

Agenda Item

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(Updated)

Meeting: IESBA Consultative Advisory Group
Meeting Location: New York, USA
Meeting Date: March 9, 2020

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

Held on September 9, 2019 in New York, USA

PRESENT

Gaylen Hansen (Chair)
Noémi Robert
Myles Thompson
Vânia Borgerth
Mohini Singh
Prof. Hysen Cela
Laura Shiffman
Francis Nicholson
Daniel Sarmiento Pavas
Nigel James
Takeshi Hirai
Huseyin Yurdakul
Jim Dalkin
Dr. Conchita Manabat
Dr. Bello Danbatta Lawal
Inanc Yazar
Wei Meng

Member Organizations

National Association of State Boards of Accountancy (NASBA)
Accountancy Europe (AE)
AE
Associação Brasileira de Instituições Financeiras de
Desenvolviment
CFA Institute
European Federation of Accountants and Auditors for SMEs (EFAA)
Financial Executives International (FEI)
Institute of Internal Auditors (IIA)
Inter-American Accounting Association (IAA)
International Organization of Securities Commissions (IOSCO)
IOSCO
IOSCO
International Organization of Supreme Audit Institutions (INTOSAI)
International Association of Financial Executives Institutes (IFEI)
Islamic Financial Services Board (IFSB)
Organisation for Economic Cooperation and Development (OECD)
World Federation of Exchanges (WFE)

Observer Organizations

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

Simon Bradbury International Monetary Fund

IESBA Members and Staff

Dr. Stavros Thomadakis IESBA Chairman
Richard Fleck IESBA Deputy Chair and Non-Assurance Services Task Force Chair
Liesbet Haustermans IESBA Member and Part 4B-ISA 3000 Task Force Chair
(via teleconference)
Ian McPhee (via teleconference) IESBA Member and Fees Task Force Chair
Jens Poll IESBA Member and Tax Planning Working Group Chair
Sylvie Soulier IESBA Member and International Auditing and Assurance Standards Board (IAASB) Coordination Liaison
James Gunn Managing Director, Professional Standards
Ken Siong Senior Technical Director
Diane Jules Deputy Director
Geoffrey Kwan Principal
Szilvia Sramko Manager, Standards Development and Technical Projects
Carla Vijian Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB) Maria Helena Pettersson

APOLOGIES

Robert De Tullio
Dr. Claes Norberg
Obaid Saif Hamad Ali Al Zaabi
Paul Sobel
Sanders Shaffer
Anne Molyneux
Asha Mubarak
Henri Fortin

Member Organizations

Basel Committee on Banking Supervision (Basel Committee)
BUSINESSEUROPE (BE)
Gulf States Regulatory Authorities (GSRA)
IIA
International Association of Insurance Supervisors (IAIS)
International Corporate Governance Network (ICGN)
Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
World Bank (WB)

Observer Organization

Megan Ziestman U.S. Public Company Accounting Oversight Board

A. Opening Remarks

Mr. Hansen welcomed all participants of the meeting. He welcomed, in particular, Ms. Maria Helena Pettersson as the PIOB observer and Ms. Laura Shiffman as the new Representative for FEI. Mr. Hansen also welcomed Mr. Kevin Dancey, IFAC CEO and Ms. Alta Prinsloo, IFAC Executive Director as presenters for the Tax Planning session. He then welcomed IESBA members and IESBA staff and public observers.

The CAG approved the minutes of the March 2019 public session as presented.

B. Tax Planning

Prof. Poll, Chair of the Tax Planning Working Group introduced the topic, noting that the IESBA established the Working Group in March 2019 and agreed to progress this initiative as a strategic priority.

TERMS OF REFERENCE INCLUDING SCOPE AND APPROACH FOR INFORMATION GATHERING

Prof. Poll highlighted the key elements of the Working Group's proposed Terms of Reference (ToR) and noted that the IESBA is planning to approve the ToR at its September 2019 meeting. Amongst other things, he noted that the Working Group's objectives include gathering an understanding of regulatory practice and other developments in corporate and individual tax planning by professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs). He explained that the Working Group will seek to identify and analyze the ethical implications of those developments and determine whether there is a need for enhancements to the Code or whether further actions are needed. He also explained that the Working Group will take a phased approach to its information-gathering exercise and that Phase 1 will involve desk-top reviews and outreach to relevant stakeholders. The Working Group will present its final report on Phase 1 to the IESBA in September 2020.

