

**Final Minutes of the 65<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on September 16-19, 2019 in New York, United States**

**Voting Members**

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

Apologies: Gina Maldonado-Rodek (Ms. Gibson)

**Non-Voting Observers**

Present: Gaylen Hansen, IESBA CAG Incoming Chair, and Masaki Murase, Japanese Financial Services Agency (FSA)

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

Present: Jules Muis

**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

**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)

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He extended the Board's gratitude to the American Institute of Certified Public Accountants (AICPA) and their staff for hosting the meeting. He also welcomed the IESBA CAG Chair, Mr. Gaylen Hansen; PIOB Observer, Mr. Jules Muis, Japanese FSA Observer, Masaki Murase; eCode Working Group (WG) members, Mr. Joseph Bryson, IFAC Director, Quality & Development, and Ms. Michelle Korman, IFAC Senior Manager, Head of Intellectual Property; Ms. Laura Friedrich, Rollout WG member; and Mr. Peter Hughes, former IESBA member who is providing technical support to the Part 4B–ISAE 3000 (Revised) Alignment (Part 4B) project.

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

- The topics that are on the agenda of the meeting, in particular the non-assurance services (NAS) and Fees projects. He also noted other important topics such as the feedback on the Part 4B exposure draft and the Task Force's related responses; the proposed Terms of Reference (ToR) for the Tax Planning initiative; the update on the International Auditing and Assurance Standards Board (IAASB) IAASB-IESBA coordination and the update on the Technology initiative.
- The fruitful and lively discussions at the September 2019 CAG meeting. Mr. Hansen briefly shared his observations on the CAG meeting.
- The activities of the Planning Committee during the quarter, noting the Planning Committee's consideration of 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; coordination with IAASB, consideration of the composition of the WG to develop the project proposal for the review of the definitions of the terms "Listed Entity" and "public interest entity" (PIE) in the Code and the Australian parliamentary inquiry into regulation of audit.
- The outreach activities since the last Board meeting, which included activities in Russia, Singapore and South Africa. Kim Gibson, Chair of the Rollout WG, provided further details of the outreach activities undertaken during the last quarter.
- The Institute of Chartered Accountants in England and Wales (ICAEW) is undertaking a major research initiative that focuses on how the top 30 international networks effectively function today across Europe and Eurasia. It will aim to provide an evidence-based description of how the top 30 firms are responding to key drivers such as business demands, digitalization, cultural shifts and regulatory requirements. Dr. Thomadakis and Mr. Siong had the opportunity to participate at the ICAEW's first teleconference and will provide updates to the Board as the initiative progresses.

### APPROVAL OF MINUTES

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

## 2. Non-assurance Services

Mr. Fleck, Chair of the NAS Task Force, introduced the session, highlighting the nature of the revisions made to the proposed texts since the June 2019 meeting. He also summarized the key matters raised by IESBA meeting participants who commented on the agenda materials in advance of the September meeting and the Task Force's preliminary reactions. He explained that given the nature of the comments raised, there is a need for the Board to further deliberate on certain matters of principle, including:

- The proposal to prohibit firms and network firms from providing a NAS that will create a self-review threat to an audit client that is a PIE.
- Whether materiality should continue to be a deciding factor in determining whether a NAS is permissible (i.e. the threshold or qualifier that triggers the applicability of certain NAS prohibitions), in particular in the case of audit clients that are PIEs.
- Whether the provision of advice and recommendations to audit clients, in particular, tax advice creates a self-review threat, and whether in the case of audit clients that are PIEs, whether such advice and recommendation should be prohibited.

Mr. Hansen summarized the views expressed by the representatives of the CAG and noted that in his view the challenge is having proposals that clearly articulate the extent to which firms can continue to “help their audit clients” through the provision of a NAS without impairing their independence.

The Board exchanged views about the matters of principle. Mr. Fleck then guided the Board through the proposed revisions to Section 600<sup>1</sup> of the Code, including the subsections as well as the related conforming and consequential amendments to Sections 400,<sup>2</sup> 950<sup>3</sup> and 900.<sup>4</sup>

The Board then provided input on the Task Force’s further revisions to its proposals to address the key comments raised during the meeting, the most substantive of which are summarized below.

#### GENERAL NAS PROVISIONS

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

The Board further deliberated on whether the proposed text conveyed its intent with respect to the self-review threat prohibition, which is to prohibit a firm or a network firm from providing a NAS to an audit client that is a PIE if the firm determines that a self-review threat is created.

