

**Final Minutes of the 64<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on June 17-19, 2019 in Nashville, United States**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair)  
Michael Ashley  
Sanjiv Chaudhary  
Brian Friedrich  
Hironori Fukukawa  
Kim Gibson  
Liesbet Haustermans  
Myriam Madden  
Winifred Kiryabwire (Days 2 and 3 only)  
Caroline Lee  
Alden Leung  
Ian McPhee  
Andrew Mintzer  
Patricia Mulvaney  
Jens Poll  
Sylvie Soulier

Apologies: Robert Juenemann

**Technical Advisors**

Saadiya Adam (Mr. Fleck)  
James Barbour (Mr. Ashley)  
Denise Canavan (Ms. Haustermans)  
David Clark (Ms. Soulier)  
Gregory Driscoll (Ms. Lee)  
Jens Engelhardt (Mr. Poll)  
Ellen Gorla (Mr. Mintzer and Ms. Madden)  
Selene Ho (Mr. Leung)  
Andrew Pinkney (Ms. Mulvaney)  
Kemisha Soni (Mr. Chaudhary)  
Sundeep Takwani (Ms. Kiryabwire)  
Masahiro Yamada (Mr. Fukukawa)

Ian Hutchinson (Mr. Friedrich)  
Gina Maldonado-Rodek (Ms. Gibson)

**Non-Voting Observers**

Present: Kristian Koktvedgaard, IESBA Consultative Advisory Group (CAG) Outgoing Chair, Gaylen Hansen, IESBA CAG Incoming Chair, and Yoshiharu Kawada, Japanese Financial Services Agency (FSA)

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

Present: Jane Diplock

**IESBA Technical Staff**

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Szilvia Sramko, Carla Vijian

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting, which was being held in the offices of National Association of State Boards of Accountancy (NASBA) for the first time. He extended the Board's gratitude to NASBA's senior management and staff for their assistance in having NASBA host the meeting. He also welcomed newly appointed IESBA CAG Chair, Mr. Gaylen Hansen; Mr. Don Thomson, Chair of the eCode Working Group (WG); Ms. Laura Friedrich, Rollout WG member; Mr. Joseph Bryson, IFAC Director, Quality & Development; and Ms. Michelle Korman, IFAC Senior Manager, Head of Intellectual Property.

Among other matters, Dr. Thomadakis highlighted the following in his introductory briefing to the Board:

- The appointment of new IAASB Chair Tom Seidenstein, effective July 1<sup>st</sup>. Mr. Seidenstein most recently served as senior VP for Strategy, Innovation and Capital Management at Fannie Mae, a leading source of US housing market liquidity.
- Activities of the Planning Committee during the quarter, including a briefing on a draft of a proposed IFAC Good Practice Guide for professional accountancy organizations regarding professional conduct in relation to taxation; an update on a proposed Code of Conduct intended to be applicable to IFAC and SSB staff and volunteers; and plans for upcoming major outreach in the quarter.
- A debrief of the annual IESBA-National Standard Setters (NSS) meeting that took place in Paris on May 13<sup>th</sup> which was attended by participants and observers from 14 jurisdictions. There was also a joint IAASB-IESBA session with the Audit and Ethics NSS on May 14<sup>th</sup> to explore what more the SSBs and NSS could do jointly to enhance four-way coordination.
- Changes to the composition of the eCode and Technology WGs.
- Andrew Mintzer's appointment as the Board liaison to the IFAC SMP Committee.
- The outreach activities since the last Board meeting, which included activities in Saudi Arabia, France, Russia and South Korea. Russia has adopted the revised and restructured Code; Saudi Arabia, South Korea and Indonesia are on a clear path to adoption in the near future. Other G-20 countries that have adopted or are in the process of adopting the new Code include Australia, China, India, Japan, South Africa, and the United Kingdom.
- The Institute of Chartered Accountants of India's (ICAI) nomination of Dr. Thomadakis as one of the seven Global Accounting Leaders as part of its commemoration of India's Chartered Accountants Day on July 1<sup>st</sup>. This also recognized not only the important work of the Board in the public interest but also the role of ethics as a permanent imperative for the global accounting profession.

### APPROVAL OF MINUTES

The Board approved the minutes of the March 2019 public session meeting as amended.

## 2. Role and Expected Mindset of Professional Accountants (PAs)

Mr. Fleck commenced the session by briefing the Board on the Task Force's activities since the last meeting, which included a quarterly Professional Skepticism (PS) joint chairs teleconference held in May 2019. He also noted the key comments raised by the IAASB PS Sub-working Group (PSWG) and the IFAC SMP Committee to the Task Force's proposals in advance of the meeting.

The IESBA discussed the key revisions made by the Task Force to the proposed text since the last IESBA meeting, including:

- Merging the draft material from the previously proposed new Introduction to the Code into Section 100.
- Introduction of the phrase “upholding the ethical values upon which the Code is based” in Section 100 to capture the concept of complying with the spirit of the Code.
- Revised references to technology in the fundamental principles and the inclusion of “automation bias” in the proposed list of examples of bias in Section 120.
- Introduction of a new element to the description of professional behavior that linked the fundamental principle with the profession’s responsibility to act in the public interest.
- Introduction of a new requirement for the PA to have an inquiring mind when applying the conceptual framework as well as new application material that explains the concept as a scalable construct that progresses from being “open and alert” to critical evaluation. The term “inquiring mind” also replaced the term “questioning mindset” proposed by the Task Force at the March 2019 IESBA meeting.
- Consequential changes to Part 2 of the Code and the insertion of the description of “professional judgment” into the glossary.

