

**Final Minutes of the Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

Held on September 16-18, 2013 in Sydney, Australia

Voting Members

Present: Jörgen Holmquist (Chair)
Isabelle Sapet (Deputy Chair)
Helene Agélii
Brian Caswell
Robert Franchini
James Gaa
Gary Hannaford
Peter Hughes
Claire Ighodaro
Chishala Kateka
Wui San Kwok
Stefano Marchese
Alice McCleary
Reyaz Mihular
Marisa Orbea
Kate Spargo
Don Thomson

Technical Advisors

Tony Bromell (Ms. Gardner)
Kim Gibson (Mr. Thomson)
Liesbet Haustermans (Ms. Orbea)
Tone Maren Sakshaug (Ms. Agélii)
Elbano de Nuccio (Mr. Marchese)
Andrew Pinkney (Mr. Kwok)
Lisa Snyder (Mr. Caswell)
Sylvie Soulier (Mr. Franchini)
Eva Tsahuridu (Ms. McCleary)

Apologies: Caroline Gardner
Jean-Luc Doyle (Ms. Sapet)
Patrick Wanjelani (Ms. Kateka)

Non-Voting Observers

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair), and Hiroyuki Dairaku

Apology: Juan Maria Arteagoitia

Public Interest Oversight Board (PIOB) Observer

Present: Robert Ward

IESBA Technical Staff

Present: Ken Siong (Technical Director), Chris Jackson and Kaushal Gandhi

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Mr. Holmquist welcomed the participants and public observers to the meeting. He welcomed, in particular, Mr. Ward, observing on behalf of the PIOB; Mr. Kuktvedgaard, attending his first meeting as CAG Chair; Mr. Dairaku, observing on behalf of the Japanese Financial Services Agency; and Mr. Gandhi, who recently joined the technical staff. He also welcomed Mr. Albert Au, Chair of the IFAC Small and Medium Practices (SMP) Committee's (SMPC's) Ethics Working Group, for the presentation session later in the day regarding the contextual environment and issues in Hong Kong and mainland China, and his Technical Advisor, Mr. Ambrose Wong. Apologies were received from Ms. Gardner and Messrs. Arteagoitia, Doyle and Wanjelani.

Mr. Holmquist thanked the Institute of Chartered Accountants Australia (ICAA) and CPA Australia (CPAA) for hosting the meeting.

He noted that the November 2012 staff Q&A matter discussed at the June 2013 meeting would not be on the agenda but that the working group of Board members set up to consider the matter would further discuss it later in the week, and the way forward would be considered in the executive session at the end of the meeting.

PLANNING COMMITTEE UPDATE

Mr. Holmquist briefly reported on the recent activities of the Planning Committee, which had met in June and August 2013. He noted that the Planning Committee had considered *inter alia*:

- A proposed revised definition of the term "professional accountant" being developed by the International Accounting Education Standards Board (IAESB);
- A matter concerning independence requirements for non-partners signing audit reports; and
- The draft consultation paper regarding the future strategy and work plan (SWP).

Mr. Holmquist reminded the Board that the Planning Committee does not hold decision-making powers but acts as an informal group that assists the IESBA Chair in better planning the Board's activities. He noted that the Planning Committee would meet later in the week to consider, amongst other matters, the composition of task forces and working groups for 2014 given board member rotations at the end of 2013. Final task force and working group compositions will be confirmed at the December 2013 Board meeting.

RECENT PRESENTATIONS AND OUTREACH

Mr. Holmquist highlighted the schedule of recent and upcoming outreach and related activities included in the agenda material, noting that he had asked Messrs. Gaa and Hannaford to provide brief report-backs on their recent outreach activities during the session on Emerging Issues and Outreach. He also highlighted a meeting he had scheduled with Messrs. Gaa and Hannaford, and staff, later in the week to discuss academic liaison. He encouraged Board members and Technical Advisors to participate in the outreach efforts.

SEPTEMBER 2013 CAG MEETING

Mr. Kuktvedgaard briefly reported on the CAG meeting the previous week, noting constructive discussions on the various items that were on the agenda. He also noted that the Long Association

project was not discussed with the CAG as the Task Force had not completed its work in time but that a conference call would be arranged in the near future to discuss the project with the CAG.

SEPTEMBER 2013 PIOB MEETING

Mr. Ward briefly reported on the outcome of the PIOB meeting, noting a meeting with the Monitoring Group as well as approval of the recommendations of the IFAC Nominating Committee with respect to new appointments and re-appointments to the IFAC Public Interest Activity Committees for 2014. Mr. Holmquist noted that the Board membership changes for 2014 would lead to a more balanced geographical representation on the Board and that the representation of public members would increase.

Mr. Ward reported that the PIOB had confirmed that due process had been followed effectively and with proper regard for the public interest for the changes to the Code relating to the revised definition of “those charged with governance” (TCWG). He emphasized that this approval was on the grounds of consistency with the International Auditing and Assurance Standards Board’s (IAASB’s) standards and that there may be a need to consider revisiting the definition in the future.

Mr. Ward also mentioned that in its annual review of its oversight plans for 2014 the PIOB has assessed the activities of both the IAASB and IESBA to be of the highest importance.

MINUTES OF THE PREVIOUS MEETING

The minutes of the June 2013 IESBA meeting were approved on Day 3, subject to tabled amendments.

2. Responding to a Suspected Illegal Act

Mr. Franchini introduced the topic, outlining the main outcomes from the June 2013 Board discussion. He then led the Board through the main issues for discussion at this meeting based on a revised straw man of an alternative approach to responding to a suspected illegal act (SIA).

Except as outlined below, the IESBA agreed the recommendations of the Task Force as set out in the meeting papers.

ALIGNMENT OF TERMINOLOGY WITH THE ISAS

Several IESBA members expressed support for the proposal to align terminology with the ISAs, i.e., replacing the term “illegal act” with the term “non-compliance with laws and regulations” (non-compliance) in the straw man. It was noted that there would be benefit in consistency in terminology given virtually identical definitions but that it would be necessary to make clear that the proposed standard has a much broader scope than just infringements of the law. An IESBA member, however, expressed a concern that the shift in terminology might water down the concept of reporting to an external party in that such reporting is intended to address only issues of appropriate gravity. Mr. Franchini acknowledged the concern, noting that the Task Force would carefully consider the use of the new term to avoid giving the impression that professional accountants (PAs) can override confidentiality for minor issues. Another IESBA member felt that the term “illegal act” might be more intuitive. Nevertheless, the IESBA member noted the need for clear guidance for judging what comes into scope or not as the definition of non-compliance should not attempt to capture everything.

Mr. Koktvedgaard noted that the CAG considered and generally supported the proposal to align terminology with the ISAs at its meeting the previous week.

After further deliberation, the IESBA expressed overall agreement with the proposal, subject to the comments noted above.

MATTERS THAT MAY BE ABOUT TO OCCUR

Regarding the proposal to scope in matters that may be about to occur, an IESBA member urged the Task Force to reflect on the myriad of matters that may be “about to occur,” a concept that is not in ISA 250.¹ Another IESBA member used the illustration of a bribe that may be about to occur, noting that it would be in the public interest for the PA to take appropriate action to respond to such a matter when the PA becomes aware of it in order to avert possible non-compliance with laws and regulations. It was also noted that generally most transactions will already have occurred and there will be few cases of matters about to occur that could have implications for the PA’s actions under the proposed standard. The Task Force was nevertheless asked to reflect on this issue further.

An IESBA member wondered whether aggressive tax planning would be in scope. Mr. Franchini noted that the Task Force’s view has not changed in this regard in that a PA should not feel bound by confidentiality if disclosure of the matter to an appropriate authority would be in the public interest. Another IESBA member observed that the proposed standard would not be applicable unless the PA felt the proposed advice was recommending anything potentially illegal.

DISCLOSURE TO AN APPROPRIATE AUTHORITY IN THE CASE OF PUBLIC INTEREST ENTITY (PIE) AUDIT CLIENTS

The Task Force proposed in Section 225² that when the PA has determined that disclosure would in principle be in the public interest and the client is a public interest entity audit client, there would be a presumption that the PA will disclose the matter to an appropriate authority when the following conditions are met:

- (a) The matter has a material impact on the financial statements and the financial statements have not been adjusted to reflect that impact;
- (b) There is an appropriate authority to receive the information;
- (c) The client has not already adequately disclosed the matter to the appropriate authority; and
- (d) There is protection afforded by legislation or regulation, for example, under whistle-blowing legislation or regulation which is sufficiently established to protect the PA from civil and criminal liability.

