

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

Held on September 9-10, 2014

(MARK-UP)

Present: Representatives of Member Organizations

Kristian Koktvedgaard (Chair)	Business Europe
Jaseem Ahmed	Islamic Financial Services Board
Linda de Beer	World Federation of Exchanges and IAASB CAG
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
James Dalkin	International Organisation of Supreme Audit Institutions (INTOSAI)
Seiya Fukushima	International Organization of Security Commissions (IOSCO)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Nigel James	IOSCO
Marie Lang	European Federation of Accountants and Auditors for SMEs
Irina Lopez	World Bank
Anne Molyneux	International Corporate Governance Network (ICGN)
Pat Sucher	Basel Committee on Banking Supervision (BCBS)
Myles Thompson	FEE
Matthew Waldron	CFA Institute
Gamini Wijesinghe	Sri Lanka Accounting and Auditing Standards Monitoring Board

Observers

Brian Bluhm	IFAC Small and Medium Practices (SMP) Committee (IESBA)
Vania Borgerth	Associacao Brasileira de Instituicoes Financeiras de Desenvolvimento (ABDE)
Lillian Ceynowa	U.S. Public Company Auditing Oversight Board (PCAOB)
Jane Diplock	Public Interest Oversight Board (PIOB)
Steve Harris	International Forum of Independent Audit Regulators (IFIAR)
Susana Novoa	PIOB

IESBA

Wui San Kwok	Interim IESBA Chair
Jame Gaa	IESBA Member and Part C Task Force Chair

Caroline Gardner	IESBA Member
Don Thomson	IESBA Member

IESBA Staff

James Gunn	Managing Director
Ken Siong	Technical Director
Kaushal Gandhi	Technical Manager
Elizabeth Higgs	Technical Manager
Chris Jackson	Technical Manager

<i>Regrets:</i> Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
Dr. Juan Maria Arteagoitia	European Commission (EC)
Martin Baumann	PCAOB
Lucy Elliott	Organization for Economic Cooperation and Development (OECD)
Tom Finnell	International Association of Insurance Supervisors (IAIS)
Marie Hollein	North American Financial Executives Institute
Conchita Manabat	Asian Financial Executives Institutes

A. Opening Remarks

Mr. Kocktvedgaard welcomed all participants to the meeting. He welcomed, in particular, new Representatives Mr. Wijesinghe (representing the Sri Lanka Accounting and Auditing Standards Monitoring Board), replacing Ms. Perera; and Mr. Ahmed, (representing the Islamic Financial Services Board, a new member organization of the CAG). He also welcomed Ms. Ceynowa as alternate for Mr. Baumann and Ms. Sucher, representing the BCBS. He also welcomed Mss. Diplock and Novoa, observing on behalf of the IOB, and Mr. Harris observing on behalf of IFIAR. Apologies were noted for Mss. Elliott, Hollein and Manabat, Dr. Arteagoitia, and Messrs. Al Zaabi, Bauman and Finnell.

Mr. Kocktvedgaard noted that Mr. Diomeda (representing the European Federation of Accountants and Auditors for SMEs), and Mr. Peyret (representing the European Federation Executives' Institutes) had stepped down from the CAG. He noted his thanks to them for their contributions to the CAG. He also noted that it was Ms. Blomme's last meeting representing FEE as she had reached the maximum term of service under the CAG Terms of Reference. He thanked her for her contributions to the CAG and noted that her replacement would be Ms. Noémi Roberts. Mr. Kocktvedgaard also noted that the CAG Membership Panel had endorsed the nomination of the Associação Brasileira de Instituições Financeiras de Desenvolvimento (ABDE). The nomination was awaiting IOB approval and he noted that Ms. Borgerth was representing the ABDE as an observer.

The minutes of the March 2014 CAG meeting and April teleconferences were approved subject to minor editorial changes. The minutes of the June 2014 CAG teleconference were approved as presented.

B. Emerging Issues

Mr. Siong introduced the topic, briefly highlighting how the IESBA had addressed the key comments from Representatives on the topic of Emerging Issues at the March 2014 CAG meeting.

Subject to editorial changes to align the report-back with the approved minutes, Representatives had no comments on the report-back.

EXTERNAL DEVELOPMENTS

Mr. Siong invited Representatives to raise any external developments of which they have become aware that should be considered by the IESBA.

Ms. Sucher highlighted a recent case in the U.S. where a large firm was engaged to provide a regulatory consulting service to a banking client relating to controls over transactions with sanctioned countries. The firm was found by the financial regulator to have shown a lack of independence and integrity by "sanitizing" its report to make it less damaging as a result of pressure from the client. Based on this finding, the firm was sanctioned by the regulator. She was of the view that cases such as this bring the profession into disrepute. She wondered whether this would have been addressed by the Code and whether there were any lessons to be drawn. Mr. Kwok responded that the case is one of certain individuals in the firm allegedly acting improperly. He highlighted acting with integrity as one of the fundamental principles in the Code and that this places an obligation on the professional accountant (PA) to act honestly. He also highlighted that one of the Board's current projects is addressing the issue of pressure on PAs to act unethically and that the Board would be considering a proposed exposure draft in this regard at its October 2014 meeting.

GLOBAL ADOPTION OF THE CODE

Mr. Siong briefed Representatives on the status of global adoption of the Code, noting that the information was compiled as of March 2014 with the assistance of staff from the IFAC Compliance Advisory Panel. He noted that the Board had considered this information at its April 2014 meeting. Among other matters, the Board had acknowledged a need to better understand the approach that jurisdictions have taken with respect to adoption of the Code, and the significant differences between the ethical requirements in key jurisdictions (e.g. the G20) and the Code.

The following matters were raised:

- Mr. Fukushima expressed a view that there was a need to have a clear definition of the terms “adoption” and “convergence” as these relate to the Code. He noted that the term “adoption” when referring to IFRSs can be more readily understood but less so when referring to the Code, in respect of which he felt it has a broader meaning. He wondered whether it would be appropriate to classify Japan in the Adopted category as he believed that the Japanese Institute of Certified Public Accountants (JICPA) translates and incorporates the Code into its code of ethics in a way that is other than complete adoption.
- Mr. Ahmed was of the view that the relevant issue is consistency across countries and that the Board should define adoption to mean the same thing everywhere. However, he acknowledged that this may not be achievable given the diversity of approaches to adoption and the wide variation in legal and regulatory frameworks around the world. Nevertheless, he encouraged the Board as part of its long-term goal to champion global adoption of the Code and to assist jurisdictions in overcoming the challenges to adoption. He also observed that the Asia/Oceania region comprises a good mix of common law and civil code jurisdictions. He wondered if the IESBA assisted the latter in adopting the Code.
- Ms. Diplock drew an analogy to cross border adoption of securities market principles, which entailed a complex process of methodology and measurement of adoption around the world. She noted that this would be a huge exercise if it were to be done in a credible way. Apart from the definitional issue, she noted that there would be a practical question of support and measurement to establish whether the standards have indeed been adopted. She felt that this would be a complex process that would need clear conceptual outlines.
- Ms. Blomme agreed with the above comments. She reflected on the experience in the EU when the ISAs were being considered for adoption. She noted the detailed reviews that were carried out then at the European Commission’s request to understand which member states had adopted the ISAs. She noted that this required a detailed understanding of the pluses and minuses at the member state level. She was of the view that beyond the broad adoption label, the picture may not be as rosy. She felt that carrying out a similar review for the Code would be time consuming and not straightforward.
- Ms. Blomme also noted that circumstances have now changed with the finalization of the new audit regulation in the EU. She felt that this would lead to increasing divergence between the approach for audits of PIEs and that for audits of non-PIEs. She was of the view that there was little hope that the Code would be adopted in the EU for the former. For the latter, however, she felt that the Code with its threats and safeguards approach was perfectly valid and adoptable. Given that there may be some hesitation now with the new audit regulation, she suggested that the Board identify appropriate targets for outreach in the EU where it believes it would have the

