

Draft Minutes of the Public Session of the Meeting of the

IESBA Consultative Advisory Group (CAG)

Held on September 14, 2015

New York, USA

(MARK-UP)

Present: **Representatives of Member Organizations**

Kristian Koktvedgaard (Chair)	Business Europe
Jaseem Ahmed	Islamic Financial Services Board
Dr. Juan Maria Arteagoitia	European Commission (EC)
Vânia Borgerth	Associacao Brasileira de Instituicoes Financeiras de Desenvolvimento (ABDE)
James Dalkin (am only)	International Organisation of Supreme Audit Institutions (INTOSAI)
Lucy Elliott	Organization for Economic Cooperation and Development (OECD)
Nic van der Ende	Basel Committee on Banking Supervision (BCBS)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Atsushi Iinuma	International Organization of Security Commissions (IOSCO)
Nigel James	IOSCO
Marie Lang	European Federation of Accountants and Auditors for SMEs
Jean-Luc Michel	International Association of Financial Executives – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Patricia Miller	Institute of Internal Auditors (IIA)
Anusha Mohotti	Sri Lanka Accounting and Auditing Standards Monitoring Board
Anne Molyneux	International Corporate Governance Network (ICGN)
Noémi Robert	Fédération des Experts Comptables Européens (FEE)
Mohini Singh	CFA Institute
Myles Thompson	FEE
Matthew Waldron	CFA Institute and IAASB CAG Chair
Hüseyin Yurdakul	IOSCO
Observers	
Chuck Horstmann	Public Interest Oversight Board (PIOB)
Sherif Ayoub	Islamic Financial Services Board

Lillian Ceynowa	U.S. Public Company Auditing Oversight Board (PCAOB)
Dawn McGeachy-Colby	IFAC SMP Committee
Francis Nicholson	Institute of Internal Auditors (IIA)

IESBA

Dr. Stavros Thomadakis	IESBA Chairman
Wui San Kwok	IESBA Deputy Chair
Jim Gaa	IESBA Member, Part C Task Force Chair and EIOC member
Caroline Gardner	IESBA Member and NOCLAR Task Force Chair
Gary Hannaford	IESBA Member and Safeguards Task Force Chair
Marisa Orbea	IESBA Member and Long Association Force Chair
Don Thomson	IESBA Member and Structure Task Force Chair

IESBA Staff

James Gunn	Managing Director of Professional Standards
Ken Siong	Technical Director
Diane Jules	Senior Technical Manager
Kaushal Gandhi	Technical Manager
Elizabeth Higgs	Technical Manager

<i>Regrets:</i> Simon Bradbury	International Monetary Fund
Irina Lopez	World Bank
Conchita Manabat	Asian Financial Executives Institutes
Sanders Shaffer	International Association of Insurance Supervisors
Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities

A. Opening Remarks

Mr. Koktvedgaard welcomed all participants to the meeting. He welcomed in particular Mr. Horstmann as the PIOB Observer; Dr. Thomadakis, IESBA Chairman; the new CAG Representatives, Messrs. van der Ende, Iinuma, and Yurdakul; alternate Mr. Mohotti for the SLAASMB; and Mr. Nicholson as observer in support of Ms. Miller for the IIA.

The minutes of the March 2015 CAG meeting were approved as presented.

B. Long Association

Introducing the session, Mr. Koktvedgaard acknowledged that on this particular project, it may not be possible for the IESBA to reconcile the views of all respondents to the August 2014 Exposure Draft. However, he encouraged all Representatives to provide input during the session, noting the importance of a conclusion to the long association debate at the November/December 2015 IESBA meeting.

Ms. Orbea introduced the topic, providing background to the key issues. She highlighted in particular the March 2015 CAG discussion on the issue of the cooling-off period for the engagement quality control reviewer (EQCR) on audits of public interest entities (PIEs). She outlined the subsequent Board deliberations on the issue, including consideration of the impact of different options on audit quality and SMPs. She also briefed Representatives on the feedback received from the National Standard Setters liaison group, FEE and the IFAC SMP Committee. She then led Representatives through the Task Force's further analysis and proposals on the issues.

COOLING-OFF PERIOD FOR THE EQCR ON PIE AUDITS

Ms. Orbea summarized the debate concerning the EQCR cooling-off period and the continuing concerns among some stakeholders that the EQCR should be subject to the same five-year cooling-off period as the engagement partner (EP). She explained that the Board had agreed in principle on a middle-ground position, being five years for EQCRs on audits of listed entities and three years on audits of PIEs other than listed entities.

The following matters were raised:

- Mr. Hansen thanked the Board for responding to his concerns, noting that any outcome on this issue will necessarily incorporate a degree of arbitrariness. He was of the view that the "middle-ground" approach was reasonable, balanced and responsive to the public interest vis-à-vis investors while at the same time recognizing global diversity in PIEs. Ms. Robert, although concurring with Mr. Hansen, expressed a concern about the complexity of the provisions and how their implementation will be monitored. She suggested that the IESBA strive towards more harmonization. However, she acknowledged the need to find a consensus. Mr. Ayoub wondered how to achieve more effective adoption and implementation if the revised proposal were to move forward in different jurisdictions.
- Mr. Ahmed noted opposition to these proposals mainly from the private sector that did not favor fixed rotation periods. He commented that some jurisdictions are moving in an opposite direction by removing fixed rotation periods in general, but retaining them for state-owned enterprises. He was of the view that the IESBA's proposals could play a role in influencing those jurisdictions regarding the merits of rotation in addressing threats created by long association. However, with regard to state-owned enterprises, he noted a trend towards global convergence, even in those jurisdictions discussing removing fixed rotation periods, which are keeping them in place for such

entities. He congratulated the Board on the middle-ground approach, which he felt was a balanced proposal.