The IESBA was generally supportive of the Task Force’s proposals. Amongst other matters, the Board:

- Agreed to the removal of the proposed reference to the exercise of professional judgement in Section 110.
- Agreed to the removal of the reference to undertaking professional activities from the proposed new element to the fundamental principle of professional behavior that requires a PA to behave in a manner that is consistent the profession’s responsibility to act in the public interest.
- Favored the term “inquiring mind” in the Task Force’s proposals over the previously proposed term “questioning mindset” to further minimize potential confusion with the exercise of professional skepticism in the context of audit and other assurance engagements. The Board also agreed to the refinements made during the meeting that clarified the meaning of “having an inquiring mind” in the application material and the scalability of the concept.
- Agreed that the description of professional judgment as set out in paragraph 120.5 A1 in the Task Force’s proposals should be inserted into the glossary. The Board also considered the suggestion by the IAASB PSWG to amend the description of “professional judgment” in the Code to mirror that in the IAASB auditing standards but concluded that no revision is necessary. In reaching this view, the Board noted that whilst the two terms are not identical in their descriptions, there is general consistency in their meaning and the Code is intended to be applied by all PAs.
- Considered the concern raised by the IAASB PSWG that the term “available information” in relation to further investigation and critical evaluation might be too broad as the term might be interpreted by some as including information that is available to anyone but not practicable or necessary for a PA to obtain. Upon deliberation, the Board agreed to amend “available information” to “information obtained.” However, the Board did not agree with the IAASB PSWG’s view that the term “critically evaluate” will cause undue confusion with the definition of “profession skepticism” in the IAASB’s standards.

- Agreed to the refinements made to proposed paragraph 120.5 A5 that highlight the relationship between having an inquiring mind for all professional activities and the exercise of professional skepticism when performing audits, reviews and other assurance engagements.
- Agreed to the refinements made during the meeting that further highlight the importance of the tone at the top in the promotion of an ethical culture within an organization in proposed paragraph 120.13 A2.
- Agreed to remove the reference to technology in the proposed material relating to relying on the works of others in Section 220.

#### APPROVAL OF EXPOSURE DRAFT

After duly considering all the necessary refinements to the proposed text, the Board approved it for exposure with 17 affirmative votes out of the 17 Board members present. The Board set the comment period for a minimum of 90 days from the date of issuance of the exposure draft. Dr. Thomadakis thanked the Task Force and staff for their efforts in reaching this milestone.

### 3. Fees

Mr. McPhee introduced the session by presenting the Task Force's activities since the March Board meeting; the Task Force's proposed changes to Section 410<sup>1</sup> and proposed consequential amendments to the rest of the Code.

The IESBA supported the general direction of the Task Force's proposals, in particular, the proposed provisions to support enhanced transparency about audit fees. However, there was general agreement that further work is needed to refine the proposed text (for example, to make it less prescriptive and more globally operable).

IESBA members provided a number of drafting suggestions and among other matters commented on the following:

#### LEVEL OF AUDIT FEES

##### *Audit Fees*

The Board agreed that the Code should not establish standards to set an appropriate level for audit fees<sup>2</sup> and that the focus should be on the appropriate resources to perform the audit engagement irrespective of level of fees.

- The IESBA asked the Task Force to clarify the link between the level of audit fees and threats to independence and fundamental principles, rather than referring to compliance with professional standards more broadly.
- The Task Force was asked to focus on dealing with threats to independence and the fundamental principles created by the level of fees, in particular, professional competence and due care. It was agreed that the Task Force's proposals should be less focused on audit quality.

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<sup>1</sup> International Independence Standards, Part 4A – Independence for Audit and Review Engagements, Section 410, *Fees*

<sup>2</sup> Paragraph 12 of the Fees Project Proposal notes that the project will only examine the issue of the level of fees for individual audit engagements.

- Mr. McPhee explained that the proposed statement about the level of fees is intended to:
    - Emphasize the appropriate resources provided to perform the audit engagement; and
    - Provide a basis for improved firm communication with TCWG over time.
- He further explained that in this particular situation, it is important for the Code to be more specific in order to clarify the Board's expectations.
- With respect to the categories of threats to independence that are created by the level of fees, it was suggested that:
    - It would be useful to acknowledge, within the Code, that there is an inherent self-interest threat created because of the audit-payor model (i.e., the fact that audit firms are paid by the management of the audit client).
    - The proposed text should refer to intimidation threats. It was noted that the proposed text suggests that an audit firm has full responsibility for the setting of audit fees. It was suggested that the Code should also acknowledge the role of those charged with governance (TCWG) in setting audit fees, and the fact that in some circumstances a firm may be susceptible to pressure from TCWG that might create an intimidation threat when negotiating fees for an audit client.
  - It was suggested that the statement in the extant Code "... a low fee itself is not unethical..." should be retained. However, the Task Force was asked to provide examples of factors to help firms evaluate the level of threats created by "low audit fees".
  - There was a view that the proposals will create an administrative burden and would not be a meaningful contribution to the Code. Further, it was noted that the proposal repeated a proposal that was included in the IAASB's proposed Quality Management Standards.

#### *Impact of Fees for Services Other than Audit on the Level of Audit Fees*

With respect to the Task Force's proposals relating to the impact of providing services other than audit on the level of audit fees, it was agreed that the Code should promote the audit fee as a standalone fee.

