

**Draft Minutes of the Meeting of the
IESBA Consultative Advisory Group (CAG)
Held on September 10-11, 2013 in New York, USA**

(MARK-UP)

Present: Representatives of Member Organizations

Kristian Koktvedgaard (Chair)	BusinessEurope
Markus Franz Grund	Basel Committee on Banking Supervision
Matthew Waldron	CFA Institute
Marie Lang	European Federation of Accountants and Auditors for SMEs
Jean-Luc Peyret	European Federation of Financial Executives' Institutes
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Myles Thompson (10 th only)	FEE
Tom Finnell Jr.	International Association of Insurance Supervisors (IAIS)
Anne Molyneux	International Corporate Governance Network (ICGN)
Nigel James	International Organization of Securities Commissions (IOSCO)
Seiya Fukushima	IOSCO
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
David Morris	North American Financial Executives Institute
Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Bd.
Irina Lopez	World Bank

Observers

Martin Baumann ¹	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	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 (by telephone)	IESBA Member
Don Thomson	IESBA Member

IESBA Staff

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

<i>Regrets:</i>	Conchita Manabat	Asian Financial Executives Institutes
	Dr. Juan Maria Arteagoitia	European Commission (EC)
	Frederico Diomeda	European Federation of Accountants and Auditors for SMEs
	Georges Couvois	European Federation of Financial Executives' Institutes
	Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
	Glenn Darinzo	Institute of Internal Auditors (IIA)
	Andrew Baigent	International Organisation of Supreme Audit Institutions (INTOSAI)
	Linda de Beer	World Federation of Exchanges and IAASB CAG

A. Opening Remarks

Mr. Koktvedgaard welcomed all participants to the meeting. He welcomed, in particular, new CAG Representatives Mr. Fukushima (representing IOSCO), replacing Mr. Kuramochi; and Ms. Molyneux, (representing the ICGN), replacing Mr. Hallqvist. He also welcomed Mr. Hafeman, observing on behalf of the PIOB. Apologies were noted for Mss. de Beer and Manabat, Dr. Arteagoitia, and Messrs. Al Zaabi, Baigent, Couvois and Diomeda.

Mr. Koktvedgaard reported that the Long Association Task Force did not complete its analysis of the large amount of research data in the project in time for this meeting. Accordingly, he proposed that the CAG meet via teleconference in early October to consider this topic. Staff would circulate details of the arrangements in due course.

Mr. Koktvedgaard noted the trade-off between bringing the latest task force thinking on the projects to the CAG and distributing the agenda papers on a timely basis. Nevertheless, he took the opportunity to emphasize the importance of timely distribution of the papers. In this regard, he noted that for future CAG meetings, he had asked the staff to distribute a schedule of deliverables and expected timings well in advance of each meeting so as to better alert Representatives as to when to expect the papers.

The minutes of the April 2013 CAG meeting were approved as presented.

B. Review of Part C of the Code

Mr. Gaa introduced the topic, providing background to the project and the initial focus of the Task Force on the issue of pressure to engage in unethical or illegal acts and related matters (Pressure).

Representatives were supportive of the proposal to address Pressure as a new Section 3x0 in addition to Section 340,² rather than replacing it.

GENERAL COMMENTS

Representatives commented as follows:

- Mr. Hansen was of the view that the guidance should not address “unethical and illegal activities” as an alternative to “undue or inappropriate pressure” because pressure can lead to “unethical or illegal activities” through a series of steps.
- Mr. Ratnayake was of the view that inappropriate pressure can mean so many things, as can the concept of “undue influence.” Accordingly, he felt that the term “unethical and illegal activities” would be more useful.
- Ms. Molyneux noted that although pressure is not unethical per se, it can lead to unacceptable results. In this regard, she highlighted the recent case that made headline news where the CFO of an entity committed suicide, leaving behind a note citing pressure from the entity’s chairman. She wondered whether this was a case of unethical activity or undue pressure. She questioned whether there should be consideration of a sliding scale of undue pressure leading to illegal activities. Mr. Gaa noted that the concept of undue pressure is subjective and therefore difficult to apply consistently. Nevertheless, while the Task Force’s preference would be to focus on “unethical or illegal activities,” it would further consider the matter.

