



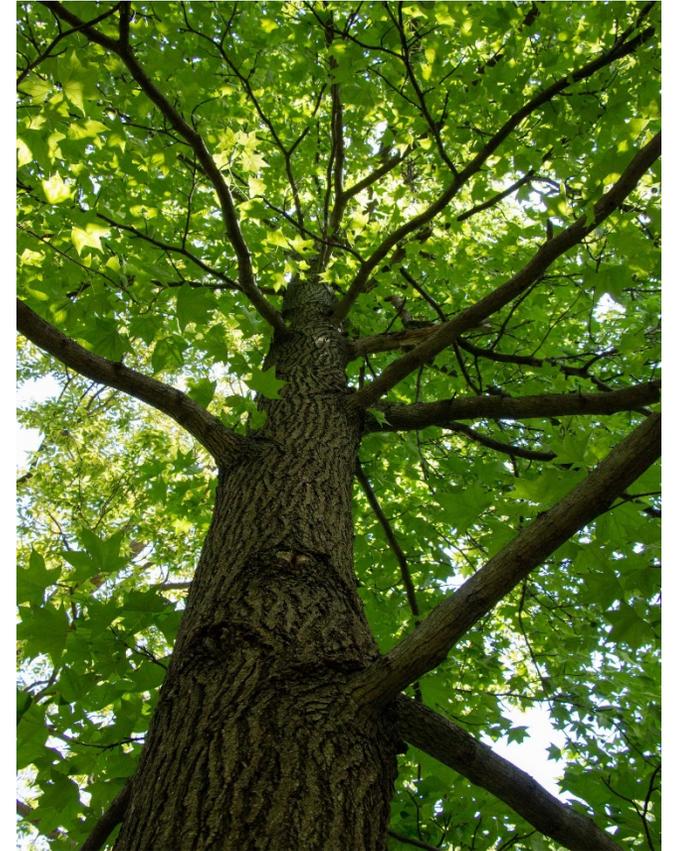
Laura Friedrich, Working Group Chair

IESBA Meeting (Virtual)

July 22, 2020

# Objectives of Session

- To receive an update on the Benchmarking Working Group's activities to date
- To provide feedback on the:
  - Proposed approach/ methodology to benchmark the Code's independence provisions against the US SEC/ PCAOB Independence Rules
  - Anticipated timeline for the initiative



# Working Group

## Members:

- Laura Friedrich, IESBA TA (Chair)
- Richard Fleck, IESBA Member
- Denise Canavan, IESBA TA (through July 2020)

## Staff:

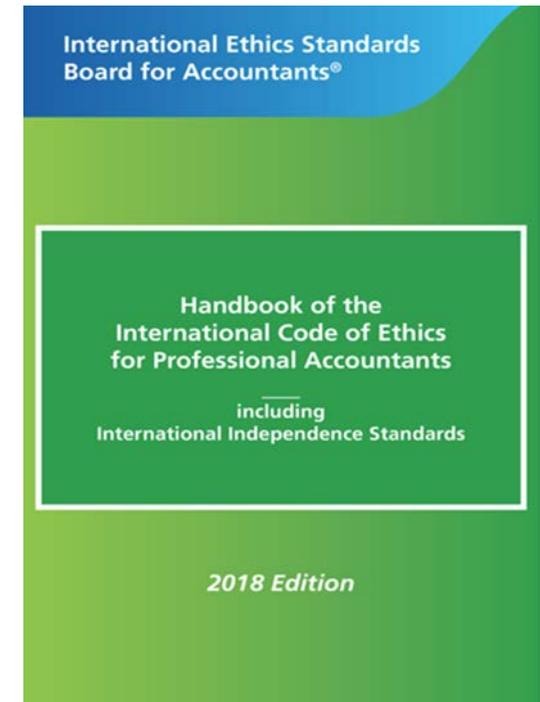
- Szilvia Sramko, IESBA Manager - Project Lead
- Diane Jules, IESBA Deputy Director - Oversight



2 virtual meetings  
since inception in  
April 2020

# Background to Initiative

- Concerns that the IESBA Code's conceptual framework approach allows firms too much flexibility and judgment
  - Views that national laws and regulations are more robust and enforceable
- Code's independence framework has undergone significant change since last benchmarking
  - Benchmarking is a strategic exercise to promote awareness of International Independence Standards



# Objective of the Benchmarking Initiative

- To provide a robust basis for comparing the [International Independence Standards](#) with equivalent provisions in other jurisdictions