Mr. Franchini highlighted a view at the CAG that the proposed presumption amounted to a de facto requirement. A few IESBA members shared this view.

An IESBA member noted that with a presumption, the onus of proof would now shift to the PA to demonstrate why disclosure had not been made. A Task Force member noted that the proposed provision is responding to the Board’s instruction at the June 2013 meeting for the Task Force to explore a way forward on this issue and that the Task Force had not taken a vote on it. Another IESBA member expressed a preference for an expectation as opposed to a presumption, noting that the latter belongs to the law of evidence and that one cannot presume that something will happen in future. A further IESBA member, however, felt that whether the appropriate standard should be a presumption or an expectation

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

² Proposed Section 225, *Responding to Identified or Suspected Non-Compliance with Laws or Regulations*

would depend on the availability of legal protection from civil or criminal liability. Mr. Franchini noted that there is a precedent in ISA 240,³ which already contains a presumptive standard.

An IESBA member commented that a court of law would likely consider the position in the Code and in that context a presumption would be close to a requirement. The IESBA member therefore felt there would be an implication in terms of civil liability, particularly if there has been damage to shareholders because of non-disclosure by the auditor. It was also noted that legal protection would not extend to protection from physical or reputational harm, and a defense in terms of extreme risk of physical harm would be implied if there were non-disclosure. Accordingly, it was argued that the PA would need to disclose unless the PA could prove otherwise.

An IESBA member noted that given the concern about second-guessing, there may be merit in considering adding guidance to highlight upfront the fact that the decision to disclose would be a matter for the PA's judgment and that others may hold different views. Another IESBA member wondered whether the rebuttable presumption would be operable unless there is a full understanding of how PAs' fear of reprisal would be addressed, including the availability of a fair and trusted legal process. In this regard, the IESBA member felt that regulators would always look to a high benchmark and a presumption would come close to a requirement. The IESBA member also felt that whether the PA should disclose would not appear to be very related to the public interest threshold as disclosure would depend more on the preconditions, including whether there is an appropriate authority.

An IESBA member questioned whether the proposed standard would be less effective if the disclosure provision were not retained. A Task Force member noted that from the Exposure Draft responses there was general support for disclosure (albeit not a requirement in the Code) and that this sentiment should not be undermined but instead appropriately addressed. The Task Force member argued that if everything is in place to support reporting and the PA has determined that it would be in the public interest to disclose, then the PA should do so. Accordingly, the Task Force member expressed a concern about comments questioning the operability of the provision. It was also argued that the provision was not truly setting out a requirement and that whether there should be one should be a matter for each jurisdiction to decide.

Mr. Dairaku commented that auditors have a greater responsibility than other PAs when legal protection exists. He felt that if a presumption were the way to go, more guidance would be needed on how it should be applied.

PIOB Observer's Remarks

Mr. Ward noted that if the objective was to serve the public interest, the question to be asked would be whether the public interest was being served. He noted that the intent of the original disclosure requirement was to fulfill the ultimate highest order test in the public interest. He wondered whether it would be beyond reasonable to expect that the PA would resign from the client relationship. He expressed the view that this should be the first thing the PA should do as opposed to being concerned about having to disclose the matter despite a lack of protection. He questioned whether withdrawing from the client relationship should in fact be the requirement, adding that the issue is what could reasonably be expected of a PA bound by the Code.

³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Mr. Holmquist thanked Mr. Ward for his comments, adding that there could be consideration of whether regulators should put in place the necessary framework to support disclosure.

Materiality as a Precondition for Disclosure

Mr. Franchini highlighted the discussion at the September 2013 CAG meeting regarding the inclusion of materiality as one of the preconditions for disclosure, noting that the Task Force was divided as to whether to retain that precondition given the public interest threshold for disclosure. While he was in favor of the precondition, he highlighted a concern at the CAG that how the precondition is worded might make it too bright of a line and some softening of the wording might be appropriate (e.g., “potentially material” as opposed to “has a material impact”). He also noted the importance of capturing matters such as bribes that may be immaterial in terms of the amount disbursed but that may have a material impact on a company’s revenues. Another Task Force member, however, expressed the view that it would be odd to include materiality into the considerations if the disclosure threshold is the public interest. A few other IESBA members shared that view as they felt that including materiality would detract from the overarching principle.

An IESBA member noted that an auditor would disclose the matter in the auditor’s report if the matter were material but not reflected in the financial statements. Mr. Franchini agreed that a question would be raised as to why materiality is introduced when the auditor can modify the auditor’s opinion. He noted, however, that modification of an audit report is not always an option. For example, the auditor may identify a matter before commencement of the audit (for example during a review of quarterly financial statements) and resigns from the client relationship prior to issuing the audit report or even prior to the audit commencing. Another IESBA member expressed concern that matters that could be disclosed would be limited to those that would have a material impact on the financial statements. It was noted that this would exclude many matters that would be in the public interest to disclose and that materiality could be interpreted quite narrowly. A further view was expressed that the materiality test comes a long way through the process and should come earlier. In addition, it was noted that most of the issues should already be reflected in the financial statements as the relevant transactions would have been accounted for.

A few IESBA members noted the need for greater clarity as it was unclear whether the application of the materiality precondition would lead to an expectation of disclosure or adjustment to the financial statements, and how immaterial items such as bribes that could have a material revenue impact would be dealt with. An IESBA member expressed the view that if the provision were limited to non-compliance that is material to the financial statements, this should be a matter for the International Standards on Auditing (ISAs) to address.

Other Observations

An IESBA member highlighted that in a group audit context, the issue may arise at the component level. Accordingly, it was suggested that consideration be given to communication with the group auditor.

Way Forward

In the light of the discussion, the IESBA asked the Task Force to reconsider:

- The proposed presumption and whether it is appropriate and can be operationalized in the context of what can be reasonably expected of a PA bound by the Code; and
- Whether the proposed materiality precondition should be retained.

COMMUNICATION BETWEEN SUCCESSOR AND PREDECESSOR AUDITORS

An IESBA member noted that withdrawal from the client relationship should not provide for an easy way out. Some IESBA members, however, felt that the key issue should be to ensure that the matter is not simply dropped if withdrawal were to occur but instead picked up by the successor auditor. Accordingly, there was a strong view that communication between the successor and predecessor auditors would be important. An IESBA member noted that such communication is already the practice in Canada, provided client permission has been obtained. Another IESBA member noted that while no one would in principle disagree with communication, the biggest issue would likely be liability protection given that the information conveyed could include an allegation of wrongdoing. Accordingly, it was suggested that consideration should be given to whether the legal framework would provide such protection. A Task Force member expressed the view that an expectation of communication is already implicit in the Code (the matter is dealt with in some detail in paragraphs 210.9-14)⁴ but what is not in the Code is a waiver of confidentiality. Accordingly, it was questioned whether the Code should contain an aspiration for this. It was also suggested that the Code could state that it would be in the public interest for the predecessor auditor to make such communication.

Mr. Dairaku expressed the view that communication between successor and predecessor auditors would be very important, given the recent experience in Japan about accounting fraud. He felt that the lack of information is one the main reasons for audit failures, noting that information that the predecessor auditor is able to share with the successor auditor would help the latter perform an effective audit.

Mr. Koktvedgaard noted that the issue was raised at the September 2013 CAG meeting, thus highlighting that it is an important matter to address.

After further deliberation, the IESBA asked the Task Force to reflect on how best to facilitate communication between the successor and predecessor auditors within the context of the legal framework and subject to the client consenting to such communication. This may warrant changes to Section 210.

PROPOSED CHANGES TO OTHER SECTIONS

The IESBA agreed to retain the phrase “or other unethical behavior” in the proposed paragraph 210.1 as the provision is dealing with a matter of principle with respect to acceptance of a new client relationship and it would be appropriate for the PA to consider whether the client is ethical. It was also noted that judgment will be necessary in making such an evaluation.

In addition, with respect to the deleted text in paragraph 300.15, the IESBA asked the Task Force to consider recognizing that many entities have internal whistle-blowing mechanisms in place and accordingly, the PA should consider reporting under such mechanisms. In this regard, it was noted that most entities’ whistle-blowing procedures encourage employees to first go through higher levels of management before considering blowing the whistle.