² Section 340, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*

- Ms. Blomme was of the view that the proposed description of unethical activities is too broad to be helpful to professional accountants in business (PAIBs). She also questioned the meaning of “interpretive guidance” in Part C and wondered whether the guidance would be sufficiently practical so that PAIBs could relate to it. Mr. Jackson noted that the Task Force would further consider the matter.
- Messrs. James and Hansen noted that the use of the term “illegal act” was no longer consistent with the proposal by the Suspected Illegal Acts Task Force to use the term “non-compliance with laws and regulations.” Mr. Gaa noted that the Part C Task Force had not yet caught up with the latest thinking on the Suspected Illegal Acts project but that the Task Force intended to align terminology at the earliest opportunity.

INFLUENCE OF CULTURE

The Representatives considered whether it is appropriate to acknowledge, in the Code, the diversity of ethical norms among organizations, industries and countries in order to alert PAIBs to the threats that such circumstances exist.

Representatives commented as follows:

- Mr. Hansen and Mr. Baumann were of the view that the proposed wording suggested that the Code would set a “movable bar” in terms of expecting PAIBs to calibrate their ethical behavior in accordance with the prevailing cultural norms. They did not believe that this would be appropriate for a code of ethics as they felt that the Code should aim to set a high standard of ethical behavior. Mr. Holmquist acknowledged that this would be difficult territory and that caution would indeed be warranted. However, he did not believe that this was what the Task Force had intended. Rather, he had read the draft wording as an alert to the PAIB. Nevertheless, he noted that the Task Force should reconsider the wording to try to avoid the suggestion of a variable standard. Mr. Finnell supported the concerns of Messrs. Hansen and Baumann.
- Mr. Grund was of the view that pressure is not restricted to high-risk environments. In this regard, he highlighted the example quoted by Ms. Molyneux where the case arose in a reputable company in a developed country.

OTHER COMMENTS

Representatives also commented as follows:

- Ms. Lang asked whether the guidance on pressure would also apply to professional accountants in public practice (PAPPs). Mr. Jackson noted that the IESBA had determined that consideration of the application of Part C to PAPPs should be deferred until a later stage in the project.
- Mr. Baumann questioned how the concept of an acceptable level of pressure to engage in unethical or illegal acts would be operationalized. Mr. Jackson noted that the Task Force had developed the proposed Section based on the Code’s conceptual framework. Nevertheless, the Task Force would reconsider the approach.
- Mr. Baumann suggested that the expectation that a senior PAIB should encourage an ethics-based culture should be cross-referenced to its source in paragraph 300.5.

- Mr. Ratnayake suggested that the guidance on safeguards should highlight the need to consider the risks involved for the person exerting the pressure so that he or she understands the risk of engaging in the unethical or illegal activity.
- Mr. Koktvedgaard suggested that there should be more discussion of preventive policies or procedures as the examples of safeguards appear more reactive. Mr. Jackson noted that the Code does not direct PAIBs to set up safeguards. The Task Force therefore was attempting to provide guidance on safeguards.
- Ms. Molyneux advised that the safeguards should make specific reference to independent directors as part of the escalation process as they would be expected to address the issue.
- Mr. Peyret noted that insofar as the finance function is responsible for oversight and monitoring of internal control, having a solid reporting line from the PAIB to the regional controller, and a dotted reporting line to the CEO of the division can be a safeguard and help alleviate some of the pressures.

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

[C-E Not Used]

F. Responding to a Suspected Illegal Act

Mr. Franchini introduced the topic, noting the progress on the Task Force discussions to date since he reported on the significant comments received on the Exposure Draft³ (ED) at the April 2013 CAG meeting. He noted that at its June 2013 meeting, the IESBA had confirmed the direction to take going forward regarding establishing a permission in the Code for a professional accountant to override confidentiality and disclose a suspected illegal act (SIA) to an appropriate authority when in the public interest to do so. He then outlined the main proposals in the straw man of an alternative approach to responding to a SIA.

