

**Meeting:** IESBA CAG

**Meeting Location:** New York

**Meeting Date:** September 9-10, 2014

## Agenda Item

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### IESBA Strategy and Work Plan—Report-Backs

#### Objective of Agenda Item

1. To provide report-backs on proposals of CAG Representatives on this initiative as discussed at the September 2013 CAG Meeting and April 2014 CAG teleconference.

#### Status and Timeline of the Initiative

2. The IESBA issued its Strategy and Work Plan, 2014-2018 (SWP) consultation paper (CP) in December 2013. At its April 2014 meeting, the IESBA considered the significant comments received on the CP together with the IESBA Planning Committee's related recommendations, and the input received from the CAG.
3. The IESBA approved the final SWP at its July 2014 meeting.
4. Subject to the Public Interest Oversight Board's (PIOB's) confirmation of due process followed, the SWP is expected to be issued by early October 2014.

#### September 2013 CAG Discussion

5. Below are extracts from the minutes of the September 2013 CAG meeting and an indication of how the IESBA Planning Committee (PC) or the IESBA has responded to CAG Representatives' comments.

Matters Raised	Planning Committee/IESBA Response
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	Point accepted. The IESBA has clarified the essence of the issue in the SWP. See footnote 11, page 14, in <b>Agenda Item C-1</b> .

Matters Raised	Planning Committee/IESBA Response
<p>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.</p>	
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>Point accepted. See paragraph 62 of <b>Agenda Item C-1</b>.</p>
<p>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</p>	<p>Re post-implementation review process – point partially accepted. The IESBA noted that there may be practical challenges to implementing such a process for ethics standards. This is because, unlike other professional or technical standards, ethics standards do not lend themselves well to directly observable outcomes in terms of preventing or averting unethical conduct. The IESBA nevertheless agreed to consider the need for post-implementation reviews addressing selected aspects of specific</p>

Matters Raised	Planning Committee/IESBA Response
<p>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.</p>	<p>standards to determine whether these are being effectively implemented. This will be dependent upon feedback from stakeholders and any relevant issues identified under the IESBA's Emerging Issues initiative. See paragraphs 14 and 63 of <b>Agenda Item C-1</b>.</p>
<p>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.</p>	<p>Point considered. It would not be practicable to indicate the amount of resources needed for each potential project as this will depend on a variety of factors, including the nature and scope of each project and the complexity of the issues to be addressed. These will not be determinable until appropriate research for each work stream has been completed and the IESBA has deliberated and agreed the scope of the project. A case in point is the Non-Assurance Services project, the scope of which was not settled until the IESBA had completed the necessary research and considered the issues to be addressed.</p> <p>However, the SWP indicates under "Key Assumptions" that each staff member has capacity to support on average two standard-setting projects (or equivalents), which is based on past experience. See paragraph 48 of <b>Agenda Item C-1</b>.</p>
<p>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</p>	<p>Point partially accepted. The IESBA noted that the "reasonable and informed third party" topic was proposed as a possible project in the strategy survey and the proposal did not receive as much support from respondents as other proposals. Accordingly, the IESBA agreed that this topic should not be prioritized at this stage.</p> <p>Regarding the topic of the meaning of "acting in the</p>

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<p>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.</p>	<p>public interest," the IESBA had the opportunity to further consider it under its Emerging Issues initiative. Notwithstanding that the IESBA has had extensive discussions on the topic in the past, it agreed to monitor relevant developments through its Emerging Issues and Outreach Committee (EIOC) with a view to determining the need for additional guidance or other appropriate actions. See paragraph 70 of <b>Agenda Item C-1</b>.</p>
<p>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.</p>	<p>Support and point noted.</p>

#### April 2014 CAG Discussion

6. Below are extracts from the draft minutes of the April 2014 CAG meeting,<sup>1</sup> and an indication of how the IESBA Planning Committee or the IESBA has responded to CAG Representatives' comments.

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<sup>1</sup> The draft April 2014 minutes will be approved at the September 2014 IESBA CAG meeting.