CAG Representatives and the PIOB Observer expressed strong support for the initiative and agreed that the initiative is a strategically important work stream for the IESBA to pursue. Amongst other matters, the following comments were raised:

- Ms. Meng stressed the importance of remaining mindful of the applicability of the issue to PAIBs and PAPPs. She requested that the Working Group provide an update to the CAG meeting in March 2020. Prof. Poll acknowledged the suggestion and confirmed that the Working Group will be providing an update to the CAG in March 2020.
- Ms. Yazar confirmed her support of the initiative and cautioned that the project can be challenging in terms of balancing the need of different stakeholders. She supported the Working Group's principles-based approach to its fact finding. Ms. Manabat also expressed strong support for the initiative and agreed that the Working Group should adopt a principles-based approach. She added that there needs to be an awareness of jurisdictional differences and suggested that the Working Group exercise care in forming its views given the interchangeable nature of "tax planning" and "tax evasion."
- Mr. Dalkin cautioned the Working Group against the risk of politicizing tax practices in different jurisdictions, which in his view would place PAs in a challenging situation.
- Ms. Robert echoed her full support for the Working Group's ToR and stressed that this is a topic of great interest across many European jurisdictions. She noted that the applicability of the Working Group's findings will directly affect the jurisdictions that have adopted the IESBA Code. She questioned whether consideration has been given to coordinating the initiative with the IESBA's Non-Assurance Services (NAS) project so as not to pre-empt some of the key decisions that may

arise from that project. Prof. Poll explained that the NAS project is focused on revising the provisions in the Code to clarify whether a firm can or cannot provide a NAS (e.g., tax planning services) to an audit client. He confirmed that, as a NAS Task Force member, he routinely liaises with the Chair and Staff of the NAS project to consider and coordinate on any overlapping issues.

- Ms. Pettersson reinforced the PIOB's strong support for the initiative and noted that in her view the scope is appropriate. She commented that the outreach activities will reveal a broader spectrum of issues given the complex and challenging nature of the subject. She recommended that the Working Group undertake a risk assessment of the various tax planning practices.
- Mr. Dancey agreed that the topic of tax planning is complex and ultimately it is up to the courts to decide what the final interpretation of relevant law and regulation should be. Mr. Dancey noted, however, that IFAC stands ready to provide constructive input to the IESBA initiative. He referred the CAG to the 2014 White Paper that he wrote on the topic of tax avoidance versus tax evasion.
- Mr. Pavas echoed Mr. Dancey's comments. He added that in his view, more than 50% of the taxation issues lies within the grey zone of what is permissible. He cautioned the Working Group about limitations on scope that may be imposed on PAs as a result of the legal interpretations of certain tax laws which in his view can be used against PAs by the regulators.
- Mr. Bradbury mentioned that the IMF fully supports the initiative and suggested that the Working Group meet with representatives of the legal profession as part of its stakeholder outreach. Prof. Poll agreed and confirmed that the ToR will be updated to reflect Mr. Bradbury's suggestion.

IFAC GOOD TAX PRACTICES GUIDE

Mr. Dancey and Ms. Prinsloo led a presentation to update the CAG on the development of an IFAC Proposed Good Practices Guide on the topic of professional conduct in relation to taxation.¹ Amongst other matters, the following comments were raised:

- Mr. Bradbury questioned the strategic importance of IFAC's proposed document relative to the IESBA's tax planning initiative. He also asked if the proposed document would be subject to IESBA approval. Mr. Dancey responded that the IFAC document is intended to be non-authoritative guidance and is not an official IESBA pronouncement. He provided an overview of the process that was followed to develop the document. Mr. Dancey explained that the document aims to reflect IFAC's response to calls from professional accountancy organizations (PAOs) that are seeking guidance on the topic. He also noted that IFAC staff worked very closely with IESBA Staff and members of the IESBA to obtain input on the document. While the Guide has not been endorsed by the IESBA, the IESBA has acknowledged that the IFAC Guide is a valuable contribution to supporting implementation of the Code.
- Ms. Pettersson expressed support for IFAC's initiative and suggested that the document reflect a broad perspective on tax issues.

