

Meeting: IESBA CAG

Meeting Location: Teleconference

Meeting Date: September 1, 2020

Agenda Item

B

Objectivity of Appropriate Reviewers

Objectives of Agenda Item

1. To report back on the discussions at the December 2019 CAG meeting.
2. To discuss significant matters arising from responses to the January 2020 Exposure Draft (ED), [Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers](#) and from the IESBA at the June 2020 meeting.
3. To obtain Representatives' views on the Task Force's responses and revised proposals.

Background

4. The IAASB issued the exposure draft (ED) [Proposed International Standard on Quality Management \(ISQM\) 2, Engagement Quality Reviews](#) in February 2019. The Explanatory Memorandum (EM) accompanying the ED of proposed ISQM 2 included a specific request to respondents for input on whether there is a need for guidance in the proposed ISQM 2 to address the matter of cooling off as an eligibility requirement for the EQR. This would be in circumstances where the individual served as the engagement partner on the audit engagement immediately prior to being appointed to the EQR role. Respondents were also asked whether such guidance should be located in proposed ISQM 2 or the Code.
5. In light of feedback from respondents to ED-ISQM 2 on this matter, the IESBA agreed to take it up in the Code as a matter of priority to try to align as much as possible with the IAASB's timeline for approval of ISQM 2 in June 2020. At its December 2019 meeting, the IESBA approved the project proposal.
6. In January 2020, the IESBA released the Exposure Draft (ED), [Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers](#).

Recent Development

7. Following the consultation period, at its June 2020 meeting, the IESBA considered the Task Force's preliminary proposals in response to the significant comments received on the ED ((Agenda Items [5-A](#) and [5-B](#) of the June 2020 meeting). Amongst other matters, the Task Force also sought the IESBA's reactions to its preliminary thinking on:
 - (a) The location of the cooling-off requirement; and
 - (b) Extending the scope of the guidance to "appropriate reviewers."
8. At its September 2020 meeting, the IESBA will consider, with a view to final approval, the Task Force's revised proposals, taking into consideration feedback received at the June 2020 IESBA

meeting, comments from the PIOB received in July 2020, and input from the September 2020 CAG meeting.

Report Back on December 2019 CAG Discussion

9. [Appendix 1](#) to this paper includes extracts from the minutes of the December CAG meeting and an indication of how the Task Force/IESBA has responded to CAG Representatives' comments.

Format of the Session

10. During the teleconference, the Task Force Chair, Ms. Sylvie Soulier, will outline the significant matters that were raised by respondents to the ED. **Agenda Item B-1** summarizes the key issues and sets out the Task Force's responses and proposals.

Matters for CAG Consideration

11. Representatives are asked for views on the matters for consideration in **Agenda Item B-1**.

Material Presented

For Discussion

Agenda Item B-1	Issues and Task Force Proposals
Agenda Item B-2	Draft Changes to Section 300 and Section 325 (Marked-up from Extant Code & ED)

For Reference

Agenda Item B-3	Draft Changes to Section 300 and Section 325 (Clean)
Agenda Item B-4	PIOB's Public Interest Issues on IESBA projects July 2020
Agenda Item B-5	Objectivity of Appropriate Reviewers – Project Proposal (Amended)

Appendix 1

Below are extracts from the minutes of the December 2019 CAG meeting and an indication of how the Task Force and/or IESBA has responded to the CAG's comments.

Matters Raised	Task Force/IESBA Response
EQR OBJECTIVITY – ISSUES AND PROPOSALS	
<p>Mr. De Tullio inquired about the effective date for the intended new provisions.</p>	<p>Point taken into account.</p> <p>The IESBA's intent is to align the effective date with the effective date the IAASB will set for the proposed ISQM) 2.</p>
<p>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.</p>	<p>Point accepted.</p> <p>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. The final text in the Code will be coordinated with the final text of ISQM 2 to ensure that they are linked and fully interoperable.</p> <p>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.</p>
<p>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.</p>	<p>Point accepted.</p> <p>The IESBA has taken the direction from proposed ISQM 1¹ 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.</p>
<p>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</p>	<p>Point taken into account.</p> <p>The IESBA explained its reasons for positioning the proposed guidance in Section 120 in the ED.</p> <p>In the final proposals, the Task Force has recommended that the IESBA address the</p>

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

Matters Raised	Task Force/IESBA Response
<p>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.</p>	<p>topic of objectivity more holistically by broadening the scope of the guidance to appropriate reviewers. The guidance is now positioned in a new Section 325 and is not limited to audits and other assurance engagements.</p>
EXPOSURE DRAFT	
<p>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.</p>	<p>Point accepted and change made in the ED.</p>
<p>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.</p> <p>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.</p>	<p>Point taken into account.</p> <p>The approach taken in the ED reflects the outcome of close coordination between the two Boards, recognizing the need for a principles-based foundation in the Code to address a broad range of situations in which threats to objectivity may arise, while not precluding the IAASB from establishing a requirement for firms to have policies and procedures that specify a cooling-off period for quality management purposes. See Agenda Item B-1 (in particular Section III) for further explanation of the coordinated stance of the two Boards on the matter of location of the cooling-off requirement.</p>

Matters Raised	Task Force/IESBA Response
<p>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.</p>	<p>During the meeting, Ms. Soulier noted that the IAASB is not using the concept of a PIE in its standards. She added, however, that the IESBA has launched a new project that will revisit the definition of a PIE in the Code. She also informed the CAG that this project will be coordinated with the IAASB. Finally, she highlighted that the issue of scope of engagements requiring EQ reviews is a matter for the IAASB to address.</p>
<p>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.</p>	<p>During the meeting, 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.</p>
<p>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 540 2 of the Code addressing long association of an EQR. He was of the view that this would ensure greater consistency.</p>	<p>During the meeting, 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.</p>
<p>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</p>	<p>During the meeting, 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 the Code. She added that the proposed text in the Code may be updated depending on the feedback received on the Exposure Draft. However, the IESBA's intention</p>

² Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

Matters Raised	Task Force/IESBA Response
<p>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.</p>	<p>was to remain broad and high level in drafting of the proposed guidance.</p> <p>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 in the ED. She reiterated that the issue that the IESBA and IAASB are addressing (EQR objectivity) is a separate matter from independence.</p> <p>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. IESBA Staff will recommend to the IESBA that it commission the development of appropriate FAQs to clarify this interaction.</p>
<p>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.</p>	<p>Point taken into account.</p>