## Phase 1

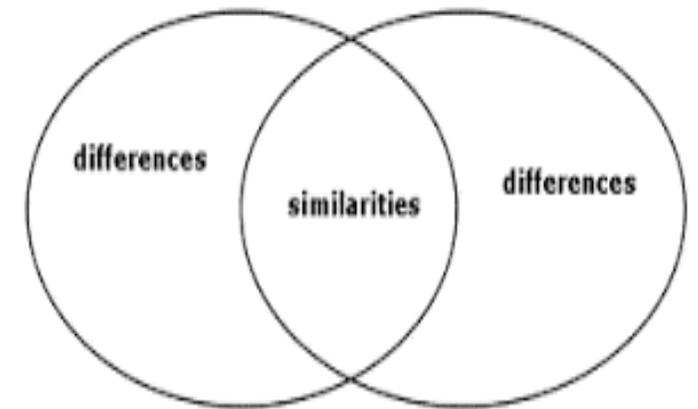
- Focus on mapping PIEs provisions to the US SEC/PCAOB Rules

## Phase 2

- Expand to other jurisdictions in future (e.g., EU)

# Objective of the Benchmarking Initiative

- Benchmarking will compare provisions regarding:
  - The scope and the overarching principles that are relevant in applying independence frameworks,
  - The nature of the relationship between an auditor and an audit client, and
  - The activities and services that may and may not be provided to an audit client,→ thereby highlighting the similarities and differences between independence frameworks.



# Objective of the Benchmarking Initiative

- Evaluation focuses on determining “equivalence” which means that the respective provisions:
  - apply to the same type of entity
  - apply to the same circumstances/services
  - achieve the same effect



# Scope of Phase 1



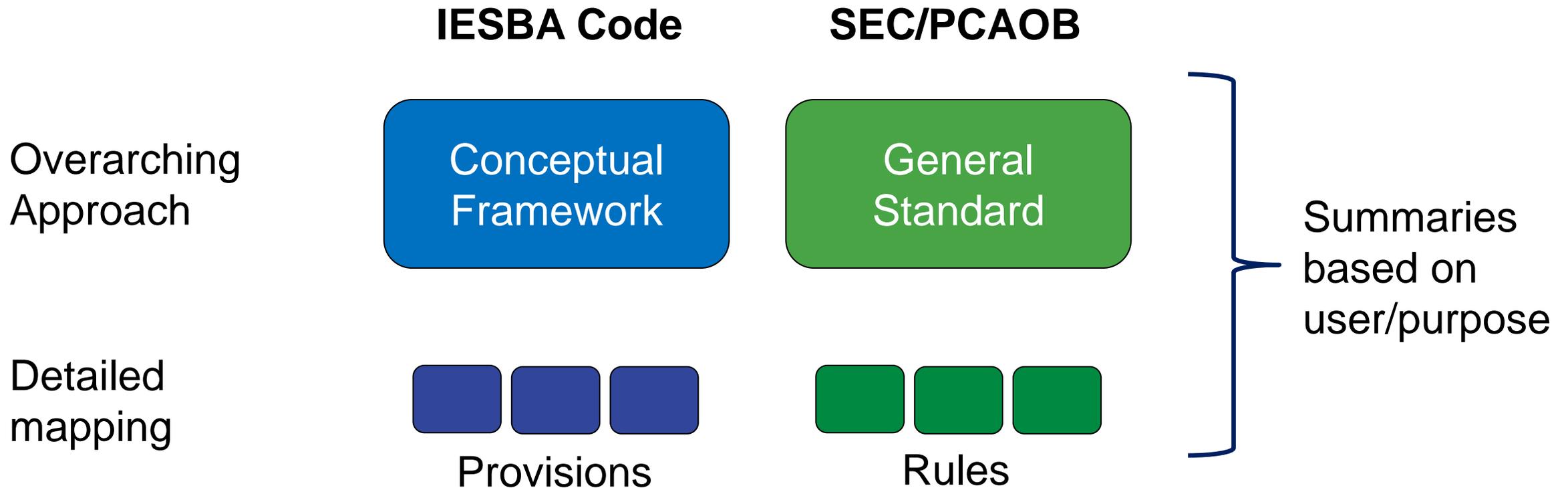
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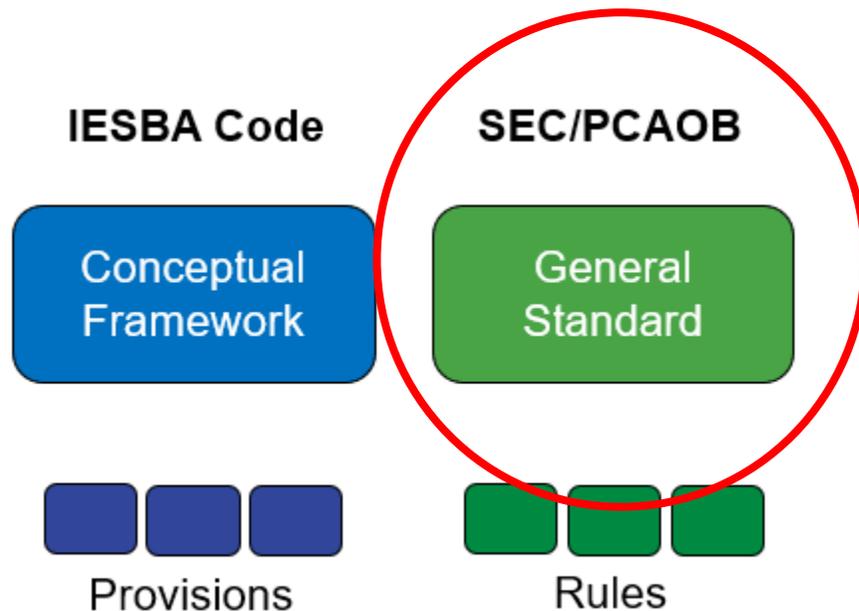
PCAOB