greatest likelihood of success. She added that while member states will be busy in the next two years implementing the new regulation, there would be an opportunity for the Board to provide helpful guidance to them based on the Code as the regulation does not explain how a number of its provisions should be implemented.

- Mr. James noted that different versions of the Code may have been adopted by different jurisdictions. This would add another dimension to consider in terms of the version of the Code intended when auditors refer to the IESBA Code in their reports.
- Ms. Lang shared Ms. Blomme's and Mr. James's views, adding that the data referred to the adoption of the 2009 Code even though changes had been made to the Code since then. She wondered if the adopting jurisdictions have processes in place to adopt subsequent revisions to the Code. She also noted that while the perfect end would be to have all jurisdictions fully adopting the Code, it might perhaps be better to aim to help those at the bottom rise up to a given level first, which would have the bigger impact for the public interest globally. Overall, however, she felt it was a positive surprise to see the extent of global adoption of the Code.
- In response to the various comments, Mr. Kwok outlined the background to why the Board was undertaking this exercise, noting the direct link to the strategic themes in the Strategy and Work Plan, 2014-2018 (SWP). He agreed that it would be beneficial to have clear definitions of the various categories of adoption, and outlined a possible approach to these. On the issue of granularity, he noted that it would be impossible to document the nature and extent of differences with the Code for all jurisdictions. However, the Board would plan to focus on the G20 and the major financial centers around the world, starting with presentations of the status of adoption in Canada and the U.S. at the October 2014 Board meeting. With respect to Mr. Ahmed's point about consistency, he noted that it would not be possible to have the Code implemented in the same way in all jurisdictions because of unique national circumstances. He highlighted that the Code deals with more than just independence matters and the provision of services. He hoped that jurisdictions would find the Code relevant and useful as a basis for developing their own ethical standards. In this regard, he noted that there has been initial contact with INTOSAI about its considering using the IESBA Code as a basis for revising its own code of ethics. In addition, he noted that the largest 25 networks of firms around the world have committed to having their policies and methodologies conform to the Code for transnational audits.
- Mr. Ahmed acknowledged that while there would be difficulties in achieving a consistent application of the Code globally, operational consistency at some level should be a goal. He was of the view that the fact that something is difficult to achieve should not affect its desirability or relevance. He felt that in the long term this would fundamentally enhance the value of the Code. Accordingly, he suggested that this be made an operational part of the SWP. Mr. Kwok emphasized the need to be realistic, as it would be impossible to have the strictest provisions in some jurisdictions (e.g. the inclusion of non-financially dependent grandparents in the definition of immediate family members) apply equally everywhere else. He noted that it would be acceptable to have no less stringent differences as compared to the Code at the national level provided there are good reasons for them.
- Mr. Dalkin noted from his experience working with supreme audit institutions around the world that the process of adopting universal auditing standards was relatively easy in comparison to adopting ethical standards. He suggested that one approach could be to develop a ratchet system for adoption of ethical standards whereby jurisdictions could move up one level at a time

as they progressed towards full adoption over time. He felt that this would be a long journey. Nevertheless, he was pleased to see from the data that jurisdictions have been making good progress towards adoption.

- Mr. Hansen noted that in the U.S., the code of ethics (excluding independence requirements for audits of listed entities) is for the most part the IESBA Code, with a few differences.
- Mr. Koltvedgaard noted that there are two ways to adoption, i.e., a legal process or pressure from the investor community such as through calling for a reference to the IESBA Code in the auditor's report. He felt that the latter approach could send a strong signal and wondered whether it could be a way forward. Ms. de Beer expressed skepticism that investors could drive the adoption of the Code as they did not have the force of law behind them. Mr. Kwok agreed with Ms. de Beer, noting as an example that in Singapore there is a proposal to adopt the latest IESBA Code as a regulation.
- Mr. Waldron expressed a view that the Board should aim for the Code to be the highest standard. Ms. de Beer noted that she understood that local circumstances could justify additions to the Code. However, if the trend is that jurisdictions are adding significantly to the Code, the Board should seek to understand what these are. The risk otherwise would be for the Code to become the lowest common denominator. Ms. Lopez agreed with Ms. de Beer, adding that the Code should be the standard to which jurisdictions should aspire. Ms. Lopez felt that it would be important to analyze what is missing in the Code so that it will be clear how the bar can be raised.
- Mr. Kwok explained that the Code is an instrument for global application. He noted that the Code needs to be operable across a large number of jurisdictions. He emphasized that the Code is still the gold standard to which many jurisdictions are aspiring. For some jurisdictions, however, he noted that they might have certain unique situations that they might want to address beyond the Code, and that this would be acceptable. Mr. Waldron disagreed, noting his view that the Board should aim for the Code to be the highest standard.
- Mr. Dalkin noted differences can be expected. As an analogy, the U.S. had always had ISA+, where there are requirements additional to those in the ISAs to cater to needs in the US.. Mr. Hansen indicated that this has also been the case for ethics standards. Mr. Ahmed noted that as jurisdictions in South East Asia were adopting IOSCO's harmonized standards for cross-border issuers, they were allowed national add-ons, so the resulting standards became IOSCO+. The intention, however, was that over time jurisdictions would move to fully harmonized standards.
- Mr. James noted that, as expressed in previous IOSCO comment letters, there is a perception that the Code is a lowest common denominator and not the highest standard. He expressed a view that a mindset change was needed as the explanation he often hears is that the Code is a global Code to help jurisdictions adopt. Without such a change, he felt that the Board would run the risk of continuing to be perceived as setting lowest common denominator standards as opposed to raising the bar for those at the bottom. Ms. Lang and Mr. Fukushima agreed with Mr. James.
- Ms. Sucher noted that the BCBS view would be to go for the highest standards. However, she acknowledged that the issue is not so simple, especially when considering the wide diversity around the world in the area of independence. However, she agreed that there is a perception issue. She felt that if the goal was to have the maximum number of jurisdictions adopting the Code, there would be a risk that the advanced jurisdictions will disregard the Code if the Board

does not go for the highest standards. Mr. Thompson agreed with Ms. Sucher's concern relating to the perception issue, but noted that there will always be countries that will wish to go beyond the highest common denominator. As an example, he noted that France has more stringent independence standards than the UK.