- It was observed that the underlying thought process behind the concept of a self-review threat prohibition (i.e., a firm not auditing its own work) is not new and is reflected in some of the existing prohibitions in the Code as well as national codes, rules and regulation (e.g., the US Securities Exchange Commission (SEC) rules and the European Union Regulation (537/2014)). There was a view that the proposals as presented were stricter than those existing provisions at the jurisdictional level and that this was a cause for concern.
- It was suggested that the proposal wording should be refined in order to better explain how firms are to determine whether a self-review threat exists, having regard to the need for the firm or the network firm to exercise professional judgement.
  - There was question about whether the concept of materiality would be useful to retain as a matter for consideration in exercising such judgments.
  - It was suggested that additional application material is needed to help firms identify a self-review threat created by providing NAS to an audit client more broadly beyond what is included

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<sup>1</sup> Part 4A, Section 600, *Provision of Non-assurance Services to an Audit Client*

<sup>2</sup> Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

<sup>3</sup> Part 4B, Section 950, *Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients*

<sup>4</sup> Part 4B, Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements*

in the conceptual framework.

- There was a concern that putting all the focus on self-review threats may create a risk that other types of threats that may warrant similar attention depending on the type of service – e.g., a self-interest or an advocacy threat – may be overlooked.
- The Task Force was asked to revisit its characterization of the importance of the reasonable and informed third party (RITP) test. It was agreed that while the RITP test is required for all entities under the conceptual framework, the application of that test is especially important for audits clients that are PIEs, considering stakeholders' heightened expectations regarding the firm's independence.
- There was a view that based on the public's current expectations in the case of audit clients that are PIEs, the application of the RITP test in evaluating a self-review threat arising from the provision of a NAS to an audit client would always result in it not being at an acceptable level. Therefore, the NAS should only be provided if its scope is adjusted to eliminate the self-review threat.
- There was a question about the intended meaning of the phrase "not subject to audit" as used in the proposals and it was suggested that the phrase should be replaced with the words "there is a risk of the firm auditing its own work".

#### *Providing Advice and Recommendations*

The Board deliberated on how the provisions relating to providing advice and recommendations in the Code should be revised and whether the Code should acknowledge the circumstances in which the provision of advice and recommendations will not create a self-review threat (e.g., in the case of providing certain tax advice).

- The Board generally agreed that depending on the specific facts and circumstances, providing advice and recommendations *might* create a self-review threat and that a firm or network firm's determination of whether to provide such advice or recommendations should include:
  - Whether management takes responsibility for the advice and recommendations (if management does not, the provision of the advice and recommendations would be prohibited).
  - The degree of reliance that the firm will place on the advice or recommendations (i.e., the likelihood of the firm auditing its own work).
  - Whether the advice or recommendations are about a general business matter, or whether it relates to a matter that will impact the financial statements or internal control over financial reporting (ICFR) (i.e., if the financial statements or ICFR is impacted, then a self-review threat would be created and in the case of audit clients that are PIEs, the advice and recommendations would be prohibited).
- There was a question about how the Code should deal with providing advice and recommendations with respect to new and emerging services, including technology-related NAS. The Task Force was cautioned against developing provisions that are too restrictive such that they limit firms' and network firms' ability to provide advice and recommendations on non-financial reporting related matters.
- Mr. Fleck explained that with respect to tax advisory and tax planning services, the proposals included new application material to explain that such advice and recommendations will not create a self-review threat if the services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used over a long period and have not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that is likely to prevail.

He added that the proposed new application material is adapted from material in the extant Code and is responsive to a call from some stakeholders, including representatives of the Forum of Firms for having an explicit statement about the circumstances in which certain tax services would be permissible.

- The Task Force was asked to:
  - Ensure that its proposals clearly explain the types of advice and recommendations that are permissible.
  - Indicate in the NAS explanatory memo (EM) what is meant by the phrase “that is likely to prevail” and signal that in the Board’s view the term conveys a degree of subjectivity because the firm will need to determine *whether the basis in tax law might prevail*. There was a view that in some cases, this level of subjectivity might create a self-review threat.
  - Consider whether the proposals should refer to the Organisation for Economic Cooperation and Development’s (OECD’s) provisions relating to tax morality. However, the Board agreed that this matter would be best dealt with as part of the forthcoming Tax Planning initiative.

#### *Improved Communications with Those Charged with Governance (TCWG)*

The Board extensively deliberated on practical considerations relating to the Task Force’s proposal to improve auditor communication with TCWG about NAS matters. The Board generally supported the Task Force’s proposals but cautioned against the proposals being too prescriptive. Among other matters, the Board asked the Task Force to:

- Consider how to better align the language in the proposed requirement to obtain concurrence from TCWG before taking on the NAS to the application material that explains the process that the firm and TCWG agree to in order to operationalize the obtaining of this required concurrence.
- Avoid using three different words – approval, agreement and concurrence – that convey a similar meaning in order to minimize translation challenges with implementation. It was noted that the word “concurrence” which is currently used in the extant Code is preferred.
- Note that with respect to non-PIEs, enhanced communication with TCWG helps to stimulate informed discussions about the significant judgments made by the firm, including about whether to provide a NAS to an audit client; the types of threats that are created as a result; and how those threats have been addressed.
- Reflect on whether a more prominent discussion about transparency is needed because of its relevance to the NAS and Fees project, as well as the Technology initiative.

