

Draft Minutes of the Meeting of the IESBA Consultative Advisory Group (CAG)

Held on April 10, 2013 in New York, USA

Marked to show changes from draft circulated on June 11, 2013

Present: **Representatives of Member Organizations**

Richard Fleck (Chair)	Financial Reporting Council (FRC), UK
Markus Franz Grund	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BusinessEurope
Jean-Luc Peyret	European Federation of Financial Executives' Institutes
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
Glenn Darinzo	Institute of Internal Auditors (IIA)
Tom Finnell Jr.	International Association of Insurance Supervisors (IAIS)
Nigel James	International Organization of Securities Commissions (IOSCO)
Koichiro Kuramochi	IOSCO
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
David Morris	North American Financial Executives Institute
Irina Lopez	World Bank
Conchita Manabat	Asian Financial Executives Institutes
Frederico Diomeda	European Federation of Accountants and Auditors for SMEs
Linda de Beer	World Federation of Exchanges and IAASB CAG

Observers

Martin Baumann ¹	U.S. Public Company Accounting Oversight Board (PCAOB)
Paul Thompson	IFAC Small and Medium Practices (SMP) Committee

Public Interest Oversight Board (PIOB)

Michael Hafeman	PIOB Member
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IESBA

Jörgen Homquist	IESBA Chair
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¹ Views expressed by PCAOB Representatives represent their views and do not necessarily reflect the view of the PCAOB Board or PCAOB members or other staff.

Isabelle Sapet	IESBA Deputy Chair
Robert Franchini	IESBA Member
Jim Gaa	IESBA Member
Don Thomson	IESBA Member

IESBA Staff

Jim Sylph	IFAC Executive Director, Professional Standards and External Relations
Ken Siong	IESBA Technical Director
Chris Jackson	IESBA Technical Manager

<i>Regrets:</i>	Marie Lang	European Federation of Accountants and Auditors for SMEs
	Matthew Waldron	CFA Institute
	Dr. Juan Maria Arteagoitia	European Commission (EC)
	Georges Couvois	European Federation of Financial Executives' Institutes
	Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
	Andrew Baigent	International Organisation of Supreme Audit Institutions (INTOSAI)

<u>Ajith Ratnayake</u>	<u>Sri Lanka Accounting and Auditing Standards Monitoring Board</u>
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A. Opening Remarks

Mr. Fleck welcomed all participants to the meeting, noting that this would be his last meeting as Chair and that his replacement would be elected at this meeting. He welcomed, in particular, new CAG representatives Mr. Thompson (representing FEE), replacing Mr. Johnson; and Mr. Finnell, (representing the IAIS), replacing Mr. Thorpe. He also welcomed Mr. Hafeman, observing on behalf of the PIOB. Apologies were noted for Ms. Lang, Dr. Arteagoitia, and Messrs. Al Zaabi, Baigent, Couvois and Waldron.

The minutes of the September 2012 CAG meeting were approved as presented.

IESBA Chair's Update

Mr. Holmquist outlined his vision for the IESBA. Amongst other matters, he highlighted his priorities with respect to building trust with the regulatory community and addressing issues promptly. He emphasized that outreach to stakeholders would be an important part of his role in order to better understand the concerns of regulators and the profession, amongst others. He also indicated his desire to improve the IESBA's processes. Finally, he added that while the IESBA had, over the recent past, focused primarily on ethical standards for professional accountants in public practice [dealing with public interest entities \(PIEs\)](#), it would seek to rebalance its work program [somewhat](#) towards [SMPs and](#) professional accountants in business (PAIBs).

Mr. Holmquist briefed the CAG on changes in the composition of the IESBA for 2013. He noted that at its two most recent meetings, the IESBA had had the benefit of welcoming presenters from external organizations, including IOSCO and the PCAOB. Finally, he noted that the full list of the IESBA's outreach activities is now publicly available on the IESBA website.