Among other matters, IESBA meeting participants commented as follows:

- The Task Force was asked to clarify the proposed statement about the relationship between the level of fees for services other than the audit; auditor independence and the level of the audit fee. There was a view that the statement conflates several issues and that the proposal should instead focus on fee ratios.
- Mr. Ashley, a member of the Task Force clarified that the proposal aims to respond to actual and perceived concerns that some firms "low-ball" audit fees in order to cross-sell other services to audit clients. He expressed the view that the proposed requirement should be retained irrespective of establishing a specified fee ratio in the Code.
  - There was a concern that the proposed requirement deals only with optics because the "basket of fees" would remain unchanged, and that the allocation of total fees for all the services provided by the firm could be changed.
  - It was suggested that fees for services other than audit provided to an audit client do not necessarily influence audit fees. Therefore the Code should include proposals to avoid audit

fees being seen as an entry point to obtaining more fees for other services, i.e. being used as a marketing tool.

- Mr. Ashley emphasized the need to demonstrate that audit is a viable part of a firm's business.

Mr. McPhee noted that the suggested requirement on the level of audit fees covers the influence of non-audit fees to audit fees and this requirement could be seen as a complementary reinforcement.

#### ENHANCED TRANSPARENCY ABOUT FEES FOR AUDITS OF PUBLIC INTEREST ENTITIES (PIES)

##### *Communication with TCWG*

The Board noted the planned coordination activities that are in place to liaise with representatives of the IAASB on overlapping topics, including the establishment of a Joint Working Group (JWG) comprising representatives of the IAASB and IESBA. Mr. Siong briefed the Board on the first discussions of the JWG. It was noted that the discussions reflect preliminary reactions based on the individual views of the IAASB representatives and was not the official IAASB view.

The IESBA generally supported the Task Force's proposals relating to enhanced transparency about audit fee-related matters and agreed that there were overlapping issues that needed to be coordinated with the IAASB.

IESBA meeting participants provided several comments and drafting suggestions to refine the proposals, some of which relate to the structure of the proposals. Most substantively, IESBA meeting participants commented as follows:

- It was suggested that the proposed text that describes how firms are to achieve transparency (e.g., nature, timing, extent, and medium of communication) should be further refined.
  - The proposed material put forward in the June Board meeting draft was determined to be too detailed and prescriptive.
  - The IESBA asked the Task Force to develop a more flexible and less prescriptive approach in refining its proposals.
  - It was suggested that some of the specificity that formed part of the Task Force's proposals may be better dealt with as part of a staff publication rather than including the prescriptive details in the Code. However, there was an alternate view, that having specific provisions in the Code might help ensure its consistent application.
- With respect to the nature of the communication with TCWG, it was suggested that the proposal should promote a two-way dialogue between the firm and TCWG and there were questions about whether the proposals for just a statement would be enough.

##### *Public Disclosure*

The IESBA generally supported the Task Force's proposals that aimed to enhance transparency to the public about audit fees but questioned whether the proposed medium – the auditor's report – was appropriate.

- There was a view that the inclusion of fee-related information in the auditor's report could potentially be distracting from more substantive matters that are included in the auditor's report (e.g., key audit matters). There was also a question about whether over time, fee-related information might become boilerplate. In this regard, the importance of coordinating with the IAASB was emphasized.

- The Task Force was asked to explore how best to address the practical challenges that were raised while at the same time progressing the spirit of their proposal which sought to enhance transparency about fee-related matters.
- Mr. Koktvedgaard was of the view that the disclosure of fee-related information was most important from an ethics point of view and that the location of the disclosure is less important. He suggested that the Task Force explore whether the disclosure might be better positioned as an example of a safeguard to reduce threats. In his view, such an approach would be less prescriptive.

Reflecting on the Board's discussion, Mr. McPhee explained that the Task Force's proposals were intended to establish a high-level principle that can evolve over time based on best practices.

#### RATIO OF FEES: FEES FOR SERVICES OTHER THAN AUDIT TO AUDIT FEES

The Board supported the Task Force's proposal that the Code should include provisions on the threats created when a high proportion of fees from an audit client is generated from the provision of services other than audit.

- It was suggested that the proposal for the ratio should be more granular regarding the services, not focusing only on the ratio of audit and non-audit fees but consider audit related services as well.
- It was pointed out that bright line rules such as the proposed 70 percent threshold, could lead to unethical behavior, as firms might be motivated to change the audit fees in order to stay within specified fee ratios.
- It was noted that fee ratios would not be effective if the ratio was calculated based only on the fees received by the firm since in practice most of the non-audit services are provided by network firms to the audit client. The Task Force was asked to note that calculating a ratio at a network level, or even at a group level if there are many subsidiaries, could be really complicated and burdensome and that it would be important for the Code to be clear about how the calculation should be done.

Mr. Koktvedgaard pointed out that the public expectation is that network firms should be independent as well, therefore focusing only on services provided by the firms may be too narrow.

#### FEE-DEPENDENCY

The IESBA supported the Task Force's proposal to retain different approaches for audits of PIEs and non-PIE in the Code with respect to fee-dependency matters. The Board asked that the Task Force clarify its proposals with simpler and more globally operable thresholds.

- In response to a question from Ms. Diplock about the rationale and evidential support for its proposed thresholds, Mr. McPhee explained that the 15 percent threshold is already established in the Code and that the Task Force took into account suggestions from stakeholders to address the concerns at the jurisdictional level. Ms. Diplock cautioned against using information from one jurisdiction to influence the direction of global standards.