#### *Materiality*

The Board extensively deliberated the Task Force’s proposal to withdraw the reference to materiality in certain extant NAS prohibitions that apply to all audit clients. Mr. Fleck emphasized that under the Task Force’s proposals, tax and corporate finance services would be prohibited for all audit clients where *the effectiveness of the service depends on a particular accounting treatment or presentation and the audit*

*team has reasonable doubt about the appropriateness of that treatment or presentation.* This is because the self-review threat created cannot be eliminated, or it cannot be reduced to an acceptable level by the application of safeguards. For tax services that involve assisting in the resolution of tax disputes, he explained that the same would be the case for the advocacy threat that is created.

The Board supported the Task Force's proposal to retain the extant application material in the Code explaining materiality in the context of the financial statements audit. It was also agreed that the reference to materiality and significance as relevant considerations or as factors in identifying and evaluating threats to independence would be retained.

There was a view that doubts about the underlying accounting treatment or presentation used by a client would not in itself constitute an independence breach and a self-review threat would not necessarily be created, but from an ethical perspective, it is important for the matter to be raised with the client.

#### SUBSECTIONS 601 TO 610

The Board agreed with the Task Force's proposal to emphasize the description of the specific types of NAS that might be provided to audit clients and the potential threat that might arise. The Code will continue to include subheadings that distinguish the provisions that apply to audit clients that are PIEs from those that apply to audit clients that are not non-PIEs.

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

- It was suggested that the NAS EM should explain the Board's rationale for continuing to have different NAS provisions for audit clients that are PIEs and audit clients that are non-PIEs. It was also noted that the EM should indicate the scope of the revisions that would be explored as part of the future PIE project.
- Subsection 601, *Accounting and Bookkeeping Services*
  - The Board agreed with the Task Force's 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 if certain conditions are met.
  - There was a lively debate about whether it should continue to be appropriate for "preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records" to be characterized always as a service that *is routine and mechanical in nature, requiring little or no judgement*. There was a view this statement may no longer always be the case given the often complex nature of the current financial reporting frameworks and the degree of subjectivity that may be involved in financial statements preparation.
- Subsection 604, *Tax Services*
  - With respect to the proposed prohibition for a tax service relating to marketing, planning or advocating in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or the network firm and a significant purpose of which is tax avoidance, the Board deliberated on whether the service should be permissible if the tax treatment has a basis in applicable tax law and regulation that is more likely than not to be allowable.
    - There was a view that as drafted, the focus of the proposal appeared to be centered on the quality of the tax advice and it was unclear how the provision of the NAS might impact

the firm's independence. It was suggested that the proposal should only be retained if it is dealing with an independence issue. In this regard, there was a view that the provision of marketing, planning and advocating in favor of a tax treatment that is more than likely not to be allowable under the law regulations for an audit client creates an independence issue. Also, Mr. Muis commented that in his view "the more likely than not" threshold was too low.

- There was a suggestion for the proposal to be covered as part of the tax planning initiative. In response, Mr. Poll, the Tax Planning WG Chair, explained that the issue is not part of the tax planning initiative's scope and expressed a preference for the Board to consider it as part of the NAS project.
  - There was a concern that the prohibition applies to audit clients that are non-PIEs.
  - There was a question about whether the firm would be permitted to advise a client on the correct tax treatment if it identified that the client's existing treatment is not allowable under tax laws and regulations. Also, there was a view that the provision is redundant because it repeats the overarching requirement to comply with laws and regulations that appears elsewhere in the Code.
- *Other Subsections*
    - The Task Force was asked to revisit:
      - The description of internal audit services to ensure that it continues to be relevant.
      - Its proposal to retitle the subsection to be "Transactional Services".
    - Within subsection 608 relating to legal services, it is important that the Code distinguish between the specific NAS relating to acting in an advisory role (which is permissible) and acting in an advocacy role (which is prohibited).

*Other Matters Relating to the Revision of Section 600, Including Technology-related NAS*

- The Board generally supported the Task Force's recommendation to defer the consideration of technology-related NAS to be considered as part of a future Technology project, provided that:
  - The NAS proposals acknowledge the need to consider technology, in particular with respect to how technology affects the delivery of NAS.
  - The NAS EM indicates the additional technology-related revisions that are anticipated as part of a separate Technology work-stream.
- The Task Force was asked to consider whether the proposals could acknowledge that a NAS engagement could entail the provision of services, selling products, providing advice and recommendations or some combination thereof. There was a view that this would be a complex undertaking because the terms professional activities and professional services are narrowly defined in the Code.