- Mr. James noted that the Board appeared to have considered Representatives' views on this issue and that the new proposal seemed more balanced than the previous proposal. He observed that non-listed PIEs can include very large entities such as financial institutions, which would not be covered by this new proposal. He wondered whether the Board had considered such entities. Ms. Orbea noted that the Board did consider the matter, adding that the Board had tried to find a balance that took into account the diversity of non-listed PIEs. She noted that ISQC 1¹ requires EQCRs to cool off only on audits of listed entities, adding that many jurisdictions that have defined what a PIE means would have the ability to change that definition or make rotation stricter. Mr. James observed that coverage of financial institutions seems to be a recurring issue and wondered whether it would be appropriate to exclude them from the scope of the proposals. He encouraged further Board consideration of this issue.
- With respect to Mr. James's question regarding financial institutions, Mr. Hansen inquired about the Code's definition of a listed entity, noting that if there is any lack of clarity the provision would be difficult to apply. Ms. Orbea explained the Code's definition of a listed entity, noting that she was not aware of any interpretation issues. She added that the Board had adopted a broad definition of a PIE to allow jurisdictions to recognize specific types of non-listed entities that they deem to be of public interest and that should therefore be subject to the same provisions. Thus, some entities covered under the PIE definition in some jurisdictions are small entities such as charities. Hence, the revised proposal took a slightly stricter approach for listed PIEs vs. non-listed PIEs.
- Ms. Molyneux complimented the Board on steering the course to this middle-ground proposal, noting that from an investor perspective, there is a need for a clear and robust principle. She commented that when making the distinction between listed and non-listed PIEs, it is necessary to think about them being PIEs. However, the focus should remain on the public interest and, therefore, there is a need to make clear that this proposal represents a minimum. Accordingly, she encouraged further emphasis on enhancing standards. Mr. Hansen shared Ms. Molyneux's view regarding the focus on the public interest.
- Expressing a personal opinion, Mr. Iinuma noted that the middle-ground proposal was quite different from the original proposal that was exposed. Accordingly, he was of the view that there should be re-exposure. Dr. Thomadakis commented that the Board would consider the need for re-exposure after concluding its final discussions as part of due process.
- Ms. McGeachy-Colby noted that the IFAC SMP Committee did not support having the same cooling-off period for EQCRs as for EPs on the grounds that the roles are different. With regard to non-listed PIEs, she noted that ISQC 1 is adopted and implemented differently in different jurisdictions. She expressed a concern that the extension of the EQCR cooling-off period from two to three years for non-listed PIEs would represent a significant change for SMPs. She therefore supported re-exposure of this provision. Ms. Orbea acknowledged that adoption and implementation will not be easy. She noted that moving away from the current 7/2 partner rotation regime will give rise to a need for much guidance, including FAQs. She noted that the Task Force had discussed this matter at length.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- Regarding adoption and implementation, Ms. Molyneux commented that there would be benefit in greater transparency as to how the provisions are applied, for example, through a series of reviews regarding how jurisdictions are applying the provisions to listed entities and other PIEs. Doing so would help illustrate good practice and provide motivation for improvement by virtue of national peer review. Such reviews would also assist investors to better understand accounting and auditing practice in the jurisdictions in which they invest. Accordingly, she advocated a post-implementation review of the revised proposals.
- Echoing Mr. Ayoub's comment regarding monitoring of adoption and implementation, Ms. Robert suggested that the IESBA could make a link with the work of the IAASB concerning the role of the EQCR in ISQC 1. She was of the view that it should not be just for the IESBA to address the issue regarding the EQCR but that it would be better for ISQC 1 to address it. Dr. Thomadakis responded that the IESBA had already been liaising with the IAASB regarding coverage of non-listed PIEs under ISQC 1. Mr. Gunn noted that the IAASB had already initiated work regarding financial institutions and a review of ISQC 1 in tandem, although it is still early days. He added that the two boards were liaising on the issue of an EP moving immediately into an EQCR role and the scoping for the EQCR cooling-off requirement under ISQC 1.
- Mr. Horstmann commented that he was very impressed with the focus on public interest in the discussion. He noted that the PIOB had not concluded on this issue. Accordingly, he was expressing his personal views. He felt that adding complexity to the Code is not warranted unless this has been carefully thought through. He also felt that the impact of the principle might be lost if it is too nuanced. He noted that entities sometimes move into different categories, so this would need some reflection too. He added that historically the Board had strived so that its principles apply across all types of entities but had decided that a distinction was needed for PIEs in certain areas, an approach that the public understands. He felt that slicing this distinction further could risk losing the principle. Mr. Dalkin concurred with Mr. Horstmann, noting that the more complex the provisions, the more challenging the implementation becomes. He added that INTOSAI had in the past needed to rewrite some of its standards because of implementation difficulties.
- Regarding the comments about complexity, Mr. James noted that complexity should be put into context as the provisions could be much more complex than they are now. He added that there is some simplicity as the provisions do not affect every type of partner. In addition, the range of entities under consideration has been narrowed. He agreed with Ms. Molyneux that the Board should strive for the higher standard in the public interest and not lower the bar for everyone. Ms. Orbea responded that the Board does strive for the higher standard in the public interest. However, it does also recognize that there are other public interest considerations that come into play, including audit quality principles. Dr. Thomadakis noted that the whole Board had very consciously thought about the issue of complexity. He observed, however, that the reality itself is very complex. Accordingly, any attempt to achieve a balance will itself be complex. He added that the middle-ground proposal may be inconvenient in some ways. However, it is balanced in a complex world.

LENGTH OF COOLING-OFF PERIOD – RECOGNIZING DIFFERENT LEGISLATIVE OR REGULATORY REQUIREMENTS

Ms. Orbea summarized the proposal that there be one specific alternative to the EP and EQCR five-year cooling-off period in restricted circumstances where jurisdictions have established different but robust legislative or regulatory safeguards to address the threats to auditor independence created by long association. The proposal is that in those circumstances the EP and the EQCR be required to cool off for a minimum of three consecutive years rather than five.

The following matters were raised:

- Mr. Thompson supported the proposal because it addressed a potential conflict with European legislation that mandates a three-year cooling-off period for key audit partners (KAPs).
- Mr. Ahmed suggested that it would be useful to frame the debate by reference to the direction taken by some large jurisdictions such as the EU, which have high governance standards and which have implemented mandatory firm rotation (MFR), cooling-off for KAPs on PIE audits, etc. By framing the decision as part of this broader picture as opposed to simply making a decision per se, this would enable stakeholders to see that the proposal has overall merit and enable them to accept a global solution.
- Mr. Hansen commented that fundamentally, he saw some logic to the proposal. However, he wondered whether MFR and individual partner rotation are reconcilable given that they have different objectives. Ms. Orbea acknowledged that MFR does not go to the heart of an individual's familiarity threat. However, although the two forms of rotation have different objectives, when coupled, they serve to provide a more robust framework to address long association threats.
- Referring to the phrase "implemented a regulatory inspection regime" in the proposal, Ms. Molyneux wondered whether more robust guidance might be provided as some inspections regimes are robust but not others. Mr. James commented that there was a need to understand the type of regulatory inspection regime that was envisaged and, in particular, whether this was intended to refer to an audit oversight body that belongs to the International Forum of Independent Audit Regulators (IFIAR), or that has enforcement powers, etc. Ms. Orbea responded that the Code already refers to the concept of an oversight authority. However, it would be beyond the Board's remit to define what is a good inspection regime.
- Mr. James wondered whether the reference to a ten-year MFR provision was overly specific and whether it might not be more appropriate for the Board to consider a more principles-based approach to take account of the variety of MFR periods in different jurisdictions. Ms. Orbea explained that the Task Force had previously presented a more principles-based option but that the Board had determined that more specificity was required to mitigate the potential for misuse. She added that the Board was comfortable with the proposal as it was understandable and easy to apply without leaving matters open to interpretation.
- Ms. Borgerth noted that in Brazil, MFR is imposed in addition to partner rotation, and it is 10 years if the entity has an audit committee and five years if it does not. She indicated that this was more restrictive than what the IESBA was proposing.

