

**Final Minutes of the 51<sup>st</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on March 13-15, 2017 in New York, USA**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair) (Day1;  
Days 2 and 3 by teleconference)  
Helene Agélii  
Michael Ashley  
Brian Caswell  
Hironori Fukukawa  
Kim Gibson  
Gary Hannaford  
Liesbet Haustermans  
Robert Juenemann  
Chishala Kateka  
Caroline Lee  
Stefano Marchese  
Ian McPhee  
Reyaz Mihular  
Patricia Mulvaney  
Lisa Snyder  
Sylvie Soulier

**Technical Advisors**

Saadiya Adam (Mr. Mihular)  
James Barbour (Mr. Ashley)  
Denise Canavan (Ms. Haustermans)  
David Clark (Ms. Soulier)  
Elbano De Nuccio (Mr. Marchese)  
Michael Dorfman (Ms. Kateka)  
Colleen Dunning (Ms. Lee)  
Jason Evans (Mr. Caswell and Ms. Snyder)  
Nigyar Mamedova (Mr. Juenemann)  
Andrew Pinkney (Ms. Mulvaney)  
Tone Maren Sakshaug (Ms. Agélii)  
Eva Tsahuridu (Mr. McPhee)  
Toshihiro Yasada (Mr. Fukukawa)

Apology: Jens Poll (Mr. Hannaford)

**Non-Voting Observers**

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair) and Takuya Emoto (Japanese Financial Services Agency (FSA))

Apology: Juan Maria Arteagoitia (European Commission)

**Public Interest Oversight Board (PIOB) Observer**

Present: Jules Muis

**IESBA Technical Staff**

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Technical Director), Diane Jules, Kaushal Gandhi and Geoffrey Kwan

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He introduced new Board members Ms. Lee, from Singapore, and Prof. Fukukawa, from Japan; and new Technical Advisors (TAs) Mr. Barbour (TA to Mr. Ashely), and Ms. Mamedova (TA to Mr. Juenemann). He welcomed back Ms. Dunning as TA to Ms. Lee.

### MARCH 2017 IESBA CAG MEETING

Dr. Thomadakis provided a brief update on the matters discussed at the March 2017 IESBA CAG Meeting. Mr. Koktvedgaard added that the discussion during the CAG meeting had been stimulating and thanked IESBA members and staff for their efforts in preparing the agenda material. He specifically noted that he had attended the International Auditing and Assurance Standards Board (IAASB) CAG meeting where the important matter of coordination between the IESBA and IAASB had been considered. Dr. Thomadakis added that several stakeholders as well as the PIOB had emphasized the importance of coordination between the two standards-setting boards (SSBs), especially on topics such as professional skepticism. In response, both IAASB Chairman Prof. Schilder and he had prepared the following joint statement:

*The need and benefit for increasing coordination between SSBs are obvious. The joint Professional Skepticism Working Group (WG) is a case in point. For the IAASB and IESBA specifically, NOCLAR, Long Association and quality control are other examples and many more may come up. The IAASB and IESBA CAGs in their meetings this week have underscored this, as the PIOB has overserved. In that context, there is also a discussion about the alignment of the period of the future Strategy and Work Plan (SWP) between the two Boards which is also a pressing coordination issue.*

*Currently the two Boards have discussed this topic regularly, but mostly independently from each other. Of course for some common topics, such as Professional Skepticism, there are members of staff from one Board presenting to the other Board. The two Chairs from the IAASB and IESBA have agreed to take further initiatives to enhance the two Board's coordination and collaboration. They envisage that future joint sessions of the two Boards might serve as a useful platform for an exchange of thoughts and views and for discussion of the way forward for common projects.*

*The first joint session might take place when both Boards have their September 2017 meetings in New York. The Chairs believe that diligent preparation of such sessions is needed in order to ensure the best outcomes. To achieve these aims they will invite the two Planning Committees to meet during the June 2017 Board meetings in order to prepare the way forward. Attendees will include the members of both Planning Committees, the Chair of the Professional Skepticism WG, the IESBA representative to the IAASB Board and of course the Professional Standards Managing Director, James Gunn and appropriate Staff.*

*The meeting will consider how to prepare Board discussions in September 2017. Topics to be discussed will comprise of an overview of areas where coordination is needed, developments and plans regarding Professional Skepticism and alignment and planning of future SWPs. If the two Planning Committees finally agree on this initiative, appropriate preparation of the joint Board sessions will be coordinated by the Staff.*

Dr. Thomadakis felt that it was important to have a written commitment to action. Both Prof. Schilder and he believed that a joint meeting between the IAASB and IESBA would give the SSBs an opportunity to understand each other's views.

## RECENT OUTREACH ACTIVITIES

Dr. Thomadakis drew attention to the schedule of recent and upcoming outreach activities. He thanked all IESBA representatives who had participated or will participate in outreach. He also encouraged Board participants to conduct outreach and become ambassadors for the Board within their own jurisdictions.

## PLANNING COMMITTEE (PC) UPDATE

Dr. Thomadakis reported that the PC had met via teleconference in February 2017 to consider, among other matters, a high level mid-cycle review of the current strategy and work plan (SWP) and the draft strategy survey, and to receive an update on the professional skepticism work stream.

## PIOB PUBLIC INTEREST WORKSHOP

Referring to the PIOB's summary of discussions at its second Public Interest Workshop in September 2016, an IESBA member asked about the purpose of the workshop, Mr. Muis explained that the workshop provides an opportunity to receive feedback from stakeholders on whether the SSBs and the PIOB adequately consider the public interest in their work, and where enhancements could be made to safeguard the public interest. A key issue considered at the workshop was the transparency of the audit business model given the social responsibilities to the public that the current model encompasses.