Representatives commented as follows:

- Ms. Molyneux wondered if the straw man has been truly tested in a wide variety of legal environments. She noted that her career experience has been that the accounting profession and the ethics framework in a number of emerging economies are weak, and non-compliance with listing and corporate governance rules is endemic. She expressed the view that professional accountants (PAs) operating in those jurisdictions would likely not comply with the straw man proposals. She was of the view that the straw man should be tested in those types of environment, otherwise there will not be much disclosure. Mr. Franchini noted that the IESBA had received comments on the ED from a number of respondents from emerging economies. Notwithstanding that the straw man differs significantly from the ED in some areas, he noted that there was no clear distinction in view on the ED between respondents from emerging economies and those from other parts of the world. He added that the larger jurisdictions and IFAC member bodies did not highlight the ED as needing to be adjusted to address the particular circumstances of emerging economies. He noted that some respondents had pointed out that in a young democracy or in a non-democratic jurisdiction, there could be a problem with a disclosure requirement given uncertainty as to whether one will receive a fair hearing in court. There were,

³ August 2012 Exposure Draft, *Responding to a Suspected Illegal Act*

however, no other views on the ED as to whether the provisions should be different from one jurisdiction to another.

- Mr. Peyret noted that some years ago in his organization, a task force was set up to address the issue of pressure and suspected illegal acts, among other matters. The task force worked for three years on the topic and finally gave up for two main reasons: (a) the future of a whistle-blower when it comes to speaking out is limited; and (b) in France, the culture within organizations is such that individuals tend to follow instructions and not deviate too far from the norm. He highlighted the main conclusion from this observation is that the likelihood that there will be whistle-blowing is very low unless the organization has established procedures to deal with whistle-blowing. He noted, however, that after a series of accounting scandals, things are changing. In particular, the provision of documents before a judge is now allowed where it would be in the public interest to do so, and this is quite a change from a few years ago. In addition, while a few years ago in France, professional accountants in business (PAIBs) were not permitted to share their concerns with auditors, this has now changed as auditors are now regarded as internal to the entity. Mr. Franchini noted that this observation demonstrates the risk of establishing a requirement in a global Code in that such a requirement could conflict with local laws.
- Ms. Blomme noted that FEE is supportive of the proposal to align the term “illegal act” with the ISA terminology of non-compliance with laws or regulations. She also noted that while there was general agreement within FEE that there can be a number of “shall” requirements in the context of guidance (for example, the PA shall act in good faith), most within FEE felt that some of the requirements in the straw man were going too far (for example, 225.10, [123](#), 19 and 22). She felt that these should be more in the nature of guidance. With respect to the proposed presumption of disclosure in the case of a public interest entity (PIE) audit, she noted that FEE read it as a hard requirement. She also noted that while there was support for the override of confidentiality, the overarching concern of some was that the link between legal requirements and the Code requirements might be severed. She added that there was uncertainty as to what a “right to disclose where not prohibited” meant, as some in the EU saw this as going beyond their jurisdictional requirements. Mr. Franchini noted that the concept of a permission to override confidentiality where not prohibited already exists under the Code, and there is no intention to override a legal requirement. With respect to whether the presumption is “rebuttable,” he noted that this is implicit and that there are different views as to whether this needs to be stated.
- Mr. Hansen commented that the project is going in the direction where PAs would have a clear responsibility to report to an appropriate authority and an expectation from the public that this would happen. He was supportive of the proposal to align terminology with the ISAs, noting that the ISA term would be less pejorative. In relation to the use of the term “right,” he was of the view that this could be confused with a legal right. Accordingly, he suggested that the Task Force consider using other terms such as “permission” or “discretion.” In addition, he suggested that wherever possible, the wording used in the Code should be made as positive as possible (for example, in paragraph 100.5, rather than using the phrase “avoid any action that discredits the profession,” consideration could be given to using the phrase “conduct oneself in a way that would be a credit to the profession”). Mr. Holmquist agreed with Mr. Hansen’s comment regarding use of positive wording in the Code.
- In relation to paragraph 140.10, Mr. James wondered whether the term used should be a “duty” or a “right.” He felt that as drafted, this could mean any of these options whereas there are