RESTRICTIONS ON ACTIVITIES THAT CAN BE PERFORMED BY A KAP DURING THE COOLING-OFF PERIOD

Ms. Orbea summarized the Board's considerations leading to the proposal which allow an expert on a technical matter to be consulted in restricted circumstances, and the activities permitted for a former KAP during the cooling-off period.

The following matters were raised:

- Mr. Dalkin was not supportive of the proposed provision. Except in the case of a small firm, he did not believe that there would be only one individual in the firm with the necessary technical expertise. Ms. Molyneux agreed with Mr. Dalkin, believing that the proposal clouds the principle and that the relationship should be broken. Mr. Hansen generally agreed that "off means off." However, he noted that the individuals who cool off often are a fount of knowledge. Accordingly, he was of the view

that such knowledge could be tapped into as long as the individual cooling off is not be part of decision-making process on the current engagement. Mr. Ayoub supported the principle that “off means off.” He acknowledged that an individual being off an engagement could cause operational difficulties for firms and clients. However, he noted that it is not easy to write a provision to prevent the relationship from being influenced as there needs to be a clear indication that this individual cannot directly or indirectly influence the decision-making process.

- Ms. McGeachy-Colby commented that those who have the greatest influence are the EP and the EQCR. She indicated that these individuals should be trusted as professionals and therefore that they will not inappropriately influence the engagement. However, there is a need to see how the provision would be implemented. Mr. James commented that the concept of rotation exists because bias can develop over time which the individual might not recognize, not because there is a lack of trust. He expressed support for a stronger stance.
- Mr. Thompson noted that a similar provision is already used in the UK without any problem. He noted that the issue can be more complex, especially in highly specialized areas such as the financial services industry. He noted that seeking advice outside the firm can be difficult given potential liability issues. In addition, he noted that the proposal already restricted the provision to circumstances where there is no other individual with the necessary expertise in the firm. He therefore supported the proposal.
- Mr. Ahmed wondered whether the Task Force had considered a requirement that a second partner in the firm work with the EP as is the case in some jurisdictions. He was of the view that this could be a mitigating measure.
- Ms. Ceynowa indicated that the proposal seemed to address smaller firms. She noted that the PCAOB has an exemption for smaller firms as long as they are subject to inspection.
- Ms. Orbea explained that the Board did not believe that there should be a small firm exemption. Rather, the Board was aiming to set principles that can be applied by any firm with proper consideration of the circumstances. She added that the Board cannot prevent individuals from circumventing the requirements. She emphasized that the principles should be in the public interest as they give due regard to audit quality. She commented that it is important for individuals to be available for consultation in the rare situation where there is no other person with suitable expertise available. She noted that the provision might find greatest use in smaller firms.
- Ms. Molyneux commented that the issue was one of principle. She added that if an exception is made, then it must be justified, transparent and documented so that a third party is able to review any decision taken against an objective standard. Ms. Orbea explained that the Code does not allow for exceptions to compliance with requirements because such exceptions are breaches which need to be reported to those charged with governance (TCWG). She explained that the Code does not have a mechanism for exceptions unless they are written into the provisions.
- Ms. McGeachy-Colby supported the proposal on the grounds that it is balanced with appropriate safeguards. She commented that in a small firm environment, clients are looking for partners with expertise. She was of the view that more audit quality is delivered when the appropriate individual can be consulted. Ms. Lang, supporting Ms. McGeachy-Colby's view, commented that the consultation issue is not isolated to smaller firms. Ms. Orbea acknowledged that the proposal is more likely to apply to smaller firms. However, she emphasized that the proposal is not a small firm exemption.

- Ms. Molyneux inquired whether the Board had considered the perception issue in terms of the EP being seen to continue to influence the relationship. Ms. Orbea indicated that the whole project is about addressing perceptions. She therefore confirmed that the Board did consider the issue of perception at length.

ENHANCEMENTS TO THE GENERAL PROVISIONS (GP)

Ms. Orbea summarized the enhancements to the GP, commenting there were no significant changes to them, either because of support from respondents, or insufficient rationale for change to the ED proposals. Ms. Orbea led representatives through the provisions.

The following matters were raised:

- Ms. Ceynowa wondered whether there should be concurrence with TCWG where, in the circumstances outlined in paragraph 290.153, ~~no regulatory exemption from partner rotation has been granted~~ a regulator may provide no general exemption but may grant individual one-off exemptions on a case-by-case basis.
- Mr. James inquired about the Board's approach to highlighting that rotation should also be considered for firm personnel other than partners. Ms. Orbea explained that coverage of the issue had been added to the GP² so that if a firm determines that the threats relative to these other individuals are significant, then their rotation from the engagement is the necessary safeguard. She indicated that this principle can be further emphasized in the Basis for Conclusions.

WAY FORWARD

Mr. Koktvedgaard noted that the CAG overall was supportive of the Board moving forward with the project. Ms. Orbea thanked the Representatives for their comments, noting that the Task Force would take into account their input in preparing the agenda material for its next meeting.

C. Review of Part C of the Code – Phase I

Mr. Gaa introduced the topic, summarizing recent CAG and Board discussions on the project. Among other matters, he outlined the background to the project, key milestones including the issuance of the exposure draft (ED) in November 2014, the Task Force's initial review of significant comments from respondents to the ED and proposed revisions presented at the June/July 2015 IESBA meeting, and next steps.

He then outlined significant comments received on the ED along with the Board's feedback. The main comments from respondents concerned: how the "fair and honest" principle is linked to the fundamental principles; clarity regarding the concept of "reasonable steps" and guidance on such steps; the case for differentiating guidance between "senior" Professional Accountants in Business (PAIBs) and other PAIBs; removal of the distinction between pressure of breach the fundamental principles and routine pressure; and the Board's decision not to define pressure.

The following matters were raised.

