

**Final Minutes of the 67th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

Held on March 16-18, 2020 via Video Conference

Voting Members

Present: Stavros Thomadakis (Chairman)
Richard Fleck (Deputy Chair) (Days 1 & 3)
Michael Ashley
Sanjiv Chaudhary (Days 2 & 3)
Laurie Endsley
Brian Friedrich
Hironori Fukukawa
Kim Gibson
Liesbet Haustermans
Rich Huesken
Robert Juenemann (Day 2 only)
Winifred Kiryabwire
Caroline Lee
Myriam Madden
Ian McPhee
Andrew Mintzer
Jens Poll

Technical Advisors

Saadiya Adam (Mr. Fleck)
James Barbour (Mr. Ashley)
Denise Canavan (Ms. Haustermans)
David Clark (Mr. Huesken)
Gregory Driscoll (Ms. Lee)
Jens Engelhardt (Mr. Poll)
Laura Friedrich (Mr. Friedrich)
Ellen Gorla (Mr. Mintzer and Ms. Madden)
Gina Maldonado-Rodek (Ms. Gibson) (Days 1 & 3)
Andrew Pinkney (Ms. Endsley)
Sundeep Takwani (Ms. Kiryabwire)
Kristen Wydell (Mr. McPhee)
Masahiro Yamada (Mr. Fukukawa)

Apologies: Kemisha Soni (Mr. Chaudhary)

Non-Voting Observers

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

Public Interest Oversight Board (PIOB) Observer

Present: Gonzalo Ramos (Day 1) and Jules Muis (Days 2 & 3)

IESBA Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director) (Days 1 & 3), Geoffrey Kwan, Szilvia Sramko, Carla Vijian, Michelle Colon (Chief of Operations, Professional Standards)

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He welcomed in particular the new Board members, Ms. Laurie Endsley and Mr. Rich Huesken.

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

- The activities of the Planning Committee during the quarter, including consideration of the final report and recommendations from Sir Donald Brydon in the UK, *Independent Review into the Quality and Effectiveness of Audit*, an update on the parliamentary inquiry into the regulation of auditing in Australia; the updated list of the PIOB's public interest issues on IESBA projects; and 2021 Board meeting dates and locations.
- The outreach activities since the December 2019 IESBA meeting, which included his participation in a panel discussion at the Saudi Organization for Certified Public Accountants' (SOCPA) International Forum for Accountants in Saudi Arabia.
- Postponement of outreach plans for Q2 2020 given the COVID-19 pandemic.

APPROVAL OF MINUTES

The IESBA approved the minutes of the December 2019 public session as amended.

2. Role & Mindset

Mr. Fleck introduced the session by recapping the key proposed changes in the Exposure Draft (ED), [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#). He informed the IESBA that the 46 respondents providing comment letters were generally supportive of the project and the Task Force's proposals in the ED.

TASK FORCE PROPOSALS

Mr. Fleck summarized the significant comments received to each of the seven specific questions in the ED and the Task Force's responses to those comments and revised proposals. He pointed out that the most significant comments relate to the term "public interest," professional accountants' responsibility regarding acting in the public interest, and the use of the term "ethical values."

Amongst other matters, Mr. Fleck highlighted the Task Force's key revisions to address respondents' comments. Such revisions included:

- A clarification of the PA's responsibility to act in the public interest by:
 - Replacing the word "enables" with "assists" in Section 100;¹ and
 - Softening the proposed requirement in Subsection 115² by replacing "Behave in a manner that is consistent with" with "Consider... the public interest."
- A clarification of the concept of "having an inquiring mind" with revised considerations relating to such a mindset. The phrase "critically evaluate" was deleted as having both this term and the term "further investigation" might create confusion as to the distinction between the two.