**PROPOSED CONFORMING AMENDMENTS TO SECTION 400**

- The Board agreed with the Task Force's proposed conforming amendments relating to Section 400, including the proposal to reposition the extant provisions, relating to assuming management responsibilities for an audit client to Section 400.

## MATTERS RELATING TO CONFORMING AND CONSEQUENTIAL AMENDMENTS TO PART 4B

- The Board agreed to the Task Force's recommendation for developing the proposed consequential and conforming amendments to preserve the existing alignment between Part 4A (i.e., Sections 600 and 400) and Part 4B (i.e., Sections 950 and 900) of the Code.
  - The amendments would be made to the revised version of Part 4B in close coordination with the Part 4B Task Force.
  - A self-review threat prohibition should not be reflected in Section 950 because the Board agreed, in close coordination with the IAASB as part of finalizing the revisions to align Part 4B with ISAE 3000 (Revised), that direct engagements do not create a self-review threat.
  - The Task Force was asked to avoid establishing a description of public interest assurance engagements. Instead, it was suggested that application material might be more appropriate to acknowledge the importance of the public interest in the context of other assurance engagements (e.g., as a factor in determining whether a threat is at an acceptable level).

Mr. Muis noted that the Board's discussion about the NAS proposals was robust, very productive and held with regard to the public interest.

### WAY FORWARD

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

### 3. Fees

Mr. McPhee, Chair of the Fees Task Force, commenced the session by presenting the activities of the Task Force since the June 2019 IESBA meeting, including the development of the ongoing coordination with the IAASB with respect to the overlapping issues. Board members were then briefed on the Task Force's updated proposals for changes to Section 410<sup>5</sup> and consequential and conforming amendments<sup>6</sup> to the Code. In this context, the key changes highlighted are set out below.

#### *Threats Created by Fees Paid by the Audit Client*

The Task Force proposed that the Code acknowledge in the International Independence Standards that fees, as a significant driver of behavior, can influence independence of mind and the level of these fees can also adversely impact perceptions of independence from the perspective of a reasonable and informed third party. Therefore, when fees are paid to the firm by the audit client, they create threats to independence. However, the Code would also recognize that threats created when fees are paid by an audit client will often be at an acceptable level, taking into account relevant factors as well as conditions, policies and procedures such as the existence of a quality management system designed and implemented by the firm in accordance with [proposed] ISQM 1.

IESBA members generally supported that the Code include a provision to recognize the inherent risk in the audit client payer model. However, they cautioned the Task Force about using language that would suggest that changes to the current payer model might be required. A few IESBA members did not agree with the concept but asked the Task Force to exercise care and consider the potential consequences of making such a statement in the Code. A few other members commented on the need to address the issue and not

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<sup>5</sup> Section 410, *Fees*

<sup>6</sup> Sections 270, 320, 330 and 400 of Part 4A of the Code; and Section 905 of Part 4B of the Code

remain silent on it, noting that there is a threat of which the auditor needs to be aware. A Task Force member noted that a key takeaway from the Fees WG report was on the need for greater awareness of external perceptions of the auditor's independence, which is an important consideration in this context.

Mr. Hansen noted that the CAG supported the Task Force's view on this matter.

Among other matters, IESBA members made the following comments:

- Some members asked the Task Force to align the provisions to the conceptual framework and propose factors and safeguards that a firm can use when evaluating and addressing the threats created by fees paid by the audit client.
- The Task Force was asked to clarify the types of threats created. Some members were of the view that fees paid by the audit client create a self-interest threat only, and not necessarily an intimidation threat.
- A member pointed out that the audit fee is only one element of the relationship between the firm and the client, and suggested that the Task Force consider conveying that the nature of the relationship involves a number of strands, one of which is fees.

Dr. Thomadakis agreed that the Code should acknowledge and articulate the relationship that creates a self-interest threat. However, he asked the Task Force to give careful consideration to the presentation of the nature of this relationship.

#### PIOB Observer's Remarks

Mr. Muis advised the Board against ignoring the self-evident truth and not to lose the initiative to politicians.

#### *Audit Fees*

IESBA members were generally supportive of the proposed changes seeking to strengthen the link between the requirement regarding the level of audit fees and independence, and moving away from the concept of complying with professional standards. However, it was noted that it is not clear what the relationship is between the provisions of Section 330 and the proposed provisions in Section 410 and how the building blocks approach of the Code would apply.

IESBA members raised the following matters regarding the proposed requirement relating to the level of audit fees:

- Some members questioned whether requiring firms to be satisfied that the level of the audit fee did not compromise the firm's independence only prior to signing the audit report would be too late and unrealistic, and whether the timing should not instead be more throughout the engagement. A member pointed out that fees could be agreed for a few years ahead.

