS to PIE audit clients. It was also pointed out that ISA 260 (Revised)[6] does not currently require firms to obtain pre-approval of NAS from TCWG.

PIOB Observer's Remarks

Ms. Deodati noted that some of the matters that were "not pursued" as part of the NAS project derive from the conclusions that the IESBA had reached in considering the feedback of roundtable participants and other stakeholders, including the PIOB. For example, those matters include the PIOB's 2015 suggestion for the inclusion of a blacklist and cap for fees charged for NAS. Ms. Deodati noted that the PIOB expects a substantive review of NAS provisions in the Code. She also questioned whether the Task Force planned to consider withdrawing the exceptions to requirements in the Code that prohibit firms from providing certain types of NAS to audit clients, such as bookkeeping and accounting services.

WAY FORWARD

The IESBA asked the Task Force to present revised proposals, including proposed changes to Section 600, for consideration at the March 2019 IESBA meeting.

11. Alignment of Part 4B with ISAE 3000 (Revised)

Ms. Haustermans introduced the session and invited Mr. Hughes to explain the key changes that were being proposed to align Part 4B to the concepts and the terminology in ISAE 3000 (Revised).

IESBA members generally supported the Task Force's proposals. Among other matters, the following arose from the discussion::

- In the light of the Board's deliberations regarding the proposed changes to the definition of "assurance client" included in the Glossary to the Code, agreement that the definition should also be retained in the body of Part 4B for ease of reference. Having the definition in the body of the Code highlights the specific independence requirements with respect to the party or parties from whom the practitioner is required to be independent. The approach is aligned with how the term "audit client" is referenced in Part 4A.

- Agreement that the change in definition of "assurance client" strengthens the independence requirements for attestation engagements compared to the extant code.

  o For both types of assurance engagement, the practitioner would be independent of the responsible party, which is the party responsible for the underlying subject matter.

  o In an attestation engagement, the practitioner would also be independent of the measurer or evaluator where this party is different from the responsible party and where the measurer or evaluator takes responsibility for the outcome of the evaluation or measurement. However, the impact of the change will be limited given that it is unusual for the responsible party to be different from the measurer or evaluator when the latter takes responsibility for the subject matter information.

- Agreement to delete a number of provisions that summarize independence requirements in

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6   See ISA 260 (Revised), *Communication with Those Charged with Governance,* paragraph 17(a)(i)-(ii).

subsequent sections and which are unclear and now unnecessary given the proposed simplification of the independence requirements.

WAY FORWARD

The Board asked the Task Force to present revised proposals with a view to approving them for exposure at its March 2019 meeting.

12.   PIOB Observer's Remarks

Ms. Deodati acknowledged the Board's extensive and rich discussions in relation to each project. She noted that the PIOB looked forward to the enhanced communications between the PIOB and the Board. She added that the PIOB would continue with the practice started in 2018 to formally share its public interest issues with the IESBA, which will be updated as the projects progress. She complimented the Chairman on an effective meeting and thanked the IESBA staff and IFAC for their hospitality.

13.   Next Meeting

The next Board meeting is scheduled for March 11-13, 2019 at the IFAC offices in New York, USA.

14.   Closing Remarks

Dr. Thomadakis thanked the IESBA meeting participants for their contributions, wished them a safe journey back home, conveyed his best wishes for the holiday season, and closed the meeting.