Matters Raised	Planning Committee/IESBA Response
PERCEIVED EXCESSIVE CHANGES TO THE CODE	
<p>Mr. Kwok highlighted the perception among some respondents regarding excessive changes to the Code and their concerns about the consequential implementation challenges. He then explained the PC's responses and recommendations.</p> <p>Representatives commented as follows:</p>	–
<p>Mr. Waldron requested clarification as to how the regulatory environment has influenced small changes to the Code.</p>	<p>Mr. Kwok highlighted the proposed withdrawal of the emergency exception provisions pertaining to bookkeeping and taxation services under the Non-Assurance Services project. He noted that while there has been no evidence of abuse of these provisions, the Board has nevertheless committed to undertaking a project to explore whether these provisions could be withdrawn because of a regulatory perception that the Code was not robust because of them.</p>
<p>Mr. Hansen expressed the view that the IESBA should really focus on the robustness of the Code and seek to develop tools to address this. He noted that when he was in Brussels a few years ago in the context of the discussions regarding the European Commission's green paper on audit reform, he had the opportunity to discuss the threats and safeguards approach with a representative of a regulatory organization. The feedback was skepticism about the Code being adopted in Europe because of this approach, a view that Mr. Hansen felt was also shared by regulators in the U.S. Mr. Hansen added that to achieve broad acceptance of the Code, the Board should seek to strengthen it at least in some areas to give it greater enforceability.</p>	<p>Mr. Kwok noted that he was aware of such feedback, adding that while the Board promotes the Code as being principles-based, the Code does contain quite a number of clear prohibitions, such as those related to audits of public interest entities (PIEs). He added that the Code is intended for global application, with over 100 jurisdictions already having adopted or basing their national ethical requirements on the Code or otherwise converging with it, and therefore looking to the Code as an international benchmark. He commented that the challenge is to find the right balance for a code for global application while making sure to uphold stakeholders' trust in it. As an example, he highlighted that the Board has committed in the proposed SWP to address regulatory concerns regarding the robustness of the safeguards in the Code.</p>
<p>Ms. Molyneux recommended that the IESBA carefully consider the feedback in IOSCO's comment letter concerning the enforceability of the Code and the threats and safeguards</p>	<p>Point taken into account. The IESBA agreed to more explicitly recognize enforceability and the appropriateness of the threats and safeguards approach as important objectives under the strategic</p>

Matters Raised	Planning Committee/IESBA Response
<p>approach. She added that oversight and enforcement are poor in many countries, and accordingly there is a concern about allowing for too much latitude in the application of judgment. Mr. Kwok noted that the Board was fully aware of, and would duly consider, IOSCO's comments.</p>	<p>themes of maintaining a high quality Code, and promoting and facilitating adoption and implementation. See paragraphs 28 and 31 of <b>Agenda Item C-1</b>.</p>
<p>Mr. Koltvedgaard noted that Mr. Hansen had raised a relevant issue. He wondered whether, as a measure of success, one of the Board's aims could be to gauge the level of trust in and acceptance of the Code. He also felt that the responses to the CP appeared to come primarily from the profession and wondered whether the Board was receiving input from the right constituencies if its aim was broader acceptance of the Code. Mr. Siong responded that the regulatory responses represented the consensus views of large numbers of individual national regulators, for example, 17 national audit oversight bodies in the comment letter from the group of European audit regulators, and over 30 national securities regulators in the comment letter from IOSCO. Accordingly, he emphasized that the Board does give due weight and regard to the comments from the regulatory respondents. Mr. Kwok noted that the Board also endeavors to solicit stakeholder feedback through outreach, and in this regard he highlighted the Board's extensive outreach work over the last 18 months. He added that as a global body, the Board should ensure that the Code is operable around the world, and that while certain jurisdictions are further ahead in terms of adoption and implementation, others might not have reached the same stage.</p>	<p>Point taken into account. The Board has committed in the SWP to monitoring and documenting the extent of global adoption of the Code, as a proxy for the level of trust in and acceptance of the Code. See paragraph 59 of <b>Agenda Item C-1</b>.</p>
ADOPTION AND IMPLEMENTATION	
<p>Mr. Kwok highlighted respondents' suggestions for the Board to focus more on outreach to promote adoption and implementation of the Code. He also noted calls from some respondents for the Board to provide greater implementation support, such as through the provision of training materials,</p>	<p>–</p>

Matters Raised	Planning Committee/IESBA Response
<p>Q&amp;As, implementation guidance, and channels for consultation on technical issues. He then explained the PC's responses and recommendations, including the suggestion that the Board seek deeper collaboration with stakeholders.</p> <p>Representatives commented as follows:</p>	
<p>Mr. Hansen suggested that consideration be given to a hotline for users to raise issues, which would facilitate interactions. While resource constraints would preclude a 24-hour hotline, he felt that questions could be raised by email with a written response. Ms. Molyneux highlighted that video conferencing could be a useful tool to reach a wide audience as the World Bank had successfully used this in its work in Eastern Europe. Mr. Siong responded that the current level of staff resources would preclude a dedicated hotline manned by staff. He noted, however, that IESBA staff has endeavored to respond to ad hoc queries via email in the past. He added that the Board could consider providing a channel on its website for the submission of questions. Mr. Kwok noted that there was a genuine lack of staff resources. Nevertheless, he indicated that the suggestions would be highlighted for the Board's consideration.</p>	<p>Point taken into account. The IESBA will consider these suggestions as part of its commitment to supporting adoption and implementation, resources permitting.</p>
<p>Mr. Thompson acknowledged the role of IFAC member bodies in providing implementation support. From the perspective of the EU, however, he commented that it is the regulators who set the independence requirements. Given that the regulatory proposals concerning audit reform were now agreed in the EU, he emphasized a continued need to work with the European Commission.</p>	<p>Mr. Kwok indicated that the Board would take the suggestion into account in planning its outreach activities.</p>
NEEDS ASSESSMENT	
<p>Mr. Kwok outlined concerns from some respondents for the Board to undertake a proper needs assessment before commencing a project,</p>	