⁴ Section 210, *Professional Appointment*

OTHER MATTERS

IESBA members also commented on a number of other matters, including the following:

- Consideration should be given to amending the reference to “infringement of law” in Section 140 to be consistent with the proposed new term “non-compliance.”
- The description of an appropriate authority should be reconsidered as the concept of an authority that has the *ability* to act, and not simply an authority that will act, appears to have been lost.
- The proposals as drafted appear more directed to PAs as firms as opposed to individuals and yet it is common knowledge that whistle-blowing can ruin people’s lives. It was argued that this should not be ignored. Mr. Franchini noted that in the context of firms, generally it would be the firm that would be making the disclosure decision and not the individual PA.
- There should be a positive emphasis on careful and thoughtful documentation as in a court case it would be highly likely that documentation would be subject to legal discovery.
- The wording of the proposed documentation requirement when the presumption of disclosure is rebutted should be reconsidered as it appears to capture everything that is not clearly inconsequential.
- Consideration should be given to clarifying the guidance regarding obtaining legal advice or advice from the PA’s professional body, as in some cases it is unclear what the purpose of seeking the advice would be and what the PA would do with the advice.

WAY FORWARD

The IESBA asked the Task Force to present a first read of a possible re-exposure draft for consideration at the December 2013 IESBA meeting. The Task Force was also asked to present the changes by reference to the extant Code.

3. **Presentation on Context and Issues in Hong Kong (HK) and Mainland China**

Mr. Au gave a presentation on the contextual environment and issues in HK and mainland China, outlining, amongst other matters:

- The background to the accounting industry in the two jurisdictions, contrasting its size and diversity and the different context in which it operates in each jurisdiction;
- Efforts to converge with international standards (including the Code), and related implementation issues, particularly in mainland China given the size and diversity of the market; and
- The different sets of ethics-related issues facing the profession in the two jurisdictions.

Amongst the various matters he highlighted were the following:

- A suggestion from the Chinese Institute of Certified Public Accountants (CICPA) for an IESBA process to address questions that arise on adoption and implementation of the Code, for example, with respect to understandability of the Code for non-English speaking IFAC member bodies. This could in particular facilitate translation, taking into account local laws, regulations and culture.
- Concerns in HK regarding the need for guidance from the Board in relation to the materiality threshold in the Code.

- Segregation of duties concerns. In particular, SMPs are often seen as a “one-stop shop” in HK, providing more than just accounting services, and because many of them are one- or two-people firms they face segregation of duties issues. In mainland China, a different license is needed to provide certain services, hence the issue tends to be lesser significance.
- A concern in HK about the Code’s relevance from a PAIB’s perspective.
- A regulatory concern in HK about whether it is possible to have safeguards against threats to the fundamental principle of professional competence, an issue that is perceived to be important at the SMP level.
- His view that the challenge is not so much the language but how to apply the Code in the local environment.

IESBA members commented as follows, amongst other matters:

- While there is merit in considering establishing a Board process through which to channel adoption and implementation issues, the practical constraint is the Board’s limited resources.
- It may be worthwhile for IFAC to explore ways to better collaborate with its stakeholders in addressing such issues, for example, through leveraging the resources of the larger firms, which would benefit the broader goal of international convergence.
- International convergence may ultimately not be achievable given the diversity in legal and regulatory frameworks around the world. For example, China has established an independence provision concerning financial interests that is stricter than the Code in that the scope of the Chinese provision is not limited to immediate family members but includes grandparents.
- Consideration is being given to explaining the Board’s approach to materiality in the Code in the proposed “position paper” being developed by the non-assurance services (NAS) Task Force.

Mr. Holmquist thanked Mr. Au for his informative and insightful presentation.

4. Liaison with IFAC SMP Committee

Statement of Principles – IESBA-SMPC Liaison

Mr. Holmquist introduced the topic, providing brief background to the draft Statement of Principles and noting his view that it was an improvement on the previous version. Mr. Siong then outlined the approach to the document, noting that it had received the support of both Mr. Holmquist and the SMPC Chair.

The IESBA agreed in principle to the proposed Statement of Principles, subject to the SMPC’s views, recognizing the importance of liaising with the SMP community.

An IESBA member wondered whether a similar document would be set up regarding liaison with the IFAC PAIB Committee. Mr. Holmquist commented that this could be considered if the IFAC PAIB Committee so desired but that the committee seemed content with the current arrangements for it to provide input on the Part C project.

Mr. Koktvedgaard questioned whether this arrangement would be extended to the IAASB or other standard-setting boards within IFAC. Mr. Holmquist expressed the view that the current liaison arrangements with the IAASB, including regular meetings at the leadership and staff levels, were operating well and he did not see a need to formalize them.

Mr. Siong thanked the Board, noting that he would convey the outcome of the Board discussion to the SMPC staff.

WAY FORWARD

The IESBA asked staff to brief the Board on the outcome of the SMPC's consideration of the document at the SMPC meeting later in October 2013, and to present the final document for approval at the December 2013 IESBA meeting.

Update on October 2011 IESBA SME/SMP Working Group Report

The IESBA briefly considered an update on actions taken to date in addressing the recommendations in the October 2011 IESBA SME/SMP Working Group report. Some IESBA members expressed concern about creating undue expectations, given that the tone of the update appeared to suggest that the Board would be revisiting areas in the Code, such as valuation services, with a view to relaxing standards to accommodate SMPs. Mr. Holmquist emphasized that this was not intended. Mr. Thomson noted that the intention was to indicate that there are various projects under way that are considering these areas but not that these projects will necessarily resolve all the issues in the report.

After further deliberation, the IESBA asked staff to reconsider the wording of the update.

5. Structure of the Code

Mr. Thomson introduced the topic, providing an overview of the research undertaken by the Working Group to date and its preliminary analysis of the findings relative to a number of options that would change the presentation of the Code (including restructuring, redrafting and repackaging), and options that would not change the Code (including off-Code complementary materials). He also highlighted the main comments from the CAG meeting the previous week. He acknowledged that there was no intent to change the content of the provisions in the Code.

He then led the IESBA through a discussion of the issues.

GENERAL COMMENTS

IESBA members made the following general comments, amongst other matters:

- The idea of restructuring the Code for greater understandability is worthy of support as much of this will be about improving access and ease of translation, and eliminating ambiguity.
- The project will be extremely challenging if it aimed to be all things to all people. Recognition should be given to the fact that the independence sections in the Code have grown into a complex body of provisions over time. In this regard, it was noted that while the US Securities and Exchange Commission's (SEC's) independence rules are short, their application requires significant experience. On the other hand, the UK's independence standards are relatively easier to read but they do not use the strict drafting conventions in the IESBA Code, so although they are accessible their underlying meaning is not always clear. In contrast, the Code is a more difficult read but the Board's drafting conventions are stricter, so although the Code is not as accessible, its meaning tends to be clearer. Given this context, it would be difficult to achieve a panacea.
- Users who need to understand the provisions in the Code, particularly with respect to independence, will generally take the time to study and understand them. Accordingly, it would be important for the Board to aim for clarity on the definitive text.

A view was expressed that a period of stability is needed as the Code had a major overhaul of the independence provisions in 2009 and further changes to the Code were recently issued (e.g., conflicts of interest). In this regard, it was suggested that rather than making wording changes to the Code, consideration could be given to packaging options that would help enhance understanding of the Code. Mr. Thomson, however, noted that from the research, stakeholders from a broad cross-section of the Board's constituencies have not been opposed to presentational changes to the Code's wording or structure.

ENHANCING THE VISIBILITY OF THE CODE'S REQUIREMENTS AND PROHIBITIONS

In relation to the considerations regarding enhancing the visibility of the requirements and prohibitions in the Code, an IESBA member expressed a concern about a potential separation of the requirements from the guidance in the Code, noting that the Code also encompasses the conceptual framework of threats and safeguards, which provides the appropriate context for the PA to analyze specific circumstances and determine the appropriate actions. Accordingly, it was unclear how a potential separation of the requirements from the guidance would work in this regard. It was suggested that an illustration of how the Code could be reorganized and what could be possible would be useful. Mr. Thomson acknowledged the concern, noting that the Working Group had explored the approach taken in the UK but that further consideration would be needed. He highlighted that a number of stakeholders were in favor of exploring separating the requirements from the guidance and that consideration would need to be given to whether this would be workable.

Other IESBA members commented as follows:

- Care would be needed as a separation of the requirements from the guidance may suggest a shift to rules away from principles.
- If guidance were to be presented separately from the requirements, it would be important that it be tied to the requirements so that it is not ignored.

Mr. Koktvedgaard emphasized that the value of high-level summaries should not be underestimated, noting that the CAG had found the IESBA's high-level summary of prohibitions applicable to audits of PIEs to be very useful in highlighting key provisions in the Code to those who are not familiar with it.