- Mr. Hansen was of the view that it is one thing to have the highest standards, but another to have compliance with them. Mr. Dalkin noted from his experience working on the ethics standards for INTOSAI that if those standards are set too high, they are simply ignored. Accordingly, he felt that there was a balance to be struck to achieve acceptance.
- Mr. Bluhm noted that he had never viewed the Code as being a lowest common denominator, just as he had never considered the ISAs as being the lowest common denominator. He did not believe that the concept of high quality standards equated to lowest common denominator.
- Mr. Kwok reiterated his views, and views the late chair of the Board, Mr. Holmquist, had stated at a previous CAG meeting, that the Code is not a lowest common denominator but it is a high quality Code. He highlighted that many jurisdictions around the world are still struggling, in practice, to reach the standards in the Code.

RECENT REGULATORY INSPECTION REPORTS

Mr. Siong outlined the main matters reported in the recent summary inspection reports from the International Forum of Independent Audit Regulators (IFIAR), the UK Financial Reporting Council and the Canadian Public Accountability Board. He highlighted in particular the need to better understand the nature of the inspection findings and their implications from a standard-setting perspective. Mr. Harris noted that he would convey these questions to the IFIAR Chair and Vice-Chair. He also noted that IFIAR would be completing a second round of inspection reports in the near future and that he would welcome any approaches from the Board to discuss the findings in due course. Ms. Blomme commented that this would be a point of focus also for the IAASB and that both boards should work together in that regard.

The following matters were raised:

- In response to a request from Ms. de Beer, Mr. Harris highlighted the key trends in the profession that the Investor Advisory Group he chairs at IFIAR was currently monitoring. These include:
 - An increase in the level of advisory/consulting services provided by the firms and the implications for audit quality.
 - The implications of the increasing commoditization of the audit.
 - The relevance and value of the audit, and auditors' ability to detect fraud.
 - The trend in big data and whether that has a positive impact on audit quality and investor protection.
 - Competition in the audit market and firm governance.

He acknowledged that the key issue is how to ensure independence is safeguarded and conflicts of interest adequately addressed. With respect to the banking sector, he noted that the key issue is how to ensure that Chinese walls are not breached.

- Ms. de Beer wondered whether there was any interaction between IFIAR and the Board. Mr. Kwok responded in the affirmative, noting that he and Mr. Siong would be attending the October

2014 IFIAR meeting. He noted that the Board was endeavoring to strengthen its working relationship with IFIAR. He also welcomed Mr. Harris's invitation to engage with IFIAR.

- Mr. Harris extended an open invitation for the Board to visit the U.S. PCAOB also, noting that he would bring the Board's interest in further liaison to the attention of the new chairs of the investor advisory groups at both IFIAR and PCAOB. Mr. Kwok noted that the Board will discuss a more proactive outreach strategy at its October 2014 meeting.
- Mr. Gunn highlighted that IFIAR had now established a protocol to provide formal comments to the IAASB on its exposure drafts and consultation papers. Mr. Harris acknowledged that this engagement had already started.

Mr. Koktvedgaard thanked Representatives for their comments.

C. Strategy and Work Plan, 2014-2018

Mr. Siong briefly highlighted how the IESBA had addressed the key comments and suggestions from Representatives at the September 2013 CAG Meeting and April 2014 CAG teleconference.

The following matters were raised:

- Mr. Ahmed complimented the Board on the strategic themes in the SWP, noting that they are similar to those of this organization. He wondered whether there was a structured process or a metric to measure and report outcomes. Mr. Kwok responded that the key is relevance and trust, and that these link to the third strategic theme of evolving the Code for continued relevance in a changing global environment. That theme in turn links to monitoring the progress of global adoption of the Code and understanding why key differences exist between national ethical codes and the IESBA Code, and why certain countries have not adopted the Code.
- Mr. Waldron agreed that metrics are important. In relation to outreach and communications, noting that investors had been grouped together with those charged with governance at the NOCLAR roundtables, he suggested that the Board report its interactions with investors separately. Doing so will assist in building positive perceptions that the Board is making progress in reaching out to that constituency. Mr. Kwok noted that the Board would take the suggestion into account going forward.

Representatives had no further comments on the report-back.

D. Long Association

Mr. Siong briefly highlighted how the IESBA had addressed the key comments from Representatives at the June 2014 CAG teleconference.

The following matters were raised:

- Ms. Molyneux wondered about the rationale behind the IESBA's conclusion not to cover the engagement quality control review partner (EQCR) under the same revised cooling-off provisions as the engagement partner. Mr. Kwok explained the role of the EQCR as a control over the work of the engagement partner. He noted that the Board did not believe it necessary to have another control on top of that control, particularly given that the Board has not received evidence that there is an issue with the EQCR's independence under the current provisions. Accordingly, the focus was more on the engagement partner. In addition, the EQCR is not usually known to the audit client as the EQCR has no contact with the client on audits. He indicated that the Board

has, nevertheless, included a specific question in the explanatory memorandum to the exposure draft to seek stakeholders' views on this matter.

- Ms. de Beer suggested that it may be necessary to drill down further into the evidence. She expressed support for the inclusion of a question on the matter in the explanatory memorandum, adding that it would be important to analyze the source of the responses. Mr. Koktvedgaard noted his satisfaction that the IESBA had included a specific question on the matter in the explanatory memorandum as the CAG had not provided a clear direction on this matter at the June 2014 teleconference.
- Mr. Waldron commented that recent audit inspection findings from the PCAOB focused on the EQCR, which suggested possible issues with the role of the EQCR. He suggested that some audits may be too large for one person.
- Mr. Hansen acknowledged that in some respects, the length of the cooling-off period is arbitrary. However, he noted that the role of the EQCR is unique in that it is the last stop in the review process before the auditor's report is signed. He indicated that there has been significant feedback from PCAOB inspections regarding the role of the EQCR. Accordingly, he stood by his previous views that the EQCR should be subject to the same cooling-off period as the engagement partner.
- Ms. Sucher indicated that she was not persuaded by Mr. Kwok's explanations. She noted that in her experience, the EQCR has often been involved in doing the audit work. Further, in some cases, the EQCR's lack of independence led to problems. She noted that the UK is moving towards covering the EQCR in the same way as the engagement partner. In addition, she noted the Basel Committee on Banking Supervision's view that the EQCR issue should be dealt with in standards. She indicated that there was no doubt that the regulatory focus on the role of the EQCR has increased.
- Mr. Koktvedgaard commented that during the June teleconference, Representatives from the investor community had strongly advocated for the EQCR to be subject to the same cooling-off provisions as the engagement partner. He encouraged Representatives to comment on the exposure draft.
- Ms. Ceynowa indicated that the IESBA could look at the PCAOB inspection findings but she did not feel that they indicated any lack of independence for the EQCR. She suggested that the considerations for the EQCR could be based on the U.S. SEC principles regarding the level of contact with the client and whether the EQCR had been party to the decision-making process on the audit. She added that it would be important to strike an appropriate balance.
- Mr. James suggested that as part of its outreach to IFIAR, the Board seek to obtain a clear understanding of the recent inspection findings. He noted that some of these findings involve the EQCR. Accordingly he felt that these might suggest evidence of the EQCR's familiarity or lack of independence being an issue.