¹ IFAC released [A Guide for Professional Accountancy Organizations - Developing Good Practices for Members Providing Tax Advice](#) in October 2019.

WAY FORWARD

Prof. Poll noted that the Working Group will continue its information gathering and stakeholder outreach. He encouraged CAG Representatives to share their relevant views and input on the topic with the IESBA.

C. Non-Assurance Services (NAS)

Mr. Fleck, Chair of the NAS Task Force, briefed the CAG on the Task Force's activities since the March 2019 meeting, including the most significant aspects of the IESBA's March and June 2019 deliberations. He pointed representatives to the NAS report back, which included a summary of the CAG's March 2019 discussion on the topic and the related Task Force/ IESBA responses. He then walked the CAG through the significant aspects of the proposed revisions to the NAS provisions in the Code and requested input in advance of the September 2019 IESBA meeting.

Representatives noted the NAS report back and did not express any comments. Representatives provided several drafting suggestions on the NAS proposals. Among other matters, the following were raised:

PROHIBITION ON NAS THAT CREATE SELF-REVIEW THREAT

- Mr. James wondered whether there is a need to clarify the meaning of self-review threat in the context of providing a NAS to an audit client. He questioned whether the concept of "self-review threat" is well understood and consistently dealt with across firms and network firms. He suggested that the proposals include application material to explain the thought process as to how a firm or a network firm will determine whether a NAS will create a self-review threat.
- Mr. Dalkin shared perspectives based on his experience in the public sector. He supported the Task Force's approach to provide specific guidance as part of the NAS proposals. He agreed with the Task Force that the increased specificity will drive consistency in how firms and network firms decide on whether to provide a NAS to an audit client.
- Ms. McGeachy-Colby reiterated a prior comment regarding the reference to the reasonable and informed third party (RITP) test in proposed application material for identifying self-review threats for audit clients that are public interest entities (PIEs). She noted that as drafted, the proposals call into question the relative importance of the RITP test for audit clients that are not PIEs. Mr. Fleck pointed Ms. McGeachy-Colby to the drafting refinements that emphasize that the RITP is always relevant in "identifying, evaluating and addressing threats."
- Ms. Meng wondered about who makes the determination about whether an entity is a PIE or a non-PIE. She questioned whether there is a risk that a firm's conclusions from using the RITP test may differ if that firm determines that an entity is not a PIE.
- Mr. Bradbury wondered whether the proposed text should clarify who is responsible for applying the RITP test (i.e., whether it is the firm, the audit engagement partner or the individual within the firm handling the NAS engagement). Ms. Jules explained that the concept of the RITP test is described in paragraph [120.5 A4 of the extant Code](#), which notes that the test is a consideration by the professional accountant.

PROVIDING ADVICE AND RECOMMENDATIONS

- Mr. Dalkin supported the Task Force's proposals and agreed that the threat created from providing advice and recommendations to audit clients varies based on specific facts and circumstances.

- Ms. Robert noted that the proposed application material relating to providing advice and recommendation is circular and suggested that the Task Force clarify it. Ms. McGeachy-Colby added that some SMPC representatives are anxious about the potential implications of the new application material, especially in relation to the provision of tax advice.
- Mr. Yurdakul questioned the enforceability of the current language in the Code that requires the firm to be satisfied that management takes responsibility for the advice and recommendations.
- For advice and NAS that might create advocacy threats, Mr. Dalkin questioned why the Task Force did not adopt an approach similar to its proposal for NAS that might create a self-review threat.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE (TCWG)

- Mr. Hirai questioned the difference between the intended meaning of the terms “obtain concurrence” and “pre-approval” which were both used in the proposed text. He also suggested that the Task Force coordinate its activities with the IAASB. In response to the latter comment, Mr. Fleck explained that the coordination was being led by the Fees Task Force as they too are progressing proposals to enhance firm communication with TCWG.
- Mr. Nicholson suggested that the Task Force strengthen the application material relating to communication with TCWG about NAS matters to audit clients that are not PIEs by avoiding the words “*might be appropriate*” in the statement that reads “*Communication with those charged with governance might be appropriate... .*”

MATERIALITY

In general, Representatives expressed support for the Task Force’s proposal relating to materiality.