Mr. Muis also noted that some stakeholders had suggested that the PIOB observe the work of the SSB Task Forces. While there was recognition that this might affect the independence of the standard-setting process, it was argued that this could be beneficial in giving the PIOB an early opportunity to redirect projects onto the right track. The PIOB had discussed this suggestion and concluded that it should not be involved at the Task Force level. Rather, it will consider how it might better provide feedback earlier in the standard-setting process.

Dr. Thomadakis encouraged all IESBA Participants to read the summary of the discussions at the workshop that considers several matters, including the transparency of the audit business model.

## MINUTES OF THE PREVIOUS MEETING

The minutes of the December 12-15, 2016 Board meeting were approved as presented.

## 2. Professional Skepticism

Mr. Fleck introduced the topic, noting the objectives of the session for the Board to:

- Consider a revised professional skepticism (PS) project proposal and related application material to describe the linkage between the fundamental principles (FPs) and PS as defined in the International Standards of the International Auditing and Assurance Standards Board (IAASB);
- Consider proposals to emphasize the importance of professional accountants (PAs) obtaining an understanding of the facts and circumstances known to them when exercising professional judgment, in the context of applying the conceptual framework; and
- Receive an update on the recent activities of the tripartite PS Working Group (PSWG) comprising representatives of the IESBA, IAASB and International Accounting Education Standards Board (IAESB).

Mr. Fleck then summarized the advance feedback received on the revised project proposal and the two sets of proposed application material from the PSWG, the CAG, and the IFAC SMP Committee. With respect to the CAG, Mr. Fleck noted that:

- The CAG had expressed full support for the revised project proposal, and the direction of the two sets of proposed application material.
- Many CAG Representatives and the PIOB observer at that meeting were of the view that the IESBA and the other SSBs should prioritize the longer term PS initiative to explore extending the requirement to exercise PS to all PAs.

Mr. Koktvedgaard added that while the CAG supported the WG's proposals, there was a strong interest in seeing progress on the longer term PS issues.

#### PROJECT PROPOSAL AND GENERAL COMMENTS

With the exception of one IESBA member, the Board approved the project proposal. The Board asked that the WG be the Task Force responsible to taking the project forward. Mr. Juenemann did not support the project proposal because he believed that the project should focus on the longer term issues, including the consideration of extending the applicability of the concept of PS to all PAs. He believed that views about PS are changing and that this paradigm shift should be reflected in the Code.

In general, the Board was of the view that the revised application material was improved since the December 2016 draft. In addition to editorial refinements, IESBA members agreed to several revisions to the application material to address the following substantive comments raised during the meeting.

#### LINKAGE BETWEEN FPS AND PS

##### *Description*

There was lengthy deliberation about whether the WG's approach to limit the guidance to PAs who perform audit and assurance engagements was appropriate. Some IESBA members, in particular those who believe that PS should apply to all PAs, thought that the proposed application material should also explain how PS supports compliance with the FPs. Mr. Fleck explained that this would require that the Code first address whether PS is applicable to all PAs.

Mr. Fleck and Dr. Thomadakis explained that the development of provisions in the Code addressing the applicability of PS to all PAs would take more time because of the need for coordination with the IAASB. They noted that the WG's proposals in the short term provide an opportunity to include more guidance about PS in the Code so that it could be effective at the same time as the restructured Code. Mr. Fleck also noted that in relation to all PAs, the WG believes that the proposed application material relating to professional judgment would provide some additional guidance to all PAs in the short term.

After further discussion, the Board generally agreed to the WG's proposed approach, but asked that the WG consider whether the second sentence in paragraph 120.13 A1 that reads "... compliance with the fundamental principles reinforces a professional accountant's ability to exercise PS ..." could be revised to also convey some IESBA members' view that PS *enables* compliance with the FPs.

##### *Illustrative Examples*

The Board asked that the WG reconsider for greater clarity some of the examples in the proposed application material that illustrate how each of the FPs supports PS. Questions were also raised about whether there was a need to include an example for each FP. During the meeting, the Board agreed to several revisions and refinements to clarify the examples.

### *Timing of Exposure Draft (ED)*

Some IESBA members wondered about the need to prioritize another ED so soon after the release of the Safeguards and Structure Phase 1 agreed in principle publications, and the three EDs (Structure ED-2, Safeguards ED-2 and the Applicability ED) in January 2017. There were concerns about potentially confusing and overwhelming stakeholders. In particular, there was a view that proposing revisions to the enhanced conceptual framework that formed part of the Safeguards Phase 1 agreed-in-principle text might potentially create confusion for some stakeholders. It was also questioned whether it would not be more advisable to focus on the longer term project.

After further deliberation, the Board agreed to progress the short-term initiative as recommended by the WG, given the relatively limited nature and scope of the proposals.

### *PIOB Observer's Remarks*

Mr. Jules noted that the PIOB is of the view the concept of PS applies to all PAs. He urged the Board to continue to progress the longer term PS initiative. In response to the views of some IESBA members who believe that PS should only be applicable to PAs who perform audit and assurance engagements, Mr. Jules cautioned against creating a notion that compliance with the FPs for PAs who perform audit or assurance engagements meant something different for other PAs.