- International Independence Standards relevant to PIEs
  - Includes forthcoming revisions arising from Fees and NAS projects
  - Focus will be on Part 4A, but given Code's build-blocks architecture will include relevant provisions in Part 1 and 3
- SEC/PCAOB rules relevant to listed entities, including:
  - Federal Statute
  - SEC rules in Regulation S-X
  - PCAOB ethics and independence rules

# Methodology – Comparison at two levels



# Conceptual Approach of SEC/PCAOB rules



- **Rule 2-01** aims to ensure that auditors are qualified and independent of their audit clients both in fact and in appearance.
- **Rule 2-01(b) - General Standard**  
*“The Commission will not recognize an accountant as independent, with respect to an audit client, if the accountant is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the accountant is not, capable of exercising objective and impartial judgment on all issues encompassed within the accountant’s engagement.”*
- **Rule 2-01(c)** sets forth a non-exclusive specification of circumstances inconsistent with paragraph (b)

# Independence in Mind/ in Appearance

## Independence in Mind Code vs SEC rules

“the **state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment**, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism”

“if the accountant is not, (...) **capable of exercising objective and impartial judgment** on all issues encompassed within the accountant's engagement”

## Independence in Appearance Code vs SEC rules

“the avoidance of facts and circumstances that are so significant that a **reasonable and informed third party would be likely to conclude that** a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised”

“if the accountant is not, or **a reasonable investor with knowledge of all relevant facts and circumstances would conclude that** the accountant is not, capable of exercising objective and impartial judgment on all issues encompassed within the accountant's engagement”

# Main principles

As a starting point, SEC consider whether a relationship or the provision of a service

Creates a mutual or conflicting interest between the accountant and the audit client

Places the accountant in the position of auditing his or her own work

Results in the accountant acting as management or an employee of the audit client

Places the accountant in a position of being an advocate for the audit client

# Main Principles – SEC Rules vs Code

Creates a mutual or conflicting interest between the accountant and the audit client;

Places the accountant in the position of auditing his or her own work;

Results in the accountant acting as management or an employee of the audit client;

Places the accountant in a position of being an advocate for the audit client

Self-interest Threat

Intimidation Threat

Familiarity Threat

Self-review Threat

Prohibition on Assuming Management Responsibility

Advocacy Threat

# Timeline

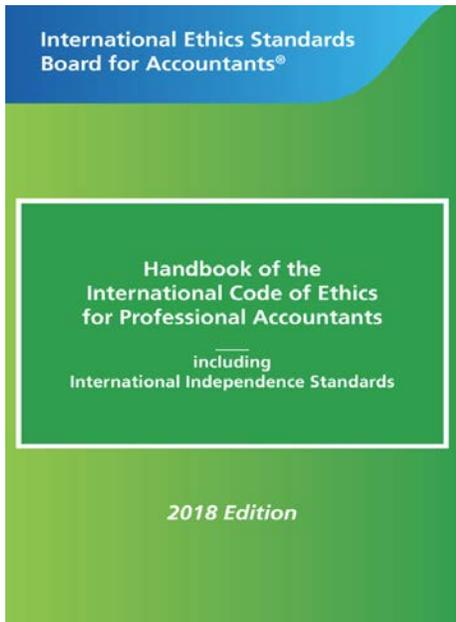


# Matters for Consideration

**The IESBA is asked to consider and provide feedback on:**

1. The proposed basis for benchmarking and scope of the comparison
2. The proposed methodology and structure of the comparison
3. Any specific areas of comparison that might be particularly informative
4. The anticipated timeline for the initiative





# The Ethics Board

[www.ethicsboard.org](http://www.ethicsboard.org)

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