implications for going either way. In relation to paragraph 225.18 regarding the PA's judgment as to what would be in the public interest, he questioned how the PA would be able to determine what is in the public interest. He felt that this type of judgment would best be left to regulators. He suggested that it would be better to take the public interest filter at the back end when thinking about the punishment as opposed to at the front end. Accordingly, he wondered what guidance could be provided to PAs to make a decision on behalf of society at large. In relation to paragraph 225.22, he wondered why there would be a need for the further conditions in paragraph 22(a)-(d) given that the PA would have already made the determination that disclosure would be in the public interest, and the fact that the PA would already have obtained legal advice. In relation to documentation, he noted that the encouragement to document is different from a requirement to document, which goes to the enforceability of the standard. He felt that the requirement to document when there is no disclosure where the presumption is rebutted would leave a gap. Mr. Franchini noted that the wording in paragraph 140.10 is that used in the extant Code but that the Task Force could consider the matter further. In relation to the public interest threshold, he noted the Task Force's and Board's view that it can be dangerous to couple such a threshold with a disclosure requirement. The straw man, however, couples it with a right to disclose, the intention being that in dire circumstances, the PA has a right to override confidentiality. He noted the Task Force's view that when linked with a right, the public interest threshold is an appropriate one. In relation to paragraph 225.22, he noted that the Task Force had found it difficult to use materiality as an alternative threshold but that the Task Force could revisit the reference to public interest in the lead-in to that paragraph.

- In relation to Mr. James's comment, Mr. Baumann commented that it is difficult for a PA to determine that a SIA is in fact material to the financial statements, and that this would be almost impossible in some cases. This is because, firstly, the matter is suspected; and, secondly, whether the non-compliance has a material impact on the financial statements is difficult to determine. Accordingly, he was of the view that the combination of uncertainty as to whether something may have happened and the need to think about whether this may be material to the financial statements is a limiting factor on the presumption. In relation to paragraph 225.22(a), he suggested softening the wording of "has a material effect" to wording such as "a reasonable possibility that" Mr. Franchini noted that with respect to paragraph 225.22, the Task Force was inspired by US Securities and Exchange Commission (SEC) Order 10(a). He agreed, however, that the use of the term "materiality" may need to be reconsidered as it is very sensitive, for example, a bribe that in and of itself may be immaterial but potentially could have a material impact on the financial statements. Mr. Baumann noted his different interpretation of SEC Order 10(A) in that it is more about considering the possible effect on the financial statements, not that the SIA *will have* a material effect on the financial statements.
- Mr. Fukushima suggested using civil or criminal liability as one example when the presumption of disclosure would not be applicable. With respect to a SIA that has a material impact on the financial statements, he noted that auditors usually have a responsibility to modify their audit opinions in such a case. Mr. Franchini noted that many SIAs may be identified early during the audit and not at the end. Accordingly, if the auditor were to resign early because the issue could not be resolved, the matter would remain undisclosed.
- Mr. Bluhm suggested a need to better understand why there is a difference in approach regarding PIEs and entities that are not PIEs, given the nature of the conditions in paragraph 225.22. Mr. Franchini noted that the IESBA had determined that there should be a distinction between

auditors and non-auditors given the greater imperative for auditors. He also noted that there is a greater fiduciary responsibility for PAs providing non-assurance services vs. PAIBs, and therefore there are different levels of public interest responsibility.

- In relation to the circumstance where the PA is resigning from the client relationship, Mr. James noted that the issue raised in IOSCO's comment letter on the ED is that the incoming auditor may not be aware of the SIA. He noted that IOSCO's suggestion was for the incoming auditor to be informed of the relevant facts by the outgoing auditor. Mr. Fukushima agreed with Mr. James, noting that the lack of communication between the incoming and outgoing auditors was one the main reasons why the significant Olympus fraud went undetected for a long time.
- Ms. Blomme wondered if the IESBA would consider the question of re-exposure. Mr. Franchini responded in the affirmative.

Mr. Koktvedgaard thanked Mr. Franchini for leading the discussion on the topic.