### PROFESSIONAL JUDGMENT

The Board generally supported the WG's proposed application material to support the requirement to exercise professional judgment. The following substantive matters were raised for which revisions were presented and agreed to by the Board during the meeting:

- PAs should have a sufficient understanding of the facts and circumstances to properly identify the threats to compliance with the FPs and, when applicable, threats to independence.
- Further alignment to the description of professional judgment in the IAASB's International Standards.
- Clarification that the facts and circumstances that the PA is expected to understand and consider are those known to the PA.

### PSWG PUBLICATION

Mr. Fleck briefed the Board on the recent activities of the PSWG. He noted that the PSWG is developing a publication with the aim of, among other matters, informing stakeholders about the PSWG's reflections on the topic and the discussions of the IAASB, IESBA, and IAESB regarding PS; highlighting the IAASB's, IESBA's and IAESB's actions and forward work plans relating to PS; and highlighting the role that others in the financial reporting supply chain can play in helping to address concerns about the effective application of PS in audits and other assurance engagements. Mr. Fleck added that the IESBA, IAASB and IAESB will be asked for any objections to the release of the PSWG publication during their June 2017 meetings.

### WAY FORWARD

The Board asked that the Task Force share the two sets of proposed application material, revised to take into account the input from the Board discussion, with both the IAASB and the IAESB for comment on a "fatal flaw" basis. The Board asked that staff schedule a teleconference in the second half of April 2017 to consider a final draft of the proposed application material with a view to approving it for exposure.

### 3. Technology and Innovation

Ms. Soulier introduced Ms. Jeanne Boillet, Global Assurance Innovation Leader at EY, as guest presenter on the topic of Technology and Innovation, noting that Ms. Boillet had given a similar presentation on the topic at the IESBA CAG the previous week.

Ms. Boillet introduced the topic, highlighting the major trends and developments in technology and innovation, including the primary driving forces. She pointed out the inter-connectedness between the driving forces and megatrends and that it is important to identify and amplify the weak signals rather than the noise.

Ms. Boillet then explained how industries are being impacted by the digital revolution. She noted that in his book *The Fourth Industrial Revolution*, Prof. Claus Schwab describes how the fourth industrial revolution is fundamentally different from the other three revolutions due to the convergence of emerging technologies, which also accelerated the pace of change. She then outlined how the finance function is being impacted by digital developments such as big data and blockchain as well as the transformation of the people model such as the growing reliance on the contingent workforce.

Lastly, Ms. Boillet outlined key changes to the audit profession, how audit firms are addressing them as well as the auditors of the future. She explained that in her view, the increased use of technology and innovation in audits reinforces the quality of the auditor's work because it allow for certain parts of the audit to be automated, thereby allowing auditors more time to analyze information and exercise professional skepticism when making their judgments and conclusions. She concluded with the observation that professional skepticism with the technological developments will continue to be a major issue for consideration.

Dr. Thomadakis thanked Ms. Boillet for her insightful presentation and emphasized that the focus of the IESBA is on the ethical dimension of those developments.

Among other matters, IESBA participants raised the following comments:

- As it is important to ensure the integrity and quality of the data, there is a case for the general concepts that underpin professional skepticism to be applied more broadly. For instance, the issue of bias must be addressed at the programmer level.
- The growth in technology requires auditors to have broader skill sets. This therefore highlights the importance and benefits of multi-disciplinary firms. At the same time, it is important to address the issue of how to ensure that non-accountants providing these services are upholding the same ethical standards as PAs.
- The use of technology by auditors and their clients means that human judgement is being increasingly delegated to technology. Auditors already need to address the issue of how to audit algorithms as part of their engagements. The increasing use of technology also brings into question the practice of charging by an hourly rate.
- There are some concerns that the size of investment required in technology will mean smaller firms would not have access to new technologies, at least initially, thus potentially creating a two-tier profession.
- It is not in the public interest to have widespread unemployment as the skill sets needed for the profession are being transformed. Therefore, it is important to emphasize change management, which focuses not only on training but also on adopting a new mindset, particularly for partners.
- Protection of data from uses outside its intended purpose is a major issue and there is a need to

focus on cyber security.

- It will be a balancing act to give contingent workers flexibility without jeopardizing independence. There is also the potential independence issue of audit firms and clients employing the same “auditors for a day” or using the same technology.
- Digital platforms such as Airbnb and Uber have self-policing functions whereby customers could rate the service providers. If financial services adopt a similar function, the role of auditors may become obsolete. There is also a question as to whether artificial intelligence is always ethical or whether it could be acting fraudulently.
- There is a question as to whether there might be merit in addressing ethical issues arising the transitional period of disruption separately from those resulting from the future state.
- Whilst the conceptual framework is robust, some of the existing concepts in the Code, such as office, network firms, and client and business relationships, may not be apt to address changes in the audit profession. The Code also does not capture the new players such as IT professionals and CIOs.

#### *PIOB Observer's Remarks*

Mr. Muis noted that in 2008, there was a collective feeling within the audit profession that it no longer understood the financial products of its clients. He wondered whether the profession today is ready to admit that it has lost control of the auditability of its clients, particularly the large clients.

Ms. Boillet observed that this is a race and that the profession needs to have not only the right technology but also the right people.

Dr. Thomadakis noted that the digital transformation will redefine responsibility, liability, the ability to forecast and professional skepticism.