B. Responding to a Suspected Illegal Act

Mr. Franchini introduced the topic, summarizing the significant comments received on the exposure draft (ED), *Responding to a Suspected Illegal Act*, and noting that the IESBA had first considered these comments at its March 2013 meeting. He then led the discussion on a few pivotal issues arising on the ED.

REQUIREMENT TO DISCLOSE A SUSPECTED ILLEGAL ACT (SIA) TO AN APPROPRIATE AUTHORITY

Representatives commented as follows:

- Mr. Peyret was of the view that the proposed requirement should remain unchanged. He noted that in France, there is a law addressing the reporting of SIAs. Lawyers are required to follow up on SIAs and report them to the appropriate national authority ([FINTRACFIN](#)). Auditors are part of this information chain, much as internal control is everyone's responsibility. Mr. Franchini clarified that ~~no~~ respondents were generally not ~~is~~ fundamentally opposed to the concept of professional accountants (PAs) reporting SIAs to an appropriate authority. Rather, respondents' main concern is that the Code is not the right place to address such an obligation. They believe, instead, that the obligation should be established at the national level. A number of respondents have therefore suggested that IFAC stimulate debate on the issue internationally and encourage the development of appropriate national legal frameworks with suitable protections for whistle-blowers.

- Ms. de Beer was of the view that ultimately, one must consider what is in the public interest. She felt that while there are strong arguments against imposing such an obligation on professional accountants in business (PAIBs), for auditors it is not an issue that cannot be overcome. She added that it would be fundamentally wrong for the IESBA to back away from the proposal because of the objections. Rather, she felt the IESBA should explore how the practicalities of the proposal could be addressed.
- Mr. Finnell agreed with Ms. de Beer. However, he noted that it is also in the public interest for there to be a strong and viable profession. He felt that the practical issues, such as the potentially adverse consequences of the proposal on client relationships, would create significant strain on the profession. He also felt that there would be the potential for less ethical auditors to pick up clients that may be engaging in SIAs.
- Mr. Morris shared Ms. de Beer's views. He was of the view that it would be difficult for the IESBA to be silent on the matter. He felt that the problem was the attempt by the IESBA to establish the requirement at a global level. He suggested breaking down the issues into distinct parts as a means of simplification, for example, whether it would be in the public interest for auditors of ~~public interest entities (PIEs)~~ to address SIAs. He was of the view that addressing all the issues in one sweeping document was too ambitious.
- Mr. Fleck noted that the difficulty is the imposition of the obligation to disclose. He asked for views as to whether this should be a requirement or a right. Mr. Peyret highlighted the situation in France with respect to lawyers, who are required to report to the bar. He was of the view that a similar requirement could be established for PAs, for example, reporting internally within the firm. Otherwise, he felt nothing would be done. Ms. de Beer stood by her earlier remarks regarding focusing on what would be in the public interest. However, she suggested that taking smaller steps might help, for example, focusing on PIE audits, as opposed to addressing all possible circumstances at the same time.
- Commenting on the issue of legal protections, Mr. Finnell noted that in the U.S. there are insufficient safeguards for PAs. However, he was of the view that the IESBA could leave the decision as to whether to disclose to the auditor's judgment. Many of the practical issues arose because of the proposal to impose the obligation to disclose without legal protections.
- Mr. Koltvedgaard commented that the problem is about creating the right incentive. He did not feel the issues could be addressed by focusing on PIE audits only. He believed that the issue is how to create the right standard so that it establishes a very strong incentive to disclose. He suggested considering the approach taken by the IAASB in its current project to revise ISA 700,² i.e., specifying the applicable requirement (the pressure) unless national laws or regulations state otherwise. He felt that such an approach would allow jurisdictions to be aligned with the Code.
- Mr. Hansen was of the view that the appropriate way forward is to align the Code as closely to national requirements as possible so that the Code reinforces the national requirements as opposed to contradicting them. He agreed that it would not be in the public interest for the PA to hide behind the veil of confidentiality. Mr. Fleck was of the view that the issue goes beyond that, as in many jurisdictions there are no national requirements addressing confidentiality or the reporting of SIAs.