CLARIFYING RESPONSIBILITY FOR COMPLIANCE WITH THE CODE'S REQUIREMENTS

It was noted, as previously discussed, that the Code does not generally assign responsibility for actions and that the Board has considered whether a project to address this matter is warranted. There are conflicting views. An IESBA member noted that the concept of an "ethics partner" is in the UK independence requirements and is one that would warrant further consideration. One Board member expressed a view that the concept of an "ethics partner" could help reinforce the tone at the top and give ethics and independence the appropriate emphasis.

Mr. Dairaku highlighted this topic as being a priority in terms of enforceability.

Mr. Thomson noted that the Working Group saw this as a separate topic from the rest of the Structure work as it would require a separate project.

SIMPLIFYING THE LANGUAGE IN THE CODE

In considering the examples of plain English presented in the agenda material, IESBA members made the following comments:

- Plain English and legal drafting styles may not necessarily be far apart as legal drafting can be quite readable.
- Consideration could be given to assembling a group of users whose first language is not English to see how to achieve a common understanding of specific wording in the Code or, if this is not possible, to explore how to assist them to understand the intention of the Code.
- It would be important to address the issue of the use of words that do not have their normal meanings, such as “audit” to mean “audit and review” in Section 290. An IESBA member, however, noted that the intention behind such a drafting convention was to simplify the drafting. It was cautioned that going back to expanding such terms to their full meaning could make matters worse. It was, however, suggested that an electronic Code may help mitigate this issue.
- Some of the examples in the agenda papers are written in simple English, rather than plain English, and well written legal English would be more helpful.
- The use of simple English in the examples demonstrated that the actual meaning of the provisions can be lost when this approach is taken and that great care is needed in editing the text.
- Care would be needed in using colloquial English, as in some of the plain English examples presented, as this could create problems on translation.

Mr. Koktvedgaard observed that the plain English examples did not appear to have a target reading grade. He suggested that there would be benefit in aiming to lower it for enhanced readability, starting with an assessment of the reading grade levels of standards currently being developed or revised. In this regard, some IESBA members suggested considering field testing any new drafting conventions on current projects such as the review of Part C and responding to non-compliance with laws and regulations, as a means of obtaining early feedback on the drafting convention proposals.

ELECTRONIC CODE

Mr. Thomson noted that respondents to the research did not rate an electronic Code as a high priority. Many IESBA members, however, felt that an electronic Code would be key to addressing the issue of accessibility, and if developed in an innovative way, may help users better understand the Code. It was noted in particular that an electronic Code may enable packaging and navigability features that enhance usability, such as through charts that may help users manoeuvre through the guidance. It was argued that the power of an e-platform has not been fully explored yet and that this should not be left to the end.

An IESBA member believed that many professional accountants do not refer to the Code itself but rather use their national codes of ethics. It was, however, argued that the main users are the firms in general who will typically use the Code in setting internal policies and in engagements when the Code is applicable. In addition, it was noted that there are jurisdictions that adopt the Code and they may find an electronic Code useful when they adopt and publish a domestic version of the Code. Further, it was argued that users do not necessarily fully understand the potential of an e-platform. The Working Group was advised to consider to what extent English versions of the IESBA Code are used compared with foreign language variants.

After further deliberation, an overwhelming majority of IESBA members expressed support for the Working Group to explore the potential of an electronic code at an early stage but taking into account the planned structural changes.

COMPLEMENTARY MATERIALS

IESBA members expressed general support for exploring complementary materials as users generally do refer to them. However, the development of these should be considered in the context of not only the Board's resource constraints but also the need to ensure that they are consistent with the provisions of the Code.

REPACKAGING

With respect to repackaging, IESBA members commented as follows, amongst other matters:

- Consideration should be given to a structure that enables a more intuitive approach to the Code, possibly with a summary up-front and the ability to see where to go and drill down for more information.
- Flowcharts may help.
- Consideration should be given to exploring separate components for different users.
- Stakeholders appear to be looking for shorter documents, for example, moving the independence provisions into a separate document. Regardless of the option pursued, it would be important to retain the link between ethics and independence.

OTHER COMMENTS

Amongst other matters, IESBA members also commented as follows:

- It would be important to be clear about the "why" for any particular proposals as there are risks of scope creep and lack of focus. In addition, recommendations should explain why they are in the public interest.
- A topic that has not been addressed is the Board's website, which needs to be reconsidered as it is not user-friendly. It is difficult to find publications. For example, publications are ordered by date rather than type or topic. Mr. Siong noted that this issue is not specific to the Board as it has also been raised in the context of the other standard-setting boards that IFAC supports. Nevertheless, he noted that he would bring this matter to the IFAC management team's attention.
- The 2018-2019 target date for completion of this initiative appears too long. There would be a need for the Working Group to identify earlier deliverables. In this regard, Mr. Siong highlighted the IAASB's experience with its Clarity project, during which it leveraged staff resources from a number of national standard setters to make faster progress on its project.
- It may be appropriate to make changes in stages, for example standard by standard.
- Case studies and other material separate from the Code may be developed with the assistance of IFAC member bodies or other parties, but some early decisions would be needed as to what the Board can or cannot do and what due processes would apply to their review and approval.

Mr. Koktvedgaard noted comments at the CAG regarding the need to address resource constraints and the priority of this initiative in the context of other projects.

PIOB Observer's Remarks

Mr. Ward commented that having come along so far on this initiative, it would be difficult for the Board not to move forward on it. He noted that in its recent public report, the PIOB had emphasized the need for the

standard-setting process to operate at a faster pace. In this regard, he highlighted the experience at the IAASB, which in the recent past has taken action to accelerate important projects. So he challenged the thinking that the initiative would take 5-6 years to complete, noting that the world could have moved on by then. He suggested that a legal drafter could be engaged to help achieve a faster turnaround.

Acknowledging Mr. Ward's comments, Mr. Holmquist nevertheless emphasized the need for the Board to undertake appropriate research and consultation with stakeholders.

WAY FORWARD

The IESBA asked the Working Group to present its preliminary report on the research findings and related proposals for consideration at the December 2013 IESBA meeting.

6. Long Association

Ms. Orbea introduced the topic, outlining the background to the project. She noted that the Task Force had not had an opportunity to present the topic at the September 2013 CAG meeting due to the time needed to process and analyze the large quantity of data obtained from the project research. She added that a conference call would be scheduled in October 2013 to discuss the project with the CAG. She then gave a high level overview of the significant issues and the related Task Force proposals, highlighting that stakeholder views from the research on the various issues have been varied.

Except as outlined below, the IESBA agreed the recommendations of the Task Force as set out in the meeting material.

RECOGNIZING THE PUBLIC INTEREST PERSPECTIVE IN BOARD AGENDA MATERIAL

Reflecting on a suggestion from the PIOB Observer at the June 2013 IESBA meeting, Mr. Holmquist suggested that project papers presented to the Board highlight the public interest perspective to demonstrate the Board's concern for the public interest. While there was some support for this suggestion, an IESBA member cautioned about the potential for such references to become boilerplate. A concern was expressed that the Board may not necessarily agree what is in the public interest for every project as different categories of PAs have different public interest imperatives, and that going down that path could highlight even more the need for the Board to define the public interest. In this regard, it was noted that IFAC's Policy Position 5⁵ considers the meaning of the public interest from the perspective of the standard-setting process and not the standards themselves.

After further deliberation, the IESBA asked staff to reflect on whether a paper could be developed outlining how the public interest could be highlighted in the Board agenda material.

PIOB Observer's Remarks

Mr. Ward commented that it is often difficult to know what is in the public interest unless things go wrong. He suggested that it may be better to weave the discussion of the public interest into the discussion rather than making it a box-ticking exercise.

⁵ IFAC Policy Position 5, *A Definition of the Public Interest*

GENERAL COMMENTS

IESBA members commended the Task Force on its work. A question was, however, raised by Mr. Holmquist as to whether the project was sufficiently ambitious. In this regard, it was suggested that it would be important to obtain the regulatory community's views through early engagement with them on the issues. The Basel Committee on Banking Supervision was mentioned in this respect as prior outreach by IESBA leadership had revealed a strong view within this regulator regarding the need for stricter rules with respect to bank audits.

An IESBA member felt that the challenge is to understand how rotation affects audit quality and that it is clear why this project is in the public interest. It was argued that without evidence, the Board's efforts could become a benchmarking exercise and that if regulators were unable to explain the rationale for their particular time-on/cooling-off periods, there would be little support for going down a particular path. Ms. Orbea noted that the Task Force has not shied away from stating that the relevant provisions in the Code are appropriate given the lack of evidence that the current provisions are inappropriate and which would justify significant changes to those provisions, although the Task Force has flagged some areas for possible enhanced guidance. She nevertheless acknowledged that a perception issue exists. Another IESBA member observed that in the EU there has been a concern that partner rotation is not the right way to address familiarity threats, hence the discussions regarding mandatory firm rotation.

