

Meeting: IESBA CAG

Meeting Location: New York

Meeting Date: September 9-10, 2014

Agenda Item B-1

Emerging Issues—Report-Back

Objective of Agenda Item

1. To provide a report-back on proposals of CAG Representatives on this initiative as discussed at the March 2014 CAG Meeting.

Background to the Initiative

2. At its March 2013 meeting, the IESBA set up a working group to explore and develop working processes for the Board's Emerging Issues initiative. The aim of the initiative is to identify developments in the external environment around the world, outside of the Board's strategic planning process, that may have implications for the Board's strategy and work plan, require Board action or otherwise merit Board attention.
3. At its December 2013 meeting, the Board finalized the working processes for this initiative. At the same time, it agreed to establish a standing committee (the Emerging Issues and Outreach Committee, or EIOC) to oversee its activities in this area.
4. The EIOC held its first session with the IESBA CAG at the March 2014 CAG meeting.

March 2014 CAG Discussion

5. Below are extracts from the draft minutes of the March 2014 CAG meeting¹ and an indication of how the EIOC or the IESBA has responded to CAG Representatives' comments.

Matters Raised	EIOC/IESBA Response
Mr. Dalkin expressed support for the concept of identifying emerging issues. He noted that Representatives may be aware of potential emerging issues and wondered whether they were expected to raise those issues at the CAG. Mr. Hannaford responded in the affirmative, noting that the Board would welcome the CAG advising it of these matters during such sessions.	Support noted.
Ms. Blomme requested clarification as to how	Mr. Hannaford explained that the purpose of the

¹ The draft March 2014 minutes will be approved at the September 2014 IESBA CAG meeting.

Matters Raised	EIOC/IESBA Response
matters identified under this initiative would flow into the standard-setting process.	initiative was to identify potential emerging issues to present to the Board, which would then determine any appropriate action.
MG ROVER CASE	
<p>Ms. de Beer felt that there was a need to consider what it means to act in the public interest, noting that the PIOB had done some work in that regard. She suggested that there may need to go back to the definition of a public interest entity (PIE). However, she noted that it would not be advisable to make piecemeal changes to the Code but that it would be better to consider the bigger picture.</p> <p>Mr. Bluhm was of the view that there may be merit in considering the topic further as there is potential for a regulator to make decisions based on the precedent set by the case without an agreed definition of the public interest. Ms. Blomme agreed, noting that references to the public interest seem to be often made now that the Code is very much based on the concept of the public interest. While acknowledging the difficulty of defining the public interest, she felt that there is a need to consider what could be done to develop something useful that could be used to frame the concept.</p> <p>Mr. Hannaford noted that the Board had not yet considered whether to initiate a work stream to explore new guidance on the meaning of acting in the public interest. He added that the Board had not debated whether it agreed with the conclusions of the UK Financial Reporting Council (FRC) in the case.</p>	<p>Point and suggestion noted. The IESBA noted the challenge of defining the public interest, especially given IFAC's experience of such an endeavor. The IESBA also noted that it has had extensive discussions on the topic in the past without coming to a clear conclusion. As there is an appeal in the MG Rover case currently in process, the IESBA agreed to monitor the developments through its EIOC with a view to determining the need for additional guidance or other appropriate actions.</p>
<p>Mr. Dalkin wondered whether some individuals in the firm should have a public interest responsibility and not others. He felt that this question would merit further consideration. Mr. Hannaford noted that in the MG Rover case, the UK FRC appears to have attributed responsibility to both the firm and specific individuals within the firm.</p>	<p>Point noted.</p>

Matters Raised	EIOC/IESBA Response
<p>Ms. Lang noted that at the commencement of the engagement, she recollected (as a member of the general UK public) that the sale of MG Rover was considered to be in the public interest, as many jobs were expected to be initially protected. However, as time elapsed a handful of individuals appeared to have allegedly profited from the subsequent transactions and ultimately the several thousand jobs that were expected to be protected were ultimately lost. She wondered whether the actions of the PAs involved were only coming under scrutiny because the venture was unsuccessful, adding that it was possible that had it ultimately been a success, no questions might have been raised.</p> <p>Mr. Hannaford agreed, noting that a failed transaction would likely attract more attention than a successful one. He added that the case highlights whether there is a need to explain what it means to act in the public interest.</p>	<p>Point noted.</p>
<p>Ms. Blomme expressed a view that the UK FRC appeared to be judging the validity of transactions that took place several years ago, when a different economic and business environment existed, under current day expectations that were not applicable at the time.</p>	<p>Point noted.</p>
<p>Mr. Bhave suggested that the EIOC consider whether the defendants could have been prosecuted under the Code and, if so, whether the fines levied on the defendants would have been different under the Code than those imposed under the ICAEW Code. Mr. Thompson noted that the ICAEW has ethical standards based on the IESBA Code but that it was easier to take action against standards than against a code.</p>	<p>Points noted.</p>
<p>Mr. Dalkin wondered whether the EIOC had considered how to avoid becoming political on such issues, i.e., determining that there is an ethical issue because someone had lost his or her job.</p>	<p>Point noted. The EIOC is conscious of the importance of addressing the issues based on the fundamental ethical principles and not based what would win votes among the public.</p>