² ISA 700, *Forming an Opinion and Reporting on Financial Statements*

- Mr. James echoed Mr. Hansen's views. He noted that IOSCO's initial concern had been that if the PA comes across a SIA, the Code should not impede the PA's ability to disclose the SIA if the PA wishes to do so. He was of the view that the Code's current requirements addressing confidentiality do act as an impediment in this regard. Mr. Franchini explained that the IESBA is endeavoring to create an environment where the PA is encouraged to disclose. He noted that the IESBA had already been aware of IOSCO's comment early in the project. The issue, however, was not how the PA should report but whether he or she should be required to do so.
- Mr. Grund asked how confident the IESBA would be that disclosure would be made if a PA ever came across a SIA. Mr. Franchini explained that the IESBA is aiming to create an environment where the PA is permitted to disclose. He noted that if there were no requirement, this would suggest less disclosure. However, he pointed out that several other factors are also relevant, for example, the availability of legal protection, the PA's strength of conviction, etc. So a number of factors could conspire to discourage reporting. He noted that this point had been made in the explanatory memorandum to the ED.
- In reference to Mr. Grund's question, Ms. Blomme was of the view that there are definitely circumstances where it is in the PA's interest to disclose. She expressed support for the alternative approach of providing guidance to help the PA deal with SIAs. Mr. Fleck expressed the view that it might help if the IESBA took the approach of establishing a right to disclose, supplemented with illustrative guidance. He noted that the difficulty is related to understanding where to draw the line. He suggested, for example, that most PAs would see disclosing a cartel arrangement to an appropriate authority as being in the public interest. Accordingly, he felt that the challenge is whether the IESBA can help create the appropriate environment. Mr. Grund wondered whether a requirement with exceptions would work better.
- Mr. Baumann asked whether the project is addressing SIAs that impact the financial statements or any SIAs. Mr. Fleck noted that it is the latter, pointing out that a cartel arrangement could have not only an impact on the financial statements but also broader implications beyond the client. Mr. Franchini noted that the ED focused on SIAs that could impact financial reporting and also the subject matter of which falls with the PA's expertise.
- Regarding the requirement to disclose, Mr. Baumann wondered whether the threshold should be a "likely" bar as opposed to a suspicion. Mr. Franchini noted that the threshold in the ED was "suspected." However, he indicated that the Task Force would explore whether there should be a "suspected" threshold for investigation and a "likely" threshold for disclosure. Mr. Baumann was of the view that it would be appropriate to establish two different thresholds, noting that a threshold at the level of a suspicion would be too low for disclosure. Mr. Fleck noted that the threshold for disclosure in UK law is reason to believe.
- Mr. Baumann also asked how the project would intersect with the ISAs, particularly whether there was an intention to amend both sets of standards at the same time. He was of the view that it would be important to coordinate with the IAASB on a way forward.
- Mr. Diomeda emphasized the importance of thinking about the consequences when seeking to establish a requirement. He was of the view that it is always difficult to balance having a requirement and judging the effect of not applying the requirement because the consequences are not known until after the fact. He felt that with a requirement, there would be an expectation that all PAs will comply. He was of the view that one should be aware that PAs would need to consider how to react. Accordingly, it is not always right to go with a requirement.

REQUIREMENT TO DISCLOSE A SIA TO AN EXTERNAL AUDITOR

Mr. Hansen expressed the view that this proposed requirement was one that would be applicable not so much to individual PAs as opposed to a firm. With respect to PAs providing professional services to non-audit clients, he questioned why the ED limited the disclosure of SIAs to those that relate to the subject matter of the services. He was of the view that a PA has a responsibility to act in the public interest, regardless of the service provided. He also reiterated that NASBA is not supportive of creating a right to disclose as it is the prerogative of national legislators to establish rights. Instead, there should be an expectation to disclose.