It was noted that TCWG are a source of information on audit quality. In this regard, a few IESBA members shared their personal experiences on audit committees, noting that they provide a good vantage point from which to informally judge the objectivity of the key audit partners (KAPs). Accordingly, it was questioned whether there would be merit in further engaging with them, not to search for a consensus on the rotation period given the arbitrariness of that measure, but to seek qualitative perspectives from them regarding matters such as the costs and benefits of partner rotation. It was noted in particular that a new KAP often brings fresh insights to the audit and that there would be benefit in TCWG working to maintain a degree of continuity on the audit team to minimize the risk of a sudden loss of knowledge of the client with rotation.

An IESBA member commented that audit committee chairs are generally careful about a retendering process given the real costs involved in terms of time, diversion of focus away from the business, etc. Another IESBA member felt that the best protection for the public would be to empower TCWG through education, etc. A few other IESBA members shared the view that audit committees have a critical role to play with respect to the appropriateness of rotation and which individual should come onto the audit team.

Other Comments

Comments from other IESBA members included in the following:

- The topic is one where it is difficult to find clear evidence that the costs exceed the benefits, or vice versa. In Italy in particular, it has been difficult to be certain that partner rotation leads to an increase in audit quality. It was therefore suggested that the complexity of the topic and qualitative aspects of the issues be recognized.
- Familiarity has been framed in negative terms in the Code and in the public debate. Rather, there should be greater recognition that it can be a great advantage to audit quality, up to a limit as over-familiarity can adversely impact audit quality. A further important aspect is stakeholder trust and the need to address the perception issue in terms of stakeholders seeing the audit as being independent.

- It is unclear whether further research would yield further insight into the issues. Ms. Orbea agreed, noting that it was unclear whether consensus responses would be obtained if TCWG were further surveyed, given the wide range of views that have already been obtained from this stakeholder group in the research.
- There is a wide variation in rotation requirements around the world and while the Board should reflect on what the best rotation regime should be, it should recognize this variation and explain why it believes the rotation regime in the Code is the most appropriate one. In this regard, Ms. Orbea noted that while the research had shown that the majority of jurisdictions do follow the provisions in the Code, it was unclear how the Board could address the complexity stemming from the intersection between the international and national requirements. Mr. Holmquist suggested that at a minimum the exposure draft should highlight the complexity of the issues.
- In Canada, more than 2,000 listed entities under a certain market cap have been exempt from the international partner rotation requirements as the regulator did not believe it would be in the public interest for these requirements to apply to such entities.

Mr. Dairaku commented that post-implementation reviews are important for newly adopted provisions such as the 7-year-on, 2-year-off partner rotation provision in terms of evidence-based standard setting.

Mr. Koltvedgaard commented that perception is important because there would be a problem if investors do not perceive the auditor to be independent. He also felt that the project started with an emphasis on professional skepticism and that this appears to have been overlooked. He therefore urged the Board to reflect on what would serve users.

ENHANCING THE GENERAL PRINCIPLES IN PARAGRAPH 290.150

IESBA members expressed support for the Task Force's proposal to explore an enhanced framework of principles in paragraph 290.150 that would provide further guidance when addressing familiarity threats created by long association. An IESBA member did not believe that it would be necessary to go so far as to delete the references to self-interest threat and that such a threat can arise in some circumstances. It was suggested that some illustrations of self-interest threat be included in the guidance. Another IESBA member suggested a consideration of audit quality more broadly. It was noted that there may be ramifications for other parts of Section 290⁶ if the audit quality context were to be brought into the long association section.

INVOLVEMENT OF TCWG

IESBA members agreed that it would be beneficial and important for TCWG to be consulted about rotation decisions given the joint responsibility they share with auditors with respect to auditor independence, but that TCWG should not take on a decision-making role in that regard. It was noted that TCWG are able to bring an external perspective and, accordingly, consultation with them may act as a safeguard. It was also noted that TCWG have a responsibility to act on behalf of shareholders and therefore it would be in their interest to have an independent auditor.

An IESBA member expressed the view that there are two main issues with respect to familiarity: personal familiarity, which would be addressed by the proposed framework; and institutional familiarity, which raises the matter as to which safeguards would address the threat at the institutional level. It was felt that

⁶ Section 290, *Independence – Audit and Review Engagements*

a more robust approach would be needed in terms of the ways in which the firm could communicate with TCWG, as well as policies and procedures that would mitigate the threat at the partner level.

After further deliberation, the IESBA asked the Task Force to reflect on whether and, if so, how communication between the auditor and TCWG could be improved in this area.

WHO SHOULD BE SUBJECT TO ROTATION?

Managers

One IESBA member noted that some senior audit managers do make key decisions on the audit and thus recommended that they should be subject to rotation. Other IESBA members, however, disagreed. While acknowledging that there are risks to using senior managers on the audit for a long period, the latter noted that there can be significant practical issues and potential unintended consequences to rotating these individuals off the audit, for example, if there is a limited number of them in the firm and that number may be further constrained in terms of language skills. An IESBA member questioned whether it would be appropriate from a perception point of view for an audit manager to stay on the audit for 10 years or more. Another IESBA member, however, noted that such a situation would be rare. It was argued that the Code should instead make clear that firms should take appropriate action to address such a situation if it were to arise.

After further deliberation, the IESBA asked the Task Force to consider enhancing the guidance with respect to these individuals in the general framework, focusing on the extent of their influence on the audit but not on their job titles.

Manager Becoming Partner on the Audit Engagement

The IESBA asked the TF to consider how the time served on an audit client prior to a manager becoming a KAP could be considered relative to the total time served to ensure that familiarity concerns prior to an individual becoming a partner are taken into account without the need for mandatory rotation for managers.

Other Comments

An IESBA member suggested that consideration be given to whether the concept of a lead audit engagement partner should be defined. Another IESBA member noted that an IT partner is often seen as not being a KAP, which is not consistent with the fact that such an individual can make key decisions at a late stage in the audit. Accordingly, it was suggested that there would be a need for greater clarity regarding the individuals who make key decisions on the audit.

TIME-ON AND COOLING-OFF PERIODS

Time-On Period

IESBA members were generally supportive of retaining the current time-on period. An IESBA member felt it important to understand the objective of choosing a particular rotation period, noting the need to allow the KAP sufficient time to do a proper job on the audit and that a shorter rotation period could adversely affect audit quality. It was argued that it would be important to articulate why the current seven-year period continues to be appropriate. In this regard, it was pointed out that the need for transition and shadowing is often overlooked.

A minority of IESBA members felt that the seven-year time-on period was somewhat too long and expressed a preference for shortening it to five or six years, which is current practice in the US (for the lead and QRP) and France, respectively. In this regard, a minority view was expressed that a five-year-on/five-year off approach might be more balanced.

Cooling-Off Period

Several IESBA members were uncomfortable with the current two-year cooling-off period, believing it is too short. A number of them felt that the possibility of a KAP being on the audit for 14 out of 16 consecutive years was problematical from a perception standpoint and undermined the credibility of the Code. In this regard, it was noted that a longer cooling-off period of three years was being considered in the EU. It was also observed that if a KAP is popular with the client, the client may want to have him or her back on the audit as soon as the cooling-off period is over.

Other IESBA members also commented as follows:

- It was noted that in Sweden in practice, KAPs generally do not return to the audit client after the cooling-off period.
- Consideration should be given to establishing some principles to address circumstances where an outgoing KAP wishes to have a continuing role with the client.
- There is a need to emphasize in any ED that partner rotation is a good alternative to mandatory firm rotation or mandatory tendering.

After further deliberation, the IESBA came to the overall view that the current time-on period remained appropriate but asked the Task Force to consider extending the cooling-off period.

PERMISSIBLE ROLES DURING "COOLING OFF"

IESBA members agreed that any role taken on by a rotated individual relative to an audit client should not allow him or her to influence the outcome of the audit. It was felt that this is an area where the auditing profession could be subject to criticism as the only reason for a rotated individual to hold a client relationship role in the cooling-off period would be commercial. It was, however, noted that it would not be practicable or realistic to prohibit any interaction with the audit client, and precluding any social interaction would be going too far.

It was suggested that activities performed during cooling-off could be linked to the length of that period, with certain activities resulting in an increase in the cooling-off period that would need to be served, for example, a KAP providing specialist training to the client (provided safeguards are in place) may need to spend a longer time cooling off. Alternatively, certain activities could initially be banned and then become permissible during later stages of the cooling-off period.