GENERAL MATTERS

With respect to the nature of responses received on the ED:

² In paragraph 290.149B

- Mr. Dalkin wondered how PAIBs had been represented in the responses. Mr. Gaa noted that the Part C initiative had started with research into what are the most prevalent issues among PAIBs. He indicated that the Board has historically received a limited number of responses on its EDs directly from PAIBs. Task Force member Ms. Ighodaro added that reaching out to PAIBs as an individual stakeholder group was difficult due to the range of organizations they could work for. Hence, to obtain input from PAIBs, reliance tends to be placed on the views of IFAC member bodies, especially those with a large number of PAIBs as members. Mr. Siong highlighted that the Part C Task Force included two PAIBs, including a member of the IFAC PAIB Committee.
- Mr. Koktvedgaard wondered about the geographical spread of respondents. Mr. Gaa noted that responses had come from a range of regions, including developed and developing jurisdictions. Mr. Siong and Ms. Ighodaro noted that several of the organizations that provided responses were themselves global, notably the IFAC PAIB Committee and the Chartered Institute of Management Accountants (CIMA).

PROPOSED SECTION 320³

- Mr. Ahmed wondered whether the Task Force planned to revise paragraph 320.3 to highlight that misuse of discretion is linked to the fundamental principles of integrity and objectivity. Mr. Gaa explained that the Task Force was of the view that virtually all the fundamental principles are applicable to the issue of misuse of discretion. Accordingly, it was unnecessary to redraft the provision.
- Mr. Ahmed also wondered whether respondents had commented on the distinction between unethical behavior and illegal acts. Mr. Gaa indicated that the exposed wording had been written taking into account the fact that the proposed standard on responding to non-compliance with laws and regulations (NOCLAR) would address illegal acts.
- Ms. Singh complimented the Task Force on the revised draft of Section 320.

Representatives otherwise broadly supported the direction of the revised draft of Section 320 as presented.

PROPOSED SECTION 370⁴

- Ms. Miller informed participants that in research carried out by the Institute of Internal Auditors (IIA) regarding the nature of pressure IIA members have faced, pressure to suppress adverse information in internal audit reports had been the predominant response. She therefore suggested that consideration be given to including this as another example of pressure in proposed Section 370.
- Ms. Molyneux expressed support for the proposed guidance and the need for standards to address pressure placed on PAIBs. She commented that once the standard is approved, it would be important that stakeholders who are often the source of pressure on PAIBs (such as senior management and audit committees) understand that PAIBs have responsibilities under the Code. In order to achieve this, she suggested that consideration be given to working with professional associations to raise awareness of the responsibilities of PAIBs under the Code.

³ Proposed Section 320, *Preparation and Presentation of Information*

⁴ Proposed Section 370, *Pressure to Breach the Fundamental Principles*

Mr. Gaa acknowledged the suggestion but noted that the Board has limited ability to address this as individuals who are not PAs are not required to abide by the Code. He was of the view that the best the Board would be able to achieve is to require PAIBs not to exert pressure on others.

Mr. Koktvedgaard invited views from Representatives regarding the Task Force's decisions to:

- Remove the distinction between "routine" pressure and other pressure; and
- Not include a definition of pressure in the proposed Section. In this regard, Mr. James confirmed that IOSCO had suggested in its comment letter that a definition of pressure be provided.

Representatives had no comments.

WAY FORWARD

Mr. Gaa indicated that the Board would consider the Task Force's revised proposals at the Board meeting to be held in the following two days, and aim to close off the proposals at its November/December 2015 meeting under the current structure and drafting conventions. The close-off document would then be redrafted under the new structure and drafting conventions. The Task Force will then address Phase II of the project that deals with the issue of inducements and the applicability of Part C to PAs in Public Practice.

D. Structure of the Code

Mr. Thomson introduced the topic, outlining the objectives and key themes of the project and the progress achieved to date. Among other matters, he highlighted the Board's liaison with the IAASB, particularly on the matter of responsibility for compliance with relevant ethical requirements in particular circumstances. He also explained the approach the Task Force had taken to dealing with advance input from IESBA participants on the Structure agenda papers for the Board meetings. He indicated that the Board was moving as fast as possible on this project without compromising due process.

Mr. Thomson flagged that Representatives can access the latest version of the draft restructured Code (DRC) and related mapping tables on the IESBA website as the work advances. He also encouraged them to provide input in advance of the issuance of the exposure draft. He then led Representatives through the matters for consideration.

GENERAL COMMENTS

The following matters were raised:

- Mr. Hansen wondered whether the project was a clarification project. Mr. Thomson responded that the IESBA had undertaken a clarity project previously. ~~In contrast, He noted that~~ the current project was more than just relocating paragraphs. He explained that part of the Task Force's mandate is to enhance the understandability of the Code. He acknowledged, however, that there is a risk of unintended changes in meaning of the Code in doing so. To mitigate this risk, the TF has taken steps such as developing mapping tables.
- Referring to the matter of code vs. standards, Mr. Ahmed commented that from a prudential perspective the concern is not to spend too much time debating this matter. Rather, when discussing core principles in the prudential sector, there is a need to consider the assessment methodology. In relation to the matter of whether to use the terms "purpose," "objective" or "goal," he was of the view that there should not be a debate about which concept is at a higher level. Instead, there needs to be consideration of what the objective and application guidance should be.

Mr. Thomson responded that the Task Force had discussed the matter and had endeavored to draw out the best of both worlds, i.e., by focusing on compliance with the fundamental principles.