PROPOSED STRAW MAN

Representatives commented as follows:

- With reference to the Task Force's straw man of an alternative approach to the ED, Mr. Fleck asked Representatives whether they agreed that it would be reasonable to expect PAs to go through the escalation process. He was of the view that the credibility of that approach would depend on how the PA reached his or her views. Mr. Hansen wondered whether the escalation would always be possible. Mr. Diomeda was of the view that escalation may not be possible in the context of a small- and medium-sized entity (SME). Mr. Thompson noted that ISAs apply to auditors only. Accordingly, he wondered whether PAIBs would know what they should do. Mr. Franchini noted that the Code already includes a principle regarding taking action when the PA faces unethical behavior.
- Messrs. Kuramochi and Grund noted that while they had personal views on the matter, they were unable to express an organizational view.
- Ms. Blomme noted that it was clear that there was not overwhelming support for the ED, consistent with FEE's view. She also noted that while there had not been a prior opportunity to study the straw man, her immediate reaction was that it would be worth further exploration. Mr. Koktvedgaard and Ms. de Beer shared Ms. Blomme's views.
- Mr. Finnell noted that while he had not had an opportunity to discuss the straw man with the IAIS, the proposed alternative approach appeared reasonable. He encouraged the Task Force to consider Mr. Baumann's comments regarding establishing separate thresholds for investigation and disclosure. Mr. Hansen agreed.
- Mr. Morris highlighted the suggestion from IOSCO regarding breaking up the issues into manageable pieces. Given that IOSCO's focus is on PIE audits, he wondered what the principles should be for PIEs. He noted that ISAs 240³ and 250⁴ appear to set out appropriate courses of action to take. Mr. Hansen was of the view that the proposals should not be limited to PIE audits.
- Mr. Diomeda wondered why the project should move forward and whether it would lead to a result.
- Mr. Darinzo noted that all the IIA's views on the ED are included in the majority views of respondents, as summarized by Mr. Franchini. He noted that he would take the issues back to the IIA for further consideration.

³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁴ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

- Mr. Baumann and Ms. Lopez noted that further study would be needed as to whether the straw man was heading in the right direction.
- Ms. Manabat noted that this is a worthwhile but challenging project. She encouraged the Task Force to further explore the straw man and would await thinking on it to have advanced before consulting internally within her organization.
- ~~Mr. James noted that he perceived elements of IOSCO's comments in the straw man, for example, that management should be the first line of defense. With respect to the public interest test, he noted IOSCO's concerns about IFAC's position paper on the public interest, which IOSCO believes is overly broad. Accordingly, he wondered whether PAs could apply the concept consistently.~~

Mr. Fleck suggested that if the straw man were to be available after the June 2013 IESBA meeting, the Task Force should circulate it to the CAG representatives to facilitate internal consideration within the CAG member organizations before the September 2013 CAG meeting. Mr. Holmquist agreed, subject to progress of the board deliberations.

C. Structure of the Code

Mr. Thomson introduced the topic, providing background to the initiative and summarizing the recent IESBA discussions on the topic and the Working Group's tentative way forward.

CAG representatives commented as follows:

- Ms. de Beer was of the view that the initiative is very important, given concerns regarding why some jurisdictions have not adopted the Code. With respect to the split between the short term and longer term elements, she wondered whether more research would be needed to more fully understand the issues, especially to liaise with those jurisdictions that have not adopted the Code. She cautioned against starting work on initiatives before preliminary research has been completed to avoid wasting resources if the research does not support the short term initiatives.
- With respect to the proposed research noted in Appendix 2 of the agenda material, Mr. Diomeda wondered whether it would be possible to approach IFAC member bodies that have experience with the Code to seek to understand the types of implementation difficulties they may have experienced in adopting the Code.
- Mr. Hansen supported Ms. De Beer, noting that planning and consultation are very important. He referred to a similar project that the AICPA started in 2009 and which is nearing completion. This project was enlightening in that it gave rise to many opportunities to improve the AICPA's ethics code. He suggested consulting with organizations that have undertaken such work. He expressed support for the idea of an electronic Code. He noted that from a regulatory perspective, this might help with respect to archiving in terms of knowing what standards were effective at a point in time. He did not believe that re-packaging parts of the Code was a useful option, because an electronic Code would eliminate the need for it. Mr. Sylph noted that the diversity of member bodies' membership profiles should be considered if a re-packaging option were pursued. Mr. Thomson noted that there are those who support the idea of separate packages but ~~the a~~ drawback is that professional accountants ~~could pick and choose the parts with which they~~ empty may focus on one package and overlook another package that contains relevant material. For example, a professional accountant providing only tax services may overlook an auditor