#### **4. Review of Part C of the Code**

Ms. Agélii introduced the topic by summarizing the status of the project, noting that the “Applicability Paragraphs” explaining the applicability of Part C to PAs in public practice (PAPPs) had been approved for exposure at the December 2016 IESBA meeting. She also summarized the timeline of the review of proposed Section 250,<sup>1</sup> and noted that the IESBA CAG had the previous week been generally supportive of the direction of that section.

#### INDUCEMENTS AS A NEUTRAL TERM

Ms. Agélii explained that the IESBA had raised a concern that not all gifts and hospitality should be considered inducements as some gifts and hospitality could be offered without an inappropriate intent. The proposed title of “Gifts, Hospitality and Other Inducements” thus needed to be reconsidered. In response, the Task Force had clarified that an inducement is a collective term for a means to influence another individual, be it improperly or not. Thus, all gifts and hospitality would be considered inducements, even when there is no inappropriate intent.

A few IESBA members expressed the view that while an inducement can be considered a neutral term, the provisions could be enhanced to clarify this position. An IESBA member expressed a view that while an inducement can be offered with either improper or good intentions, gifts and hospitality can be offered

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<sup>1</sup> Proposed Restructured Code, Part 2 – Professional Accountants in Business, Section 250, *Gifts, Hospitality and Other Inducements* (Extant Part C – Professional Accountants in Business, Section 350, *Inducements*)

without an intent to influence. A Task Force member challenged this view, noting the reality that gifts or acts of hospitality are designed to develop or cement a relationship.

#### BRIBERY AND CORRUPTION

Ms. Agéllii explained that while the proposals address illegal inducements, bribery and corruption are not the focus of the section. She recapped the Task Force's reasoning not to include a definition of bribery and corruption within the proposals and outlined the concerns raised at the March 2017 CAG meeting over the lack of a definition.

Mr. Koktvedgaard elaborated on the views of CAG Representatives who favored a definition, noting that Representatives of regulatory bodies (IOSCO and Basel) indicated a preference for an "aspirational" definition rather than a precise one. A CAG Representative also felt that the IESBA, as the pre-eminent global standard setter, should take the lead in developing a definition in order to establish a high bar for addressing bribery and corruption.

An IESBA member did not believe it was necessary to define bribery and corruption as these terms are already defined in law or regulation in many jurisdictions. A Task Force member explained that the inclusion of the "intent" test within the proposals had actually raised the bar well above what any definition of bribery and corruption would address. Any inducement made with an adverse intent, including any that might be defined as bribery or corruption, would simply be prohibited. It was noted that if a definition were introduced alongside the intent test, this would create confusion. The Board agreed that the intent test raised the bar of acceptable ethical behavior more than a definition might accomplish. Accordingly, the Board concurred with the Task Force that no definition was needed.

#### *PIOB Observer's Remarks*

Expressing a personal view, Mr. Muis questioned whether it was fair to individual PAs not to discuss issues of bribery and corruption in the Code. He noted that he had for some time been speaking about a "bill of rights" for individual PAs. He observed that people live in a world where there is no global rule of law. As an example, he highlighted the recent example of a Dutch firm that became administrator to a "slush fund" operated by a powerful Middle-Eastern family whose word is quasi-law in that family's jurisdiction, and wondered who could be found at fault. He felt that such an issue could be addressed by stakeholders being more open to the fact that many people do not live in countries where the rule of law prevails.

#### REASONABLE AND INFORMED THIRD PARTY (RITP) TEST

Ms. Agéllii explained the Task Force's decision to revert to using the RITP test, from the previously proposed "anyone" test, in order to evaluate the intent behind an inducement. She noted that in doing so, the RITP could be used to also evaluate cultural issues that can accompany inducements. She added that CAG Representatives, including the IFAC Small and Medium Practices Committee (SMPC), were supportive of the Task Force's proposals.

IESBA members broadly supported reverting to the RITP test and provided drafting suggestions.

An IESBA member questioned whether the factors proposed to assist a PA when evaluating the intent behind the offering of an inducement would fully allow for consideration of cultural nuances. Ms. Agéllii noted that cultural differences would be considered when evaluating the level of a threat created by an inducement, once the PA has concluded that the inducement was not being offered with an inappropriate intent.

## INTENT TEST

Ms. Agélii explained the Task Force's decision to maintain the intent test within the proposals, with additional refinements to limit the subjectivity of the test. She also summarized views from CAG Representatives and the SMPC relating to this test.

Ms. Agélii also explained that the Board had raised concerns as to whether the factors to evaluate intent and the level of a threat needed to be repeated, given that they are the same. She explained that the Task Force decided to avoid duplicating the factors and therefore listed them only once in relation to evaluating intent. A reference to these factors has then been added in the guidance related to evaluating the level of a threat to indicate that the factors have a dual purpose.

### *Conceptual Framework*

A few IESBA members expressed a view that the structure of the provisions appeared confusing. In particular, it was felt that requiring the PA to evaluate intent separately from evaluating the level of a threat created by the inducement could imply that there were in fact two versions of the conceptual framework. It was suggested that a better option might be to consider intent as a threat and evaluate it along with other threats within the conceptual framework, and then prohibit the offering or accepting of an inducement with an inappropriate intent.

A Task Force member explained that the proposals had been structured to require consideration of the intent first, since the offering or accepting of any inducement with an inappropriate intent should be prohibited. Once it has been established that no inappropriate intent exists, the PA would then be expected to identify whether the offering or accepting of an inducement might still create threats to compliance with the fundamental principles. If the inducement does create threats, these threats would need to be evaluated and addressed.