#### *Audit Clients that are Not PIEs*

- There was a view that the proposed 30 percent threshold that is intended to expand on the material in the extant Code may be seen as weakening the application of the conceptual framework. For example, there was a view that the 30 percent threshold over a 5 year period would give too much flexibility and is not proportionate with the other requirements that establish thresholds and prohibitions in the Code.

- It was suggested that the Task Force should rather retain the approach in the extant Code that allows for the use of safeguards in line with appropriate application of the conceptual framework to reduce fee-dependency.
- The Task Force was cautioned against establishing provisions for firm communication with TCWG about fee-dependency matters for non-PIEs. There was a concern that it might result in situations involving intimidation as an unintended consequence.

#### *Audit Clients that are PIEs*

IESBA meeting participants generally supported having strengthened provisions in the Code to establish a specified period to end fee-dependency at the firm level. However, there were different views about what the specified threshold should be; whether there should be some exemptions for extraordinary circumstances; and whether firms should be required to communicate this information with TCWG and to the public.

- There were concerns about the proposed “exit-clause” after 5 years. There was a view that the proposal may in effect result in mandatory firm rotation and that consideration should be given to the fact, that in some situations there may be no firms available with the appropriate resources to perform the audit.
- It was reiterated that the goal should not be mandatory firm rotation and that firms should be provided the option to prevent ending the engagement. It was suggested that firms should view the Task Force’s proposals as a strong incentive to reduce fee-dependency and that 5 years should be sufficient time to allow for strategic adjustments.
- It was pointed out that some jurisdictions already have provisions in place that achieve the objective of the proposed “exit-clause” to deal with fee-dependency issues and that in some cases the regulator of those jurisdictions approves periods of prolonged fee-dependency due to extraordinary circumstances. It was noted that in those jurisdictions there is no disclosure to the public, and that information was only available to TCWG. It was suggested that the Task Force’s proposal, which requires simultaneous communications with TCWG and the public about fee-dependence might be confusing.

#### *Public Disclosure about Fee Dependency for Audit Clients that are PIEs*

- It was suggested that including exact numbers within a global standard could be problematic because of jurisdiction-level provisions that might also exist.
- There was a concern about whether the public information about fee-dependency would be useful to investors and others. It was suggested that in some cases, (e.g., when an audit client is about to be listed) it may not be appropriate. In response to this comment, Mr. Ashley expressed a view that it is generally in the public interest to make information that is relevant to investing decisions public.
- It was suggested that the Task Force consider whether it might be more appropriate to communicate issues about fee-dependency to regulators and audit oversight bodies instead of making it public. In response to the suggestion, it was suggested that consideration should be given to the rationale for public disclosure about fee-dependency issues and whether providing the information to regulators or audit oversight bodies rather than the public would address the auditor independence concerns arising from fee-dependency issues that are set out in the Project Proposal.

- Ms. Diplock noted that providing information only to regulators would not be in the public interest. She expressed a preference for disclosure to TCWG and the public.

#### CONSEQUENTIAL AMENDMENTS

- It was suggested that the Task Force explore whether there might be other ways to reflect its proposals throughout Part 4A of the Code, rather than only within Section 410.

#### WAY FORWARD

The Board asked the Task Force to continue the coordination with the IAASB on overlapping issues. The Board also asked the Task Force to develop a revised set of proposals for its “second read” in September 2019.

### **4. Restructured Code Rollout and Collaboration with IFAC**

#### RESTRUCTURED CODE ROLLOUT

Ms. Gibson commenced the session by reporting that IESBA representatives continued to proactively engage in outreach activities during Q2 2019. The Board received a report-back from IESBA representatives who participated in outreach in the Kingdom of Saudi Arabia (KSA), South Korea, Russia, Canada, the Pan African Federation of Accountants (PAFA) Technical Standard Setters Forum in South Africa as well as the CReCER 2019 conference and Standard Setters Forum in Costa Rica. Amongst other matters, the Board was informed that the KSA, South Korea and Russia had already adopted or would soon be adopting the new Code.

Ms. Gibson also informed the Board that two 90-minute webinars on key changes to the Code were successfully held in March and April 2019 with approximately 1,000 participants. Recordings on the webinars are available on the IESBA's [website](#). Ms. Gibson also noted that a further webinar that targets stakeholders in the Asia-Pacific region is being planned for Q4 2019.

Ms. Gibson further noted that the Working Group would consider its future role, in consultation with the Planning Committee, and taking into account the opportunity for IESBA to collaborate with IFAC on supporting adoption and implementation of the Code.

#### COLLABORATION WITH IFAC

Mr. Siong introduced Mr. Bryson, IFAC Director, Quality and Development, to provide an update on the status of collaboration activities between IESBA and IFAC aimed at supporting adoption and implementation (A&I) of the Code.

Mr. Bryson provided the Board with an overview of the international standards adoption ecosystem and framework that IFAC has relied on to develop its strategy to support A&I. This ecosystem has six key components which include membership requirements, monitoring and reporting, advocacy and input to standards, guidance to implementation, intellectual property and capacity building. With regards to IFAC's compliance program, Mr. Bryson noted that IFAC has been enhancing its engagement with its member organizations as well as identifying more efficient ways to assess A&I of international standards. Since the release of the revised and restructured Code in April 2018, IFAC has also been requiring its member organizations to update their plans to address adoption of the new Code, and encouraging them to work on translating the Code as necessary.