independence package that is relevant because other professional accountants in the firm provide audit services. He was of the view that an electronic Code should help address this.

- Ms. Blomme expressed support for an electronic Code. With respect to the responsibility issue, she advised that if this issue were addressed, the Working Group should refer to the ISQC 1⁵ model to avoid contradictions. She highlighted that in the past year and a half, FEE had spent quite some time considering the audit reform proposals in the EU. In that context, it had proven difficult to focus on the ethical requirements in the Code as it addresses both ethical standards and independence requirements. She therefore suggested that there would be merit in considering independence on its own. She noted that the IESBA's one-page summary of requirements and prohibitions in the Code related to independence for audits of PIEs had been the most useful instrument for FEE as it worked through the audit reform issues and in explaining the strength of the Code to stakeholders outside the profession, including politicians. She suggested that this document be given more visibility. She also thought that the IESBA's Clarity project could have been developed further. Mr. Fleck agreed with Ms. Blomme regarding the usefulness of the one-page summary of requirements and prohibitions with respect to independence for audits of PIEs.
- Mr. Koktvedgaard also commented on the value of the one-page summary in raising the awareness of the Code outside the profession. Ms. de Beer noted the interpretation risks with summaries. However, she also noted that the International Accounting Standards Board (IASB) produces two- to three-page summaries of its standards for directors. Given the low uptake of the Code, she indicated that she would support producing such summaries.
- Mr. James was of the view that summarising the Code could be problematic if the summary did not accurately reflect the essence of the Board deliberations on the issues. Mr Thomson noted that the IESBA is aware of this and that it would be cautious in producing a long summary unless it was satisfied that stakeholders would not be misled by that summary. He noted that the one-page summary referred to by Ms. Blomme and Mr. Koktvedgaard did not attempt to summarize the Code but to list the relevant prohibitions and requirements.
- Messrs. James and Grund wondered if the short-term initiatives, especially summaries of the Code, would be subject to proper due process. Mr. Thomson responded that the short-term initiatives should not change the Code and if they were to do so, they would require formal project proposals.
- Mr. Hansen asked whether the numbering system would be changed over the short term. Mr. Thomson responded that this would be more a matter for the longer term part of the initiative as the short-term part is not intended to lead to changes to the Code.
- Ms. de Beer questioned whether the Code needed to be a single document as opposed to a set of standards. She noted that this matter related to her earlier comment about the need for a road-map so that it is clear where this initiative is heading.
- Mr. Fleck noted that the visibility of requirements in the Code had been an issue for some time and was one reason why the UK had not adopted the Code. In particular, prohibitions are inserted mid-way through paragraphs and the Code is unclear on "responsibility." He noted that

⁵ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

to address this would be a significant restructuring or redrafting exercise. He advised the working group to pay particular attention to this matter when researching why jurisdictions have not adopted the Code.