Mr. Siong noted that the Code currently only has five classifications of threats and hence classifying intent as a threat could introduce a new category. He suggested that a more appropriate alternative could be to address how the inducement could affect an individual's behavior and result in a breach of the fundamental principles. Dr. Thomadakis and another IESBA member agreed that intent should not be considered a threat and the focus should remain on how an inducement affected behavior. A Task Force member also supported the view that intent should not be considered a threat, but suggested that it could be a factor when evaluating the level of any threats, followed by a requirement to decline the inducement if it is made with an inappropriate intent.

## RECUSAL

Ms. Agélii explained that one of the proposed actions to eliminate a threat created by offering or accepting an inducement is recusal. The proposed wording had been aligned with Section 270,<sup>2</sup> with care taken to clarify that a PA can only recuse himself or herself from decision-making responsibilities when there is another individual who is able to make the decisions in an objective manner.

An IESBA member expressed the view that the current proposed drafting implied that the PA has a responsibility to ensure that the individual replacing him or her would make objective decisions, something that the PA might not be in a position to control. Another IESBA member noted that the risk was not whether the replacement would make objective decisions, but whether he or she was involved in the matter, something that the PA can assess. Another IESBA member supported this view, adding that an accurate

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<sup>2</sup> Section 270, *Pressure to Breach the Fundamental Principles*

assessment can be made about whether the replacement has been tainted by the offering or accepting of the inducement, but not how the replacement will act.

Ms. Agélii indicated that the Task Force had given significant consideration to this issue. As with Section 270, the Task Force had drafted the proposals to ensure that while a PA cannot guarantee that the replacement is not affected by the same situation, the PA must satisfy himself or herself as far as is reasonably possible that the replacement is not affected.

#### IMMEDIATE AND CLOSE FAMILY MEMBERS

Ms. Agélii explained that the Task Force believes that a PA needs to remain alert to the fact that inducements could be offered by or to an immediate or close family member (of either the PA or the counterparty) with the intention of inappropriately influencing the PA's or the counterparty's behavior. The proposed Section 250 includes a section on steps that a PA can take to address possible threats that might arise if an immediate or close family member offers or accepts an inducement. Since the Code is not enforceable on non-PAs, the proposals do not include any prohibitions on immediate and close family members. However, requirements have been included for a PA to evaluate possible threats to the PA's compliance with the fundamental principles that might arise if an immediate or close family member were to offer or accept an inducement.

An IESBA member was concerned that the proposals were excessive. It was noted that innocuous situations, such as a family member already in an employment relationship with a counterparty receiving a bonus, would require the PA to evaluate the bonus for inappropriate intent and threats to compliance with the fundamental principles. Another IESBA member agreed, adding that the proposals were presuming that an ethical issue already existed and hence needed addressing, rather than providing instructions for when the PA becomes aware that an ethical issue has arisen. Ms. Agélii noted that the extant section already covered inducements offered or accepted by immediate or close family members. A Task Force member added that the intention of the proposed directions is to simply advise the PA to remain alert to the possibility that an inducement might be offered or received by an immediate or close family member with intent, not to apply the requirements and guidance to every situation.

An IESBA member questioned, in the instance that an immediate or close family member is advised not to offer or accept an inducement but chooses to reject the advice, whether the inducement could still be offered or accepted on the basis that it would not influence the PA. A Task Force member explained that by allowing such a stand, a loophole could arise. The PA could claim that the immediate or close family member had been advised against offering or accepting the inducement and rejected the advice, and hence claim that the PA's actions were not being inappropriately influenced and no threat to the fundamental principles existed.

IESBA members requested the following clarifications over the scope of the proposals:

- Whether the proposals include a PA offering or accepting an inducement from an immediate or close family member of the counterparty. A Task Force member explained that the proposals are in line with the extant section and hence address a PA offering an inducement to another individual, be it a counterparty or an immediate or close family member of the counterparty.
- Whether the proposals address the offering or receiving of an inducement by other connected parties who are not immediate or close family members. Ms. Agélii indicated that this would not be within the scope of the proposals, as the extant Code only goes as far as immediate and close family members.

### *Definition of Immediate or Close Family Member*

Mr. Koktvedgaard relayed a CAG Representative's concerns that the extant glossary definitions of "immediate family member" and "close family member" were too narrow; especially in jurisdictions where the concepts of immediate and close family members often include relations that would not be included in the current definitions. Mr. Muis supported this view, noting that estranged relatives would be captured by the definition, but unmarried partners would not.

In response, an IESBA member noted that spouse equivalents would be covered by the current definitions. A Task Force member also clarified that the proposals had been drafted to consider that an estranged family member offering or accepting an inducement would not impact the behavior of the PA or counterparty.

### CONFORMING CHANGES

Ms. Agélii outlined key conforming changes to Section 340<sup>3</sup> and the Independence standards.<sup>4</sup> She noted that the proposed Section 340 include directions on offering inducements and had been conformed to clarify that the counterparty offering or accepting the inducement would be a client. Examples had also been tailored to be more specific to a client / PAPP relationship. Sections 420 and 906 would be specific to audit, review and assurance engagements, in addition to provisions in Section 340.

