

**Meeting:** IESBA CAG

**Meeting Location:** Madrid

**Meeting Date:** September 13, 2017

## Agenda Item

# F

### IESBA Future Strategy

#### Objective of Agenda Item

1. To consider the input received from respondents to the IESBA's survey on its future strategy and work plan (SWP) and the IESBA Planning Committee's (PC's) initial analysis, and to provide advice on the way forward.

#### Working Group Members

2. The Working Group comprises members of the PC:

- Dr. Stavros Thomadakis, IESBA Chairman
- Richard Fleck, IESBA Deputy Chair
- Gary Hannaford, IESBA Member
- Reyaz Mihular, IESBA Member

#### *Observer*

- Kristian Koktvedgaard, Chair, IESBA CAG

#### Status and Timeline

3. The SWP survey was released in April 2017 and closed on July 18, 2017. At its September 19-22, 2017 meeting, the IESBA will consider the results of the survey. Taking into account the CAG's input, the IESBA will be asked, among other matters, to formulate views as to which five or six topics relating to possible future standards-related projects or initiatives the PC should focus on for purposes of developing the preliminary SWP consultation paper (CP).
4. In October 2017, the PC will meet to further reflect on the survey responses and develop a preliminary draft of the CP, taking into account the input from the September 2017 IESBA and CAG discussions. This will include developing preliminary recommendations regarding the IESBA's future strategic direction and work plan, including actions and their priorities and timing. In doing so, the PC will apply various "strategic lenses," criteria and other key considerations to its assessments, including:
  - The degree of emphasis to place on particular strategic objectives in the new period given the context of the restructured Code and developments in the external environment (these strategic objectives include maintaining a high-quality Code, promoting and facilitating adoption and implementation of the Code, ensuring that the Code remains relevant in a changing global environment, and increasing engagement with key stakeholders).

- The need for some measure of “stocktaking” given the forthcoming completion and release of the restructured Code.
  - The imperative of timely standard setting where there is a clear public interest need and urgency in addressing particular topics.
  - The importance of advancing further global adoption of the Code, particularly among the G-20.
  - Considerations of scope and complexity of particular topics.
  - Agenda capacity in the light of pre-existing commitments, and resources available.
  - The need for coordination with the International Auditing and Assurance Standards Board (IAASB) and International Accounting Education Standards Board (IAESB).
  - The need to maintain a degree of flexibility to respond in a timely manner to emerging issues.
5. The PC will also consider the implications of any approach the IESBA might agree to take to align its SWP period with the IAASB’s, a matter scheduled for discussion at the joint IESBA-IAASB meeting on September 20, 2017.
6. At this stage of discussion, the PC has made the following two important working assumptions:
- The standard-setting arrangements and governance model for the Board will remain unchanged for the foreseeable future, notwithstanding the current Monitoring Group review of those matters (which also concern the IAASB).
  - The level of available resources will remain as it is now. Accordingly, discussions of “capacity” should be conducted in that light.
7. For reference, the survey questionnaire is provided as **Agenda Item F-2**. The report-back on the March 2017 CAG discussion is set out in the Appendix.
8. The forward timeline for the development of the CP is as follows:

Indicative Timing	Milestone
October 2017	PC meeting to discuss feedback from the September meetings of the Board and CAG, and to begin developing the SWP CP
December 2017	First read of draft CP
March 2018	Discussion with CAG
March 2018	IESBA approval of CP
September 2018	Discussion with CAG
	Full review of responses to CP
December 2018	IESBA approval of final SWP
March 2019	PIOB consideration of final SWP

### **Matters for Consideration**

9. CAG Representatives are asked to:

- (a) Note the report-back; and
- (b) Provide views on the matters raised in **Agenda Item F-1**.

**In particular, in relation to the possible future standards-related projects or initiatives presented in Section B of the survey, Representatives are asked to indicate the top five or six priority topics they believe the PC should focus on for purposes of developing the preliminary CP.**

### **Material Presented**

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|-----------------|---|
| Agenda Item F-1 | IESBA SWP Survey – Summary of Responses and Initial Planning Committee Analysis |
| Agenda Item F-2 | IESBA SWP Survey (For Reference Only)   |

## Appendix

### Report-back on March 2017 CAG Discussion

Extracts from the draft minutes of the March 2017 CAG meeting,<sup>1</sup> and an indication of how the PC or the IESBA has responded to CAG Representatives' comments are included below.