- Mr. Koktvedgaard asked whether there should be a target for uptake of the Code. Mr. Sylph noted that as IFAC cannot mandate adoption of the Code by regulators and national ~~statements~~standard setters, targets cannot be set. But conceptually, IFAC would like to see a Code that is so clear and robust that regulators and national standard setters adopt it vs. develop their own. Mr. Holmquist concurred, noting that he would like the Code to be seen as a benchmark for adoption. He noted that Japan and Italy are in the process of translating the Code. Mr. Hansen noted that while Messrs. Sylph's and Holmquist's comments may be aspirational, the AICPA's four-year project to restructure its code had as one of its objectives to synchronize that code with the IESBA Code. Mr. Koktvedgaard noted that his point was more the need to monitor the uptake as the Board should be aware of that if it intends the Code to be an inspiration for others.

Mr. Fleck thanked Mr. Thomson for leading the discussion on this topic.

D. Review of Part C

Mr. Gaa introduced the topic, noting that at its December 2012 meeting the IESBA had approved a project to review Part C of the Code. A Task Force, including two PAIBs with large and small business experience, had been set up to undertake the project. Mr. Gaa then outlined the issues to be addressed in, and the approach to, the project. Mr. Fleck noted that this project was timely given prior CAG advice for the IESBA to address the issues in Part C.

There was general support for the project. Mr. Koktvedgaard noted that it would be helpful for report-backs to be provided on all the projects showing how representatives' views had been taken into account.

APPLICATION OF PART C TO ALL PROFESSIONAL ACCOUNTANTS

Mr. Gaa explained that the project proposal had included the suggestion that because the definition of a PAIB includes all professional ~~accountants~~accountants, both Parts A and C apply to all professional accountants and perhaps they could be merged. He reported that the IESBA had generally not supported this suggestion because, amongst other matters, Part A concerns the fundamental ethical principles while Part C is the application of those principles to specific situations for PAIBs. Mr. Morris agreed that the two parts should not be merged. He was of the view that it would be important to keep Part C separate, otherwise the material in the Code of particular relevance to PAIBs will not be obvious to them.

Mr. Grund noted the reference to this issue in the agenda material for both this topic and the Structure of the Code initiative and wondered about the relationship between the two. Mr. Holmquist explained why reference is made to the issue in the Structure of the Code agenda material. He noted, however, that based on the IESBA discussion in March 2013, it would be unlikely that the IESBA would be going down the path of merging Parts A and C.

Mr. Koktvedgaard suggested that if there are aspects of Part C which apply to all professional accountants, these should be included in Part A. Mr. Fleck agreed, noting the importance of making sure that the overarching concepts in Part A are also reflected in Part C. Mr. Gaa noted that Part C

applies to professional accountants in public practice in their capacity as employees and that the Task Force intends to consider the matter.

OTHER MATTERS

CAG representatives also commented as follows:

- Ms. Blomme noted the significant discussion on earnings management at the previous CAG meeting and the general sense that this should not be a focus of the project. Mr. Gaa noted his view that earnings that do not breach laws or regulations can be misleading, and therefore there would be merit for a discussion. However, he agreed that there may not need to be bright lines in the Code regarding what would or would not be acceptable.
- Ms. Blomme expressed support for the link to accounting standard setters in the project proposal.
- Mr. Diomeda wondered about the connection between the legal responsibilities of the entity and the ethical responsibilities of the PAIB. He felt that the former would have a greater responsibility than the latter. He also questioned what matter the Task Force was addressing in seeking a more positive and fuller statement of the responsibility of the PAIB. Mr. Gaa responded that it is actually the PAIB who prepares the financial information. He noted that one of the difficulties is that companies can manipulate financial statements without breaching financial reporting standards. Accordingly, there is a difference between entities' legal responsibilities and PAIBs' ethical responsibilities with respect to their organizations. Mr. Gaa also noted that the Code provides statements about what a PAIB should avoid and he would like the Code to make a positive statement about the PAIB's responsibilities.

Mr. Fleck thanked Mr. Gaa for leading the discussion.

E. Strategy and Work Plan 2014-2016

Mr. Holmquist introduced the topic, providing brief context to the work stream to develop the IESBA's strategy and work plan for 2014-2016. Mr. Siong then provided a high level update on the main comments received from stakeholders in response to the January 2013 strategic review survey.