In addition to structural and editorial suggestions, IESBA members expressed the following views:

- A granular analysis is needed to properly conform the Independence sections to the proposed Section 250, specifically:
  - Whether the term "gifts and hospitality" could be replaced with "inducements," since other sections under Independence already include directions on certain areas that could be considered inducements, such as employment opportunities or donations.
  - Whether the proposals relating to immediate and close family members needed to be better aligned to how directions with respect to immediate and close family members are addressed within other Independence sections. Currently, proposals within Sections 420 and 906 take a 'one size fits all' approach that do not capture nuances that exist within the other sections. Ms. Agélii noted that the Task Force was aware that directions on immediate and close family members are different within other Independence standards, but queried whether addressing the conformity of such guidance was within the scope of the Part C project.
  - Whether directions in the proposed 402 and 906 on how an inducement might inappropriately influence an individual's behavior should exclusively consider how the change in behavior affects independence matters.
- The need for directions within the proposed Independence standards to address situations where a PA is offering an inducement. Mr. Koktvedgaard noted that there was a suggestion at the CAG that the Independence standards encompass the offering of inducements, as a perceived threat to independence could be created by the offer of an inducement. An IESBA member felt that the offer of an inducement did not create the same independence concerns as accepting an inducement.

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<sup>3</sup> Proposed Restructured Code, Part 3 – Professional Accountants in Public Practice Section 340, *Gifts, Hospitality and Other Inducements* (Extant Part B – Professional Accountants in Public Practice, Section 260, *Gifts and Hospitality*)

<sup>4</sup> Proposed Restructured Code, Part 4 – Professional Accountants in Public Practice Sections 420 and 906, *Gifts and Hospitality* (Extant Part B – Professional Accountants in Public Practice, paragraphs 290.225 and 291.155, *Gifts and Hospitality*)

Accordingly, this could be addressed within the Independence standards by cross reference to Section 340.

#### WAY FORWARD

The IESBA asked the Task Force to consider the feedback from the discussion and present revised proposals at a Board teleconference to be scheduled at the earliest opportunity.

#### 5. Mid-cycle Review of SWP 2014-2018

The Board reviewed the progress to date against the commitments in the SWP 2014-2018 and generally noted no fundamental concerns.

Mr. Fleck highlighted a general observation from his participation at the February 2017 European Federation of Accountants and Auditors for SMEs (EFAA) Panel Session, "Pressure Experienced by the Professional Accountant," that PAs in certain EU member states such as Germany, the Netherlands and Portugal are less likely to succumb to pressure because of the support from their professional accountancy bodies as compared with other accountants. He felt that the Board should reflect on the importance of support structures in ensuring better compliance with the Code.

With respect to the mid-cycle strategy review, the following matters were raised, among others:

- There is a need to stand back and undertake more strategic thinking, as the Board seemed to have been working continuously on projects. Consideration could perhaps be given to adding a key performance indicator in this regard. Dr. Thomadakis responded that there are times when the Board executes the SWP and when the Board reflects on strategy. The latter is what the mid-cycle review is about.
- The topic of collective investment vehicles (CIVs) has been postponed a number of times. It was unclear whether the criteria that were applied many years ago in including this topic in the current SWP would apply today as the environment has changed. Accordingly, there may be a need to revisit the prioritization of the topic as part of developing the next SWP.
- IFAC has been issuing a number of communications recently, such as those speaking about changes regarding public sector accounting and developments regarding the future of the profession. Accordingly, a presentation from IFAC about its own strategy would be welcome. Mr. Gunn indicated that he would reach out to IFAC leadership in this regard. He also indicated that Dr. Thomadakis had discussed the communication strategy for IESBA with the IFAC Communications Department in terms of stakeholders to whom to reach out, what the impact might be and how such impact would be measured. The aim was to achieve a stronger branding for the Board through communication. Dr. Thomadakis added that it would be helpful to receive input from IFAC on the IESBA's strategy survey.

Mr. Muis felt that given the extent of overlapping topics or issues between the IAASB and IESBA, there should be consideration of alignment of SWP periods. Dr. Thomadakis responded that he had discussed this matter with the IAASB Chairman and there was agreement that if alignment could be achieved, this would facilitate coordination and oversight. Mr. Koktvedgaard noted that the CAG had emphasized the importance of IAASB-IESBA coordination, and that there was also a suggestion at the CAG for the IESBA to consider whether there are current commitments that it need not undertake or continue.

#### 6. IESBA Strategy Survey

Dr. Thomadakis introduced the topic, noting the objective of the session. Mr. Siong then led the Board through the main changes to the draft survey following the December 2016 Board discussion.

In supporting the direction of the revised survey, IESBA participants raised the following matters for the PC's further consideration, among others.

#### GENERAL

- It might be useful to consider leveraging social networks (Twitter, etc) to complement issuance of the survey in order to solicit input to specific questions, for example, prioritization of topics.
- The Board should consider formulating its vision for the Code in 2025 and then define the strategy to achieve that vision.

#### SURVEY ARCHITECTURE

- Consideration should be given to adding key messages upfront regarding who the Board is and its key beliefs, and to signal the importance of Board flexibility.
- The survey should seek more guidance from stakeholders in terms of benefit in choosing one topic over another.
- There appears to be too many levels of responses for each question, and it might be easier for respondents to indicate their top five or six priorities.
- There is an opportunity to ask respondents about significant developments in their jurisdictions that might be of international relevance.
- Respondents should be given the opportunity to comment on any aspects of the topics identified, including the known commitments. In addition, views should be sought as to whether there are any current projects or activities that may not be needed.

#### PRE-EXISTING COMMITMENTS

- There is a need for more clarity on each of the pre-existing commitments.
- It would not be advisable to start the survey with the pre-existing commitments as this would suggest that the IESBA has already predetermined its future strategic priorities.