G. Structure of the Code

Mr. Thomson introduced the topic, summarizing the Structure of the Code Working Group's (WG's) preliminary analysis of research findings. Among other matters, he highlighted the importance of assessing options in the light of stakeholder views on the importance and urgency of the particular matters. He also noted broad support from stakeholders for restructuring the Code to enhance its usability, as well as support from a number of stakeholders for enhancing the visibility of the requirements in the Code.

GENERAL COMMENTS

Representatives commented as follows:

- Mr. Koktvedgaard suggested that a general overview or a summary of the purpose of each section and what issues it addresses, before the detailed provisions, would help users not familiar with the Code (such as investors) to better understand what the section is seeking to achieve. Mr. Thomson noted that this was consistent with the WG's thinking, adding that structuring the Code in a logical format can help achieve much progress.
- Ms. Blomme expressed support for the initiative and its direction, noting that the preliminary research findings are consistent with comments from those EU jurisdictions that are looking at what can be done in terms of enhancing the Code's usability. Mr. Thomson thanked FEE for its input to the project research, noting that the input was consistent with the WG's thinking.

ELECTRONIC CODE [AND RE-PACKAGING](#)

- Mr. Ratnayake asked what type of electronic code is envisioned. Mr. Thomson noted that the idea was to provide users with the flexibility to drill down into the Code and perform such tasks as sophisticated searches, etc. He noted that no decisions had been made and the WG would consider the matter further.
- Ms. Lang wondered if the WG had considered dialogue with stakeholders in terms of how the Code could be used and repackaged. She felt that if jurisdictions have already repackaged the Code for their specific circumstances, a repackaged the Code may not have any significant effect for them. However, if the repackaging were aimed at those who do not use the Code, then the effort would be worth undertaking.~~were appropriately repackaged for different audiences, there~~

~~might not be a need for significant change. Accordingly, she highlighted the need to consider the costs and benefits of repackaging. Mr. Thomson noted that the WG had indeed engaged in dialogue with stakeholders to understand their different perspectives on this matter. While the WG was expecting a significant degree of opposition to changes to the Code, this did not materialize. Instead, stakeholders were supportive of, and open to, changes being made to the Code. Therefore, generally the cost of repackaging was not felt by stakeholders to be a significant issue.~~

- Mr. Hansen wondered to what extent an e-Code would address Ms. Lang's question regarding level of acceptance of the Code. He noted that most standard setters have their own standards on the web, and it would be odd if IESBA did not move in that direction. Mr. Thomson noted that respondents did not necessarily indicate that an electronic Code is not appropriate but it was less of a priority for them compared with other issues such as the visibility of the requirements. He noted that in practice many users would [more](#) likely consult their national ethical codes than the IESBA Code.
- Mr. Holmquist noted that an electronic code might be a way of presenting the Code in a wholly different light and represent a wholly different way in which it could be used.
- Mr. Ratnayake asked how jurisdictions that include the Code in the law would "gazette" the Code if it were electronic. Mr. Thomson noted that he would still envision a printed version of the Code. The question, however, would be which version would be the official one. Nevertheless, he recognized that the format would need to enable different jurisdictions to adopt the Code.
- Mr. Koktvedgaard wondered if an evaluation of the reading grade of the Code could be done electronically, and if it would be possible to identify those paragraphs most in need of attention. Mr. Thomson noted that this could be done, although he suspected that the reading grade would be consistently high. Mr. Holmquist noted that this could be a good process suggestion in terms of having task forces put their draft changes to the Code through a reading grade system.

PLAIN ENGLISH

- Mr. Morris expressed interest in the idea of reading grade levels for the Code and wondered whether the WG had thought about a particular reading grade to aim for. In particular, he questioned the impact on the length of the Code if a lower reading grade were achieved. Mr. Thomson noted that the reading grades could help establish a discipline when drafting sections of the Code and that while it was unclear at this stage whether the IESBA should set a specific target, the IESBA could aspire to a lower reading grade. He noted that the examples in the agenda material were intended to prompt questions, such as the use of "you" in plain English drafting.