After further deliberation, the IEBSA agreed that a rotated individual's involvement with the client during the cooling-off period should be very limited. The IESBA asked the TF to explore enhanced guidance on the nature of permissible roles during the cooling-off period.

EXCEPTIONS

The IESBA discussed paragraph 290.154 and whether the maximum increase in the time-on period should be reduced from two years to one year. The IESBA noted that the currently permitted maximum increase of two years was out of step with the suggestion from IOSCO in its comment letter on the IESBA's future strategy and work program but in line with many jurisdictions, including the US. It was

pointed out that several jurisdictions in fact have chosen to give KAPs a fresh start when an entity becomes a PIE. Several IESBA members noted from personal experience that the transition to a PIE can be highly complex and last for over a year. Thus, a two-year extension would assist with an orderly change without adversely affect audit quality.

After further deliberation, the IESBA agreed that the current exception paragraphs in the Code were sufficient and further exceptions were not necessary. The IESBA also agreed that the permissible maximum extension to the “time on” under paragraph 290.154 should remain at two years and not be shortened or eliminated.

MANDATORY ROTATION WITH RESPECT TO AUDITS OF NON-PIES

IESBA members generally agreed that mandatory rotation should not be applied to non-PIE audits, noting the potential for such a requirement to impose undue burdens and the need to recognize the differing public interests in the audits of PIEs from non-PIEs.

With respect to the applicability of the partner rotation requirements to financial sector entities, it was noted that the current definition of a PIE in the Code allows individual jurisdictions to determine what entities should be treated as PIEs. Accordingly, the IESBA agreed that partner rotation requirements for financial sector entities should be dealt with by local regulators who, through their ability under the Code to determine what entities are defined as PIEs, can subject the auditors of these entities to the partner rotation requirements.

WAY FORWARD

The IESBA asked the Task Force to present a first-read draft of proposed changes to the Code for consideration at the December 2013 meeting.

7. Emerging Issues and Outreach

Mr. Hannaford introduced the topic, providing an overview of the background to the initiative and outlining the Emerging Issues and Outreach Working Group’s proposals regarding working processes to address emerging issues and outreach. As a way of highlighting the importance of IESBA members’ involvement in outreach, he reported briefly on his participation at the CRECER conference in Colombia at the end of July 2013. Mr. Gaa also provided brief report-backs on his participation at the annual American Accounting Association (AAA) conference in August 2013, and on a presentation he gave at Macquarie University in Sydney the previous week, when he had the opportunity to speak about the Board and its work.

Mr. Hannaford then led the Board through the Working Group’s proposals regarding the working processes.

In supporting the proposed processes and the establishment of a standing working group to oversee the initiative, IESBA members made the following observations, amongst other matters:

- It would be important to build on the work of strengthening relationships with stakeholders.
- It is somewhat of an unknown quantity at this stage whether the initiative will be resource light or of low intensity. In this regard, it was suggested that staff monitor the utilization of resources in this initiative. It was also suggested that the standing working group should have a demanding filter with respect to emerging issues as there is a risk of overwhelming the Board with numerous external developments.

- Care should be taken in avoiding the focus of the efforts being overly Anglo Saxon-centric.
- It may be difficult to define priorities in terms of determining whether or not a particular issue is widespread. Accordingly, there may be merit in reflecting on the frequency of occurrence of the issue to gauge its potential impact and urgency.
- While a focus on the technical side may be appropriate in the context of outreach, what appears to be missing is a link to the political side. In particular, it was argued that if the Board wishes to be a leader in international debates, it would be important for the Board to have a political dimension as this is what will help raise the Board's visibility, especially with respect to investors. It was, however, noted that care would be needed in considering the political dimension as any efforts the Board might undertake in that respect might be viewed as competitive to IFAC. Further, the Board may not be in a position to comment on accounting scandals without a full understanding of all the facts and circumstances.

WAY FORWARD

The IESBA asked the Working Group to present final proposals regarding the working processes, and draft terms of reference for the standing working group, for approval at the December 2013 meeting.

8. Review of Part C of the Code

Mr. Gaa introduced the topic, noting the objective of obtaining the IESBA's views on a straw man of proposed changes to Part C of the Code to address the issue of pressure from superiors and others to engage in unethical or illegal acts (Pressure) and related issues. Mr. Jackson reported on the CAG representatives' advice on a number of the matters under consideration.

PROPOSED NEW SECTION 3X0

The IESBA agreed with the Task Force's proposal that Pressure be addressed as a new Section 3X0 rather than replacing Section 340,⁷ as had been proposed in the project proposal. Section 3X0 would apply to all situations in which pressure from a superior, colleague or other party to engage in an unethical or illegal act threatens compliance with the fundamental principles. Section 340 would be retained to focus on financial gains relating to financial reporting and decision-making relating to a self-interest threat.

DESCRIPTION OF PRESSURE

An IESBA member questioned the need to define unethical activities as the definition appeared quite limiting and unethical activities can be a matter of a personal view. It was suggested that alternative terminology could be "pressure to breach the fundamental principles" or "non-compliance with the Code or with laws and regulations" as these would not make reference to the personal concept. It was noted that because the description could be used in disciplinary procedures, it should be specific.

An IESBA member observed that the straw man does not distinguish between unethical acts and acts of non-compliance with laws or regulations, and there was a concern about mixing the two. It was also noted that "unethical acts" is a broad category which involves personal views, and there was therefore a concern to ensure that the provisions are drafted to enable the PAIB to comply with them.

⁷ Section 340, *Financial Interests*

An IESBA member suggested that consideration be given to including the codes of PAIBs' employers within the scope of the section. It was observed that as employers' codes typically "say the right thing," referring to them in the Code would be unlikely to align the Code with unacceptable principles, although it would be necessary to decide which Code takes precedence in the event of a conflict. Other IESBA members, however, expressed a concern that if employers' codes are referenced in the Code and set a higher bar than the Code, this would establish a movable bar, which a CAG representative had advised against. In addition, a view was expressed that while entities do not generally pressure their employees to do the wrong thing, it would be inappropriate for, and beyond the control of, an IFAC member body to regulate PAIBs' compliance with their employers' codes. After further deliberation, the IESBA agreed that the scope of the section should be limited to the profession's Code.

Mr. Koktvedgaard commented that employers' codes can be viewed as a safeguard.

Other Comments

In addition to structural comments, IESBA members also suggested the following:

- Consideration should be given to aligning the term "illegal act" with the proposed term "non-compliance with laws and regulations" in the latest version of the Suspected Illegal Acts straw man.
- Care should be taken in referring to Part C as just guidance, as this does not mean that it can be ignored.
- Pressure can be intangible, and the most effective pressure is often indirect.
- The section should include situations in which an objective is set that compels the PAIB to breach the fundamental principles.

PIOB Observer's Remarks

Mr. Ward noted that the discussion was helpful with respect to serving the public interest. He suggested that the challenge is to align (a) the higher order of reporting vs. (b) the expectations of regulators (c) the public's expectations. He noted that if (a) has surpassed (c), then the public interest is served. But if (a) does not surpass (b) or (c), then the outcome is clearly inadequate. He noted that in the Suspected Illegal Acts project, the desire was to go to the highest order of reporting. He felt that aligning all the above is challenging.

DOWNWARD PRESSURE

The straw man proposed that downward pressure to engage in unethical or illegal acts should be prohibited. Some IESBA members, however, noted that it would be difficult to prohibit downward pressure because pressure is subjective. It was suggested that the Task Force consider a more objective approach to the proposal.

CREATING AN ETHICS-BASED CULTURE

Paragraph 300.5 expects a PAIB to encourage an ethics-based culture. The IESBA considered whether this should be strengthened to become a responsibility. It was noted that although there is a responsibility on PAIBs to encourage an ethics-based culture, the Code should not create an obligation on the PAIB because the PAIB may not have the power to fulfill this obligation.

EXAMPLES OF PRESSURE

While noting the benefit of illustrations in the guidance, some IESBA members were concerned about the long list of examples the Task Force had proposed in the straw man. It was felt that there would be a risk of such a list being seen as exhaustive. A Task Force member, however, noted that the Task Force has been charged with making Part C more helpful and in this regard, more examples would help PAIBs identify with the issues. Another IESBA member suggested that consideration be given to whether some of the examples could be moved to complementary materials. After further deliberation, the IESBA asked the Task Force to reflect on the matter further.