A Task Force member explained that the Task Force proposed the reference to the signing of the audit report in order to simplify the timing matter, as it was suggested previously at the Board. However, the requirement would influence the firm's behavior throughout the whole audit process.

- A member queried, from an enforcement point of view, how firms would comply with this requirement and how a firm would demonstrate that the fee did not compromise its independence.
- It was also raised for consideration whether an assertion just prior to signing the audit report that the fee level is appropriate could create a liability issue in some jurisdictions.

#### *Audit Fee as a Standalone Fee*

IESBA members agreed with having provisions in the Code to emphasize the importance of the audit fee as a standalone fee. However, a member was of the view that the current proposals are not really addressing the “low-balling” issue. Another member pointed out that the Code prohibits the evaluation or compensation of a key audit partner based on that partner’s success in selling NAS to the audit client.

Furthermore, the following matters were raised:

- A member noted that quoting such a low level of fees that would not provide appropriate resources to perform the engagement is itself unethical.
- Another member pointed out that quoting a significantly lower level of fees than for the previous year’s audit could raise a perception issue which should be addressed.

Dr. Thomadakis cautioned the Task Force to be mindful of any issues with anti-competition laws and regulations.

#### *Proportion of Fees Paid by the Audit Client*

The Board generally supported the principles-based proposal that the Code should not include a specific ratio or threshold to evaluate the proportion of audit fees to fees for services other than audit. However, for consistent application, several IESBA members asked the Task Force to clarify what types of services audit fees and non-audit fees would encompass, particularly in the case of fees for audit-related services.

#### *Fee-dependency From an Audit Client*

Regarding the Task Force’s proposal that in the case of PIE audit clients the Code should require firms to end the audit engagement if fee dependency continues for 5 consecutive years, IESBA members made the following comments:

- A member was of the view that the proposed 5-year period may be too long. However, the member pointed out that fee dependency on one client for such a long period of time is more frequent in smaller countries where this requirement could result in mandatory firm rotation. Also, most likely in these smaller countries, the professional bodies or even the regulators would not be prepared to give a view on whether there was a public interest reason to continue the engagement beyond the 5 years.
- Another member supported the Task Force’s proposal of 5 years but noted that the issue could also impact large state-owned enterprises and that it could be in the public interest for the firm to continue the engagement in these circumstances.
- It was suggested that the Task Force consider aligning for consistency these proposals with the provisions regarding long association of firm personnel with an audit client.
- A member asked the Task Force to consider including the option of an independent regulatory body as an alternative body that can concur that the firm can continue the engagement.
- It was also noted that some jurisdictions in the EU do not allow auditors to end the engagement before a certain period of time which is longer than 5 years. The Task Force was asked to consider how the Code would address such a situation.

Other than comments concerning the ending of the audit engagement, a few IESBA members questioned whether a joint audit could be an action, as a safeguard, equivalent to a pre-issuance review. They pointed out that a firm participating in a joint audit does not necessarily review the work of the other firm. Another IESBA member, however, believed that an essential feature of a joint audit is the review by each firm of the other firm’s work.

In relation to the proposed requirement and application material relevant in case of fee dependency on a non-PIE audit client, IESBA members raised the following comments:

- A few members noted that there is no strong evidence that would support a specific threshold; it is mainly arbitrary. Overall, they suggested not including a threshold.
- A member suggested that the Task Force consider requiring firms to communicate fee dependency with TCWG even in case of non-PIE clients.

#### *Enhanced Transparency of Fee-related Information of PIEs*

The IESBA supported that provisions on enhanced transparency be located in Section 410 under a separate subheading.

#### Communication with TCWG

Regarding the proposals concerning communication of fee-related information with TCWG, some IESBA members were of the view that the provisions are still too prescriptive, and the Task Force should focus on the main objective of the communication and be more principles-based. Otherwise, they felt that requiring communication of too much detailed information could result in different application under different legal frameworks across jurisdictions.

It was also suggested that the Task Force consider whether the proposed provisions on communication with TCWG relating to the provision of NAS and to fee-related information could be merged.

#### Public Disclosure

Regarding the Task Force's proposals on disclosure of fee-related information for PIE audit clients, the Board discussed whether it is appropriate to require firms to disclose audit fees at a firm level while requiring disclosure of non-audit fees at a network level.

Responding to those concerns, a Task Force member clarified that the Task Force proposed to disclose audit fee information at a group level, including fees charged by component auditors as well. Some IESBA members expressed concerns that the firm and the group engagement partner may not be able to obtain audit fee-related information from component auditors. They raised that in circumstances when the information is not available, the firm would not be able to comply with the provisions of the Independence Standards.

