



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

Held on December 19, 2019 via Teleconference

PRESENT

Gaylen Hansen (Chair)
Noémi Robert
Robert De Tullio
Laura Shiffman
Paul Sobel
Takeshi Hirai
Wei Meng

Member Organizations

National Association of State Boards of Accountancy (NASBA)
Accountancy Europe (AE)
Basel Committee on Banking Supervision (Basel Committee)
Financial Executives International (FEI)
Institute of Internal Auditors (IIA)
International Organization of Securities Commissions (IOSCO)
World Federation of Exchanges (WFE)

Observer Organizations

Dawn McGeachy-Colby
Megan Ziestman

IFAC Small and Medium Practices (SMP) Committee
U.S. Public Company Accounting Oversight Board

IESBA Members and Staff

Dr. Stavros Thomadakis
Sylvie Soulier
Ken Siong
Diane Jules
Geoffrey Kwan
Carla Vijian

IESBA Chairman
IESBA Member, International Auditing and Assurance Standards Board (IAASB) Coordination Liaison, and Chair of EQR Objectivity Task Force
Senior Technical Director
Deputy Director
Principal
Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)

Claudia Deodati

APOLOGIES

Member Organizations

Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Dr. Claes Norberg	BUSINESSEUROPE (BE)
Mohini Singh	CFA Institute
Prof. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Daniel Sarmiento Pavas	Inter-American Accounting Association (IAA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Francis Nicholson	IIA
Anne Molyneux	International Corporate Governance Network (ICGN)
Dr. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Dr. Bello Danbatta Lawal	Islamic Financial Services Board (IFSB)
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Inanc Yazar	Organisation for Economic Cooperation and Development (OECD)
Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Henri Fortin	World Bank (WB)
	Observer Organization
Simon Bradbury	International Monetary Fund

A. Opening Remarks

Mr. Hansen welcomed Representatives to the meeting, noting the objective to consider and provide input on the project proposal and the proposed changes to Section 120 of the Code to address the issue of objectivity of an engagement quality reviewer (EQR). Both documents were approved at the December 2019 IESBA meeting, subject to the CAG's input. Mr. Hansen welcomed Ms. Deodati as the PIOB Observer, Dr. Thomadakis, IESBA Chairman, and Ms. Soulier, Chair of the Task Force (TF).

B. EQR Objectivity

Ms. Soulier introduced the topic, outlining the background to the proposals developed by the IESBA. She then introduced the project proposal and the proposed addition of guidance to Section 120 of the Code setting out:

- The types of threat to the objectivity of an EQR that might be created in different situations.
- Factors relevant to the evaluation of the level of the threats.
- Actions that might be safeguards to reduce the level of the threats to an acceptable level.

Ms. Soulier then briefed the CAG on the IESBA's comments at the December 2019 Board meeting.

Representatives complimented the IESBA on its progress to-date on the coordination efforts with the IAASB. Among other matters, the following were raised:

EQR OBJECTIVITY – ISSUES AND PROPOSALS

- Mr. De Tullio inquired about the effective date for the intended new provisions.
 - Ms. Soulier explained that the IESBA's intent is to align the effective date with the effective date the IAASB will set for the proposed International Standard on Quality Management (ISQM) 2.¹
- Ms. Deodati noted that the proposed text covers any member of the engagement team stepping into an EQR role whereas proposed ISQM 2 addresses mainly the engagement partner (EP) stepping into that role. She inquired about the plan to ensure alignment with the final ISQM 2.
 - Ms. Soulier explained that the IESBA's intent is to comprehensively address the issue of objectivity of an EQR and therefore the scope of the proposals is not limited to the EP. She added that the final text in Section 120 will be coordinated with the final text of ISQM 2 to ensure that they are interoperable.
 - Mr. Siong clarified that the cooling-off period in ISQM 2 is a requirement proposed for an EP moving into the EQR role. For individuals other than the EP who are moving into such a role, proposed ISQM 2 contains guidance for firms regarding the appropriate quality management policies and procedures.
- Ms. Deodati also acknowledged and congratulated the IESBA for agreeing to an accelerated timeline to address EQR objectivity as a matter of priority as a part of the coordination effort to align with the IAASB's ISQM 2 project timeline. On the matter of scope of entities covered, she noted that the scope of the provisions should be aligned with that of ISQM 2 as well.

¹ Proposed ISQM 2, *Engagement Quality Reviews*

- Ms. Soulier agreed. She explained that the IESBA had taken the direction from proposed ISQM¹² by not limiting the scope to only certain entities, but rather maintained a principles-based approach to allow for the guidance to be applicable more generally.
- Mr. Hirai expressed support for the project proposal and commended the IESBA on its work on this project and in aligning with the IAASB's timeline for ISQM 2. Regarding the scope of the project in terms of the applicability of the provisions to different types of engagement, he noted that the proposed guidance in Section 120 is located within the subsection addressing audit, review and other assurance engagements. By contrast, under proposed ISQM 1, in addition to audits of listed entities or entities that the firm determines are of significant public interest, an engagement quality review may be an appropriate response to an assessed quality risk(s) for other engagements. Mr. Hirai recommended that an explanation be provided in the EM to clarify the scope of the proposed guidance and the thought process around positioning of the new provisions in the Code.
 - Ms. Soulier agreed, noting that the IESBA intends to clarify its reasons for positioning the proposed guidance in Section 120. She also confirmed that the IESBA will ensure scope alignment with the final ISQM 1.