- Noting that not everyone will navigate the Code in the same manner, Ms. Molyneux felt that the issue is whether to retain the focus on fundamental principles vs. requirements. She was of the view that stakeholders should be made aware that there are requirements that support compliance with the fundamental principles. In this regard, she noted that the OECD had taken an approach of keeping each principle with the requirements. Mr. Koktvedgaard observed that an e-Code could assist in this respect. Mr. Thomson indicated that the Task Force had already started exploring ideas along those lines, for example, links that could take a user of the Code from the requirements back to the fundamental principles. He added that the Task Force had also been working on a guide to the Code. He highlighted that the Task Force's key concern is to build an appropriate linkage between the fundamental principles and the detailed requirements.
- Mr. Dalkin shared his experience on INTOSAI. He noted that while application material with respect to the International Standards on Auditing (ISAs) has a specific meaning, views within the INTOSAI working group charged with revising INTOSAI's Code of Ethics have been divided on the matter of whether application material is optional. He wondered whether the IESBA had encountered a similar challenge. Ms. Elliott noted that the IIA had faced such a challenge in terms of determining what is mandatory and what is optional. She felt that this is a real issue as there are varying interpretations around the world. Ms. Miller noted that one of the reasons for the challenge at the IIA is that professional standards used to be referred to as "strong recommendations." However, the IIA had now moved away from the concept of a strong recommendation as it was too close to a requirement. So, there is now simply reference to mandatory provisions and guidance. Mr. Thomson noted that the Board was aware of the issue. He added that application material is more than optional as a professional accountant must comply with the requirement and should consider the application material in doing so. He indicated that there is a need to clearly communicate what appropriate weight to attribute to application material.
- Referring to Mr. Hansen's earlier question about the project's objective, Mr. James noted the need to be clear about such objective. He felt that there was an opportunity for the Board to address areas of ambiguity in the Code and to make the Code stronger. He further inquired as to whether there were set criteria to determine if the Task Force will address an issue or if the Board will address it in the future. Mr. Thomson responded that the Task Force was endeavoring to add clarity to the Code where possible while at the same time building a list of matters for further Board attention. He noted that the Task Force needed to be careful in not tackling every issue that might exist. However, with respect to safeguards, as these are integral to the Code the Board had agreed to undertake a review of safeguards now. Dr. Thomadakis cautioned that there would be a risk that the Structure project would never end if the Task Force were to attempt to address every matter. He also highlighted that the project is not only about repackaging the Code but also about making it easier to use. Mr. Siong reminded Representatives that an overriding principle for the project is not to introduce substantive changes to the Code. Mr. Ahmed agreed, noting that to benefit from the project truly, its scope must be properly ring-fenced.
- Referring to Mr. Siong's comment about no substantive changes to the Code, Ms. Lang wondered whether the Board knows how the Code is being used in practice to make such a judgment. Mr. Thomson noted that the Board reads the application material as it is written. ~~This, however, does not mean that professional accountants are not applying the Code as intended.~~

- Ms. Lang commented that there should then be a need to know the impact of the proposed changes. Mr. Thomson responded that the Board has undertaken more research consultation and outreach on this project than on other projects. The common theme from all this work has consistently been support from stakeholders for the proposed approach to restructuring the Code. Accordingly, the Board was comfortable with the project's approach. He noted that stakeholders would have the opportunity to comment on any perceived changes in meaning when the ED is issued.
- Mr. Hansen commented that the unique benefit of the project is in clarifying the requirements, noting that these should be unequivocal.
- Mr. Van der Ende noted that he saw a parallel with the Basel Committee on Banking Supervision in terms of how to deal with emerging issues. He noted that if these are issues that have a broader impact around the world, the Public Interest Activity Committees (PIACs) operating under the auspices of IFAC could explore whether these should be addressed and who should be involved in doing so. The CAGs should then be asked for their input on how best to deal with these issues. Dr. Thomadakis expressed appreciation for this comment, noting that this is a broader strategic issue for the PIACs. In relation to the IESBA, he noted that the Board had already established an Emerging Issues and Outreach Committee (EIOC) charged with identifying emerging issues. He noted that the CAG itself can assist in this regard.
- Ms. Singh suggested that the Board maintain a running list of issues for future consideration. Mr. Thomson indicated that the Task Force had already been tracking such matters.

NAVIGABILITY

Mr. Thomson noted that the proposed revised Preface is consistent with the extant Code and may or may not be adopted by local jurisdictions. He indicated that the Task Force had added a Guide to the Code which was targeted at infrequent users in order to describe the purpose of the Code, how it is structured, and how to use it. He noted that the Guide to the Code also contains an appendix on dealing with ethical dilemmas, including guidance addressing circumstances where application of the Code would result in a disproportionate outcome. He explained that the guidance on ethical dilemmas was currently located in Part A of the Code. However, the Task Force felt that it would be better located as an appendix to the Guide to avoid any user viewing the guidance as reason for not complying with the Code.

Representatives had no comments.

REQUIREMENTS AND APPLICATION MATERIAL

Mr. Thomson noted that the Task Force was proposing to change the heading "Guidance" back to "Application Material." He explained that The Task Force felt that the term "guidance" could be interpreted by users to mean that the material to which it refers is optional whereas the term "application material" conveyed more the sense that the material is integral to applying the requirements. Accordingly, explanatory material had been added to the Guide to the Code to indicate that while application material does not impose any additional obligations, it must be considered in applying the requirements.

Representatives had no comments.

CROSS-REFERENCES

Mr. Thomson noted that cross-references to the conceptual framework are heavily used in the DRC. Therefore, some sections of the Code have been organized as subsections to reduce the extent of such cross-referencing. He also indicated that the section on objectivity mentions independence and that the Task Force was proposing to add a specific reference to objectivity at the beginning of the sections addressing independence.

The following matters were raised:

- Ms. Miller wondered how independence links to objectivity, noting that she saw independence more from an application perspective, such as not holding financial interests in an audit client. Mr. Thomson noted that independence represents a way for stakeholders to assess a particular situation and draw comfort as to whether the professional accountant is objective.
- Mr. Koltvedgaard inquired to whom the Code was addressed. Mr. Thomson indicated that the Code is intended for stakeholders to whom it is relevant, including national standards setters, professional accountants and firms as well as regulators and others.
- Mr. James noted that IOSCO members have been concerned about a number of instances where a firm complied with the requirements but did not go the extra step of standing back and considering the broader fundamental principles. He wondered whether this point was coming across sufficiently strongly in the proposals. Mr. Thomson responded that the Task Force was addressing this matter structurally with, among other changes, cross references to the conceptual framework. Also, the Safeguards Task Force was exploring the merits of introducing a new requirement for professional accountants to step back by performing an overall assessment to determine whether, after application of appropriate safeguards, the threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level.
- Ms. Molyneux wondered whether regulators had identified specific areas of difficulty with respect to enforceability of the Code. She felt that a code is not as strong as standards with respect to compliance and enforcement. Mr. Thomson indicated that the Board had indeed heard from regulators in relation to the clarity of the requirements, compliance with the fundamental principles, and the clarity, appropriateness and effectiveness of safeguards. The Task Force had therefore endeavored to create appropriate linkages with the fundamental principles, including introducing a more structured approach in terms of a broad requirement to comply with the fundamental principles and apply the conceptual framework. He noted that rules that are too “black and white” have their own problems. He indicated that the Task Force believed that its combined approach of the overarching requirement to comply with the fundamental principles, supported by detailed requirements, was a robust approach.
- Mr. Hansen noted that the Code contains a number of prohibitions. To mitigate the risk that professional accountants rationalize not complying with them, he suggested that it should be made clear that such prohibitions are not subject to the conceptual framework. Mr. Thomson noted that the Task Force was endeavoring to address such a concern through the use of unequivocal wording, including the use of the word “shall” to mean a requirement.