- Mr. Dalkin expressed support for having stricter provisions for audit clients that are not PIEs in circumstances when a firm or network firm provides certain types of tax and corporate finance services for which the effectiveness of the advice depends on a particular accounting treatment or presentation; and the audit team has reasonable doubt as to the appropriateness of that accounting treatment or presentation.
- Ms. Robert noted that AE has heard concerns that the proposal to withdraw materiality in determining whether a firm can provide a NAS to an audit client that is a PIE will be a significant issue for SMPs. She wondered whether the Task Force had enough evidence to support its position. Ms. Robert pointed out that the withdrawal of materiality would create complexities in the context of group audits, and that there might be practical challenges (e.g., dealing with breaches). Mr. Fleck explained that the Task Force carefully reviewed the breach provisions in the Code and concluded that they are appropriate to deal with the situations in question.
- Ms. Yazar suggested that the Code move away from referring to materiality, which in her view is a subjective concept.

MATTERS RELATING TO SPECIFIC TYPES OF NAS

- Mr. Hansen highlighted the Task Force’s proposal relating to the prohibition on providing tax services involving marketing, planning, or opining in favor of a tax treatment that may not be allowable under

applicable tax laws and regulations. He suggested that the proposal be reworded so that it could have more general applicability.

- Mr. Nicholson provided several drafting refinements to the subsection relating to internal audit to align it more closely to the IIA's internal audit framework.
- With respect to the topic of new and emerging NAS arising from advances in technology, Ms. Robert expressed support for the Task Force's proposal to defer dealing with the topic as part of a future IESBA project on Technology.

MATTERS RELEVANT TO ASSURANCE ENGAGEMENTS OTHER THAN AUDITS AND REVIEWS

- Mr. Hansen questioned whether the Task Force proposals scoped out direct engagements.
- Ms. Robert noted the need for consequential amendments to Part 4B of the Code and suggested that the IESBA progress the NAS and the Alignment of Part 4B with ISAE 3000 (Revised)² projects concurrently.

Mr. Fleck explained that most of the proposed revisions are to Part 4A of the Code which applies to audit and review engagements. He added that the appropriate conforming/ consequential amendments to Part 4B of the Code will be made to preserve the existing alignment between Parts 4A and 4B of the Code.

- Mr. Yurdakul cautioned against the introduction of a proposed description of "public interest assurance engagement," noting that the new term might create confusion about the term public interest.

WAY FORWARD

The IESBA anticipates approving a NAS exposure draft (ED) by the end of 2019.

D. Alignment of Part 4B of the Code with ISAE 3000 (Revised)

Ms. Haustermans, Chair of the Alignment of Part 4B with ISAE 3000 (Revised) Task Force, commenced the session by updating the CAG on developments since the approval of the Part 4B ED in March 2019. She summarized the significant comments received on the ED and outlined the Task Force's responses.

In general, Representatives were supportive of the Task Force's proposals. The following comments were raised:

- On the topic of direct engagements, Ms. Pettersson noted that there seems to be confusion in relation to the responsible party or engaging party who might appoint another party to prepare the subject matter information. She re-emphasized the need to address the definition of direct engagement and the importance of coordinating with the IAASB, especially in reviewing terminologies to ensure that they are aligned so as to avoid differing definitions in the two sets of standards.
- Ms. Haustermans responded that based on discussions with several experts in the area of direct engagements, including representatives from the IAASB, and reviewers of such engagements, in reality the practitioner is not reviewing the practitioner's own work. Rather, assurance is obtained at the same time as the evaluation or measurement of the subject matter. There is therefore no

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

independence issue. She explained that the IESBA's position on this matter was covered in the explanatory memorandum that accompanied the ED.

WAY FORWARD

Ms. Haustermans outlined the forward timeline for the project, noting the plan for the IESBA's first read of the revisions to the proposed text in September 2019 and final approval in December 2019.