Mr. Koktvedgaard thanked Representatives for their comments and asked that the Task Force bring the issues back to the CAG for further discussion in due course.

E. Responding to Non-Compliance with Laws and Regulations (NOCLAR)

Mr. Koktvedgaard introduced the session, inviting Representatives who attended the global NOCLAR roundtables to share perspectives from their participation in the events.

REPRESENTATIVES' FEEDBACK ON THE ROUNDTABLES

Mr. Dalkin reported on his participation in the Washington DC roundtable, noting that it would be interesting to see how different the responses were across the three roundtables. He felt that the event was well organized in terms of its format, including the use of breakout groups. In terms of outcomes, he was of the view that there a degree of consistency as some of the groups independently arrived at a number of similar observations. Mr. Waldron complimented the Board on the roundtable being very well organized. However, he highlighted the need to reconsider the categorization of the PwC Investor Resource Institute as it is not strictly an investor representative.

Ms. Blomme shared Mr. Dalkin's observations, noting that the Brussels roundtable was very well attended by participants from diverse backgrounds and that the breakout sessions were well thought out. She was of the view that the output was diverse and that the report-backs from the breakout sessions had identified a number of broadly consistent messages and take-aways. She added that the issues and discussions were more complex than just how to reconcile the views of the audit profession and those of the regulatory community. She indicated that the discussions were instead more focused on how the profession could make the proposals work. Ms. Lang agreed with Ms. Blomme, noting the high level of participation and the diversity of participants in the Brussels roundtable. She complimented the Board on organizing a successful event, noting that it had helped to raise the profile of the Board and the Code. Ms. Molyneux commented that the Brussels roundtable was well planned and run. However, she felt that apart from the initial consensus that doing nothing is not an option, views on the issues were diverse.

Mr. James noted that he was impressed not only with the diversity of the participants in the Washington DC roundtable but also with their seniority. He wondered whether there was a way for the Board to tap into this pool of senior individuals and their organization as potential members of the CAG or to contribute perspectives on other projects. Mr. Koktvedgaard noted the need to recognize that assembling this group of influential participants had required significant effort but he agreed that there was a question of how best to leverage the experience and expertise within this audience.

SUMMARY OF ROUNDTABLE FEEDBACK AND TASK FORCE PROPOSALS

Ms. Gardner re-capped the background to the project, highlighting the key objective of the project and the tentative forward direction the Board agreed in December 2013. She then outlined the main feedback from the three roundtables in Hong Kong (May), Brussels (June) and Washington DC (July).

The following matters were raised:

- Ms. Diplock congratulated the Board on the roundtables initiative and said it was a very good idea, but was disappointed that the weight of the reported outcomes seemed to favor the protection of the interests of the profession over that of the interests of investors and users. She wondered why that was. She asked whether the roundtables had a lot of people from the profession even if they currently worked outside it, and therefore were not recorded as practitioners. She noted the complexity of the matter and addressed the expectation of investors that there would be a duty to report criminal acts, and wondered how the "permission" concept would work. This could be a baseline expectation. Ms. Gardner noted in relation to the representation at the roundtables that it was almost inevitable that the event would attract a fair number of accountants and lawyers given the roles the Board was aiming to bring to the table, and that the overall representation at the roundtables should be considered in that context.

- Ms. Diplock also noted that in her experience, global standards are very difficult to set. She acknowledged that in some jurisdictions there may be unintended consequences when setting such standards. However, she was of the view that this should not mean that the Board should not set standards to which jurisdictions should aspire. She warned against a “lowest common denominator” approach.
- Mr. Dalkin commented that the view within his breakout group in the Washington DC roundtable was that the focus should be closer to financial statement audits. He noted that as the focus moves further away from laws and regulations relating to financial statements, the greater the practical issues. Noting as an example that the Dodd-Frank Act in the U.S. is quite a substantial piece of legislation, he observed that many auditors are not lawyers. Accordingly, there was a fair amount of discussion in his breakout group about the practical issues. He also noted discussion in his group about the practical challenges arising from differences in legal frameworks across jurisdictions.
- Mr. Ahmed noted his view that based on feedback he had received from those who attended the Hong Kong roundtable, the Board had achieved high quality outputs from the roundtables. He also noted that many of those he had spoken to in his region were looking for a stronger recommendation than the current proposals. He felt that NOCLAR issues were central to the global financial crisis, noting that these reflect a deeper problem in that accountants, particularly in banks, who reported concerns about dubious transactions were not listened to seriously by management or charged with governance. He noted that a number of jurisdictions in Asia that would be looking to taking up the Code would have preferred a stronger recommendation.
- Mr. Ahmed also noted that from the Islamic Finance perspective, ethics comes in at two different levels. First, a general requirement for a high level of ethical conduct for everyone. And secondly, in addition to the regular internal and external audit functions, a bank must have a Sharia advisory board which carries out internal audits of compliance with ethical requirements.
- Mr. Hansen noted that he did not hear participants at the Washington DC roundtable who were advocating a requirement in the Code for an auditor to report NOCLAR to an appropriate authority. Rather, what he heard from representatives from the firms was a commitment to endeavor to look for a practicable way forward. He agreed that firms should not be expected to be the police. However, he was of the view that they have a responsibility to the public, especially in the area of financial reporting, particularly fraud. He noted that there was discussion in his breakout group regarding the approach taken in Order 10A under securities regulation in the U.S. that embeds escalation to provide management with every opportunity to do the right thing. However, he noted his difficulty understanding why professional accountants (PAs) with a trust link to the public and licensed to perform an exclusive role in society would not have a responsibility to say something when it is not right.
- Ms. Molyneux noted that it was clear in the Brussels roundtable that there was no question that something has to be done. She felt that participants in that roundtable were heavily from the profession. She also reflected on her wider experience as a corporate director in that in some jurisdictions, those charged with governance are criminally liable for not providing appropriate guidance under occupational health and safety laws and regulations, such as ensuring that site workers are provided with protective helmets. She suggested that this type of more difficult issues should be brought into the debate in order to arrive at an end result that something must be done.