#### POSSIBLE TOPICS FOR INCLUSION IN FUTURE SWP

In addition to various refinements and clarifications to the descriptions of the identified topics, the following suggestions were noted:

- On the topic of technology and innovation, broadening the discussion of the implications of the relevant developments beyond audit firms.
- Reconsidering the categorization of the topic of aggressive tax avoidance and whether it falls under the broader topic of tax planning services.
- Strengthening the discussion of possible activities in the area of adoption and implementation, taking into account the fact that the restructured Code will be in place by 2018.

#### WAY FORWARD

The Board asked that the PC circulate a revised draft of the survey electronically for fatal flaw review prior to issuance in the second half of April 2017. The Board supported keeping the survey open for about 90 days.

## 7. Fees

Ms. Kateka introduced the topic and outlined the objectives of the session. She recapped the background of the fees initiative, including the Working Group's (WG's) fact finding activities relating to the four areas of focus, namely: (i) level of audit fees; (ii) relative size of fees and dependence; (iii) ratio of non-audit to audit fees; and (iv) audit services by firms that have significant non-audit services business.

Ms. Kateka noted that whilst "non-assurance services" is used throughout the Code, the term 'non-audit services' is used in the WG's terms of reference and in the scope of the academic research by Prof. David Hay. As part of its considerations, the WG will reflect on whether the issues relate to non-audit services or non-assurance services and make its recommendation to the IESBA accordingly.

### FACT FINDING ACTIVITIES TO DATE

Ms. Kateka noted Prof. Hay's observation that there has been consistent findings that suggest a link between a higher ratio of non-audit services fees vs audit fees and threats to independence in appearance. However, the WG felt that the findings in Prof. Hay's report remain generally inconclusive.

Ms. Kateka also highlighted three regulatory responses within the G-20 that were included in the briefing paper, i.e., pre-approval of services by those charged with governance (TCWG), requirements for auditor communication about fees, and fee caps for the provision of non-audit services to audit clients. She noted that the WG will consider the applicability of such regulatory responses in a global setting.

Among other matters, the following were raised regarding these two fact finding activities:

- It remained unclear to what extent fees charged correlate with independence and how perception issues can be effectively addressed.
- The WG should be mindful that in continuing with the fact finding activities, there may be a point of diminishing returns.
- The focus of regulators appears to have moved from solely fees to a broader concern about audit quality indicators, including breaches of independence requirements.

Dr. Thomadakis felt that the WG should give more weight to Prof. Hay's findings about independence in appearance and noted that perception can be tied with correlation as well as causality. He further suggested that the questionnaires should take into account Prof. Hay's findings. Ms. Kateka agreed that Prof. Hay's findings should be taken into consideration. She added that the WG was being careful with the information received to date to avoid reaching a conclusion prematurely.

### STAKEHOLDERS OUTREACH

Ms. Kateka invited IESBA participants to provide input on the draft questionnaires and stakeholder list.

IESBA participants suggested additional stakeholders such as credit rating agencies, the preparer community and IESBA CAG member organizations. It was also suggested that the list of investor groups should be further strengthened particularly in light of Prof. Hay's findings.

With regard to the questionnaires, a number of IESBA members commented that the structure and clarity of the questions could be improved. It was suggested that the WG consider seeking relevant expertise to assist with the drafting of the questions to ensure that they elicit more balanced responses. Dr. Thomadakis also noted there should be questions to the investor group about the independence in appearance issue.

Some IESBA members wondered about the methodology in disseminating the questionnaires. There was also some concern about potential stakeholder overload given that the strategy survey would also be

released in the same time frame. It was further noted that it may be difficult for some respondents such as standard setters and regulators to openly provide a written response and that it may be more effective to conduct one-on-one discussions with some of these groups. Dr. Thomadakis pointed out there are also some challenges in obtaining detailed inspection findings from audit oversight bodies.

Ms. Kateka noted that the WG would further reflect on the approach to the survey of stakeholders in the light of these comments.

#### PIOB OBSERVER'S REMARKS

Mr. Muis reaffirmed that this is an important topic for the PIOB, noting the cliché “perception is reality.” He also observed that there are limitations in academic research as the studies often do not have access to firm data. He commended the WG for being cautious in not drawing any conclusions yet.

Dr. Thomadakis agreed that academic research studies do have the limitation of data access and also may not be reflective of the current state. However, he felt that they should be given due consideration as academics take great pains in verifying the quality of the data and the issue of causality vs. correlation.

Mr. Muis further noted his personal view that examination of fees charged by audit firms provides a useful entry point to the practical workings of an audit firm which are tied to partners' income.

#### WAY FORWARD

The Board asked the WG to reflect on the input in refining the approach to, and content of, the questionnaires and provide a further update in due course.

### 8. Long Association

Mr. Siong introduced the topic, outlining the main changes to the IESBA Staff Questions & Answers (Q&A) publication to support implementation of the revised long association provisions since the Board finalized the close-off document at the December 2016 meeting.

The Board broadly supported the direction of the revised draft. In addition to various editorial and other refinements, staff was asked to consider adding a further question to address the matter of an engagement partner moving from one subsidiary in a group to another subsidiary during the cooling-off period.

The Board asked that staff consider its feedback and finalize the publication for issuance at the earliest opportunity.

### 9. IFAC's Anti-Corruption Initiative

Dr. Thomadakis welcomed Mr. Amir Ghandar, Deputy Director, Public Policy & Regulation at IFAC.