Matters Raised	EIOC/IESBA Response
AGGRESSIVE TAX AVOIDANCE	
<p>Mr. Koktvedgaard wondered whether a professional accountant could be held liable if he or she fails to give the best advice to the client. In this regard, Mr. Hansen expressed a view that professional accountants must provide the best tax advice to their clients.</p> <p>Mr. Hannaford noted that tax avoidance was different from tax evasion, the latter being illegal. Mr. Sylph noted that not only is tax avoidance advice legal, but also governments often use tax incentives to attract companies to invest in their jurisdictions. He felt that it would be difficult for the Board to address this issue as it had no influence on how jurisdictions choose to set tax laws. Nevertheless, he highlighted that IFAC was examining the issue separately.</p>	<p>Points noted.</p> <p>The IESBA noted that addressing this topic would likely be a complex endeavor given the diversity and complexity of tax laws and regimes, the influence of governmental policies, the cross border nature of the topic, and the range of stakeholders involved. The IESBA agreed that there is no immediate need for a standard-setting project in this area but that, through its EIOC, it should maintain a watching brief on international developments on this topic.</p>
<p>Ms. Blomme commented that this is a hugely complex issue, involving not only the ethical aspects but also a variety of legislation, cross-border complexity, a wide range of stakeholders, etc. She noted that the European Commission (EC) had set up an expert group to consider the topic in consultation with NGOs, of which FEE was a member. She added that given the complexity of the topic there was a need for a more holistic approach to consider the issues from different perspectives. She felt that developing a universal solution would be hugely challenging.</p>	<p>Point noted.</p>
OTHER MATTERS	
<p>Ms. de Beer wondered whether the Board had performed a review of who its key stakeholders are and whether there is a need for a more systematic approach to outreach in this regard, as opposed to merely carrying out general outreach activities.</p> <p>Mr. Hannaford noted that Mr. Holmquist had already been reaching out to key stakeholders such as IFIAR and IOSCO. Nevertheless, Mr.</p>	<p>Point taken into account. The EIOC will undertake a review of the Board's outreach strategy in the near future.</p>

Matters Raised	EIOC/IESBA Response
<p>Hannaford agreed that there is a need to undertake an assessment of the scope and focus of the Board's outreach activities. He invited suggestions on outreach from Representatives.</p> <p>Mr. Sylph noted that outreach meetings had taken place with not only IFIAR and the EC, but also the European Audit Inspection Group, IOSCO and several other regulatory bodies and other stakeholders. He indicated that Mr. Holmquist had been on an aggressive campaign to promote the Code, which the Board would continue.</p>	
<p>Mr. Hansen highlighted the issue of the impact of low audit fees on audit quality given the continuing global economic challenges. He suggested it might be worth discussing the topic with the IAASB from the perspective of audit quality.</p> <p>Mr. Waldron noted that research indicated that some investors were willing to pay for good quality audits.</p>	<p>Points taken into account.</p> <p>As part of its Strategy and Work Plan, 2014-2018, the IESBA has committed to exploring a number of fee-related issues raised by the regulatory community, including the topic of pressures on audit fees.</p>
<p>Mr. Dalkin suggested consideration of issues identified from peer reviews and regulatory inspections to determine whether there are common issues that may need to be examined by the Board. Mr. Hannaford noted that the EIOC planned to do that.</p>	<p>Point taken into account. This will be part of the EIOC's fixed agenda of items to consider going forward.</p>
<p>Mr. Koktvedgaard expressed a view that the increased prevalence of outsourcing of audit work could be an issue. However, he acknowledged that it was not clear whether this should be a matter for the IAASB or the IESBA to address.</p>	<p>Point taken into account.</p> <p>The IESBA noted that the issues being raised in this area appear to relate more to ISQC 1² in terms of ensuring that firms that engage third party providers comply with the relevant professional standards in those situations, including the relevant independence and other ethical requirements of the Code. Accordingly, the IESBA did not believe that there is an immediate need for a standard-setting project in this area.</p> <p>Nevertheless, the IESBA agreed that it should, in conjunction with the IAASB, seek to understand the</p>

² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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Matters Raised	EIOC/IESBA Response
	specific issues being raised by regulators and others on this topic, and consider the need to coordinate any potential action on this topic with the IAASB. In addition, the IESBA agreed that its EIOC should monitor developments in this area.