REPACKAGING

- ~~Ms. Lang wondered if the WG had considered dialogue with stakeholders in terms of how the Code could be used and repackaged. She felt that if the Code were appropriately repackaged for different audiences, there might not be a need for significant change. Accordingly, she highlighted the need to consider the costs and benefits of repackaging. Mr. Thomson noted that the WG had indeed engaged in dialogue with stakeholders to understand their different perspectives on this matter. While the WG was expecting a significant degree of opposition to changes to the Code, this did not materialize. Instead, stakeholders were supportive of, and open to, changes being~~

~~made to the Code. Therefore, generally the cost of repackaging was not felt by stakeholders to be a significant issue.~~

Mr. Thomson thanked the Representatives for their input and summarized the way forward and timeline.

H. **Non-Assurance Services**

Ms. Sapet introduced the topic, outlining the background to the project and the main outcomes from the June 2013 IESBA discussion of the project. She then outlined the revised project proposal and the purpose and main elements of the proposed NAS paper for consideration at the September 2013 IESBA meeting.

Representatives commented as follows:

- Mr. Hansen expressed support for moving forward with the project. He noted that he was on an American Institute of Certified Public Accountants (AICPA) attest Task Force that revised aspects of the AICPA's Code and that the task proved challenging. He was of the view that a significant part of the problem resides in the small- and medium-sized entity (SME) market, for example, whether a bank reconciliation is an internal control activity or a management responsibility, and whether or not a cash to accrual basis conversion is a non-attest service. In respect of the latter, he noted that the AICPA had concluded that this type of service is not an assurance service but a management responsibility. Ms. Sapet noted that all these matters could be considered by the Task Force with respect to whether useful guidance could be developed. She cautioned, however, that care would be needed regarding the level of detail to build into the Code as it would be important for the Code to focus on principles.
- In relation to communication with those charged with governance (TCWG), Mr. Ratnayake noted that practice can be inconsistent. He noted that in some countries, some within TCWG are interested in financial reporting matters whereas others are close to management. So the communication itself can give rise to good outcomes in some cases but not in others. Ms. Sapet noted that as the Code is for professional accountants, it is difficult for it to place an obligation on TCWG. She also noted that the IESBA had discussed the topic of communication with TCWG at some length in the Breaches project. However, the Task Force had not yet determined if there would be merit in TCWG being involved in approving NAS.
- Mr. Bluhme noted that the IFAC Small and Medium Practices (SMP) Committee was supportive of the topics included in the project proposal and that these were identified in the IFAC SMP Committee's recent survey of SMPs. However, he was of the view that the proposed timeline appeared aggressive.
- Ms. Blomme noted that in the context of the audit reform discussions in the European Union (EU), ~~although~~ the European Commission proposals are much more restrictive than the Coderecommendation is quite close to the Code, ~~but~~ the EU Parliament in its discussions has been taking ~~quite a restrictive view~~ very close to the Code. She was of the view that this simply demonstrated that there is significant room for interpretation, especially related to the provision of tax service, and taking management responsibilities. She observed, however, that the outcome of the project may not arrive in time for the EU discussions. Ms. Sapet acknowledged the short timeline for the project but noted the importance of moving timeously given the narrow scope of

the project and Ms. Blomme's comments about the IESBA's deliverables not arriving in time for the EU discussions.