¹ Section 110, *The Fundamental Principles*

² Subsection 115, *Professional Behavior*

- The proposed material on bias and organizational culture had been enhanced. For example, new application material is proposed to explain the professional accountant's role in promoting an ethical culture within the accountant's employing organization.
- A replacement of:
 - The term "ethical values" with "ethical concepts."
 - The phrase "determination to act appropriately" with "strength of character to act appropriately."

Mr. Fleck also informed the IESBA that the IAASB's Professional Skepticism Subgroup (PSWG) was supportive of the Task Force's revisions to the material on "having an inquiring mind," bias and the reference to proposed ISQM 1.³

Mr. Fleck also provided a report on the points raised at the March 2020 IESBA CAG meeting, at which CAG Representatives were generally supportive of the Task Force's revisions to the ED. He noted that the key issues raised by a few CAG Representatives related to (i) whether the term "ethical concepts" (used to replace "ethical values") in Section 100 is sufficiently clear, and (ii) whether the word "consider" in the revised proposed phrase "consider the responsibility of the profession to act in the public interest" in Subsection 115 is too weak.

IESBA FEEDBACK

The IESBA was generally supportive of the Task Force's responses and proposals. Amongst other matters, the following were raised by IESBA participants or noted:

- There were queries about whether replacing the term "ethical concepts" with "ethical values" in Section 100⁴ sufficiently explained the IESBA's view that professional accountants are to display the ethical behavior expected of them, by complying not only with the "letter of the Code but also its spirit." There was a view that "ethical concepts" might be perceived as a re-articulation of the Code's fundamental principles.
- Whilst acknowledging the difficulty in defining "public interest" in the Code, a few IESBA participants preferred more clarity as to what is involved with "acting in the public interest." Mr. Fleck pointed out that although the concept of public interest has been long-standing, what constitutes the public interest is difficult to define as it will vary from time to time depending on the particular circumstances.
- Some IESBA participants did not support the Task Force's proposals to replace "Behave in a manner that is consistent with the profession's responsibility to act in the public interest" with "consider... the public interest" in paragraphs 110.1 A1 (e) (i) and R115.1. They felt that "consider" would not convey strongly enough the importance of the professional accountant's role with respect to their public interest responsibility. Other alternatives suggested included "recognize," "acknowledge" and "take into account."
- IESBA members were supportive of replacing the phrase "the determination to act appropriately" with "having strength of character to act appropriately" in the proposed material on the fundamental principle of integrity.
- IESBA members were generally supportive of the Task Force's revisions to the material on "having an inquiring mind," including the clarification that the concept involves professional accountants not

³ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁴ Section 100, *Complying with the Code*

accepting information at face value but rather needing to duly consider its source, relevance and sufficiency in order to inform the next steps. Some IESBA participants also suggested refinements to the material on the relationship between having an inquiring mind and exercising professional skepticism in the context of performing audits, reviews and other assurance engagements.

- With respect to the material on bias in Section 120,⁵ the IESBA members preferred the alternative description of groupthink presented by the Task Force.
- There was a question as to whether the term “whistle-blower” in the Task Force’s revised proposals on organizational culture was too colloquial for the Code. It was noted that the term “whistle-blowing” is already used in the extant Code in the Section on responding to non-compliance with laws and regulations (NOCLAR).
- The IESBA supported the Task Force’s proposed new application material that highlights the role of individual professional accountants to promote an ethics-based culture in their organizations.

The PIOB observer noted that, overall, the PIOB is strongly supportive of the project, the IESBA’s approach and the Task Force’s proposals. However, he expressed concerns about the proposed use of “consider” in Subsection 115 and preferred the ED wording which has stronger language. Mr. Fleck responded that the Task Force would consider the matter further.

WAY FORWARD

The Task Force will seek further input from the Board on an updated version of the proposed text ([Agenda Item 2C.1](#)) as it prepares its final proposals for the Board’s consideration with a view to approval at the June 2020 IESBA meeting.