SPECIFIC REFERENCES TO NETWORK FIRMS

Mr. Thomson noted that the extant Code uses the term “firm” to mean both a firm and a network firm. He indicated that this has resulted in some areas within the Code, particularly in relation to the assessment of materiality and significance, that are not as clear as they could be. Accordingly, the Task Force was proposing to make clear in the DRC when network firms are specifically intended to be covered.

Representatives had no comments.

RELOCATION OF CERTAIN MATERIAL TO SUBSECTIONS

Mr. Thomson noted that some material within the extant Code would be relocated to assist navigability. In particular, the Task Force was proposing a subsection dealing with documentation, including material of general application and cross references to discussion of documentation for particular matters. He indicated that it is outside the scope of the project to address what should or should not be documented. However, the Task Force can propose wording clarifications where warranted.

Representatives had no comments.

LABELLING AND TERMINOLOGY

Mr. Thomson noted that there had been a question at the IESBA as to whether the various parts of the Code should be labelled A, B and C as in the extant Code or given numeric references. He indicated that the Task Force was proposing to retain the alpha references to avoid confusion with parts that contain section numbers that would begin with a number different from a numbered Part. The Task Force had also clarified the scope of the term PAIB by including particulars in the Guide to the Code. In addition, the Task Force was proposing that the term “may” be used when a professional accountant is permitted to take an action, and that the term “might” be used when describing situations that could occur.

Representatives had no comments.

MATTERS FOR BOARD ATTENTION

Mr. Thomson explained that the Task Force had created a list of matters for Board attention. These represent potential issues outside of the scope of the project that may need to be addressed in future. He then outlined the items on the list.

Representatives had no comments.

WAY FORWARD

Mr. Thomson thanked Representatives for their input. In closing, he briefly outlined the forward timeline for the project. He emphasized the need to follow due process, which was why the Task Force and the Board were proactively reaching out to various stakeholders to obtain their feedback. Ms. Elliott complimented the Task Force on the significant progress achieved on the project to date.

E. Safeguards

Mr. Hannaford introduced the topic, explaining that the objective of the project is to review the clarity, appropriateness and effectiveness of safeguards in Sections 100 and 200 and those safeguards that pertain to non-audit services (NAS) in Section 290 of the Code. He explained that the proposed revisions were intended to:

- Clarify and refocus the conceptual framework (CF) on the identification, evaluation and addressing of threats to the compliance with the fundamental principles.
- Establish a description of the term “safeguards.”
- Better describe the concepts of “an acceptable level” (relative to the reduction of threats to compliance with the fundamental principles) and “reasonable and informed third party”.

- Provide guidance regarding the need for the professional accountant (PA) to re-evaluate threats (i.e., “step back”).

The following matters were raised:

DESCRIPTION OF SAFEGUARDS

- Mr. Hansen suggested that the Task Force further explain the words “not likely” used in the last sentence of the proposed description of safeguards. Mr. Hannaford noted that there are views on both sides in terms of whether safeguards should be intended to be effective vs be actually effective. He explained the Task Force’s view that a safeguard should be an action that is effective. If the action were not effective, it would not be a safeguard.
- Mr. Hansen also suggested that paragraph 100.16⁵ explicitly state that conditions established by the profession, legislation, regulation, the firm or the employing organization are not safeguards. Mr. Hannaford indicated that the point would be further considered by the Task Force.
- Mr. Ahmed wondered about the scope of the term “specific actions or measures” in the context of describing safeguards, and in particular whether they were actions directed at the audited entity. Mr. Hannaford responded that the Task Force intends safeguards to be engagement-specific. He noted that the extant Code refers to a number of conditions that are firm-wide or established by regulation, etc. He explained that these are not safeguards because they do not necessarily reduce threats to an acceptable level, but rather conditions to be taken into account.
- Mr. James suggested that the Task Force consider explicitly stating in the Code, in close proximity to paragraphs 100.6 and 100.7, that there are situations or matters that exist for which the application of safeguards is not possible, for example, an engagement partner owning shares in the audited entity. Ms. Lang agreed, and suggested that the Task Force consider merging paragraphs 100.7 and 100.8. Mr. Hannaford responded that paragraph 100.18 was intended to address these concerns though not expressed as explicitly as Mr. James suggested. In response to Ms. Lang’s suggestion, he explained that paragraph 100.7 was intended to simply describe the CF, while paragraph 100.8 was intended to prominently set out the requirement. Noting Mr. Hannaford’s explanation, Mr. James reiterated his view that the Code would be more robust if it stated that in some circumstances there are no safeguards to address the identified threats.
- Mr. James also suggested that the Task Force consider better explaining what is meant by “acceptable level” in the context of threats to compliance with the fundamental principles, for example, by redrafting paragraph 100.15 in an affirmative way. Mr. Hannaford responded that the Task Force would further consider the suggestion.

REASONABLE AND INFORMED THIRD PARTY

Messrs. Ahmed and Koktvedgaard, and Mss. Elliott, Lang and Molyneux suggested that the Task Force avoid using the word “conceptual” in describing the concept of a “reasonable and informed third party.”

The following matters were also raised:

- Mr. James suggested that the term “reasonable and informed third party” should instead be “reasonable and informed investor.” Ms. Molyneux disagreed, noting that the term “reasonable and informed third party” is rooted in law or regulation in many jurisdictions. She also suggested that

⁵ Paragraph numbers for the Safeguards session refer to Agenda Item E.1.

the Task Force explain that the “reasonable and informed third party” should also be independent. Regarding Ms. Molyneux’s latter point, Ms. Elliott agreed and suggested that the word “conceptual” be replaced with “hypothetical.”

- Ms. Ceynowa agreed that the term “reasonable and informed third party” is a term defined by law or regulation. She suggested that the focus of the description should be on what is expected of a reasonable and informed third party rather than on describing who the person is. She also suggested that the Task Force revisit how the “reasonable and informed third party” test is used in the project on responding to non-compliance with laws and regulations (NOCLAR) and that there be consistency in the Code. Mr. James agreed. Mr. Ahmed suggested replacing the word “specific” in paragraph 100.10 with the word “relevant.”
- Mr. Koktvedgaard suggested that the Task Force consider that the “reasonable and informed third party” may not in fact be reasonable, but instead “dynamic” as that party’s views and perspectives may change over time.
- Ms. Lang wondered what the phrase “could reasonably be expected to know” meant and whether the PA is expected to do “know more.” Mr. Hannaford explained that the Task Force intentionally chose the word “could” versus “should,” as “should” would make the threshold too high vs. what one could reasonably expect such a party to know.