- Noting that she has not had an opportunity to discuss the issues within the Basel Committee on Banking Supervision (BCBS), Ms. Sucher was of the view that the perspectives of most BCBS representatives would be closer to an expectation of a duty to report for the PA. She noted that one of the reasons the BCBS has not been involved in the debate so far is that in most jurisdictions, there is already a requirement for auditors to report certain matters to banking supervisors. She added that in most jurisdictions, there is a legal or regulatory framework in place for that, with a safe harbor for the auditor and reasonably clear articulation of what is covered by the duty to report. She also noted that before the global financial crisis, most banking supervisors would agree that there had been little to no reports of such matters being made despite some evidence that such reports should have been made. Accordingly, she felt that there is a mindset issue in that even if a legal framework is in place, auditors and PAIBs are not reporting under it for a variety of reasons. So she wondered whether there should be a broader look at the mindset issue as she was not convinced that words alone would lead to an improved outcome. However, she felt that more definitive words would help in setting the tone.
- Ms. Gardner noted that the Task Force is well aware that major jurisdictions already require auditors to report suspected NOCLAR to an appropriate authority, mostly for public interest entities (PIEs) or listed entities, and that this should cover most of the issues one should be concerned about. She agreed that the question should be more what the Code can do to increase the likelihood of the right thing being done rather than simply providing more rules. She noted that much time had been spent focusing on whether there should be a requirement to disclose whereas the original objective of the project was how to ensure that PAs in different roles do the right thing when they come across suspected NOCLAR.
- Ms. Sucher acknowledged the intention to make the proposed standard more reasonable and practicable by narrowing its scope. However, she questioned the appropriateness of doing so if the intention was to also remove the duty to report suspected NOCLAR to an appropriate authority. Ms. Gardner noted that the Task Force was really focusing on both narrowing the scope and raising the bar in terms of the expectation of the PA.
- Noting the reference to the minority view in support of a requirement to report in the presentation, Mr. James emphasized the need to carefully categorize this minority view and understanding what those in that minority said. He concurred with some of Ms. Sucher's comments, noting that while PAs cannot be expected to know about all laws and regulations, it would be difficult to understand why they should not report a suspected NOCLAR in the public interest if management has not done the right thing.
- Noting that his comments would likely reflect the views of the Investor Advisory Group of the International Forum of Independent Audit Regulators (IFIAR), Mr. Harris noted a common denominator theme across the earlier comments from Mss. Diplock and Sucher, and Messrs. Ahmed, Hansen and James. He added that this was representative of what he had heard at the Investor Advisory Groups at both IFIAR and the U.S. PCAOB.

Ms. Gardner thanked Representatives for their helpful comments, noting that the concerns raised were very much at the heart of what the Task Force hoped would be a better proposal to what the Board had developed so far.

PRELIMINARY TASK FORCE PROPOSALS

Mr. Gardner outlined a proposed revised framework for PAs in different roles in responding to suspected NOCLAR. The following matters were raised.

Scope and Objectives

- Ms. Ceynowa cautioned against using the term “assisting management” in the objectives as this would raise independence issues. She suggested that a different term be used. Ms. Blomme and Mr. Dalkin agreed.
- Commenting in a personal capacity, Mr. Fukushima noted a perceived inconsistency between the objectives and the scope of the revised framework. He expressed skepticism about narrowing the scope of the proposals, noting that ISA 250¹ was designed to assist auditors in identifying material misstatements in the financial statements whereas the objectives of the proposals appear to be broader in scope. Based on discussions with some of his counterparts on IOSCO, he was of the view that the Code should address broader categories of NOCLAR that would significantly impact the public, such as bribery, money laundering and terrorist financing. Ms. Gardner explained that these types of issues would be covered under the second category of laws and regulations in the proposed scope. Ms. Sucher noted that she was unsure whether the examples of issues highlighted by Mr. Fukushima would all be covered under the second category of laws and regulations in the scope but she welcomed the Task Force’s intention to go beyond audits of financial statements. She cautioned that transposing elements from another category of standards may have an unintended consequence of missing out coverage of certain matters that should be addressed. She encouraged the Task Force to further reflect on this.
- Ms. Blomme felt that the meaning of the term “avert” in the proposed objectives was unclear. She also commented that the proposed scope seemed to be all related to financial statements and wondered what this would mean for a PA specializing in VAT matters. She suggested considering how such a situation would be dealt with under the revised approach. Ms. Sucher agreed with Ms. Blomme, noting that the scope appeared somewhat narrow given the different roles PAs can play.
- Mr. Dalkin felt that the phrase “to seek to avert” would give rise to an independence issue in the case of an external audit and that it would be better to use the term “to report” as this would not be participating with management. Ms. Gardner explained that the Task Force’s intention was to convey the concept of deterrence in that part of the objectives rather than what the response should be.
- Ms. Molyneux drew attention to some of the discussions within the Organization for Economic Cooperation and Development (OECD) when it was developing its anti-bribery convention. She suggested that some of the OECD’s thinking in that regard may assist the Board as it considers the challenge of how to make the proposals operable across borders.
- Mr. James suggested that the objectives make reference to the public interest to help set the appropriate tone and mindset for PAs under the standard. Mr. Hansen and Ms. Gardner agreed.

¹ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

- Ms. Ceynowa noted that the concept of prevention and detection is more a management responsibility. She added that under Order 10A in the U.S., auditors have a role to play when non-compliance has occurred, not so much in preventing NOCLAR.
- Expressing a personal view, Ms. Diplock felt that the first part of the objectives is essential. She was of the view that the second and third parts were more about what management does and not what auditors do themselves. She felt that the emphasis on the latter two parts was somewhat unbalanced. She suggested that the approach should be more about what auditors should do when they stumble across a NOCLAR.

Required Responses for Auditors

- Mr. Fukushima felt that the threshold of “other than clearly inconsequential” was subjective and that while ISA 250 might use it, this was in the context of audits of financial statements and the materiality levels as determined for the audit. He was of the view that the Code should deal with broader matters. He added that it was unclear what the denominator should be as a reference point for “inconsequential.” In relation to the options for further action, he expressed a concern about the suggestion of withdrawal from the engagement and the client relationship. He felt that withdrawal should not be an alternative to disclosure. Regarding the suggestion of informing the parent entity of the suspected NOCLAR in a component within a group, he noted that the parent entity may be unable to assess the impact of the NOCLAR if the component is based in another jurisdiction. Finally, he felt that the scope of the proposals should be broader than the scope of ISA 250. He was of the view that if the auditor identifies a suspected NOCLAR that may lead to material misstatement of the financial statements and management has not appropriately addressed the matter, the auditor should report the matter to an appropriate authority.
- Mr. Dalkin commented that from a U.S. perspective, a threshold of other than clearly inconsequential is a very low bar. He was of the view that a higher threshold would be needed, such as direct and material consequence. Mr. Waldron expressed support for a low threshold in this case on the grounds that if something is potentially illegal, such a threshold would resonate with those who have to deal with the non-compliance.
- Mr. Waldron noted that the reference to the status of the entity as a PIE/listed entity in the list of factors on which to base the determination of further action appeared to unduly narrow the scope. He was of the view that the scope should encompass non-PIEs equally. Mr. Hansen and Ms. de Beer also questioned filtering at the PIE level as they felt that the same ethical principles should apply with respect to all entities. Mr. Hansen also noted that PAs provide many non-audit services to clients that are not PIEs and that these have external stakeholders such as creditors.
- Mr. Waldron also wondered whether the requirement to discuss the matter with those charged with governance should be given greater prominence given the importance of independent audit committees to the process. Referring to the various references to management and those charged with governance in the proposed framework, Mr. Hansen noted that there is a distinction between those charged with governance who are independent of management and those who are not. He was of the view that this distinction is important when dealing with an independent board of directors.
- Mr. Bluhm expressed support for the proposed revised framework from an auditor’s perspective. Regarding the threshold of “other than clearly inconsequential,” he was of the view that auditors would have an appreciation of what is intended but he acknowledged the need for guidance

around this concept. Regarding the options for further action, he did not perceive them as being mutually exclusive. So he did not share the view that these could allow the auditor to turn a blind eye to the matter. He suggested that this be made clear.