EXPOSURE DRAFT

- Ms. Wei Meng suggested that in paragraph 120.14 A4, bullet point number two be moved first to highlight the importance of a cooling off period as an example of a safeguard to address threats of objectivity.
 - Ms. Soulier agreed and confirmed that the amendment will be reflected in the Exposure Draft.
- Ms. Zietsman commended the work of the IESBA in addressing EQR objectivity in cooperation with the IAASB. She supported the project proposal and the accelerated timeline. She was of the view that whilst it is appropriate to have broader guidance in the Code, she would have preferred that the proposed cooling-off requirement be located in the Code rather than as proposed in ISQM 2. She was concerned about the potential for confusion and complexity for practitioners when different provisions sit within two different sets of standards. As an example, she felt that it was unclear how the guidance on cooling off in paragraph 120.14 A4 interplays with the specific requirement of a two-year cooling off for an EP moving into the role of an EQR in proposed ISQM 2. She recommended careful consideration in drafting of the provisions in the Code and alignment with ISQM 2 as clarity is important for consistency in application.
 - Acknowledging Ms. Zietsman's observations, Ms. Soulier responded that the IESBA expected the matter of a specific cooling-off requirement to be clarified in ISQM 2 to address the situation of an EP moving into the role of an EQR. She added that the guidance in Section 120 was being drafted to assist the IAASB anchor its position on a specific cooling-off requirement in ISQM 2.
- Mr. Hansen expressed his support for the guidance being in the Code and that he appreciated the position the IESBA had taken. He was of the view that a specific cooling-off requirement should be imposed for public interest entities (PIEs) for consistent application.
 - Ms. Soulier noted that the IAASB is not using the concept of a PIE in its standards. She added, however, that the IESBA has now launched a new project that will revisit the definition of a PIE

² Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

in the Code. She noted that this project will be coordinated with the IAASB. She highlighted that the issue of scope of engagements requiring EQ reviews is a matter for the IAASB to address.

- Referring to the familiarity threat noted in paragraph 120.14 A2, Mr. Hansen commented that the messaging ought to be clear that the Code is not setting up an expectation that EPs will routinely move into the role of an EQR. He noted that in practice, EPs are much closer to the entity than EQRs, and therefore EPs will have greater familiarity with the entity. He emphasized that the purpose of having these provisions in the Code is to address unique situations based on facts and circumstances where this could occur and not to encourage the EP to EQR model.
 - Ms. Soulier agreed with Mr. Hansen that the proposed provisions are intended to address the current gap in the Code regarding EQR objectivity but that situations involving an EP moving into an EQR role would not be expected to be common.
- Mr. Hansen wondered about aligning the cooling-off period of two years suggested in proposed ISQM 2 with the cooling-off period of three years in Section 540³ of the Code addressing long association of an EQR. He was of the view that this would ensure greater consistency.
 - Ms. Soulier noted that this is a question for the IAASB to address. She clarified that imposing a cooling-off period to address the objectivity of an EQR versus a cooling-off period to address long association with the audit client are different matters. In Long Association, the provisions are addressing threats to the independence of EPs or other key audit partners who have been involved in the audit engagement for a certain period of time. In the proposed guidance in Section 120, there might be threats (other than a familiarity threat) to an EQR's objectivity based on different facts and circumstances.
- Ms. Robert noted that she was supportive of the inclusion of provisions in the Code to address EQR objectivity. She asked about the IESBA's thinking regarding the location of the guidance and wondered if the additional provisions would be better placed in Section 300 or 400 to minimize further changes to Section 120. Referring to a proposed two-year cooling off requirement in ISQM 2 to address the situation of an EP moving into an EQR role, she wondered whether the Code should also include a two-year cooling-off requirement if there has been an identified threat to objectivity in this situation. Finally, Ms. Robert inquired about the interaction of such a two-year cooling-off requirement with the long association provisions in Section 540 of the Code.
 - Ms. Soulier clarified that the IESBA will be working with the IAASB to ensure alignment and consistency in the provisions and application material across ISQM 2 and Section 120 of the Code. She added that the proposed text in Section 120 may be updated depending on the feedback received on the Exposure Draft. However, the IESBA's intention was to remain broad and high level in drafting of the proposed guidance.
 - On the positioning of the proposed text, Ms. Soulier stated that the IESBA did consider other locations in the Code but concluded that Section 120 would be the most appropriate location. She reiterated that the issue that the IESBA and IAASB are addressing (EQR objectivity) is a separate matter from independence.

³ Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

- In relation to the interaction with Section 540, Ms. Soulier indicated that a mandatory cooling-off period of two years before an EP could move into an EQR role would need to be considered when applying the partner rotation requirements in Section 540.
- Ms. McGeachy-Colby supported the project proposal and was in agreement with the placement of the additional provisions in Section 120 of the Code. She was also in agreement that the matter of cooling-off should be best addressed in ISQM 2 in order for the IAASB to demonstrate the scalability of ISQM 2, especially in the context of the applicability of ISQM 2 to different types of entities.

Ms. Soulier concluded the presentation with a summary of the feedback from the CAG, noting that Representatives were supportive of the project proposal and generally agreed with the placement of the additional provisions in Section 120 of the Code. She indicated that the TF would share the feedback received on this teleconference with the ISQM 2 Task Force.

Dr. Thomadakis thanked the Representatives for their thoughtful comments and the constructive discussion.

C. Closing Remarks

Mr. Hansen thanked the Representatives for their contributions. He noted that draft minutes of the teleconference will be distributed for approval at the next physical CAG meeting on March 9, 2020 in New York. Mr. Hansen then ended the teleconference.