- Mr. Hansen expressed support for a principles-based approach to the Code. At the same time, he noted that practitioners often ask whether specific services are permissible. Accordingly, he was of the view that application often moves to a rules-based approach from a practice perspective and he hoped the Task Force could be open to that. Ms. Sapet noted that the Task Force is aiming to develop guidance recognizing that there is room for improvement in the Code. She highlighted as an example the fact that some safeguards in the Code are difficult for professional accountants to implement. She emphasized, however, that the Task Force will not focus on rules. Nevertheless, she agreed that clarity was needed with respect to implementation. Mr. Holmquist felt that Mr. Hansen's observation was somewhat contradictory as the Code is actually a mix of principles and rules. He highlighted the Board's view that a rules-based Code would not be the way to go, not only because of the wide variation in legal frameworks around the world, but also because research has demonstrated that the greater the focus on rules, the less thinking professional accountants do. He noted that the reality is that the Code is principles-based but specific in certain areas.
- Mr. Ratnayake commented that the areas of internal audit and valuation services, and to some extent taxation services, are ones that can potentially give rise to conflicts relative to audit engagements. He was of the view that the fact that some jurisdictions have more restrictive provisions in these areas would warrant the Board's consideration. Ms. Sapet noted that the Task Force is aware that some jurisdictions are more restrictive than the Code in the areas of internal audit and valuation services. She nevertheless noted that the Task Force will consider the matter further.
- Ms. Lang noted difficulty in fully understanding the objective of the NAS paper. She wondered whether it would be more logical to complete the paper before undertaking changes to the Code if the objective of the paper were to establish support for the IESBA's position on NAS in the Code. Ms. Sapet noted that the Task Force had discussed this matter and that the NAS paper will be finalized and issued before the IESBA considers whether there is a need to do more on the Code. With respect to the three areas included in the scope of the project proposal, she noted that there was real data supporting a review of these areas.
- In relation to the NAS paper, Mr. Baumann noted that the larger firms have been acquiring a number of different businesses outside of audit in recent years, for example, cyber security. He wondered whether the project should look at new and emerging services and whether these are appropriately addressed in the Code. Ms. Sapet noted that the Task Force will consider in the paper new areas or services that professional accountants may provide in the future.
- Mr. Holmquist commented that he had become aware of the fact that in the US, the publication of the amount of fees firms earn from NAS provided to their clients has led to a reduction of NAS fees as a percentage of audit fees. Mr. Baumann noted that the comment is generally accurate, consistent with a general decline in NAS fees as a percentage of audit fees, although there has been a modest reversal in this trend recently. He noted, however, that in the US, firms have been acquiring a variety of businesses and that the PCAOB was monitoring this development closely.

Ms. Sapet thanked the CAG Representatives for their input, noting that like Mr. Franchini, this was her last CAG meeting as she will be retiring from the Board at the end of the year.

I. Future IESBA Strategy and Work Plan

Mr. Holmquist introduced the topic, outlining the background to the initiative to develop the IESBA's strategy and work plan (SWP) for 2015-2018 and explaining the rationale for the proposed extension of the current SWP through the end of 2014. Mr. Siong then briefed the CAG on the significant comments received from stakeholders in response to the January 2013 strategic review survey.

CAG Representatives commented as follows:

- Mr. Grund asked for clarification regarding the particular issues to be addressed in the proposed project on collective investment vehicles (CIVs). Mr. Siong explained that the related entity definition in the Code is based on control and significant influence, a construct which does not work well in relation to CIVs such as mutual funds. For example, while a fund manager or advisor may determine the types of financial instrument in which a collective vehicle invests, the manager or advisor does not "control" the vehicle in the same way that a majority owner of a corporation controls that corporation. Mr. Hansen noted that it is an independence issue and it can be complex. Mr. Holmquist added that the Board had been alerted that there could be significant issues in this area, especially given the large sums of money invested in CIVs around the world.
- Mr. Morris suggested categorizing potential projects or initiatives into two streams, administrative (i.e., restructuring the Code) and new guidance, and then determining how much resources each stream would require. He felt that this could help highlight that new guidance could be more important than restructuring the Code, and therefore perhaps giving development of the new guidance a higher priority. He was concerned that the Structure of the Code initiative could potentially be so large that it could displace the development of new guidance that might be urgently needed. Mr. Holmquist was of the view that if the potential projects and initiatives were divided into two streams (i.e., substance and form), the risk would be that substance would always trump form, and therefore work on form would always be put off. He highlighted that the Code has become very complex and many jurisdictions have still not adopted it. He added that adoption of the Code was not as high as it could be.
- Mr. Waldron expressed support for the strategic themes and identified actions in the draft consultation paper. In relation to the key factors determining potential actions and priorities, he felt that the references to "benefit to the public interest" and "enhancing trust in the profession" resonated from an investor perspective. He encouraged the Board to focus on developing communications that can be readily understood by investors (for example, one page summaries of relevant provisions in the Code), which can help help restore public trust in the profession. Ms. Molyneux agreed with Mr. Waldron.
- Mr. Fukushima thanked the IESBA Planning Committee for taking up some of IOSCO's suggestions in its comment letter to the strategy survey. He felt that if enforceability were improved, this would lead to greater acceptance of the Code. He also suggested consideration of a post-implementation review of new standards, noting that both the IAASB and the International Accounting Standards Board (IASB) have undertaken such an initiative and that it would be a good process to have in place. In this regard, he suggested that the Board could undertake in 2018 a review of the implementation of the recent changes to the Code addressing a breach of a requirement of the Code and conflicts of interest. With respect to enforceability, Mr. Holmquist noted that the IESBA will strongly defend the principles-based approach to the Code. He noted, however, that IESBA leadership will engage further in discussion of the topic with the International Forum of Independent Audit Regulators (IFIAR), IOSCO and the European Audit