- Regarding the proposed third party test, Mr. Bluhm was of the view that this can be effective and powerful if properly done. Ms. Sucher agreed, noting that in her experience the third party test can be very helpful in bringing an objective perspective to the issue as opposed to an internal view of it. Ms. Lopez was of the view that in applying the third party test, the auditor should ask whether the public interest has been served.
- Ms. Diplock suggested that the list of options for further action should also include a reference to the public interest.
- Referring to the option of withdrawing from the client relationship, Mr. Hansen highlighted a suggestion at the Washington DC roundtable about achieving the desired outcome through a “noisy” withdrawal. He disagreed with this suggestion as he felt that the issue is about having the courage to do the right thing. He was of the view that a noisy withdrawal could simply lead to the issue being perpetuated with the new firm. Ms. Sucher was of the view that withdrawing from the client relationship and saying nothing would be of no use to anyone. She felt that as in the UK there should be a framework in place for auditors to explain why they have withdrawn from the client relationship. Ms. Lopez was of the view that auditors should not simply stop at the withdrawal stage but that they should consider the need for further steps beyond that.
- With regard to the statement in the proposed framework that sometimes there may be no effective solution to the issue, Mr. Hansen felt that the standard should avoid making such a statement. Ms. Lopez and Mr. Ahmed agreed.
- Mr. Hansen did not believe that the guidance on taking legal advice or consulting with a professional body would contribute much to the standard as PAs know that they can always do so. He expressed a concern about issuing a document with guidance that would provide lots of opportunity for rationalization rather than setting out clearly what should be the responsibility for the public interest.
- Ms. Lang commented that PAs in the different roles need a workable standard as this would be in the public interest. She was of the view that the proposed framework was clear and comprehensive, adding that the outcomes from the roundtables demonstrated that the issue of NOCLAR is multi-layered. She noted that changing mindset requires education. She was of the view that there would be benefit in considering how to bring in the context of education in the longer term, which would also be in the public interest. Ms. Blomme agreed, noting that it is very much about the mindset and changing behavior.
- Ms. Borgerth commented that the discussion highlights that the topic of NOCLAR requires evolving thinking to develop a solution that can be applied on a global scale. As a professor, she agreed with Ms. Lang’s observations about the importance of education. She suggested that aspiring PAs should be taught how to work from an ethical platform.
- Mr. James wondered whether the list of factors to consider in determining the nature and extent of further action is intended to be comprehensive. He felt that there could be other factors to consider, including the seniority of the individual and the pervasiveness of the issue throughout the organization. With regard to documentation, he felt that there should be clarity as to what

should be documented. Finally, he wondered how the views from the roundtables and the CAG would be weighed by the Board, particularly when those views are in conflict with each other.

- Mr. Ahmed noted that in the aftermath of the global financial crisis, there has been a significant change in public expectations. He therefore felt that the topic of NOCLAR is of high importance and he commended the Board on addressing it. Given the change in public expectations, he was of the view that PAs should be prepared, but not necessarily required, to act as whistle-blowers. In this regard, he expressed strong support for the proposed framework, noting that the underlying concepts and process seemed clear and well thought out. He added that the proposed approach conveyed a sense of familiarity in terms of what auditors would be expected to do when they identify material misstatement in a bank audit.
- Ms. Blomme was of the view that the proposed framework would be workable from the perspective of the EU. However, she wondered why the proposed framework should not be an extension of ISA 250. She encouraged the IAASB to consider this. Mr. Gunn acknowledged the suggestion, noting that there had been ongoing liaison on the project between the IESBA and the IAASB, both at the leadership level and at the staff level. He noted that this dialogue would continue, adding that it would be important not to unwind what are clear obligations for auditors in an audit of financial statements.
- Ms. de Beer expressed support for the notion of a framework for auditors. However, she wondered whether this framework would be sufficiently clear and robust to lead the auditor to the right answer. Accordingly, she suggested that the proposed framework be tested through a real case.

Required Responses for Senior PAIBs

- Ms. Diplock commented that as well as setting up the framework, it was unclear whether the proposed changes to Section 300 would address the question of whether PAIBs are complying with the Code. She felt it important to ensure that compliance with the Code is embedded in the organization.
- Ms. Lang suggested that the Board liaise with the IFAC PAIB Committee to obtain its support for the proposed revised framework.
- Mr. Koktvedgaard agreed that achieving the right tone at the top is the right thing to do, noting that the emphasis should be not only on rectifying or remediating the issue but also on preventing NOCLAR.
- Ms. Blomme observed that the proposed framework may be much harder for PAIBs to apply than PAs in public practice as the latter may lose one client but the former may lose their livelihoods entirely. She noted that PAIBs will very often be forced to leave their employing organizations. She wondered whether sufficient consideration had been given to the potentially very serious consequences for them. Ms. Gardner noted that this had been discussed within the Task Force and that there would be appropriate conditions such as the availability of legal protection. However, she noted the Task Force view that there should be higher expectations for senior PAIBs such as CFOs given their roles and positions within the entity. Mr. Koktvedgaard highlighted Ms. Manabat's offline comments that there is an expectation for such individuals but the question was how far this should be taken.

- Mr. Waldron noted that his comments with respect to auditors applied also with respect to senior PAIBs.

Required Responses for Other PAs in Public Practice

- Mr. Thompson noted that many firms employ lawyers in the provision of tax services. He wondered whether these individuals would be covered by the proposed standard. Ms. Gardner confirmed that they would not be scoped in as the Code applies only to members of IFAC member bodies.
- Ms. Lang commented that the proposed approach for PAs in public practice other than auditors appeared to be a reasonable one. However, she indicated that she would like to test it within her organization.

Required Responses for Other PAIBs

Representatives had no comments on the Task Force's proposals with respect to other PAIBs.

OVERALL FRAMEWORK

Notwithstanding the discussion earlier in the session, Mr. Koktvedgaard asked whether Representatives were broadly comfortable with the overall framework as proposed. No objections were noted. Mr. Fukushima indicated that he had no comments at this stage as he would like an opportunity to comment further at a later stage. Mr. Koktvedgaard noted that the Board would discuss the proposals at its October 2014 meeting and that he would welcome hearing of any major objections from Representatives to the proposals before then.