Matters Raised	Planning Committee/IESBA Response
<p>and also a perception from some of them that the Board is overly influenced by regulators. He then explained the PC's responses and recommendations, including the PC's view that there is scope for the Board to better communicate to stakeholders the rationale for undertaking a particular project.</p> <p>Representatives commented as follows:</p>	
<p>Mr. Fukushima noted that IOSCO's comments are discussed among its members from a public interest perspective and that its comments are supported by evidence from audit inspections. He also expressed a view that post-implementation reviews of the IESBA's standards would be important. Mr. Kwok responded that the Board does give serious consideration to the views of IOSCO and that it will continue to do so. With respect to audit inspections, he noted that the Board had already discussed the need for greater engagement with the regulatory community, including the International Forum of Independent Audit Regulators (IFIAR), to better understand issues pertaining to independence and ethics identified in audit inspections. Regarding post-implementation reviews, he indicated that this had already been discussed within the PC. The PC was of the view that given their nature, ethical standards generally do not lend themselves well to such reviews, unlike auditing standards which are more procedural and outcome-based. However, the PC was of the view that a less formal approach could be more appropriate, for example, on a standard such as Breaches where audit committees could be surveyed as to whether they are seeing evidence of improved transparency from auditors as a result of the standard.</p>	<p>See IESBA's response to Mr. Fukushima's comment on this matter during the September 2013 CAG discussion (paragraph 5 above).</p>
<p>Messrs. Waldron and Hansen agreed that regulatory trust in the Code is important. Mr. Hansen felt that in view of skepticism among some regulators about the threats and safeguards approach, it would be especially important for the</p>	<p>Point accepted. The IESBA has explicitly recognized the importance of engagement with the regulatory community, particularly IOSCO and IFIAR, in the SWP. See paragraphs 13 and 71 of <b>Agenda Item C-</b></p>



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<p>IESBA to strengthen its working relationship with regulatory bodies such as IFIAR and IOSCO. While he acknowledged that the Code needs to be applicable on a global basis, he felt that having the more advanced economies on board in terms of adoption would be a positive outcome. Mr. Kwok emphasized that the Board does give serious consideration to regulatory input. In this regard, he highlighted the Board's increased engagement with the regulatory community, and in particular with IFIAR and IOSCO.</p>	<p>1.</p>
ALIGNMENT WITH EU AUDIT REFORMS	
<p>Mr. Kwok highlighted the suggestion from a few respondents for the Board to seek to align the Code with regulatory developments concerning the statutory audit in the EU. He confirmed that the Board has been monitoring those developments closely with a view to considering whether these have relevance to the Code. Equally, however, he noted the PC view that it is important for the Board, as an international standard setter, to also monitor developments internationally through a global lens.</p>	<p>–</p>
<p>Mr. Koltvedgaard commented that from the angle of trust in the Code, there would be merit in considering the new EU audit regulations to identify aspects that may have global relevance.</p>	<p>Point noted. This will be considered by the EIOC.</p>
PRIORITIZATIONS OF WORK STREAMS AND ACTIVITIES	
<p>Mr. Kwok highlighted broad stakeholder support for the Board to proceed with the four work streams added to the Board's agenda in 2012, namely Long Association, Non-Assurance Services, Structure of the Code, and Part C. Mr. Siong then outlined respondents' significant comments on the proposed prioritizations of new work streams and activities in the SWP.</p> <p>Representatives commented as follows:</p>	<p>–</p>
<p>With respect to the topic of collective investment</p>	<p>Support noted.</p>