Mr. Ghandar introduced the recent IFAC initiative on the role of the accounting profession in tackling corruption. He noted that corruption in a broad sense has a corrosive impact on society at large, significantly hindering efforts in addressing poverty and undermining the rule of law. In light of the public debates on corruption and the involvement of accountants, IFAC had commissioned a study to examine the role PAs play in tackling corruption globally. This study, “The Accountancy Profession – Playing a Positive Role in Tackling Corruption,” is the third report in a series of studies conducted by the Centre for Economics & Business Research (CEBR) that examine the accountancy profession's role in society.

Mr. Ghandar noted that the study examined the correlation between the Transparency International Corruption Perception Index (TI Index) and the presence of PAs across the globe. In particular, there is a positive correlation between the TI Index and the percentage of PAs in the work force. The correlation is

up to three times stronger in the G-20 countries and those countries that have adopted the Financial Action Task Force (FATF) recommendations on combating money laundering as well as the financing of terrorism and proliferation of weapons of mass destruction. Mr. Ghandar further noted there is an even stronger correlation between the TI Index and those economies that have adopted the global accountancy profession's ethical, educational, investigation and discipline requirements.

Mr. Ghandar noted that the study's findings suggested that accountants play a positive role in the fight against corruption overall contrary to how the profession has been portrayed at times by the media. Another key finding from the study is the importance of global adoption of international standards such as the Code. The study also demonstrated the role of governance architecture and its key players, including professions, business and governments, as well as the importance of these key players working together to further strengthen governance and combat corruption.

Mr. Ghandar briefly discussed the efforts by the profession in engaging the international community on public policies relating to corruption. He noted some of IFAC's recent involvement such as representation at the OECD Anti-Bribery Ministerial Meeting and IFAC's call for action for the G-20 Leaders' Summit on Trust and Integrity in 2016. In 2017, IFAC is represented for the first time on B20 Task Forces and Cross-thematic Groups (CTGs), including the CTG on responsible business conduct and anti-corruption. IFAC is looking to incorporate the IESBA's NOCLAR standard into the B20 recommendations to the G-20.

Amongst other matters, the following were raised:

- Recent key messages from IFAC at the global level include the importance of jurisdictions having the right frameworks such as adequate whistleblower protection, higher standards for public sector accounting and financial management, and the need to build trust. The message is also that corruption is a global issue and not just confined to some parts of the world.
- The initiative is a good opportunity to showcase the positive role that the profession is playing in fighting corruption.
- Mr. Ghandar acknowledged there are limitations to the TI Index in measuring corruption, He suggested that the report could include other indices.
- It would be useful to also conduct more in-depth research in the future, including trends and movements over time and the impact of the adoption of the Code.
- IFAC and PAs can assist by quantifying the costs of corruption and by creating a cost index, thereby creating a greater awareness of the issue.
- IFAC should assist PAs in complying with legal and ethical requirements such as NOCLAR, and identify any hindrances to compliance. In this regard, it was noted that IFAC is currently gathering information from PAs about the effectiveness of anti-money laundering requirements in their jurisdictions. It was suggested that IFAC could also assist by educating PAs regarding their role in fighting corruption.

Mr. Ghandar also provided a preview of some of the highlights of a new IFAC report "G-20 Public Trust in Tax," expected to be officially launched on March 27, 2017. This report details the results of a new study that surveyed over 7,600 people across the G-20 on issues of trust and international taxation. Amongst other matters, the study found that the majority of respondents considered the issue to be one of regulation rather than morality. Also, 57% of the respondents trust or highly trust professional tax accountants as a source of information about the tax system.

Dr. Thomadakis thanked Mr. Ghandar for his informative presentation.

#### 10. **PIOB Observer's Remarks**

Ms. Muis complimented the Board for actively considering external developments and prospective topics such as IT and Anti-Corruption. He recommended that any realignment of the SWP period vis-à-vis IAASB's not convey the impression that the IESBA is going for a "pit stop," but that it retain a sense of urgency in its work.

In relation to on-going IESBA initiatives, Mr. Muis provided the following views:

- If and when alignment of the IESBA and IAASB SWPs is completed, this will set a precedent and questions will then arise as to whether there should not also be alignment of strategy periods with the PIOB's and the IAESB's.
- The differences of opinion relating to the applicability of professional skepticism to the broader profession beyond auditors can be bridged upfront.
- Regarding the SWP survey, the PIOB will closely monitor the prioritization of topics to address, taking into account the need to balance the IESBA's views and stakeholders' perspectives.
- Initiatives such as Collective Investment Vehicles should not be allowed to linger for excessive periods of time, and the IEBSA should decide how this initiative would be addressed in the future.
- With respect to fees and non-assurance services (NAS), the issue of firms' business model comes up regularly at meetings of the International Forum of Independent Audit Regulators (IFIAR), etc. The PIOB was working to better understand what the issue of the business model is, and would be giving greater consideration to NAS matters in its work plan.

Mr. Muis concluded his remarks by complimenting IESBA members for the thorough debates at this meeting.

Dr. Thomadakis thanked Ms. Muis for his constructive remarks and added the IESBA would continue close engagement with the PIOB going forward.

#### 11. **Next Meetings**

The next Board teleconferences are scheduled for April 18 and May 18, 2017. The next physical Board meeting is scheduled for June 19-21, 2017 at the AICPA offices in New York, USA.

#### 12. **Closing Remarks**

Dr. Thomadakis thanked IESBA participants for their contributions to the meeting and IFAC for hosting the meeting and providing administrative support. He wished all participants a safe journey home and then closed the meeting.