

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

**Held on April 4, 2014 via Teleconference**

(Mark-Up)

**Present: Representatives of Member Organizations**

Kristian Koktvedgaard (Chair)	BusinessEurope
Matthew Waldron	CFA Institute
Myles Thompson	Fédération des Experts Comptables Européens
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Lucy Elliott	Organization for Economic Co-operation and Development (OECD)
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board
Anne Molyneux	International Corporate Governance Network (ICGN)
Tom Finnell	United States Department of the Treasury

**Observer**

Brian Bluhm	IFAC Small and Medium Practices (SMP) Committee
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**IESBA**

Wui San Kwok	Interim IESBA Chair
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**IESBA Staff**

Ken Siong	Technical Director
Kaushal Gandhi	Technical Manager
Elizabeth Higgs	Technical Manager
Chris Jackson	Technical Manager

<b>Regrets:</b>	Conchita L. Manabat	Asian Financial Executive Institutes
	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

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*IESBA CAG Meeting (September 2014)*

Marie Hollein	Financial Executives International
Obaid Saif Hamad Al Zaabi	Gulf states Regulatory Authorities
Nigel James	International Organization of Securities Commissions
James Dalkin	U.S. Government Accountability Office
Martin Baumann	U.S. Public Company Accounting Oversight Board
Irina Lopez	World Bank
Linda de Beer	World Federation of Exchanges

## **A. Opening Remarks**

Mr. Koktvedgaard welcomed Representatives and other participants to the teleconference, noting the objective of the call. He welcomed in particular Ms. Elliott, participating in a CAG meeting for the first time. He then paid a brief tribute to the late IESBA Chair, Mr. Jörgen Holmquist, who had unexpectedly passed away the previous week. Participants observed a moment's silence in memory of Mr. Holmquist.

Mr. Kwok thanked Mr. Koktvedgaard for the tribute to Mr. Holmquist and added that it would have been Mr. Holmquist's wish that the Board's work continue. Mr. Fukushima conveyed condolences to the IESBA on behalf of IOSCO.

## **B. Strategy and Work Plan, 2014-2018 (SWP)**

Mr. Siong introduced the topic, providing background to the proposed SWP and an overview on responses received on the SWP consultation paper (CP). Mr. Kwok then summarized the key matters on which the IESBA was seeking the CAG's input, explaining the IESBA Planning Committee's (PC's) responses to the significant comments on the CP and its preliminary recommendations to the Board.

### **PERCEIVED EXCESSIVE CHANGES TO THE CODE**

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.

Representatives commented as follows:

- Mr. Waldron requested clarification as to how the regulatory environment has influenced small changes to the Code. 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.
- 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.

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 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.

- 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 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.
- 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.

#### ADOPTION AND IMPLEMENTATION

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, Q&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.

Representatives commented as follows:

- Mr. Hansen suggested that consideration be given to a hotline for users to raise issues, which would facilitate interactions. While resource constraints would ~~prevent~~ 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.
- 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. Mr. Kwok indicated that the Board would take the suggestion into account in planning its outreach activities.

## NEEDS ASSESSMENT

Mr. Kwok outlined concerns from some respondents for the Board to undertake a proper needs assessment before commencing a project, 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.

Representatives commented as follows:

- 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.
- 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 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.

## ALIGNMENT WITH EU AUDIT REFORMS

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. Mr. Kjørtvedgaard 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.

## PRIORITIZATIONS OF WORK STREAMS AND ACTIVITIES

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.

Representatives commented as follows:

- With respect to the topic of collective investment 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.
- 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.
- 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.
- Mr. Fukushima noted IOSCO's support for the 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.

#### OTHER MATTERS

- Mr. Koktvedgaard suggested consideration of streamlining project milestones and timelines to facilitate better alignment with the timing of the physical CAG meetings. 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.
- 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.
- With respect to the Board's emerging issues initiative, Ms. Elliott suggested a need to ensure that proper linkages are made among the various identified issues and that the approach to them be holistic.
- 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 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.

**C. Closing Remarks**

Mr. Kwok thanked all Representatives for their comments and noted that these would be duly shared with the Board. Mr. Siong then briefly outlined the way forward, noting the aim of seeking Board approval of the SWP at the July 2014 IESBA meeting.

Mr. Koltvedgaard thanked Representatives for making the time for the teleconference. He then closed the meeting.