Inspection Group (EAIG). With respect to post implementation reviews, Mr. Holmquist noted the potential for these to consume significant time and resources. Mr. Koktvedgaard noted that the draft consultation paper does not indicate the amount of resources each potential project would consume, and that this information could assist CAG Representatives in commenting on priorities. Mr. Siong noted that it was difficult at this stage to quantify the level of resources needed for the Structure of the Code initiative given that it is still in the research phase. Mr. Thomson commented that the Board would be better able to assess the resource commitment on this initiative before the SWP is finalized at the end of 2014.

- Mr. Fukushima wondered whether the Board's proposed consideration of the topic of enforceability would encompass development of guidance to further explain the concept of a "reasonable and informed third party" and the meaning of "public interest" in the Code. Mr. Siong noted that out of the nine topics included in the strategy survey as potential projects, the topic of further guidance on the meaning of the reasonable and informed third party test had come only seventh in terms of respondents' overall assessment of importance. With respect to a project on exploring a definition for the concept of "public interest" in the Code, he noted that the Board did not support prioritizing such a project, given a concern that this could lead to lengthy philosophical debates with little in terms of practical outcome. The Board, however, was open to considering commissioning staff publications that could seek to explain the concept and its limitations.
- Ms. Molyneux expressed support for the strategic theme of adoption and implementation. She was of the view that greater understanding of regulatory expectations of the profession would assist with respect to the implementation of the Code. In addition, she expressed concern about weak or inadequate oversight and related enforcement processes in many jurisdictions. While acknowledging Ms. Molyneux's comments, Mr. Siong noted that the Board's remit does not extend to enforcement of the Code. Mr. Holmquist felt that the external perception that the Code is a least common denominator was unjustified. He was of the view that while the standards in the Code may be too high for some jurisdictions, he would like to think that these jurisdictions are at least aspiring to meet those high standards. Ms. Molyneux agreed, noting that the Code represents an incentive in this regard. She felt that once there was a sufficient understanding of the complexities of the issues the Code addresses, there would be an improvement in terms of this aspiration becoming closer to reality.

Mr. Koktvedgaard thanked Messrs. Holmquist and Siong for leading the discussion on this topic.

J. PIOB Observer's Remarks

Mr. Hafeman congratulated Mr. Koktvedgaard on a successful first meeting. He commented that the discussions had been well organized and were interesting, all participants had the opportunity to comment, and the comments from Representatives had been helpful.

Mr. Hafeman informed Representatives that the PIOB had relaunched its website and more information about its work plan was now available. In addition, the website now provides a means for stakeholders to contact the PIOB to report matters such as perceived weaknesses in standards or how these are implemented.

Finally, he highlighted that the PIOB was planning to hold a one-day seminar on the topic of "public interest" on March 13, 2014 in New York. (Note: since the meeting, the PIOB has decided to postpone the seminar.)

Mr. Koktvedgaard thanked Mr. Hafeman for his remarks.

K. Closing Remarks

Mr. Koktvedgaard thanked the Board members and staff for their hard work, and all the Representatives for their participation. In particular, he thanked outgoing Representative Mr. Ratnayake for his contributions. He then closed the meeting.