An IESBA member also raised that it was unclear why disclosing such information is relevant from an independence perspective. A Task Force member explained that the Task Force believes it is important that investors and other stakeholders see the whole picture of the fees for the group audit in order to make a judgment on independence and the threats created by fees for the group audit.

Mr. Siong noted that in principle, the group engagement team can request any information from component auditors for purposes of the group audit. Dr. Thomadakis suggested that the Task Force initiate a conversation with the IAASB and explore whether the Task Force's proposal would be operable in practice.

Mr. Muis suggested that the Task Force consider whether firms' transparency reports could be suitable locations for public disclosure of fee-related information.

#### WAY FORWARD

The Board asked the Task Force to consider the input provided by IESBA participants and present a revised draft of the proposals for consideration with a view to Board approval for exposure at the December 2019 IESBA meeting.

#### **4. Tax Planning and Related Services**

Prof. Poll, Chair of the WG introduced the topic and briefed the Board the key factors that were considered in developing the proposed WG Terms of Reference (ToR), which included the following:

- The initiative is focused on identifying and assessing the ethical implications of developments in tax planning for the global accountancy profession. The WG will not seek to comment on issues pertaining to tax morality.
- The initiative is multi-phased. As part of Phase 1, the WG will focus on engaging with a broad range of stakeholders as part of its information gathering activities.
- There is a need to achieve the right balance between taking the time needed for diligent research and reflection and producing timely output that would raise the visibility of the IESBA's work on, and commitment to, addressing the challenges and opportunities for PAs.
- The WG anticipates that it will deliver the final report in Q3 2020, which will inform the IESBA's future work and deliverables in relation to Tax Planning.

#### APPROVAL OF THE TERMS OF REFERENCE

The IESBA unanimously approved the ToR after considering the following substantive comments and agreeing to revisions to address them:

- The objectives of the initiative should align better with the awareness of the role of professional accountants in promoting ethical tax planning practices.
- The ToR should expressly include reference to the investor community as one of the key stakeholders.

#### WAY FORWARD

Prof. Poll thanked the Board members for their input and informed the Board that the WG is planning a series of outreach meetings with stakeholders during Q1 of 2020. The WG will provide an update at the December 2019 IESBA meeting.

#### **5. Part 4B Alignment to ISAE 3000 (Revised)**

Ms. Haustermans commenced the session by updating the Board on Task Force activities since the March 2019 Board meeting. She briefed the Board on the Task Force's analysis of responses received on the Exposure Draft *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)* (the ED). Twenty-six responses were received from stakeholders across a range of organizations and jurisdictions. Ms. Haustermans presented the Board with the changes made to the draft text of alignment of Part 4B with ISAE 3000 (Revised) in response to matters raised by respondents. In addition, she informed the Board that the CAG did not have any comments on the matters raised on exposure or the Task Force's final proposals.

IESBA members were presented with the Task Force's main proposals, and the key matters arising were as follows:

- Clarification of the definition of “assurance client” to refer to the assurance client as a party rather than an individual or entity, as initially proposed in the [December 2018](#) text, and its application.

The Board had previously considered the arguments in support of maintaining in Part 4B the use of a term for the parties from whom independence is required which is the equivalent of the term ‘audit client’ as used in Part 4A. The Board noted the general level of support for the term ‘assurance client’ which provides a convenient basis of comparison with Part 4A and is simple to read in Part 4B. The Board determined that the use of the term ‘assurance client’ remained appropriate in Part 4B.

The Board also recognized that in the case of an assurance engagement, the existence of additional parties other than the responsible party and the party taking responsibility for the subject matter information might well make the process of determining how the Code is to be applied more complicated than, for example, in the case of an audit. The Board therefore agreed that, in the light of the responses received, an additional paragraph be included in Part 4B to remind the professional accountant (PA) of the need to apply the conceptual framework to these parties.

- Balance of explanatory material as between ISAE 3000 (Revised) and Part 4B.

The Board took the view that respondents’ suggestions for additional explanatory material regarding the terms and concepts used in ISAE 3000 (Revised) are outside its remit. However, the Board agreed to share these comments with IAASB representatives. The Board also accepted the Task Force’s recommendation that further consideration be given to the development of an IESBA staff publication to illustrate the application of the Code to the various parties involved in an assurance engagement, according to the type of assurance engagement and situation. Such material would likely need to be prepared in conjunction with IAASB staff, resources permitting.

- No further action at this time regarding the consistency of terms and concepts between the standards of the IAASB and IESBA.
- The Board agreed with the Task Force that comments about Glossary inconsistencies between the IAASB’s and IESBA’s standards are outside the scope of the project.
- Approach to addressing multiple responsible parties.

The Board considered the responses which argued for extending the provisions to cover the case where there are multiple parties taking responsibility for the subject matter information. In the light of the examples provided, the Board accepted the Task Force’s proposal to amend the provisions accordingly.