CAG representatives commented as follows:

- In relation to the topic of disclosure of compliance with ethical requirements in auditors' reports, Mr. Hansen highlighted the importance of coordination with the IAASB. Mr. Holmquist noted that the IESBA has already been working closely with the IAASB, including through quarterly liaison between the leaderships of the two boards and on projects such as the revision of ISA 610⁶ to address the use of internal auditors to provide direct assistance on the external audit.
- Ms. de Beer noted that it would be important for the CAG to provide input to the development of the IESBA's strategy at the September 2013 CAG meeting. She suggested that a further level of detail, such as how the timelines of current projects feed into the work plan, be provided to the CAG to enable representatives to provide proper input regarding priorities.
- Mr. Holmquist asked representatives for their views as to what the highest priority for the IESBA should be. Ms. de Beer expressed the view that the IESBA should focus on developing the right structure for the Code to facilitate adoption and implementation.

⁶ ISA 610, *Using the Work of Internal Auditors*

Mr. Fleck thanked Mr. Siong for the update.

F. Definition of Those Charged with Governance

Ms. Spargo introduced the topic, providing background to the ED of the proposed change to the definition of “those charged with governance” in the Code. She then outlined respondents’ significant comments with respect to the three issues noted in the agenda material, and how the IESBA proposed to address them.

In relation to comments from some respondents to the ED suggesting that the term “management” be defined in the Code given that the ISAs already define that term, Ms. de Beer expressed support for the IESBA view that a consideration of this matter would be beyond the scope of this project. While agreeing that the IESBA should not undertake to develop such a definition at this time, she suggested that the IESBA note the matter for future consideration.

CAG representatives otherwise did not have any comments or concerns regarding how the IESBA had addressed the significant comments from respondents on the three issues, and the related changes to the Code the IESBA had agreed at the March 2013 meeting.

Mr. Fleck thanked Ms. Spargo for leading this discussion.

G. Long Association

Ms. Orbea introduced the topic, providing an overview of the project proposal and noting that the IESBA had approved the project at its December 2012 meeting. She highlighted the benchmarking survey of partner rotations requirements in a range of jurisdictions that the Task Force had undertaken, noting that the Task Force would also be undertaking a survey of audit committees and other stakeholders, including regulators and accounting firms.

There was general support for the project proposal and the approach to the project. CAG representatives commented as follows:

- Ms. De Beer referred to the earlier discussions on the Structure of the Code and the future strategy and work plan, noting an apparent lack of context and a perceived fragmented approach to the various projects and initiatives. She also noted that this is another project that involves a survey and felt that there would be potential for stakeholder survey fatigue. She therefore wondered whether there would be a need for a broader discussion at the Board regarding a more holistic approach to the issues. Mr. Holmquist noted that the IESBA had discussed this topic at its February 2012 meeting which led to the addition of this work stream to the current strategy and work plan. He was of the view that there was no conflict between this project and the initiative addressing the structure of the Code. He also noted that the Board had considered the issue of survey fatigue at the March 2013 IESBA meeting and that the Board would further discuss how to coordinate information gathering. Mr. Fleck noted that the IESBA had considered the 14 out of 16 years issue, and felt that it would not reflect well on the IESBA if it were to do nothing. Ms. Orbea noted that it would not be appropriate to combine the survey details on this project with the requests for information on all the other projects.
- Mr Thompson commented that this project is important as it is linked to auditor independence. He was of the view that the definitions are key, especially given many debates about whether senior managers have an influence on the audit and whether they should be rotated.