E. Technology

Ms. Mulvaney introduced the session by summarizing the key activities involved in Phase 1 of the IESBA's Technology initiative. Such activities included research and outreach, analysis of the Code, and providing recommendations to the Role and Mindset Task Force in relation to technology-related text for inclusion in its proposals. As appropriate, the Working Group also liaised and coordinated with representatives of the IAASB.

Ms. Mulvaney noted that the Working Group's preliminary findings and recommendations on the impact of technology on the ethical behavior of PAs can be divided broadly into five areas of focus:

- Critical role of ethics and professional judgment
- Complexities of the professional environment
- Suitability of the fundamental principles
- Necessary competencies and skills
- Auditor independence

Representatives were generally supportive of the Working Group's progress to-date, including its preliminary findings and recommendations. The following comments were raised:

- Mr. Hansen queried about the extent of outreach to academics and educators. In response, Ms. Mulvaney noted that whilst the Working Group had mostly been focused on reviewing academic research to date, it also had an opportunity to engage with a professor with more recent research work on ethics in artificial intelligence (AI). In this regard, Ms. Mulvaney added that the Working Group will consider the need for further engagement with academics and educators in Q4 2019.
- Mr. Hansen questioned the Working Group's rationale for focusing on AI and Big Data under Phase 1. In response, Ms. Mulvaney noted the IESBA's view that these technologies are likely to have the most pervasive impact across all PAs' work. She also explained that the IESBA will consider information gathering on other types of technologies in future phases of the initiative.
- Mr. Dalkin acknowledged the coordination activities between the IESBA and the IAASB and suggested that the IAASB's and AICPA's current activities on audit evidence might be an area of interest for the IESBA in relation to its technology work stream. By way of an example, Mr. Dalkin cited an independence issue that arose when an audit client offered to purchase a fraud detection software that the firm developed for its audit work. Ms. Mulvaney noted that this was a timely example and that the Working Group would consider it as part of its review of independence issues that might arise as a result of technology in Q4 2019.
- Mr. Nicholson noted that trust is and has always been important and that in his view it might be that there is an increased focus on trust more broadly and not only with respect to the work of PAs. He also challenged the observation that AI increases the need for human judgment and decision. He

suggested that in his view the need for judgement shifts based on other factors, for example, the stage of the process (i.e. whether the AI is used in the design or implementation stage of a process). Further, he observed that AI is unlikely to be judged based on what is best in the public interest. In response, Ms. Mulvaney agreed that PAs need to be involved much earlier than traditionally in the digital age and that the Working Group's Final Phase 1 Report will highlight this observation more clearly.

- Mr. Nicholson wondered if there is an opportunity for PAs to have a broader societal role in promoting ethical behavior than other professionals given their role in society. Ms. Meng added that PAs can encourage best practices and enhanced governance in relation to technology. Reflecting on Mr. Nicholson's suggestion, Mr. Bradbury suggested that the Working Group consider a recommendation for PAs to have a broader role in promoting ethical behavior with respect to undertaking professional activities.
- In relation to the Working Group's observations relating to the necessary competencies and skills for PAs, Mr. Pavos pointed out that the pace of technological changes creates a risk to the accountancy profession. He noted that it is helpful to maintain the linkage between education standards and ethics standards when addressing the skills that are necessary for PAs of the future. Mr. Bradbury wondered whether the pace of technological change could also result in PAs needing to rely more on the work of experts versus upskilling themselves.
- Mr. Thompson cautioned the Working Group against focusing only on AI. He noted that there are other technologies that are already being used by PAs that also create ethical dilemmas. In response, Ms. Mulvaney acknowledged that there is a spectrum of types of AI and other technologies. She explained that whilst the focus has been on advanced technology such as AI, the Working Group will also assess the impact of other technologies such as automation.
- Ms. Pettersson expressed that the topic of technology is of significant public interest and therefore the Board should carefully assess how the ethical issues should be treated, including the consideration of including a new section in the Code that deals with technology. By way of example, she suggested that the increasing reliance on subject matter experts and data scientists in undertaking the audit engagement requires further review. In response, Dr. Thomadakis reminded CAG Representatives that the IESBA's technology initiative is only in its Phase 1 stage and that given the broad nature of the topic, he anticipates that the IESBA's approach and process for moving forward will be based on cumulative findings and observations.