STEPPING BACK

- Mr. James suggested that the Code emphasize that the PA should step back even when facts did not change, noting that it is important for the PA to take into account the broader picture of compliance with the fundamental principles once the process of identification, evaluation and addressing of threats is complete. Messrs. Ayoub and Hansen and Ms. Lang agreed.
- Mr. Ayoub noted that in his view the CF should be a four rather than a three-step process that includes identifying, evaluating, addressing and re-evaluating of threats. He also wondered what would happen next after a matter has been addressed. Mr. Hannaford explained that the PA needs to re-evaluate the situation as needed given that circumstances may change. He added that the Task Force was not suggesting that the process should be indefinite. Mr. Thomson, a member of the Task Force, explained that the Task Force was of the view that the steps of evaluating and re-evaluating a threat were iterative and very closely interrelated.
- Ms. Ceynowa wondered whether the Task Force had given consideration to situations in which a PA set out to conduct a particular service, activity or engagement and then the scope of this service, activity or engagement changes. Mr. Hannaford responded in the affirmative, as circumstances may change.

PIOB OBSERVER’S REMARKS

- Mr. Horstmann noted that from a public interest perspective, a number of valid points had been raised by the Representatives which would need further attention. He supported the suggestion to avoid using the word “conceptual” in describing a reasonable and informed third party, and the suggestions to improve the new guidance regarding stepping back.

OTHER MATTERS

- Ms. Miller explained how the IIA addressed the concepts of objectivity and independence in the context of its standards. She suggested that the IESBA consider clarifying the interaction and linkage between the two terms as used in the Code.
- Mr. James was of the view that the Task Force should de-emphasize the focus of paragraphs 100.18 and 200.14 on PAs simply declining or discontinuing a professional activity or service, or resigning from the engagement, if the threats to compliance with the fundamental principles are not eliminated or reduced to an acceptable level. He suggested that there should instead be emphasis on the actions that the PA would still need to take to comply with the Code in such circumstances.
- Mr. Koktvedgaard wondered about the next steps for the project. Mr. Hannaford explained that the IESBA planned to approve an exposure draft of proposed revisions to Sections 100 and 200 of the extant Code in December 2015.

F. Emerging Issues

Mr. Gaa introduced the topic, informing Representatives of the Emerging Issues and Outreach Committee's (EIOC's) activities since the previous update to the CAG. He noted in particular that the Board had been receiving presentations on the status of adoption of the Code in the G20 countries and major financial centers. The intention was that once these presentations are completed, the Board would review the key differences between the national ethical requirements in those jurisdictions and the IESBA Code with a view to considering whether these differences indicate any potential weaknesses in the Code that may need to be addressed.

Mr. Gaa then led Representatives through the main matters for consideration as detailed within the agenda papers.

AUDIT FEE-RELATED MATTERS

Downward Pressure on Audit Fees

The following matters were raised:

- Citing a recent article from *The Analyst's Accounting Observer* by Jack Ciesielski that studied the impact on EPS of increasing audit fees, Mr. Waldron noted that there is evidence that audit fees account for less than one percent of EPS in most listed companies. The findings from the article seemed to suggest that investors would be willing to accept higher audit fees in exchange for a more robust audit.
- Mr. Hansen noted that concerns over low audit fees had existed for some time. He felt that low audit fees are not just a matter of increased competition in the audit market but they also impact independence. He felt that there was some reluctance from the profession to address the "low-balling" issue, which he believed the Board should address.
- Reflecting on his recent participation at a conference in Lausanne, Mr. Koktvedgaard pointed out that audit firms are operating on a fixed cost model, which may explain some of the fee dynamic. In particular, from a commercial perspective, firms must consider whether they would prefer to have staff working or being idle, since the cost to the firms is the same in either case. As there is no additional cost to the firm in making auditors work more, lower audit fees potentially can be charged for new audits. Hence, this represented another dimension.

- Ms. Molyneux believed that there is a fundamental issue with audit fees and firms' business models. She felt that the issue was particularly acute in the emerging markets where audit fees are too low for high audit quality. She added that questions had been raised within the corporate governance community as to whether the rules over audit fees were effective, with the ICGN planning to further consider this matter along with the cultures and behaviors related to the setting of audit fees. She noted the need for both the profession and the corporate governance community to work together in this area.
- Mr. Koktvedgaard noted that the introduction of the Sarbanes Oxley (SOX) Act in the U.S. had caused an increase in audit fees until practice became established, after which fees began to fall. This could imply that an increased knowledge of the product being sold, i.e. the audit, could explain the decrease in audit fees.
- Ms. Lang was ~~skeptical regarding~~ questioned the view that staff mobility problems existed within Europe, noting that her perception was that the larger firms appear to have excellent staff mobility in Europe and globally.
- Mr. Ahmed believed that the relationship among fees, competition within the audit market, and audit quality is very complex. While not being able to quote specific literature, he was of the view that fees reflect bargaining power. He added that the precise concerns relating to audit fees should first be established before moving forward with the empirical analysis and then considering how to address the issues. Mr. Koktvedgaard agreed that there was a need to validate the concerns relating to fees before taking further steps.
- Mr. van der Ende suggested that concerns over decreasing audit fees should be linked to whether audit budgets were sufficient to perform a robust audit. He highlighted that regulators and some within the corporate governance community in the Netherlands had been concerned about downward pressure on audit fees. He indicated that in the Netherlands, MFR had not led to decreasing audit fees. He added that BCBS had issued guidelines addressed to TCWG to emphasize their responsibilities. He noted that the topic of audit fees is very important and encouraged the Board to reach out to the Financial Stability Board.
- Recognizing that TCWG have a greater role to play with respect to the topic of audit fees, Ms. Lang felt it was too early to link falling audit fees to MFR. ~~She noted that while fees were falling throughout continental Europe, they were not falling in the UK. Hence, w~~While there might be a connection between low audit fees and MFR, she doubted that low audit fees could be directly attributed to MFR. She therefore felt that more evidence was needed in that regard. Ms. Robert supported Ms. Lang's view, adding that a direct link between MFR and lower audit fees could not be made as MFR had not been fully implemented and its ramifications were still only being anticipated by the market. Mr. Ahmed also supported Ms. Lang's view.
- Mr. Arteagoitia noted that the new EU audit legislation provides for a periodic market monitoring exercise with the next one due in June 2016. Each EU member state regulator would undertake such monitoring locally, with the European Commission (EC) then consolidating the results. Consideration was still being given to the scope of the exercise but it would include reference to audit committees. However, the issue of audit fees had not been explicitly included in the scope. He added that the EC had an obligation to report on market concentration, with the first report available next year.