Mr. Bryson also shared with the Board, IFAC's threefold strategy on supporting A&I of international standards: (i) Provide feedback and input on standards development on behalf of key constituents; (ii) Promote and monitor adoption through advocacy and stakeholder relationship management; and (iii) Facilitate implementation through sharing of knowledge and development of guides and best practices. Mr. Bryson noted that every jurisdiction has now been given an adoption profile based on IFAC's most recent assessment, and each member organization also has an assessment profile. The A&I information collected is being used to develop IFAC's global status adoption report and the deep-dive report due to be released in September and November this year, respectively.

With regards to IFAC's A&I initiatives for the Code, Mr. Bryson informed the Board that there has been continuing discussions at staff level since January 2019. He also provided a brief update on the four key A&I initiatives or deliverables on which IFAC has been focused with respect to the Code:

- Development of a short publication series as part of an awareness raising initiative that is built on the draft "Decoding the Ethics Code" series developed by the Working Group.
- Development of a deep-dive report, as part of IFAC's Global Status Report series, that provides, amongst other matters, lessons relevant to adoption of the revised and restructured Code.
- IFAC staff participation in the eCode Working Group.
- Forward planning to support IESBA's implementation review for the NOCLAR and Long Association Sections, such as the use of spot surveys.

To further explain the context and reasons that underpin IFAC's A&I initiatives for the Code, Mr. Siong drew attention to the IESBA's SWP commitment to articulate its strategy for collaboration with IFAC on implementation support in 2019. He further noted that, in accordance with the SWP, the IESBA would explore with IFAC suitable collaborative arrangements on monitoring the implementation of new or revised provisions in the Code as well as the development of implementation support resources pertaining to the Code. Such an approach would recognize IFAC's unique role and position, and its connections with firms, in influencing A&I of international standards. Mr. Siong also explained that discussions on collaboration between the Standard-Setting Boards (SSBs) and IFAC began at the leadership level in order to first agree on core questions such as the need for collaboration, remit and resources. He also noted that there is some consensus that it would not be appropriate to begin with a long list of A&I initiatives or a formal process of collaboration, but that it would be important to develop a culture of collaboration and learn as that collaboration evolves. In looking forward, IFAC and SSB staff will continue to work together and review the effectiveness of the collaborative arrangements at the end of 2019.

Amongst other matters, a number of IESBA members queried the progress of the proposed IFAC short publication series, IFAC's longer term goal for the series and the continuing involvement of IESBA. In response, Mr. Bryson clarified that IFAC only recently had the opportunity to consider its approach to the series, having regard to the availability of staff resources within IFAC. He further noted that the four draft "Decoding the Ethics Code" episodes developed by the Working Group would be repositioned as the initial episodes for the IFAC short publication series and that IFAC planned to produce between 12 to 14 episodes. He also reassured the Board that IFAC is committed to developing an appropriate process that will meet the IESBA's goals for the series.

Dr. Thomadakis expressed strong support for collaboration with IFAC. However, he cautioned that the transition to the collaborative approach would need to be gradual and seamless and with greater clarity on the aims of the initiatives. He added that, in the short term, activities that help to 'popularize' the Code such

as the “Decoding the Ethics Code” series should continue to have strong involvement from the IESBA as the series is transitioned as an IFAC product.

Ms. Diplock noted her appreciation on the progress of the IESBA’s collaboration with IFAC towards supporting adoption and implementation of the new Code.

## 5. eCode

Mr. Thomson provided the Board with a final report on the completion of Phase 1 of the eCode initiative. He summarized the key changes made since the March meeting in response to feedback received from the Board, CAG, beta testers and NSS participants. He also briefed the Board on activities to promote awareness of the eCode ahead of its launch on June 26.

Mr. Friedrich, taking over as Chair of Phase 2, then introduced the reconstituted WG, noting the inclusion of IFAC representatives, given the high level of collaboration with IFAC that will be required over the next phase. He thanked the departing WG members for their contributions during Phase 1. He then outlined the WG’s preliminary views on the possible scope and work streams for Phase 2. He also provided an indicative timeline for pilot testing (with the New Zealand External Reporting Board) and then transferring the platform to other interested NSS.

### FEEDBACK

IESBA members were supportive of the indicative direction for Phase 2, notably with respect to improving both the bookmark and copy and paste functions, and for pilot testing the transfer of the eCode platform to the New Zealand External Reporting Board. IESBA members provided a number of suggestions to the WG for its consideration, including the following:

- How a user may include his or her own notations within the eCode. There was some support for exploring a voluntary login to enable the platform to store users’ notes.
- How the eCode platform can link to the IAASB’s standards.
- The need to monitor the use of the non-authoritative material links in the eCode to gauge users’ awareness of the distinction between authoritative and non-authoritative material.
- Exploring how best to collaborate with NSS when transferring the platform, including with respect to permissions and licensing arrangements.

### WAY FORWARD

The Board asked the WG to provide a further update in due course.

## 6. Non-assurance Services

Mr. Fleck introduced the session by reminding the Board of the key policy decisions reached at the March meeting and walked through the proposed revisions to Section 600<sup>3</sup> of the Code, including subsections 601 to 610. The Board welcomed the progress made on the non-assurance services (NAS) project.