WAY FORWARD

Ms. Gardner thanked Representatives for their helpful input. Mr. Kwok invited Representatives to provide any further substantive input before the October 2014 IESBA meeting, noting the plan to table a draft re-exposure draft for Board consideration at the January 2015 IESBA meeting. Mr. Koktvedgaard noted the possibility of accommodating a CAG teleconference before the March 2015 CAG meeting if that would be helpful but that this should be limited to matters of a pivotal nature. He also thanked Ms. Diplock for her input which was very helpful.

F. Structure of the Code

Mr. Thomson introduced the topic, recapping the background to the project and outlining the content of, and approach to, the proposed Consultation Paper Improving the Structure of the IESBA Code, including the illustrative examples. He also outlined the forward timeline for the project.

The following matters were raised:

- Mr. Ahmed asked if there had been any significant resistance from jurisdictions about making any changes to the Code. Mr. Thomson noted that when the research for the project was being undertaken, stakeholders highlighted the current structure of the Code as presenting a number of impediments to broader adoption of the Code. So there was no opposition for the Board to move forward with the project.
- Ms. Sucher welcomed the initiative and the work that has been done so far, noting that she has found the Code not to be very approachable. She also welcomed the Board addressing the issue

of who should bear responsibility for compliance with the requirements of the Code. On timing, she cautioned that stakeholders in the EU may not particularly welcome the issuance of the Consultation Paper at this time as they will be busy dealing with some of the most significant changes to audit regulation in many years. She was concerned that stakeholders may wonder how the proposed changes will work with the regulatory changes now being implemented in the EU.

- Ms. Blomme noted that FEE was very supportive of the project as it is very much in line with FEE members' views as to what would help them adopt the Code. She indicated that it would still be up to EU member states to decide if they would like a code behind the new EU audit regulation. She felt that this would be a difficult question to address given the potential for conflicts. Also, some member states have adopted the extant Code verbatim and they will rightfully wonder how they can move to the new structure. Accordingly, they may ask for help in moving to a restructured Code.
- With respect to the idea of positioning the independence requirements at the back of the restructured Code, Ms. Blomme wondered whether they could be split off as a separate document. Mr. Thomson noted that the Board has heard support from some stakeholders for splitting off the independence sections but also concerns from others about disconnecting it from the conceptual framework if it were carved out from the rest of the Code. In addition, concerns have been expressed about an undue focus by regulators and practitioners alike on the examples in the Code and not on the conceptual framework. Accordingly, the Task Force has endeavored to tie the linkage of the independence sections closer to the conceptual framework in the illustrative examples. Further, a potential complication arises where jurisdictions adopt the Code into law. Accordingly, there is a need to emphasize that the Code is principles-based.
- Ms. Molyneux suggested paying close attention to the translatability of key terms in the restructured code in some of the major languages other than English. Mr. Thomson noted that this matter is included in the project proposal. At this stage, the focus is on the principles underlying the restructuring but translatability will be considered in due course.
- Ms. Lang pointed out that references to "audit and review" should be to "audit and review engagements." She also suggested clarifying the meaning of the term "concordance."
- Mr. Ahmed noted that a matter regulators often raised with respect to the standards issued by his organization is the enforceability of the standards. He wondered how strongly this matter featured in the proposals. Mr. Thomson highlighted the references to the conceptual framework in a number of places in the illustrative examples. He also emphasized that it is necessary to consider not only the requirements but also the application material. In addition, a number of cross-references have been added from the requirements to the application material. He hoped that these would assist in facilitating more consistent application of the standards.
- Mr. James echoed Mr. Ahmed's comment, adding that requirements need to be clear for enforceability. He felt that the approach proposed was heading in the right direction. However, he thought that there was a lack of clear flow from the requirements to the application material. Accordingly, he suggested that the Task Force further consider the matter. With respect to the Consultation Paper, he suggested that wording be used to emphasize the Board's ownership of the project rather than stakeholders' concerns.

- Mr. Fukushima thought that clarity of responsibility for compliance with the requirements of the Code is an important part of this project. He acknowledged that the assignment of responsibility within each individual firm will depend on the size and other characteristics of the firm. However, he felt that the Code should specify who should be responsible for which particular aspect of compliance. As an example, he noted that where there is a breach of a requirement of the Code, the assessment of the consequences of the breach should be made at the firm or national office level and not at the engagement team level. He was of the view that the outcome of the Breaches project was unclear in this regard and that the restructuring project provided an opportunity for the Board to clarify the matter. Mr. Thomson noted that this would be difficult for a sole practitioner. He added that while there may be some typical ways to allocate responsibility, there are enough differences across firms that the allocation of such responsibility should be more appropriately left to firm policies. He noted that the proposals already included a requirement for firms to establish policies and procedures in that regard, which will enable identification of responsibility to be clear at the firm level. He acknowledged that in some jurisdictions there is the concept of an “ethics partner.” However, he noted that exploring such a concept would be going beyond the mandate of the Task Force.
- Mr. James noted that IOSCO had strong views on identifying specific individuals who should be assigned responsibility. He believed that escalating a breach of a requirement outside of those involved would be critical. He also wondered whether the Code’s approach to covering so many scenarios (sole practitioners, large firms, etc.) would be leading it to a “lowest common denominator” base, which would not serve the public interest well. Mr. Thomson reiterated that this matter is beyond the mandate of the Task Force and that the Board would consider it separately.
- Mr. Koktvedgaard commented that the Task Force should aim to bring up any new issues that are identified during the project to the Board for consideration as to whether to deal with them separately. The focus on the project, however, was on restructuring the Code. Mr. James acknowledged the scope of the project, noting that he was not suggesting that the Code be re-opened. However, he was of the view that the matter of responsibility for compliance with the requirements of the Code falls within the remit of the project. Mr. Fukushima agreed with Mr. James, noting that the Structure project provided an opportunity for the Board to clarify its intention in the Breaches standard. Mr. Koktvedgaard suggested that questions could be added to the Consultation Paper to seek stakeholder views on the matter.
- Ms. de Beer noted that it is important to keep to the scope of the project. She agreed with Mr. Koktvedgaard that it would be important to keep a running list of issues that arise. On the matter of separating the independence sections from the Code, she felt that it would be more user-friendly to move to separate standards. She noted that this would not be different from the approach taken with IFRSs or the ISAs. She felt that independence is so significant that it should not be “hidden” in the Code. On the matter of safeguards, she thought that the Code should state the minimum safeguards in each instance and link threats to specific safeguards. Mr. Thomson noted that an e-Code would help identify the standards more clearly. On the matter of minimum safeguards, he noted that this would depend on whether the Board approves a potential project on safeguards. Mr. Koktvedgaard suggested asking a question in the Consultation Paper on reorganizing the Code as separate standards.
- Ms. Lang noted that Mr. James raised an interesting debate as to whether it is possible to write a Code that is principles-based yet scalable. She felt that the issue concerns more the practicalities

of applying the Code than lowering the bar, i.e., how to develop standards that can be applied by all. She added that this debate is not part of the Structure project and could be addressed later.