- Application of independence provisions to relationships with or service as employees in a position to exert significant influence over the underlying subject matter of the assurance engagement.

The Board accepted the Task Force’s proposal and was guided by the principle that the provision should apply with respect to employees who were or are in a position to exert significant influence over the underlying subject matter in the same way as it does to employees in a position to exert significant influence over the subject matter information.

#### CONSIDERATION OF DUE PROCESS MATTERS

Mr. Siong advised the Board that up to and including this meeting, the Board had adhered to its stated due process in finalizing the revised text of Part 4B. Ms. Haustermans confirmed that all significant issues discussed by the Task Force had been brought to the Board’s attention and that the Task Force did not believe there was a need for further consultation on, or field testing of, the proposals. Board members did

not consider that there were matters raised by respondents to the Exposure Draft, in addition to those summarized and reported by the Task Force, that should be discussed by the Board.

#### APPROVAL OF FINAL PRONOUNCEMENT

After agreeing the necessary changes to the document, the Board unanimously approved the final revisions to Part 4B of the Code to align it to the terms and concepts in ISAE 3000 (Revised).

#### CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The Board assessed whether there was a need to re-expose the approved text. The Board agreed that the changes made to the Exposure Draft were in response to the comments received from respondents and did not represent substantial changes to the Exposure Draft. Therefore, the Board determined that re-exposure was not necessary.

#### EFFECTIVE DATE

After due consideration of respondents' comments, the Board agreed that the revised provisions will be effective as proposed in the Exposure Draft, i.e.:

*Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after June 15, 2021; otherwise, it will be effective as of June 15, 2021.*

Early adoption will be permitted. The final pronouncement will be available on the IESBA website, subject to PIOB approval.

## **6. Technology**

Ms. Mulvaney introduced the session by providing an update on the WG's activities since the previous IESBA meeting.

Ms. Mulvaney informed the Board that the CAG was generally supportive of the WG's approach, preliminary findings and recommendations. She briefed the Board on the key comments received from CAG Representatives. Mr. Hansen confirmed that the WG's preliminary report was well received by the CAG. He observed that some of the WG's preliminary findings such as the importance of trust tie in well with the IESBA's Role and Mindset project.

Ms. Mulvaney provided an update on the WG's preliminary findings, including its analysis of the sufficiency of the Code, focusing on the following key aspects:

- Recognition of the critical role of trust, ethics and professional judgment in the digital age and the opportunity for PAs to have a broader societal role in promoting ethical behavior.
- Complexities of the professional environment within which PAs work, caused by various factors including the impact of technology on business operations and rising levels of regulatory requirements and professional standards. Ms. Mulvaney noted that the WG had considered a number of options to better capture this type of risk, including the possibility of a new category of threat as well as revising the lead-in wording to paragraph 120.6 A3 so that PAs do not have to "shoehorn" every circumstance suggesting a complexity risk into one of the five categories of threats before they could further assess it.
- Sufficiency of the fundamental principles in addressing common artificial intelligence (AI) ethics principles in the context of PAs' undertaking professional activities. The common principles identified

and considered by the WG from a review of a number of corporate or organizational AI ethical frameworks include fairness, transparency, explainability, accountability, privacy and security.

- Competencies and skills, including enabling skills and the right mindset necessary in the digital age, and the Code's connectivity with IFAC's International Education Standards (IESs).
- The impact of technology on auditor independence. Ms. Mulvaney noted that the WG will further develop its thinking and analysis of the Code in this regard and will formulate its views in Q4.

The Board was generally supportive of the WG's preliminary findings and recommendations. Amongst other matters, the following key comments were made by IESBA participants:

- The WG's final report should reflect that whilst technological evolution may affect the role of professional judgment, the latter has always been an important component of PAs behaving ethically.
- IFAC might be better placed to address the question of PAs having a broader societal role of promoting ethical behavior at a profession level than the Code at an individual and firm level.
- It is unclear what other threats might exist outside the five categories of threats as defined in the Code. There is also some concern that introducing the idea that other threats exist will cause significant impact on the effectiveness of the Code, including the construct of the conceptual framework.
- The WG should further consider how threats caused by a complex professional environment are covered under the self-review or intimidation threat, and whether the description of self-review threat should also be enhanced to cover situations where the review is on decisions or work completed by machines.
- The WG was asked to further consider suggestions made by IESBA participants during the session about how the common AI ethics principles of various organizations relate to the fundamental principles, particularly whether, and how, the concepts of transparency and privacy would be better explained under the principle of confidentiality.
- Any inclusion of application material about enabling or non-technical skills with respect to the fundamental principle of professional competence and due care might be difficult to enforce.
- Language and concepts such as "custody" and "assets" in Section 350 might also need to be modernized.