WAY FORWARD

Ms. Mulvaney informed Representatives that the Working Group will finalize its findings and recommendations in Q4 and present a final Phase 1 report to the IESBA in December 2019.

F. Fees

Mr. McPhee, Chair of the Fees Task Force, commenced the session by providing a summary of the Task Force's activities since the project was last presented to the CAG in March 2019. Representatives noted the report-back to the comments provided at the March 2019 CAG meeting and did not raise any comments.

Mr. McPhee provided a summary of the Task Force's proposed changes to the Code to address fee-related matters.

Representatives generally supported the direction of the changes. Among other matters, the following were raised:

LEVEL OF AUDIT FEES

Mr. McPhee pointed out that the Task Force's proposals build on an IAASB proposal that is being considered as part of the IAASB's Quality Management project. The IAASB's proposal will require firms to ensure that they have appropriate resources to undertake the audit at the time that the engagement letter is signed. Mr. McPhee explained that the Task Force intends for its proposal to be aligned to the IAASB's proposal and also provide another "check point" (i.e., when the auditor's report is being signed) for firms. The IESBA believes that regardless of whether audit fees are over- or under-estimated, audit firms are required to comply with the fundamental principles and International Independence Standards.

Mr. Hansen expressed support for the proposals, particularly regarding the proposed statement that emphasizes that the fees paid by the audit client to the firm create threats.

Timing

- Regarding the proposed requirement for firms to determine prior to signing of the audit report whether audit fees compromise the firm's independence, Representatives' views were mixed.
 - Mr. Thompson noted that as the audit evolves, fees can change and there might be fees charged after the signing of the auditor's report. He asked whether the Task Force considered that case. Mr. McPhee explained that the Task Force considered the fact that audit fees may be charged after a firm signs its auditor's report but opted to put forward a proposal which avoided undue complexity.
 - Mr. Dalkin supported the Task Force's proposal, including the proposed timing for assessing the sufficiency of resources (instead of fees charged) to perform the audit. He suggested that the Task Force move away from focusing on audit fees charged. Mr. McPhee responded that the proposal being considered by the IAASB related to resources in a broad sense, while the Code is intended to emphasize the independence issue which arises because of the fees charged.
 - Messrs. Yurdakul, Thompson and Bradbury expressed concerns about the proposed timing for the assessment and suggested that the Task Force reconsider its proposal. They suggested that the assessment about whether fees are appropriate should take place before the firm starts the audit engagement.

Mr. McPhee responded by explaining the Task Force's rationale for its approach and added that the Task Force believes that the moment just before a firm signs its auditor's report is an opportune time to assess whether it has fulfilled these responsibilities under the IAASB's standards and under the Code.

Potential Unintended Consequences

- Mr. Hansen wondered whether a possible unintended consequence of the proposed requirement might be that the auditor may identify a matter that he/she is not comfortable with and instead of dealing with it, may instead use the proposed requirement as a way to avoid forming a conclusion on the matter. He questioned whether the Task Force considered that scenario.

- Reflecting on that comment, Mr. Dalkin added that in his view, a firm may misuse or abuse the proposed requirement to negotiate higher than appropriate audit fees for an audit engagement.
- Mr. Yurdakul questioned who should judge whether the level of fees is appropriate. He noted that the Task Force should reconsider the wording of “to be satisfied” in the requirement, because it is too subjective.

Mr. McPhee responded that the Task Force’s intention was to shift away from establishing a level of fees that firms should charge for an audit engagement. The Task Force’s proposal is principles-based and it is proposing provisions that will encourage discussions between the audit firm and the audit client about the implications of fees charged for the audit. Mr. Bradbury supported the Task Force’s proposal regarding the need to consider how a firm might be influenced by the fees charged for providing services other than the audit. He noted that in some situations, the NAS is more lucrative and that it becomes hard for an entity to identify a firm that is willing to undertake the audit engagement. He noted that in his view, it is not necessarily the availability of a NAS engagement that contributes to “low-balling” and that in some cases a firm may charge a lower audit fee to secure a prestigious client, or to enter a new market.