Responsibility for Addressing Issues Relating to Audit Fees

- Mr. Horstmann noted that in approving the non-assurance services pronouncement in March 2015, the PIOB had encouraged the IESBA to revisit issues on auditor independence from a broader perspective, including fee-related issues. In this regard, he wondered what type of work the IESBA was contemplating on the topic of fees given that it is very complex and multi-faceted. He suggested that without a highly focused approach to the topic, the IESBA could spend a lot of time and resources unproductively. He suggested in particular that instead of spending a lot of time on academic research, the Board could approach the Forum of Firms for information given that the latter had already undertaken a large amount of work on the topic which it had shared with the IFIAR Standards Coordination Working group.
- Dr. Thomadakis shared the view about the complexity of the topic, noting that the Board's remit addresses ethical behavior and not audit quality, although the two are related. He acknowledged that there currently appeared to be some doubt as to whether audit fees were actually falling and the reasons behind this. He noted, however, that there could be many ways in which ethical issues may arise as a result of fee pressure that the IESBA would need to consider.
- Mr. Waldron was of the view that it is important to establish under whose remit the topic of fees falls. Dr. Thomadakis noted that the logic behind the tripartite IAASB-IESBA-International Accounting Education Standards Board (IAESB) project on professional skepticism was for each standard-setting board to consider issues on professional skepticism from its particular point of view. He felt that a similar approach could be taken as related to the topic of fees.
- Mr. Gunn suggested further reflection on the role of the Code as a beacon for professional behavior in different circumstances. He highlighted a recent speech by Anton Collela, CEO of the Institute of Chartered Accountants of Scotland, on the topic of moral courage as an individual responsibility. He suggested that there would be merit in the CAG hearing from Mr. Collela on this topic. Mr. Horstmann concurred, noting that Mr. Colella had also spoken on this topic at the June 2015 PIOB meeting.
- Mr. van der Ende suggested that the issue of fee pressure and governance of a firm could be discussed as part of the IAASB's initiative to review ISQC 1.
- Mr. Koktvedgaard was of the view that some of the concerns raised by Representatives relating to fees would be perhaps more appropriately addressed to the IAASB than to the IESBA.

IFIAR AND AFM REPORTS

The following Matters were raised:

- Mr. van der Ende suggested that regulators should have a role in maintaining audit quality, noting that BCBS expected audit committees to take responsibility for overseeing audit quality and would be looking to increase awareness of the role of audit committees in that regard.
- Mr. van der Ende made the following additional comments:
 - The FSB has an Audit Quality working group which has been active in the last year engaging with the Global Public Policy Committee on the issue of audit quality. The FSB had seen a change in the stance of the large firms, which a few years ago were defensive on issue of audit quality, but had more recently shown a greater desire to address the issue through, for example, seeking to understand the root causes of audit quality deficiencies.

- The CEOs of the largest international network firms met with IFIAR in April 2015 to discuss how to identify root causes and address them. Among other matters, they explained that their networks are a combination of independent firms over which they have little control. Mr. van der Ende indicated that the IESBA should bear this information in mind when considering how changes within firms are achieved in practice, since changes appear more likely to be achieved at a regional than an international level.
- In relation to the Dutch AFM report, Mr. van der Ende highlighted a number of recent legislative developments concerning firm governance in the Netherlands, including: a requirement for all the large firms to have a non-executive board tasked with overseeing management of the firm; performance evaluation for partners to be focused on technical competencies; and a claw-back mechanism relating to bonus payments under certain circumstances. As a result of these new requirements, there has been a change in the profile of partners within the firms, with some partners being more comfortable performing assurance engagements and others being more comfortable playing advisory roles. The requirements have also led to a transfer of partners from advisory to assurance positions, the impact of which has yet to be assessed. Mr. Gaa noted that the Code currently does not address the governance of firms, although it is an important topic.
- Ms. Robert noted that the role of audit committees has been enhanced within the new EU audit legislation, particularly with respect to the assessment of the effectiveness of auditors and communication with them. Ms. Molyneux indicated that there is considerable awareness within the corporate governance community regarding the importance of communication between TCWG and auditors in relation to audit quality, hence her continuing emphasis on auditors communicating with TCWG.

TOSHIBA ACCOUNTING SCANDAL

In response to the information on the Toshiba accounting scandal, the following matters were raised:

- Mr. Waldron indicated that the CFA institute had been closely monitoring the development from an investor perspective. In particular, the Institute had written a couple of blogs about the case which had generated many comments. He continued that the scandal raised concerns relating to governance issues, noting among other matters that the audit committee chair was due to become Toshiba's CFO. He added that the communication of the restatement of the financial statements was very complex and not easily understood by investors.
- Mr. Hansen believed that when considering fraud cases, different cultures can interpret a matter in different ways. For example, in some jurisdictions fraud related to simply misappropriating funds. However, in other jurisdictions the issue can be more complicated in that an accountant's decision to engage in fraud can be for other reasons, such as to avoid closing down divisions in a company due to cultural pressures relating to honor and status.

OTHER MATTERS

In addition to the matters raised above, the following comments were also made:

- Mr. van der Ende noted that firms auditing banks in the Netherlands have recently begun raising issues relating to banks' ability to meet capital requirements. This suggested that actions taken to address public concerns over the operations of banks were beginning to take effect.

- Mr. James suggested that the EIOC should consider the issues raised under the Structure of the Code project.

WAY FORWARD

Mr. Gaa thanked Representatives for their input, noting that this would be further considered by the EIOC. Mr. Koktvedgaard and Ms. Molyneux complimented the EIOC on the quality of the agenda papers and the topics being considered.

G. NOCLAR

Ms. Gardner gave a preliminary update on responses to the May 2015 Exposure Draft, [Responding to Non-Compliance with Laws and Regulations](#). Among other matters, she summarized the progress achieved on the project since the issuance of the first Exposure Draft in August 2012. She also highlighted the main themes from the responses, and selected key concerns from respondents, to the second Exposure Draft. Finally, she outlined the next steps and forward timeline for the project.

Representatives noted the update. Mr. Ahmed wondered about two general matters, namely (a) whether the Code is too prescriptive; and (b) where to draw the line in terms of which issues the Code should address and which issues it should leave to law or regulation.

Mr. Koktvedgaard thanked Ms. Gardner for the update.

H. PIOB Observer's Remarks

Mr. Horstmann commented that he was very impressed by the robust discussions within the CAG on the issues being considered. He felt that the public interest had been adequately considered in the discussions and input provided to the Board. Overall, he felt that the CAG was working very well.

I. Closing Remarks

Mr. Koktvedgaard thanked the Representatives for their high level of participation and contributions to the discussions. He then closed the meeting.