Ms. Mulvaney shared with the Board the WG's idea of developing non-authoritative material over the next 12 to 18 months, which may include updates to inform stakeholders of the Board's work on the initiative. Ms. Mulvaney also clarified that the WG's final recommendations will include suggested types of publication and targeted audience.

#### WAY FORWARD

Ms. Mulvaney briefed the Board on the WG's planned activities in Q4 which will culminate in the finalization of its Phase 1 Final Report due in December 2019.

### **7. 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 briefed the IESBA of the coordination efforts with the IAASB since June 2019 and on the significant matters raised in the various discussions that IESBA representatives had with their IAASB counterparts on the IAASB's Quality

Management (QM) standards, specifically on the responses IAASB received on the ISQM 2<sup>7</sup> and ISA 220<sup>8</sup> Exposure Drafts (EDs). She explained that a “triage” approach was used to categorize comments as follows:

- Specific comments raised by respondents to the EDs for which there was not a question asked and for which the IAASB is proposing coordination with IESBA *after* the September 2019 Board meeting.
- Specific comments raised in response to a question asked in the EDs in relation to a matter that is not an IAASB area of focus for Quarter 3 and for which the IAASB is proposing coordination with IESBA *after* the September 2019 Board meetings.
- Areas where respondents’ comments vary significantly and for which the IAASB has proposed coordination with IESBA in Quarter 3.

#### IAASB’S QUALITY MANAGEMENT EDs

Among other matters, IESBA members exchanged views about the ethics- and independence-related aspects of respondents’ feedback on the IAASB’s EDs, including:

- The approach to addressing the issue of objectivity for an individual who served on an audit engagement moving directly into the role of an engagement quality reviewer (EQR), and whether to establish a requirement for a “cooling-off” period for that individual. The IESBA agreed that the matter of EQR objectivity should be addressed in the Code.
  - There was a view that any discussion about a cooling-off period in professional standards should reside in the Code. It was also suggested that there should be a proper articulation of the threats that are created and how they might be evaluated and addressed.
  - The Board agreed to consider limited revisions to the Code as a matter of priority to deal with the issue with the aim of aligning as much as possible with the IAASB’s timeline for approval of ISQM 2 in June 2020.
  - The Board asked the IESBA coordination representatives to develop a project proposal and proposed changes to the Code for Board consideration with a view to approving an exposure draft at the December 2019 IESBA meeting.
- With respect to the revision of ISA 220 and the matter of considering revisions to the definition of “engagement team”, the IESBA was briefed on the IAASB Task Force’s proposal to retain the proposed definition of engagement team in the exposure draft and then discussed the potential implications of the change on the Code. The term “engagement team” is currently used in both the IAASB’s standards and the Code.
  - The IESBA is of the view that it is in the public interest that there continue to be alignment in the definition of the term between the IAASB’s standards and the Code. There was also a view that the IESBA should consider conforming or consequential amendments that may be needed to the Code as a result of any IAASB-led revisions to the definition of engagement team.
  - The Board noted that there is a need to act with urgency because the IAASB intends to issue an ED on ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* in March 2020, which will set a definitive direction on this matter.

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<sup>7</sup> Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

<sup>8</sup> Proposed International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*

## OTHER MATTERS

The IESBA was briefed on the progress on other IAASB projects, including:

- The IAASB's project to consider revisions to ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.
- The IAASB's plan to approve an ED in Q4 with a very short comment period to solicit public input on proposed conforming changes to its standards arising from the IESBA's revised and restructured Code that came into effect in June 2019.

## WAY FORWARD

The IESBA will receive a further update on IAASB-IESBA coordination activities at its December 2019 meeting.

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

Mr. Muis commented that it was a pleasure to have had the opportunity to observe the IESBA meeting. He complimented the Board members for their active participation in the discussions, noting the PIOB's keen interest on the progress of the IESBA's projects, especially the NAS and Fees projects. He observed that there is much consideration to be given on the timeliness of those projects versus the trade-off of responding to every issue on the table.

Mr. Muis was very optimistic and complimentary on the progress achieved to date on the coordination effort with the IAASB, and the progress made over the last three years. He noted the Monitoring Group's recommendation for one independent standard setting board and remarked that the PIOB's preferred position is to retain two separate independent standard setting bodies. He is of the view that as long as the coordination effort between the two boards remained practical and pragmatic, the two independent bodies will operate well going forward.

In closing, he noted that the meeting was managed in the public interest and that there was excellent input from all around the table.

Dr. Thomadakis thanked Mr. Muis for his stimulating and constructive remarks, echoing his point about the Monitoring Group's position on the formation of one Board and the difficulties that will arise from a coordination stand point with respect to ethical matters as a result.

### **Next Meeting**

The next Board meeting is scheduled for December 3-6, 2019 in New York, USA.

### **9. Closing Remarks**

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