PROPORTION OF FEES

- Mr. Thompson pointed out that in some jurisdictions (e.g. in the European Union (EU)) audit fee covers only the audit of the financial statements, and that the fees for review engagements form part of non-audit fees. He observed that the term “fees” in the Task Force proposals is intended to cover audit as well as review engagements and suggested that the Task Force consider clarifying what the intended meaning of the term “audit fees” is in its proposal. He also suggested that the Task Force consider aligning its proposals with the EU regulations. Mr. Hansen and Mr. Hirai supported that point and agreed with the suggestion. Mr. Cela expressed support for the Task Force’s proposals and added that in his view the focus should be on the proportion of fees for audit of financial statements to other fees.
- Mr. Cela supported the Task Force’s position that a high proportion of fees for the audit to other fees creates threats to independence. He supported the need for including a threshold in the Code, noting that without having a specific threshold to guide firms, the evaluation of such threats would be too subjective. Mr. McPhee explained that the challenge with setting the threshold is that the nature of the specific types of service affects the level of the threat that is created. Accordingly, the Task Force is cautious about establishing a generic threshold. Mr. McPhee noted that the Task Force has heard a number of arguments for and against having a threshold in the Code and will aim to find a reasonable and balance solution in finalizing its proposals.

FEE DEPENDENCY

- Mr. Hansen shared statics about the total revenue generated by the top 25 firms from one of their audit clients and asked whether the Task Force is aware of the fact that the proposals regarding fee dependency might have relevance only for small- and medium-sized firms. Mr. McPhee responded that the Task Force believes that its proposals are proportionate and that the suggested 5-year period that forms part of the proposal for non-PIE audit clients could be expected to provide sufficient time for those firms to take necessary steps to deal with the fee dependency issue.
- Ms. McGeachy acknowledged the changes that the Task Force made to address the SMPC comments and asked for clarification regarding some of them. Ms. McGeachy suggested that the Task Force expand the requirement to include independent regulatory bodies because the

professional body may not be the licensing body and may in some cases decline the request. Mr. Hirai added that consultation with the professional body on the continuation of the audit may create a conflict of interest.

Mr. McPhee acknowledged that seeking the concurrence of the professional body may be seen as a conflict of interest. However, the Task Force believed the professional body to be a legitimate third party that has a broad view of the market in which the firm operates. He noted that the Task Force will consider including the independent regulatory body, adding that the Task Force has been cautious about having provisions that result in “forum shopping.”

- Ms. McGeachy proposed including a reference to “local market and practice conditions” as a matter for consideration in determining the applicability of the exception because in her view the local market and practice conditions are relevant to the evaluation of the public interest need to continue the engagement. Mr. McPhee explained that the Task Force is not aiming to provide too much flexibility with the exception, but would consider the suggestion.
- Ms. Robert pointed out that in the EU, there is legislation with respect to fee dependency in case of PIE audit clients. In relation to that, she made the following comments:
 - The requirement that applies in the EU is for firms to communicate the threats created by the fee dependency and the safeguards applied with TCWG. She asked whether the Task Force plans to have similar proposals. Mr. McPhee clarified that the Task Force’s proposals includes provisions that require firm of audit clients that are PIEs to communicate with TCWG about fee-related matters, including matters regarding fee dependency.
 - Under the requirement that applies in the EU, firms must take specific actions in case of fee dependency after 3 consecutive years. She pointed to the difference in the proposed number of years in the Task Force’s proposals and suggested that the Task Force consider aligning with the approach already in practice in the EU.
 - Ms. Robert referred to jurisdictions in the EU where some firms are not allowed to end the audit engagement after 5 years and asked whether the “compelling reasons” in the Task Force proposals are intended to cover that situation.

ENHANCED TRANSPARENCY OF FEE-RELATED INFORMATION OF PIE AUDIT CLIENTS

- Mr. Hirai noted that in his experience, audit clients do not usually have information about fee dependency and that it does not seem practical for this disclosure to be made by the audit client in the financial statements and the annual report. Mr. McPhee responded that the Task Force is of the view that the firm can provide this information to their clients. He added that the Task Force does not anticipate many cases of fee dependency. It is expected that disclosures about the level of fees and fee ratios would be more common.
- Ms. Meng noted that for investors, with regard to the timing, it is better to have information from the audit client. Mr. McPhee indicated that this is consistent with the Task Force’s view and that the Task Force is conscious that audit clients might be reluctant to disclose this information.
- Ms. Meng wondered whether it is appropriate to require that firms disclose only a factual statement about fee dependency. She questioned the Task Force’s rationale for not requiring more, for example, the exact ratio. Mr. McPhee indicated that the Task Force discussed this issue and agreed that it is not necessary to go that far. He noted that firms might end up disclosing this information.