Among other matters, IESBA meeting participants commented as follows:

### GENERAL NAS PROVISIONS

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<sup>3</sup> Part 4A, Section 600, *Provision of Non-assurance Services to an Audit Client*

### *Application of the Conceptual Framework to Deal with Independence Threats Created by Providing NAS to Audit Clients*

The Board deliberated on the nature of the proposed revisions to the general provisions that relate to applying the conceptual framework to independence threats created by providing a NAS to an audit client. The Board reminded the Task Force that Section 600, which came into effect in June 2019, was recently revised as part of the Safeguards and Structure projects. It was agreed that:

- The proposed revisions arising from this NAS should be substantive in nature and should clarify the types of services that are permissible, and the services that are not permissible for audit clients.
- Editorial revisions to describe how NAS threats are identified, evaluated and addressed should be minimized or avoided.

By way of example, the Board welcomed the Task Force proposed clarifications to explain how to deal with threats created by the provision of multiple services to the same audit client. However, there was a question about the need for the proposed text to remind firms of their responsibility to consider NAS provisions that is set out in local law and regulation because it repeated material in Part 1 of the Code.

### *Description of NAS*

The Task Force was asked to revisit the appropriateness of the examples of the specific types of NAS that are included in the Code. It was suggested that there is a need to modernize the Code in light of new and emerging NAS arising from advancing technologies. For example, it was suggested that the Code should deal with hosting, cyber security and outsourcing.

Mr. Fleck explained that the Task Force previously recommended that the general NAS provisions and the conceptual framework would remain applicable to any new and emerging NAS. The Task Force's initial view was that any additional material, such as contextual information about those new and emerging NAS would be better positioned outside of the Code (e.g., in a separate publication) and that the Code should remain principles-based. There was a view that such is the current pace of change in technology that any such specific content would need to be updated on a regular basis, which is not practicable.

The Board deliberated on the two viewpoints and asked the Task Force to explore:

- Whether the examples of NAS that are dealt with in the subsections of Section 600 remain fit for purpose, and whether new or different ones would be more appropriate.
- Whether the Code should include a description of what constitutes a NAS.

### *Prohibition of NAS that Might Create Self-Review Threats (for PIEs)*

The Board extensively deliberated on whether the proposed text appropriately conveyed the Board's intent with respect to the general requirement that would prohibit a firm from providing a NAS that might create a self-review threat in relation to the audit of the financial statements of an audit client that is a PIE (i.e., the self-review threat prohibition).

- The Board reiterated its view that for audit clients that are PIEs, a self-review threat to independence cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.
- Questions were raised about using the phrase "subject to audit" as the trigger for the prohibition. It was observed that the link between "subject to audit" and self-review threat was unclear. The Task

Force was asked to align the proposed self-review threat prohibition more closely to the more specific prohibitions in the subsection of the Code.

- The Task Force was asked to reconsider the placement of certain provisions. There was a view that there was a need to better integrate the proposed self-review threat prohibition with the well-understood provisions relating to identifying, evaluating and addressing threats to independence in the conceptual framework.
- There was a view that with the introduction of the self-review prohibition, the Code should provide more guidance to clarify whether firms would still be able to provide advice and recommendations to audit clients that are PIEs during a NAS engagement.

#### *Communications with TCWG*

The Board extensively deliberated on practical considerations relating to the Task Force's proposal to enhance auditor communication with those charged with governance (TCWG) about NAS matters. Among other matters, it was agreed that:

- Having requirements for firms to communicate with TCWG about NAS, including obtaining concurrence about whether to provide a NAS to an audit client that is a PIE will help improve the quality of discussions about auditor independence between the firm and TCWG.
- The Task Force should liaise with representatives of the IAASB to preserve the existing alignment between the Code and the IAASB's ISA 260 (Revised).
- There should be alignment between the Task Force's proposals relating to communication with TCWG and those being developed by the Fees Task Force. In this regard, it was suggested that all the provisions relating to communication with TCWG should be included in a stand-alone section in the Code in order to reduce the likelihood that firms might miss them. After extensive discussion, the Board was agreed that:
  - Establishing a stand-alone section in the Code relating to communication with TCWG was outside the scope of the NAS and Fee projects.
  - Firms could use the advance search function in the [eCode](#) to generate a comprehensive list of the provisions relating to communication with TCWG.
  - The development of a publication to highlight the provisions relating to communication with TCWG in the Code could be explored once the NAS and Fees projects are finalized.

#### *Other Matters*

- The Task Force was asked to revisit and refine its proposed revisions to clarify the interaction between the existing prohibition relating to assuming management responsibilities for an audit client and providing advice and recommendations to assist management.

#### REVISIONS RELATING TO SPECIFIC TYPES OF NAS (SUBSECTIONS 601 TO 610)

The Board agreed that with the introduction of a general self-review threat prohibition for NAS, it is helpful to have clear NAS descriptions in the Code. Accordingly, there was general support for the proposed revisions to emphasize the description of the specific types of NAS that might be provided to audit clients in the subsections of Section 600.

IESBA meeting participants provided several drafting suggestions and asked the Task Force to refine its proposals to better align the wording in the general self-review threat prohibition to the proposed wording in the subsections of the Code.