- Mr. Finnell expressed the view that the notion of rotation may be more important for certain segments or industries (like insurance) than for others. He agreed on the importance of clear definitions.
- Mr Hansen noted that this topic was considered about five years ago in the U.S. as part of an investigation into the implementation of the Sarbanes-Oxley Act. A significant amount of research had been undertaken on this topic back then and remains available. He advised that the human capital aspect should not be ignored given that rotation has the potential to impact partners' families, such as by causing families to have to relocate because the partners have to be rotated off particular engagements and move to different offices. He noted his personal view that the "five years on" period is too short and it can be very disruptive if partners and their families have to move from office to office, especially with respect to specialized industries.
- Mr. Fleck suggested that there would be merit in obtaining the views of actual audit partners, particularly those responsible for large audits in complex or specialized industries. There may be views that five years would be enough or on the other hand that the audit is so complex and highly specialised that this period would not be enough. Mr. Thompson commented that as a former auditor, he thought that five years would be too short and ten years too long, and that auditors need a couple of years to become familiar with the assignment.
- Mr. Fleck noted that five-year-on rotations can be better for careers than seven as partners would be able to stay longer on the large audits. He noted that in the UK, auditors tend to be in their early 40s before they are assigned a listed audit. They may only have two or three major audits. If they get to 53 or 54 and have to consider whether to do one more audit, they may agree to a five-year period but not a seven-year one. Therefore, a seven-year-on period may create resource challenges for audit firms.

Mr. Fleck thanked Ms. Orbea for presenting this topic.

H. Update on European Union (EU) Audit Reform Developments

Mr. Fleck briefed the CAG on recent developments regarding the audit reform regulatory proposals in the EU. Amongst other matters, he highlighted the main issues being debated, including non-audit services, audit firm rotation and audit oversight reform.

I. Election of New CAG Chair

Mr. Fleck briefly announced the outcome of the election of the new CAG Chair held earlier in the meeting, noting that Mr. Koktvedgaard had been appointed as the new Chair from July 1, 2013. He congratulated Mr. Koktvedgaard on his election.

J. PIOB Observer's Remarks

On behalf of the PIOB, Mr. Hafeman thanked Mr. Fleck for his substantial contributions to the work of the IESBA as chair of the CAG. He congratulated Mr. Koktvedgaard on his election, which is subject to the PIOB's confirmation at its June 2013 meeting.

Mr. Hafeman commented that the advice provided by the CAG representatives on the Suspected Illegal Acts project was not as substantive as it might have been. He suggested that this situation might be avoided in future if attention were given to the following matters:

- Earlier distribution of meeting papers;

- Clearer elaboration of the issues on which the board is seeking advice; and
- A willingness of the representatives to provide advice.

He noted that advice from representatives will necessarily be based on a combination of their understanding of the views of the organizations they represent, together with their own knowledge and judgement. He expressed the view that it would be impossible to expect member organizations to anticipate every issue that might arise in the course of a CAG meeting and agree a position on it in advance of the meeting. He felt that excessive formalization of the positions would be likely to impair representatives' flexibility to contribute in an interactive manner, taking account of the points raised by others during the meeting. He noted, however, that if the views on an issue within a member organization are divided or are not yet fully developed, it would be useful for the representative to indicate so.

In relation to the IESBA's future strategy and work plan, Mr. Hafeman noted Mr. Holmquist's request for the representatives to come to the September 2013 CAG meeting with views on priorities of the possible projects. He noted the clear interest in the project on structure of the Code, which includes both short-term and long-term elements. He added that the time required to complete standard-setting projects (not just those of IESBA) is an issue of some concern to the PIOB. He therefore noted that the PIOB would be very interested in the views of the CAG members on the appropriateness of the timeline envisioned for the long-term portion of that project.

Finally, Mr. Hafeman suggested that all CAG representatives should do their best to schedule their travel to enable them to participate for the full meeting.

Mr. Fleck thanked Mr. Hafeman for his remarks.

K. Closing Remarks

Mr. Fleck thanked all the representatives for their participation, noting that it had been a privilege for him to chair the CAG. On behalf of IFAC, Mr. Sylph thanked Mr Fleck for his contributions to both the IESBA and the CAG. Mr Holmquist conveyed his appreciation of Mr. Fleck's contributions on behalf of the IESBA.

Mr. Fleck closed the meeting.