- Mr. Koktvedgaard referred back to the discussion, in an earlier agenda item, on the difference in meaning between adoption of, and convergence with, the Code. He questioned whether the Consultation Paper should refer to adoption and convergence in the absence of widely understood definitions. He suggested that the Consultation Paper instead ask respondents to explain their approaches to adoption. Mr. Thomson noted that the Task Force will review the drafting on this matter.
- Referring to the Illustrative Examples, Mr. James felt that some of the provisions in the application material could be elevated to requirements. He encouraged the Task Force to reflect on this and also the “shall consider” requirements. Mr. Thomson noted that the main purpose of the Consultation Paper is to obtain agreement on the principles underlying restructuring of the Code. However, the Task Force would welcome suggestions on the Illustrative Examples.
- Mr. Kwok noted the following in response to Representatives’ comments:
 - The Board will reflect on Ms. de Beer’s suggestion on reorganizing the Code into separate standards.
 - He disagreed that the Code is a lowest common denominator. He noted that he would emphasize this in the Board’s annual report. He shared that shortly before his passing, Mr. Holmquist, the late Chair of the Board, had also specifically asked for this to be emphasized in the annual report.
 - It is likely that a project on safeguards will be approved by the Board. This project would consider the appropriateness, effectiveness and clarity of the safeguards in the Code.

Mr. Thomson thanked Representatives for their input.

G. Review of Part C of the Code

Mr. Gaa introduced the topic, recapping the background to the project and the progress to date. He noted that the proposed changes to all of Part C, except for Section 350 (Inducements) which will be dealt with under Phase 2 of the project, will be presented to the Board at its October 2014 meeting for consideration with a view to approval for exposure. He then led the CAG through the proposed changes to Part C of the Code.

PROPOSED REVISED SECTION 320²

Representatives had no further comments on the proposed changes to Section 320.

PROPOSED SECTION 370³

The following matters were raised:

- Referring to the guidance regarding the actions the PAIB may follow if the pressure would lead to a breach of the fundamental principles, Mr. Ahmed wondered whether they are meant to be

² Proposed revised Section 320, *Presentation of Information*

³ Proposed Section 370, *Pressure to Breach the Fundamental Principles*

treated sequentially. Mr. Gaa noted that the list is not intended to be sequential, nor would all the actions be necessarily relevant in each instance.

- Ms. Lang noted that she had asked at the previous CAG meeting why the issue of pressure was only being addressed in the context of Part C and not throughout the entire Code. Mr. Gaa noted that the Task Force had raised the matter of the relevance of Part C to professional accountants in public practice and that the Board had agreed to address the matter during Phase 2 of the project. He noted that the Code currently contains a brief mention of the matter but does not elaborate on it. Mr. Waldron supported Ms. Lang's question. Ms. Molyneux thought that the examples of pressure that could result in a breach of the fundamental principles seemed to be overly focused on financial matters. She noted that from her experience with companies issuing financial reports, the issue often concerns the commentary or narratives to make the message more acceptable to investors. Mr. Gaa noted that the examples were intended to cover a wide range of types of information. Mr. Waldron supported the examples and thought that they set the tone of this section is addressing.
- Mr. Koktvedgaard asked Representatives if they concurred with the proposed Section 370 not being drafted in the language of threats and safeguards. Ms. Molyneux believed that the concept of threats and safeguards is not widely understood outside practice. Mr. Hansen was of the view that the concept of threats and safeguards does not work in the same way for PAIBs as for firms. This is because individual PAIBs are impacted in a different way. Accordingly, he agreed that the approach taken to this Section was appropriate.
- Ms. Blomme asked how the proposed changes would align with the proposals under the Structure of the Code project. Mr. Kwok noted that the Board would consider this matter in due course. The plan was to go with the current structure and approach to drafting in order to issue the enhanced guidance to PAIBs as soon as possible.
- Mr. Koktvedgaard suggested ensuring that the proposed guidance regarding escalation be consistent with the approach taken under the proposals in the NOCLAR project.

Mr. Koktvedgaard asked Representatives if they had any further comments or concerns on the draft exposure draft. No further comments or concerns were noted.

PHASE 2

Mr. Gaa outlined the scope of Phase 2 of the project, noting that the Task Force was at an early stage of discussion on this part of the project. He then sought Representatives' input on useful sources of information to feed into the project and their perspectives on the issues and on whether the Code should acknowledge or address cultural differences as these relate to inducements. Mr. Gaa noted in this regard that the Task Force recognized the importance of having one global standard and not introducing a "movable bar."

The following matters were raised:

- Mr. Ahmed acknowledged that cultures around the world are indeed different but they are also changing. As examples, he noted that a number of countries in the EU had in the past allowed facilitation payments to be legally tax deductible but that this was no longer the case. Also, in some countries in Asia, there is a culture of gift giving but that was also changing. He felt that it would be helpful to have a simple ban, i.e., no gifts for all professional accountants.

- Ms. Diplock noted that the Code is global and that the issue of differential requirements has been faced by international standard setters for a long time. She felt that the Code must be clear as to what is allowed or not, and that it should be culturally neutral. This, she felt, would allow for a Code that would be much easier to implement and enforce. Accordingly, she felt that there should be some initial guiding principles.
- Mr. Gaa noted that the issue of bribery is not a developing country issue but that it exists everywhere around the world. Ms. Diplock noted that this emphasized the need for guidance in the Code.
- Mr. Thompson suggested considering practice in specific industries. For example, in the pharmaceutical industry, some are of the view that facilitation payments are acceptable in some countries but not others. He was of the view that there should be a clear baseline. Ms. Blomme noted that the Dodd-Frank Act in the U.S. deals with this issue clearly. In the EU, there has been a desire to do something similar with the so-called 'country by country' reporting. However, it would not be about prohibiting such payments but about disclosing them. She felt that this might be the first step, with the next step leading to a prohibition. She noted that the issue and challenge for multi-national groups are that the approaches around the world differ widely and that they have to comply with laws and regulations in different jurisdictions.
- In relation to useful sources of information, Ms. Molyneux suggested considering the large amount information available on the topic of bribery at the OECD, particular in the context of its Anti-Bribery Convention. Ms. Lopez highlighted that the World Bank's code of ethics is in the public domain and contains a specific provision dealing with gifts.

Mr. Gaa thanked the Representatives for their comments, noting that the Task Force would seek further input from the CAG on Phase 2 of the project at the March 2015 CAG meeting.

H. PIOB Observer's Remarks

Ms. Diplock congratulated the CAG on the discussions at the meeting, which she felt was conducted thoroughly in the public interest. She also congratulated the Board on the progress of its NOCLAR project.

Mr. Kocktvedgaard thanked Ms. Diplock for her remarks.

I. Closing Remarks

Mr. Kocktvedgaard thanked the Representatives for their high level of participation and contributions. He noted that this was Mr. Jackson's last CAG meeting as a member of the staff as he would be retiring at the end of October 2014. He expressed his appreciation for his support to him.

Mr. Kocktvedgaard then closed the meeting.