Matters Raised	PC/IESBA Response
GENERAL	
Ms. Molyneux felt that the list of stakeholders seemed to be skewed towards the profession. She suggested aiming for a balance that would reflect the views of users of the profession's services.	Point taken into account. The list of stakeholders approached was broad and included investors, those charged with governance (TCWG), preparers, CAG member organizations, academics, and other professional organizations.
She noted that the development of the next SWP seemed to be a long process and wondered whether this was too long given the pace of change in the marketplace.	Mr. Fleck responded that it was not necessarily inefficient to make an early start to seek input from stakeholders. He added that if new developments arise, the IESBA would need to appropriately respond to them.  Due process also requires appropriate consultation with stakeholders, including through the issuance of a formal consultation paper.
She also commented that there was nowhere in the survey that asked stakeholders whether there are some IESBA activities that could be discontinued.	Point accepted. A question to that effect was added to the survey.
Mr. Fortin wondered whether there is a mechanism to address emerging developments.	The IESBA already has the Emerging Issues committee to monitor and advise on emerging developments.
Regarding levels of importance for the identified topics, he felt that there is not much difference between "unimportant" and "very unimportant" in the responses to the questions. Mr. James agreed and suggested another approach in terms of asking respondents to list, say, their top five priorities.	Point accepted. The survey asked respondents for their top 6 priorities.
Mr. van der Ende suggested including a caveat in a cover note to the survey to flag that the survey is being undertaken in context of the Monitoring Group's review of the SSBs' processes. As a result,	Point considered. These matters are more appropriately addressed during the development of the CP.

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<sup>1</sup> The draft minutes will be approved at the September 2017 IESBA CAG meeting.

Matters Raised	PC/IESBA Response
<p>there could be (a) an increase in Board and staff resources, and (b) a change in the process of developing future SSB strategies. He also suggested moving away from the paradigm of resource limitations and wondered to what extent the questions in the survey were aligned with those of the other SSBs.</p>	
<p>He suggested a building blocks approach given the increasing difference between PAs working for large entities and PAs working in SMEs/SMPs. He therefore questioned whether the level of requirements in the Code might differ and, if so, whether the questions could be targeted to specific groups.</p>	<p>Point taken into account. Specific considerations pertaining to small- and medium-sized entities (SMEs) and small and medium practices (SMPs) were added in the survey. These considerations will also be further addressed during the development of the CP.</p> <p>In addition, SMEs/SMPs had the opportunity through the survey to provide comments on any specific aspects of the IESBA's future strategy from their perspectives, and making submitted responses.</p>
<p>Ms. Petterssen noted that the PIOB shares some of the views expressed by Mr. van der Ende regarding timeliness and alignment with other SSBs.</p>	<p>Mr. Fleck noted that issues relevant to the IESBA might not necessarily be relevant to the IAASB as the scope of IAASB's remit, focusing primarily on auditors, is narrower. However, the IESBA is prioritizing coordination with the IAASB, hence the appointment of Ms. Soulier as Board liaison to the IAASB.</p>
<p>Ms. McGeachy-Colby wondered whether the IFAC SMP Committee was included in the list of stakeholders whom to approach for the survey. She felt that where there is a need to recognize the importance of coordination among the SSBs, it is with respect to specific areas where SMP perspectives could be obtained.</p>	<p>Point considered. This would be better addressed during the development of the CP.</p>
<p>Ms. Lang wondered how the Code would be expected to be used in 2025.</p>	<p>Mr. Fleck cautioned against trying to predict the future.</p> <p>Point noted. The IESBA will further reflect on this matter during the development of the CP.</p>
<p>Ms. Lang suggested that the list of targeted stakeholders include the European Federation of SMEs and business ethics associations.</p>	<p>Point accepted.</p>

Matters Raised	PC/IESBA Response
With respect to the point regarding limitations on resources, she suggested that there be an indication as to how much resources the various items in the survey would require.	Point not accepted. This is not determinable at the survey stage. The resource requirements are better assessed as part of the development of the CP, taking into account the results of the survey and further analysis of potential priorities, including likely scope.
In addition, she noted that some national standard setters (NSS) might already have addressed some of the issues and, if so, it might be possible to leverage some of their work.	Point noted. To be considered during the development of the SWP and as part of the IESBA's future strategic actions.
She also suggested that it might be useful to know what issues NSS are addressing at the jurisdictional level.	<p>Mr. Fleck cautioned that one needs to take into account cultural differences.</p> <p>Point taken into account. Respondents were given the opportunity at the end of the survey to comment on any developments or matters the IESBA should consider in developing its future SWP.</p> <p>In addition, at the June 2017 IESBA-NSS meeting, NSS participants provided updates on significant developments in their jurisdictions of international relevance. The PC will consider this information as part of its development of the CP.</p>
Mr. Dalkin noted that INTOSAI had itself gone through an exercise of reviewing jurisdictional developments at a more granular level but had to retreat to a broader approach.	Point noted.
Ms. Lang suggested indicating upfront in the survey that the IESBA will accept any responses, even if stakeholders do not respond to all the questions.	Point accepted.
Regarding the issue of principles vs rules, she cautioned against tying up resources on issues that cannot be resolved.	Point noted. Strategic priorities will be determined based on various criteria, including whether the scope and issues on a particular topic are capable of being clearly and adequately defined.
Mr. Kocktvedgaard wondered if strategy period could be aligned with the IAASB's.	Point considered and to be discussed with the IAASB at the September 2017 joint IAASB-IESBA meeting.
Mr. James highlighted the challenge for IOSCO of completing such surveys. He wondered whether	Point accepted. The survey offered that option.