CONCEPTUAL APPROACH TO THE SECTION

Some IESBA members were of the view that it would be difficult to apply a threats and safeguards approach to Pressure as proposed in the straw man, since a PAIB may not be the source of the pressure and therefore not in control. It was felt that it would be difficult to apply safeguards to address pressure because the relationship is between two individuals, and that conceptually it would be better to guide the PAIB on actions when facing pressure. In addition, it was questioned whether there can ever be an acceptable level in regard to intimidation threats made to a PAIB. It was therefore suggested that guidance should instead be provided in terms of the steps that a PAIB can take to eliminate or reduce the pressure. In this regard, it was felt that the actions described as safeguards in the straw man were not truly safeguards but more actions or other measures to address the pressure.

With regard to the proposed requirement in the straw man that the PAIB not yield to pressure, an IESBA member felt that it would be unrealistic to expect PAIBs to comply with such a requirement in all circumstances, particularly if their livelihood is at risk. Other IESBA members, however, disagreed, noting that the principle is fundamental and should be kept. It was argued that the Code should be aspirational even if some PAIBs will succumb to pressure.

After further deliberation, the IESBA asked the Task Force to reflect further on the conceptual approach to this section.

THIRD PARTY TEST

Some IESBA members noted that pressure is a personal matter and therefore it was unclear whether referring to a third party test would help much. Other IESBA members, however, felt that a third party test could be helpful as it could prompt the PAIB to stand back and reflect on what an independent external third party would think about the situation. In this regard, it was noted that the test could provide for a reality check, particularly as one can misread a situation. After further deliberation, the IESBA asked the Task Force to reflect on the matter further.

ACKNOWLEDGING DIVERSITY OF ETHICAL NORMS

An IESBA member noted that ethical norms in entities vary and there is no right or wrong answer as to what is ethical or unethical. It was argued that this reality should be acknowledged. Another IESBA member was of the view that the culture within some organizations may erode a PAIB's awareness of unethical activities.

Mr. Koltvedgaard highlighted a concern at the CAG that the proposed wording appeared to suggest that different ethical standards could be accepted (a "floating bar"), although this had not been the Task Force's intention.

Other IESBA members commented as follows, amongst other matters:

- People tend to adapt to their environment and this is an important point to note.
- If reference to unethical behavior is removed from the section, there is no need to acknowledge this point.
- Paragraph 8 gives a wrong impression in suggesting that a familiarity threat can apply to a PAIB.

After further deliberation, the IESBA asked the Task Force to reflect further on the effect of culture in an organization, industry or country on ethical norms.

OTHER COMMENTS

In addition to editorial comments, IESBA members made the following other observations:

- The inclusion of safeguards that cannot be applied by junior PAIBs, for example, restructuring or segregating responsibilities, should be reconsidered.
- Not all of the possible actions to address pressure in the straw man may be available to SMPs.
- The last sentence of paragraph 10, alerting the PAIB to the fundamental principle of confidentiality when seeking guidance, is unhelpful as it will serve to impede rather than stimulate consultation. Rather, guidance should be provided regarding how the PAIB can approach others to discuss the issue.
- With respect to paragraphs 13-14, the guidance should be oriented towards more upfront actions, such as codes and systems of conduct to be in place before the pressure comes in vs. thinking about putting in place the necessary codes and systems after the pressure has materialized.

WAY FORWARD

Mr. Gaa indicated that although it would be optimistic, the Task Force planned to present proposed revisions to Section 320⁸ at the December 2013 IESBA meeting and a first read of the section addressing Pressure at the April 2014 IESBA meeting.

9. **Non-Assurance Services**

Ms. Sapet introduced the topic, providing background to the project and outlining the main conclusions from the board discussion of the project at the June 2013 meeting. She then outlined the main elements of the revised project proposal, noting that the CAG was in general agreement with the proposed scope of the project. She also noted a comment from a CAG Representative highlighting recent developments in the U.S. concerning NAS.

PROJECT PROPOSAL

The IESBA unanimously approved the project proposal as presented, with a focus on:

- Clarifying the NAS provisions in the Code concerning management responsibilities;
- Clarifying the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services; and

⁸ Section 320, *Preparation and Reporting of Information*

- Examining the “emergency exception” provisions related to bookkeeping and taxation services.

An IESBA member noted that those three areas are where questions often arise in practice and, accordingly, bringing greater clarity to the relevant guidance in the Code would be helpful.

Another IESBA member noted the need for caution in dealing with the term “informed management” as it is a concept that exists in the UK but not in other jurisdictions. This is a similar concept to that expressed in 290.166.

NAS PAPER

Ms. Sapet outlined the thinking behind, and the proposed topics to be covered in, the NAS paper, noting that it would represent in effect a basis for conclusions regarding the Board’s approach to NAS in the Code. An IESBA member wondered why the topics of taxation, valuation and internal audit services would be addressed in the paper as there was a concern about questions being inadvertently raised about the Code’s approach to NAS, particularly with respect to the application of the fundamental principles. Accordingly, it was argued that the paper should be a position paper that validates the approach taken by the Board. Ms. Sapet indicated that there was no intention to re-open these areas for review, noting that the survey responses had generally indicated that approximately half of the jurisdictions surveyed had more stringent requirements and half less. She explained that the Task Force’s intention was instead to articulate the basis on which the Board had settled on the provisions in the Code with respect to those three areas. Another IESBA member noted that it would be appropriate for the paper to set out the Board’s basis for conclusions with respect to those areas since a number of stakeholders have challenged the Board’s approach regarding these services.

A few IESBA members expressed support for the paper to be drafted as a position paper as it would help not only address questions that often are asked in practice but also increase stakeholders’ understanding of the Code. It was suggested that the Task Force also consider covering in the paper:

- Contingent fees as they relate to NAS as questions are often raised in this area;
- Why the Board settled on the particular requirements with respect to audits of PIEs vs. audits of entities that are not PIEs; and
- How the concentration of NAS services in one firm with respect to a particular client may be a factor that can influence thinking about ethical issues.

Some members expressed concern about the possible wide breadth of the paper as might be suggested by the very long list of potential issues to address, and recommended that the brief be limited to the objective of providing a basis for conclusions regarding the Board’s approach to NAS.

A Task Force member noted that while the paper is not intended to question the approach to NAS in the Code, it is conceivable that in developing the paper the Task Force might tease out specific matters for the Board’s further consideration, for example, the robustness of the safeguards in the Code.

Mr. Koktvedgaard noted that the CAG specifically mentioned that firms have expanded their businesses into new service offerings and therefore consideration may need to be given to whether there are new areas that need to be addressed. Ms. Sapet agreed, noting that the Task Force had not necessarily ruled out consideration of emerging issues in the longer term.

PIOB Observer's Remarks

Recognizing the scarcity of resources, Mr. Ward nevertheless emphasized the importance of a timely deliverable in this project. In addition, given questions that have been raised regarding the purpose of the IAASB's Audit Quality project, he highlighted the need for clarity about the standing of the NAS paper.

Mr. Holmquist thanked Mr. Ward for his comments, reiterating that the purpose of the NAS paper will be to explain the Board's position on NAS and not to seek public comment on it.

WAY FORWARD

The IESBA asked the Task Force to present a first read of proposed changes to the Code in the three areas covered in the project proposal for consideration at the December 2013 IESBA meeting. The IESBA also asked the Task Force to further clarify the scope of the NAS paper and prepare a first draft for consideration at the April 2014 IESBA meeting.

10. **Audit Quality**

Mr. Thomson introduced the topic, outlining the background to the International Auditing and Assurance Standards Board's (IAASB's) project to develop an audit quality (AQ) framework and noting the Board's previous interest in the project. He highlighted the IAASB CAG's high interest in the project as well as a comment from its most recent meeting that work on the AQ framework should not reach an end with the finalization of the framework but that efforts should be made to apply the concepts in the framework. He then outlined the matters for the Board's consideration, noting that these were matters that concerned mainly future directions, including the question of whether the IESBA would want to stay involved in the broader context of AQ. Also, he suggested that the IESBA consider developing a closer working relationship with the International Accounting Education Standards Board (IAESB), perhaps within the remit of the Emerging Issues and Outreach initiative, given the IESBA's already close liaison with the IAASB and the IFAC SMP Committee.

GENERAL COMMENTS

While some IESBA members felt that the Board could certainly have a view on a number of the matters raised for consideration, some caution was expressed about extending the fundamental principles in the Code to address such AQ issues. The importance of maintaining the general application of Part A of the Code to cover AQ issues was emphasized. In this regard, an IESBA member wondered whether there should be a separate section in the Code for auditors. Another IESBA member suggested that one option could be to address AQ issues in one section of the Code if the concern was that there is no current structure for addressing such issues.