Among other matters, the following comments were made with respect to:

- Subsection 601, *Accounting and Bookkeeping Services*
  - The Task Force was asked to re-consider its proposal to [withdraw the existing exception](#) in the Code that allow firms to provide accounting and bookkeeping services of a routine or mechanical nature to divisions or related entities of an audit client that is a PIE audit if certain conditions are met.
  - The Task Force was asked to reconsider the need for some of the proposed clarifications that were made to the examples of permissible services that might be provided as part of the audit process (i.e., those set out in paragraphs [601.3 A3](#) to [601.3 A4](#) of the extant Code).
- Subsection 604, *Tax Services*
  - There was a view that the Task Force's proposals may have the unintended consequence of making the Code more restrictive with respect to tax preparation and providing tax advice.
  - There was a question about whether the level of granularity in the tax section of the Code was necessary. It was suggested that the Task Force should simplify the tax provisions by drafting them in a more principles-based manner that would reduce the level of repetition of certain provisions.
  - It was suggested that the Task Force should revisit and modernize the examples of tax services that are dealt with in the Code to better reflect the tax services that firms currently provide.
  - With respect to tax calculation, the Task Force was asked to clarify how its position would differ in circumstances when a firm provides an audit client with a template to assist in the preparation of tax calculation versus in circumstances that involve providing more hands-on advice and recommendations.
  - With respect to assisting in the resolution of tax disputes, there was a view that the description of the tax service should be drafted in a manner that better accommodates differing regulatory regimes across jurisdictions.
- Subsection 605, *Internal Audit Services*
  - There was a lively debate about whether the provision of any type of internal audit services should continue to be permissible for audit clients. There was a view, including from Mr. Hansen that the Code should include a general prohibition for all internal audit services.
  - On the other hand, there was a view that some type of activities that form part of the internal audit function do not impact the financial statements or the audit and should continue to be permissible, provided that the provisions in the conceptual framework are complied with.
- Subsection 606, *Information Technology (IT) Systems Services*

- The Task Force was asked to explore whether the subsection could be modernized with the inclusion of examples of new and emerging services (e.g., operating and managing IT systems, cybersecurity and hosting services).
- *Subsection 608, Legal Services*
  - The Task Force was asked to revisit its proposals, in light of the general self-review threat prohibition and the removal of the materiality threshold.
  - There was a question about whether the Code should also include a general prohibition for NAS that might create an advocacy threat for audit clients that are PIEs.
- *Subsection 610, Corporate Finance Services*
  - The Task Force was asked to explore how the subsection on corporate finance services should be modernized with terminology that better reflects the nature of the services that firms currently provide to their audit clients. For example, it was suggested that the subsection should be retitled “Transactional Services”.

#### MATTERS RELEVANT TO PROPOSED CONFORMING AMENDMENTS TO SECTION 950<sup>4</sup>

- The Board noted the Task Force’s proposed approach for developing the proposed conforming amendments to Section 950 of the Code to preserve the existing alignment with Section 600, including its plan to:
  - Explore whether the Code should include a discussion about public interest assurance engagements.
  - Coordinate with the Alignment of Part 4B/ ISAE 3000 Task Force.

Ms. Diplock noted that the Board’s discussions about the NAS proposals were robust and very productive and was held with regard to the public interest.

#### WAY FORWARD

The Board asked the Task Force to submit a revised set of proposals at its September 2019 meeting with a view to approving an exposure draft for public comment.

## 6. IAASB-IESBA Coordination Update

Dr. Thomadakis introduced the session and invited Ms. Soulier, IESBA member liaison to the IAASB, to present an update on the coordination activities with the IAASB. Ms. Soulier commenced the presentation by informing the IESBA of the appointment of Mr. Imran Vanker, as the IAASB member liaison to the IESBA, replacing Ms. Megan Zietsman.

Ms. Soulier briefed the IESBA on the coordination efforts with the IAASB since December 2018. One of the notable developments was the formulation of a mechanism to inventory, capture and manage coordination needs and activities relative to standard-setting projects or initiatives. To facilitate management of the coordination efforts, the staff of both the IESBA and IAASB will jointly maintain a database of topics requiring, or that may require, coordination. This tool will be used to facilitate the quarterly report back to

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<sup>4</sup> Part 4B, Section 950, *Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients*

the Board on coordination matters. The tool also aids in providing transparency on the discussions held on coordination matters and the timeline towards project completion.

Mr. Siong then provided a brief update on the joint IAASB-IESBA meeting with NSS in May in Paris. Among other matters, he reflected on the significant progress made in the coordination efforts of both Boards over the last two years. He added that it will be an evolutionary process. As part of this, he highlighted the commitment among the two Boards and the Audit and Ethics NSS to embrace the challenge of having a four-way dialogue (or “quadrilogue”) where such coordination would make sense on particular projects or initiatives.

Dr. Thomadakis echoed Mr. Siong’s observations of the conversations at the meeting with the NSS. Dr. Thomadakis also briefed the Board on his and Prof. Arnold Schilder’s recent joint session at the IFAC Board in June where they provided an update on coordination activities between the IAASB and IESBA.

Ms. Diplock praised the joint efforts and welcomed the Boards’ initiative to coordinate with each other as well as with the Audit and Ethics NSS. With respect to the latter, she encouraged Board members to pursue the “quadrilogue.”

## **7. Technology**

Ms. Mulvaney introduced the session by providing a brief update on the WG’s outreach activities in Q2 2019 and other activities, which included recommendations to the Role and Mindset Task Force to add limited technology-related enhancements to their proposals.

Ms. Mulvaney presented the WG’s analysis to date on Part 1 of the Code. She noted that the impact of new technology developments, such as in terms of machine bias, is pervasive and cuts across all five fundamental principles in an inter-related manner. The WG’s preliminary view is that this observation might be best addressed by the IESBA in off-Code guidance.