Matters Raised	Planning Committee/IESBA Response
<p>vehicles (CIVs), Mr. Waldron concurred with the PC view that while there is a relatively small number of professional accountants who deal with CIVs, there is a need to consider the specific independence issues related to audits of these investment vehicles given their size and extensive global reach. Mr. Hansen agreed, noting a real need to review the relationships involved with these vehicles given the vast sums invested in them.</p>	
<p>With respect to fee dependency topic, Mr. Fukushima clarified that this was a suggestion that IOSCO had raised in its response to the Board's January 2013 strategy survey and that as the Board has included the item in the proposed SWP, IOSCO had not again raised the suggestion in its response to the CP. For the avoidance of doubt, he confirmed that IOSCO supported inclusion of the item in the SWP. Mr. Hansen also supported this topic, noting a need for the Board to approach it more holistically, i.e., considering the issues not only from the perspective of the firm, but also from the perspectives of a particular office and a particular engagement partner.</p>	<p>Support and point noted.</p>
<p>Mr. Waldron expressed support for the Long Association project and felt that there was a strong link between this and the fee dependency topic. He was of the view that as the Long Association project moves forward, the fee dependency topic may also need to be drawn in, so there was a question of coordination of timing. He also supported consideration of appropriate actions in relation to the topic of audit quality.</p>	<p>Support noted. The Long Association project will likely be completed before the start of research work on the fee-related matters. Nevertheless, should inter-linked issues be identified, the Board will give due consideration to their implications.</p> <p>Regarding the topic of audit quality, the IESBA noted at a general level that any actions it undertakes to strengthen the Code, including with respect to auditor independence, are supportive of audit quality. Nevertheless, in the context of the recent finalization of the IAASB's Audit Quality Framework, the IESBA agreed to consider the need for appropriate action to complement any further actions the IAASB may determine to pursue to contribute to improving audit quality. See paragraphs 54-55 of <b>Agenda Item C-1</b>.</p>
<p>Mr. Fukushima noted IOSCO's support for the</p>	<p>Point noted and to be considered by the Structure of</p>

Matters Raised	Planning Committee/IESBA Response
<p>Structure of the Code work stream as a first step in the right direction. He was of the view that this work stream comprises a number of different elements, some of which could lead to improvements in the enforceability of the Code, and others not. He suggested that the Board prioritize the three or four aspects that would have the greatest positive impact on enforceability.</p>	<p>the Code Task Force.</p>
<b>OTHER MATTERS</b>	
<p>Mr. Koktvedgaard suggested consideration of streamlining project milestones and timelines to facilitate better alignment with the timing of the physical CAG meetings.</p>	<p>Mr. Siong responded that the various Task Forces are aware of the importance of obtaining the CAG's input, especially at important stages of the projects, and that they do endeavor to align project timelines with the timing of the CAG meetings. Nevertheless, this may not always be achievable.</p>
<p>Mr. Koktvedgaard suggested consideration of an “annual improvements” process to enable small changes to the Code to be fast-tracked. Mr. Hansen agreed, noting that this would enable the Board to be timely, relevant and responsive. Mr. Siong responded that the PC will further consider the matter, noting that any such process would likely necessitate a change to the Board's current due process, which would need to be coordinated with the International Auditing and Assurance Standards Boards (IAASB) as both boards share the same due process.</p>	<p>Suggestion considered but not accepted. The IESBA was concerned that its limited resources could be inappropriately diverted towards addressing matters of low or minor significance and away from issues of high importance. In addition, it felt that there will be a far less frequent need for minor changes to the Code in practice. Instead, it will consider specific guidance, including off-Code, on an as-needed basis.</p>
<p>With respect to the Board's emerging issues initiative, Ms. Elliot suggested a need to ensure that proper linkages are made among the various identified issues and that the approach to them be holistic.</p>	<p>Point noted.</p>
<p>Mr. Kwok invited Representatives' views on where the Board should prioritize its activities given the constraints on the Board's resources. Mr. Fukushima suggested that the Board determine areas of focus based on enforceability, a key message in IOSCO's comment letter. He added that the reference to a high-quality Code in the</p>	<p>Point taken into account. The SWP has recognized the need to address the themes of enforceability and clarity of the Code, and the appropriateness of the threats and safeguards approach – in particular through the work being done on the Structure of the Code project, and through the proposed new work stream on safeguards. The IESBA has also agreed</p>

Matters Raised	Planning Committee/IESBA Response
proposed SWP seemed to be just a mission statement. Instead, he felt that the IESBA should focus more narrowly on the three areas noted in IOSCO's comment letter, i.e., enforceability of the Code, clarity of the Code, and the appropriateness of the threats and safeguards approach, and prioritize projects accordingly.	to more explicitly recognize enforceability, clarity and appropriateness of the threats and safeguards approach as important objectives under the strategic themes of maintaining a high quality Code, and promoting and facilitating adoption and implementation. See paragraphs 28 and 31 of <b>Agenda Item C-1</b> .

**Material Presented – CAG Reference Paper**

Agenda Item C-1            IESBA Strategy and Work Plan, 2014-2018