- Mr. Dalkin suggested that the Task Force consider including the “peer review report” as an example of a suitable location for disclosure, since in the US the peer review report is publicly available.

OTHER MATTERS

- Ms. McGeachy questioned whether a joint audit could be regarded as equivalent to the pre-issuance review in each year, regardless of the period. Mr. McPhee clarified that a joint audit, if certain criteria are met, could be applied as a safeguard each year when pre-issuance review is required.
- In relation to the safeguards in case of non-PIEs, Mr. Hirai asked why they are different from the safeguards for audit clients that are PIEs. Ms. Sramko clarified that the Task Force aimed to provide more flexibility for non-PIEs regarding the review performed as a safeguard based on comments from SMPC.
- Mr. Dalkin noted that in his view, it would be difficult or impossible to impose some of the fee-related requirements on US firms as a result of the legal and regulatory environment. He suggested that the Task Force to explore the legal implications of the US anti-trust laws.

WAY FORWARD

The IESBA anticipates approving an ED of the fee-related proposals by the end of 2019.

G. Report-Back and Update on Rollout of the Revised and Restructured Code

ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

Representatives noted the report-back on the comments raised during the March 2019 Role and Mindset session and did not raise any further comments.

ROLLOUT OF THE REVISED AND RESTRUCTURED CODE

Ms. Jules provided an update on the initiatives and activities aimed at promoting awareness of the Code and its adoption and implementation, as well as an update of IESBA’s eCode initiative. She also provided an overview of the resources available on the IESBA website. Ms. Jules encouraged Representatives to leverage the various resources available on the IESBA website to promote awareness, use and adoption of the Code.

The following comments were raised:

eCode

Several Representatives shared their experience with the eCode.

- Mr. Hirai found the functionalities of the eCode to be helpful to search for the Code’s requirements that apply to audit clients that are PIEs. He also expressed his support for Phase 2 of the eCode initiative and suggested that other international standards setters (e.g., the IAASB) should use similar platforms.
- Mr. Pavas asked whether the eCode is an app and wondered how countries could adopt it. In response, Ms. Jules explained that the eCode is not an app but is instead an “app-like” web-based tool, which means it has the look and feel of an app, but is much more cost-efficient to maintain. Ms. Jules clarified that the eCode is free and available for use by everyone in any jurisdiction to access, refer to, and share the requirements and application material in the Code.

Other

- Mr. Pavas queried about the status for the Spanish translation of the Code and its availability for download by the public. Ms. Jules noted that a Spanish translation of the 2018 version of the Code is in progress and more information will soon become available. She also clarified that whilst translation is outside the remit of IESBA and IFAC, there is interest to support faithful translations of the Code because translation assists with adoption and effective implementation of the Code. Dr. Thomadakis reiterated that IESBA encourages others to translate the Code and acknowledged that there is a cost involved in doing so.

H. PIOB Observer's Remarks

Ms. Pettersson thanked the CAG for the opportunity to participate in the meeting as an observer and congratulated Mr. Hansen on his successful chairing of his first CAG meeting.

Ms. Pettersson complimented participants for sharing their views and suggestions candidly and expressed that she was pleased with the progress of the various IESBA work streams and the direction of travel. Ms. Pettersson also expressed support for the importance placed on coordination with IAASB on key issues, including in relation to the Fees project.

I. Closing Remarks

Dr. Thomadakis expressed his appreciation of the rich and robust discussions during the meeting and noted that the CAG's input will inform the IESBA's December 2019 deliberations. He thanked all participants for their contributions.

Mr. Hansen thanked the Representatives for their valuable contributions during the meeting and expressed a special thank you to Mr. Thompson whose CAG term ends at the end of 2019. He noted that the next CAG meeting will be held on March 9, 2020 in New York and that staff will inform the CAG of the dates for future meetings in due course. He then closed the meeting.