Commenting in her capacity as an audit committee chair, an IESBA member welcomed the opportunity for the Board to be associated with AQ. However, she emphasized the importance of careful thinking about the Board's mandate, adding that the test as to whether the IESBA should address any of the matters raised should be whether there is an ethical dimension to that matter.

Mr. Koktvedgaard commented that the IESBA should be aware of these issues because they touch on the fundamental principles in the Code.

GOVERNANCE OF FIRMS

With respect to the topic of firms' governance included in the matters for consideration, a view was expressed that the question raised might suggest a gap in the Code as the Code currently only deals with

the responsibilities of professional accountants in public practice and in business and not necessarily firm governance. It was therefore suggested that the Board further reflect on whether it would want to have a role in that area going forward or at least an aspiration to participate in the debate. In this regard, an IESBA member noted that the UK Financial Reporting Council has developed guidance to address this topic within its Financial Conduct Authority (FCA) framework. However, it was unclear how such guidance could fit with the IESBA's framework of pronouncements.

INFORMATION SHARING BY AUDITORS

It was noted that the matters raised with respect to information sharing by auditors (whether in relation to users, a successor auditor or regulators) are important as stakeholders have generally been seeking more information from auditors. An IESBA member, however, noted that the matter of confidentiality has been discussed at length within the Board and that confidentiality is in itself in the public interest as it is the only way to guarantee the free flow of information between auditors and their clients. It was noted that it is not auditors' role to provide information about their clients to shareholders but rather to encourage their clients to do so. It was emphasized that auditors should not be providing misleading information. It was also noted that the free flow of information should not be undermined by the perception that auditors are taking on a quasi-regulatory role. Accordingly, some caution was voiced about extending the guidance on confidentiality in the Code.

Another IESBA member acknowledged in the context of Australia that there is some pressure for auditors to provide more information about their clients to stakeholders. In addition, it was noted that rather than breaching confidentiality and disclosing client information to shareholders, auditors have the option of modifying their reports to avoid being associated with misleading information.

With respect to information sharing between firms, an IESBA member commented that a code of ethics should not be a quality control document given that ISQC 1 already exists. It was noted that while the Board may have a view on some of the matters raised, it should not necessarily address all of them. (The matter of a predecessor auditor sharing certain information with a successor auditor was discussed further under the Suspected Illegal Acts project at the meeting.)

Mr. Dairaku expressed the view that information sharing between firms is an important issue and if not addressed in the Suspected Illegal Acts project, it should be addressed in the IESBA's next strategy period.

FUNDAMENTAL PRINCIPLES AND ROOT CAUSES OF AUDIT FAILURES

With regard to the question addressing the root causes of audit failures, an IESBA member noted that the concept of ethics is much broader and it does cover such matters as professional skepticism, due care and diligence, etc. A view was also expressed that audit failures often have nothing to do with technical issues but arise more because of non-compliance with the fundamental ethical principles. Accordingly, it was felt that it would be a pity if the IESBA were not involved in this area. Another IESBA member asked about the likelihood of the IAASB addressing the matter, noting that it is a significant matter. It was suggested that it would be helpful to understand the causes of audit failures and in what ways ethics might have played a role in them. Another IESBA member, however, highlighted the dangers of hindsight review, noting that there may be a tendency to ignore the fact that the auditor has to make a judgment call at a point in time.

An IESBA member suggested that it should be not only audit failures that should be addressed but also company failures. It was suggested that there might be some appeal for the Emerging Issues and

Outreach Working Group to consider analyzing such company failures, although the key question would be how to undertake such analysis. It was also noted that there is some uncertainty as to how the information obtained from root cause analysis would be used. Another IESBA member was of the view that the matter of whether to undertake a root cause analysis should only be considered for a significant or recurring issue.

Mr. Koktvedgaard commented that there is some pressure from the CAG for this matter to be addressed. He noted that he participates on a disciplinary tribunal and almost all cases he has seen link back to ethics. He saw the matter as an opportunity for the IESBA to promote the Code, for example, if issues are already addressed in the Code.

WAY FORWARD

The IESBA asked the Planning Committee to reflect further on the discussion and advise the Board on a proposed way forward in due course.

11. Future Strategy and Work Plan

Mr. Siong introduced the topic, outlining the main elements of the proposed SWP consultation paper (CP). He then highlighted the main comments from the CAG on the proposed CP.

GENERAL COMMENTS

An IESBA member wondered whether it would be possible to build a political dimension into the Board's strategy, believing that if the Board is to be seen as influential it would be important that it cultivates links at the political level. It was noted that the Board has not been approached in the context of the audit reform proposals being discussed in the EU and that these proposals can have great consequences. It was argued that the Board should aim to be an organization whose views are sought before the next major reform concerning the profession. Acknowledging the concern, some IESBA members, however, flagged that taking such an approach would carry certain risks and that IFAC may not necessarily be the right organization to be taking on this role on behalf of the Board as IFAC represents the profession. An IESBA member expressed the view that what attracts attention often comes down to the particular individual as the media often turns to specific individuals for views or reactions. After further deliberation, the IESBA asked the Planning Committee to reflect on the matter further.

PROPOSED CP

In broadly supporting the proposed strategic themes, IESBA members commented as follows, amongst structural and other matters:

- There needs to be greater clarity regarding the relative priorities of the different actions over the strategy period, including the extent of resources they might require and where the greatest value lies.
- Work in gathering a fuller understanding of the extent of adoption of the Code around the world need not wait until 2015 as the IFAC Compliance Advisory Panel's work has already been under way for some time.
- There would be benefit in considering revisiting the topic of confidentiality in greater depth in the context of audit quality, as the Code currently deals with confidentiality at only one level.

- There is a question as to whether it would be appropriate to start a project on fee dependency without further analysis of the specific issues to address, especially given that the Board already addressed the topic of fees in two exposure drafts that led to the issuance of the extant Code in 2009. It is also unclear whether this title appropriately conveys the nature of the issues the Board might envisage addressing. With respect to fee caps, it was noted the NAS Task Force already planned to address this in the NAS paper. Also, a view was expressed that while some regulators consider that there should be a fee cap regarding NAS fees relative to the audit fee, the rationale for this has never been explained. In this regard, Mr. Koktvedgaard highlighted a regulatory comment from the CAG that the issue is not so much fee pressure but whether firms are allocating sufficient resources to the audit.
- There is a risk that the work on the structure of the Code will crowd out other projects.
- While there is a need to leverage technology, it is not a strategic objective.
- The constraints on staff resources should be better recognized. In addition, it would be important to also take into account the demands on Board members' time, which have increased.
- It would be important to retain a degree of flexibility in the future SWP to enable the Board to react to developments and make appropriate adjustments to strategic priorities.
- There is a need to allocate adequate time for the Emerging Issues initiative to discuss how to address on a global basis matters arising from developments such as the MG Rover case in the UK, for example, what it means for a PA to act in the public interest.
- It would be important for the CP to include a proviso that the Board will revisit the priorities within the SWP in 2015 once there is greater clarity and certainty regarding the way forward on the Structure of the Code work.

Mr. Koktvedgaard commented on the need for greater clarity on the anticipated level of resources needed for the different projects and initiatives. He also wondered whether the Board was being as efficient as possible. Mr. Holmquist responded in the affirmative, noting that the biggest obstacles to moving faster are the need to adhere to due process and the constraints on Board members' time.

PIOB Observer's Remarks

Mr. Ward cautioned against due process driving the Board's prioritization of projects, as opposed to vice versa.

WAY FORWARD

The IESBA asked the Planning Committee to present a revised draft of the CP for consideration with a view to approval at the December 2013 IESBA meeting.

12. PIOB Observer's Remarks

Mr. Ward thanked the Board for the opportunity to observe the meeting in the public interest. He noted that he continues to be impressed by standard-setting board meetings where the public interest is discussed in a substantive way. He added that the discussion of SWP priorities was quite appropriate and that the Board's work is important, hence the need to operate in an effective and efficient manner.

Mr. Holmquist thanked Mr. Ward for his remarks.

13. Next Meeting

The next meeting of the IESBA is scheduled for December 4-6, 2013 in New York, USA.

14. Closing Remarks

Mr. Holmquist thanked the participants and staff for their contributions. He also conveyed his thanks and appreciation to the ICAA, CPAA, and the Accounting Professional & Ethical Standards Board (APESB) for their hospitality and the assistance provided regarding the arrangements for the Board meeting and related outreach activities in Sydney. He especially thanked the APESB's Technical Director, Mr. Channa Wijesinghe, for his assistance and support. Mr. Holmquist then closed the meeting.