Ms. Mulvaney further updated the Board on those observations that are still under the WG’s review, including:

- Whether the current articulation of threats to the fundamental principles sufficiently recognizes the ethics risks inherent in the complex environment in which PAs work, and whether a new category of threat should be addressed in the Code.
- Whether it would be of benefit to more explicitly relate some of the common ethics principles used by organizations and businesses in the development of artificial intelligence, such as fairness, transparency, accountability and privacy, to the fundamental principles.
- With regards to the fundamental principle of confidentiality, whether the language in the Code is still current; how confidentiality relates to privacy; and whether and how the tension between confidentiality and transparency should be addressed in the Code.
- Whether the fundamental principle of professional competence and due care should be enhanced to highlight the need for having the right skills and mindset, such as a growth mindset, in the digital age.
- Whether PAs might have a broader role in society as ethical leaders and champions of the importance of ethics.

The Board was generally supportive of the Working Group’s observations and direction of travel to date. Amongst other matters, the following comments were made by IESBA participants:

- The technology initiative offers an excellent opportunity to take a fresh look at the descriptions of the fundamental principles to ensure they are fit for purpose in a digital age.
- Whether additional material in the Code or otherwise is needed on the concept of ethical leadership to provide more guidance to PAs in this regard.
- There is benefit in considering developing non-authoritative guidance to highlight how the fundamental principles and the conceptual framework are relevant and apply in the digital age.
- Whether the concept of “self-confidence” threat would be a possible new type of threat to compliance with the fundamental principles.

Ms. Mulvaney and Mr. Friedrich conducted a walk-through of two scenarios, one in relation to PAs in public practice and the other PAs in business, that were used by the WG to “stress-test” the robustness of the Code. IESBA members generally agreed that the use of scenarios is a helpful way to identify and better understand issues arising from the impact of technology on the work of PAs.

#### WAY FORWARD

The Working Group will provide an update on its analysis as well as preliminary recommendations for its Phase 1 Report at the September 2019 IESBA meeting.

### **8. Emerging Issues and Outreach**

Dr. Thomadakis introduced the session, and invited Ms. Winifred Kiryabwire as the Chair of the Emerging Issues and Outreach Committee (EIOC) to present the EIOC’s activities since December 2018. Ms. Kiryabwire then gave the Board a presentation on the scope, intensity and focus of the IESBA’s outreach activities over the last three years. Among other matters, the IESBA supported a more structured approach to categorizing stakeholders for purposes of outreach planning and provided various suggestions for refinement. IESBA members also exchanged views about how the effectiveness of outreach might be enhanced as a strategic vehicle in advancing the Board’s various objectives. In particular, the Board supported the EIOC’s recommendation to dedicate a focus of future outreach efforts on Turkey and Argentina as two G-20 countries where the Board has not yet had a presence.

Ms. Diplock noted that the EIOC’s initiative on outreach is important in the public interest and complementary to the Board’s work on promoting global adoption of the Code. She added that the energy and commitment on outreach will be well appreciated by the PIOB. She felt that some linkage with the IAASB will be useful and suggested that the IESBA explore the opportunity for coordination with the IAASB in this regard.

The IESBA also received a presentation from Mr. Sundeep Takwani, Director–Regulation at ACCA, on recent developments pertaining to the United Kingdom audit market. Among other matters, Mr. Takwani briefed the Board on the various reviews that have taken place, namely the Kingman review of the UK Financial Reporting Council; the Competition and Markets Authority (CMA) review of competition in the UK audit market; the Business, Energy and Industrial Strategy Committee (BEIS) review of the future of audit; and the Brydon review of the quality and effectiveness of audit.

Mr. Poll noted that the European Commission (EC) is monitoring the discussions in the UK as well as in the Netherlands regarding the audit market. In this regard, as part of its upcoming review of the EU Audit Legislation, the EC would likely cover similar ground as the UK reviews, such as market structure, future of audit, etc. Mr. Poll added that the EC will publish its findings in the next couple of years.

## WAY FORWARD

Ms. Kiryabwire thanked Mr. Koktvedgaard for all his contributions to the EIOC over the years as observer on behalf of the CAG. The IESBA will receive its next update from the EIOC in December 2019.

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

Ms. Diplock commented that it was an honor and pleasure for her to have had the opportunity to observe the meeting. She complimented all those involved for their participation in the discussions, noting that she had found the level of intellectual debate excellent.

On the coordination between the IAASB and IESBA, Ms. Diplock noted that the PIOB is clearly interested in the two Boards working together to address any matters of mutual interest but that it would be important that they respect their independence. She noted that she would be pleased to report positively to the PIOB on the IESBA's outreach efforts to promote global adoption of the Code.

Regarding the developments in the United Kingdom's audit profession, she noted that the topic has been on the table over the last few months. She encouraged the Board to consider the issues raised and provide some thought leadership, especially if the business model of the firms changes around the world. She noted that audit is a critical element to financial stability and accordingly, it is vital for stakeholders to have confidence in firms carrying out robust audits. Hence, she thought that the IESBA's work is vitally important. She added that the topic goes to the heart of the public interest, will generate a high level of debate, and will no doubt require some coordination with the IAASB.

In closing, she noted that the meeting was managed in the public interest, the level of debate high with intellectual rigor and integrity, and that there was excellent input from all around the table.

Dr. Thomadakis thanked Ms. Diplock for her constructive remarks, echoing her point about the importance of monitoring the developments in the UK audit market and the related implications.

### **10. Next Meeting**

The next Board meeting is scheduled for September 16-19, 2019 in New York, USA.

### **11. Closing Remarks**

Dr. Thomadakis thanked the IESBA meeting participants for their contributions, wished them a safe journey home and closed the meeting.