Matters Raised	PC/IESBA Response
the option of a freeform response could be provided.	
Regarding the issue of resource limitations, he felt that this seemed inconsistent with IFAC's commitment to support the SSBs as needed.	Point noted. IFAC does support requests for additional resources from the standard-setting Boards, accepting, however, that resources are not unlimited. In addition, there is more to capacity issues than just staff, for example, Board capacity itself.
Regarding the timing of the survey, he felt that the survey would be adding to the current workload of stakeholders and therefore the timing could present a challenge for them to provide input.	Mr. Fleck noted the issue of translation as well, which exacerbates the burden.  Point taken into account. The IESBA agreed to allow for a 90-day vs the normal 60-day comment period.
Ms. Robert expressed her support for a pause in the release of new standards to enable stakeholders to digest all the recent and upcoming changes to the Code.	Support noted.
COMMENTS ON SPECIFIC ITEMS	
Ms. Molyneux wondered whether the proposed initiative on tax avoidance was necessary if it is legal.	Mr. Fleck noted that the PC had discussed whether the IESBA should pre-empt or prejudge what should be the right position on this issue. The PC believed that the IESBA should not do so, but should instead seek stakeholders' views on the prioritization of the topic.
Regarding the topic of non-assurance services (NAS), Mr. linuma wondered how this differed from the Safeguards project.	Mr. Fleck explained the difference between the two, i.e., the Safeguards project only addresses the appropriateness, clarity, and effectiveness of safeguards in the Code, not their permissibility.
Mr. linuma suggested that the post-implementation review of the long association standard include a review of the effects of mandatory firm rotation (MFR) where it has been implemented.	Mr. Fleck noted that the IESBA will clarify that the long association post-implementation review will include MFR.
Ms. Lang highlighted the EFSA's initiative on understanding the extent of pressure in business. She suggested covering this in the NOCLAR post-implementation review.	Mr. Fleck highlighted the comment at the EFSA February 2017 conference on pressure in Brussels that PAs who had support from within their organizations or others were more likely to resist pressure. Accordingly, he wondered whether there is more that could be done to explain that access to

Matters Raised	PC/IESBA Response
	<p>support among peers, the right culture and tone at the top, etc., can be highly valuable in ensuring greater compliance with the Code.</p> <p>Suggestion noted and to be considered.</p>
<ul style="list-style-type: none"> <li>• Mr. Baumann made a number of suggestions with respect to some of the items in the survey: <ul style="list-style-type: none"> <li>○ Regarding C2 addressing managed and outsourced services, he wondered whether the phrasing of the question suggested that certain behaviors are condoned. In particular, he felt that management responsibility should always belong to management. In addition, with respect to the matter of outsourcing, he noted that while auditors can rely on the work of third parties, they cannot outsource any aspect of their audits to them.</li> </ul> </li> </ul>	<p>Point accepted and clarifications made.</p>
<ul style="list-style-type: none"> <li>○ Regarding, A3, he noted the need to distinguish between legal tax avoidance and aggressive tax advice to clients.</li> </ul>	<p>Mr. Fleck explained that there is an ethical question to be explored.</p>
<ul style="list-style-type: none"> <li>○ Regarding C6 addressing communication with TCWG, Mr. Baumann wondered what the term “holistic framework” meant. He also wondered whether it should be the IAASB or IESBA who should have responsibility for setting standards in this area.</li> </ul>	<p>Mr. Fleck explained why the issue had been raised.</p> <p>Point accepted and description clarified.</p> <p>This would very much be an IESBA project as not all jurisdictions that adopt ISAs necessarily adopt the Code. The topic is linked in large part to safeguards, particularly the matter of pre-approval of non-assurance services (NAS) by TCWG.</p>
<ul style="list-style-type: none"> <li>○ Regarding C1 addressing technology and innovation, Mr. Baumann felt that the first question (i.e., whether new ethics standards would be needed to address changes in behavior) is a very significant one.</li> </ul>	<p>Point noted.</p>



Matters Raised	PC/IESBA Response
With respect to the NAS topic, Mr. James felt that the IESBA's objective should be to establish what the goals should be. Because there is no clear standard, he noted that different jurisdictions are dealing with NAS in different ways. Accordingly, he felt that there is an opportunity for the IESBA to establish what it believes should be the benchmark.	Point noted and to be considered once the Board initiates work on the topic.
Ms. Robert expressed support for a post-implementation review of the restructured Code.	Support noted.