3. Project Proposal: Engagement Team – Group Audits Independence

Dr. Thomadakis introduced the session and invited Ms. Soulier, Chair of the Working Group and former IESBA member to present the topic. Ms. Soulier briefed the IESBA on the coordination efforts with the IAASB’s ISA 220⁶ and ISA 600⁷ Task Forces since January 2020.

With respect to the revision of ISA 220 and the IAASB’s proposed change 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 ISA 220 (Revised) Exposure Draft and the need to address the potential implications for the Code. The term “engagement team” is currently used in both the IAASB’s standards and the Code. The IESBA also supported clarifying the independence provisions applicable in a group audit context, in coordination with the IAASB’s project to revise ISA 600.

APPROVAL

Following consideration of minor refinements, the IESBA approved a [project proposal](#) to review the Code to address engagement team – group audit independence considerations arising from the IAASB’s proposed ISA 220 (Revised)⁸, and ISA 600 (Revised).⁹ The project will involve:

⁵ Section 120, *The Conceptual Framework*

⁶ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

⁷ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁸ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁹ Proposed ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Aligning the definition of the term “engagement team” in the Code with the revised definition of the same term in proposed ISA 220 (Revised) while ensuring that the independence requirements in the Code are clear and appropriate and apply only to those individuals within the scope of the revised definition who must be independent in the context of the particular audit engagement; and
- Revising the Code’s independence provisions so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

WAY FORWARD

Ms. Soulier thanked the Board for its input. The Task Force will present preliminary matters for consideration in the project at the June 2020 IESBA meeting.

4. Definitions of Listed Entity and Public Interest Entity (PIE)

Mr. Ashley introduced the session by providing some background information to the project, including the introduction of the term PIE into the Code in 2008, stakeholder feedback on the current definitions of listed entity and PIE as well as the current approaches taken by the IAASB to similar concepts in its standards.

Mr. Ashley provided a summary of the PIOB’s comments from its February 2020 public interest report on IESBA projects, noting that it was very supportive of the project. He also provided the Board with the feedback received from CAG Representatives at the March 2020 IESBA CAG meeting on the Task Force’s preliminary views on the issues and its proposals. He noted that the CAG Representatives were generally supportive of the project proposal and the Task Force’s direction of travel. Key CAG comments related to the role of firms and a preference for retaining the term “PIE” in the Code. In addition, Mr. Ashley provided a summary of the advance comments received from the IFAC Small and Medium Practices Committee (SMPC), which was also supportive of the project objectives.

OVERARCHING OBJECTIVE

Mr. Ashley pointed out the importance of first setting out the overarching objective for defining a group of entities for which the audits should be subject to additional independence requirements. Such an objective will help to inform the project approach and provide a basis on which to test the Task Force’s proposals. In this regard, Mr. Ashley presented the Task Force’s proposed paragraph 400.8 which set out the objective of additional independence provisions for PIEs in terms of enhancing confidence in the financial statements of certain entities because there is significant public interest in these financial statements.

Amongst other matters, IESBA participants raised the following comments or questions for the Task Force’s consideration:

- Whether the proposed objective places too much emphasis on the financial statements as opposed to the role of financial statements in relation to confidence in the entity concerned. It was noted that whilst many may regard an entity as a PIE, they may not necessarily look at the financial statements specifically but will take confidence that the financial statements have been properly audited and that independence standards applied to the relevant firms are at a higher level. In response, Mr. Ashley acknowledged that the focus on financial statements might be too narrow and suggested that “financial well-being” or similar notion might be more appropriate.
- Whether the concept of “public interest in the financial statements” might be perceived as restricted to the interests of investors only.

- Whether the formulation of the proposed objective might lead to too much focus on entities in the financial sector and insufficient regard to other entities that are of systemic significance. It was also queried if the Task Force's proposal would capture entities such as public utilities and hospitals in which there is significant public interest. Mr. Ashley acknowledged the point but queried how the concept of "systemic" can be operationalized in the context of a global Code.

PROPOSED APPROACH TO REFINE THE DEFINITION OF "PIE"

Mr. Ashley explained that based on its review of definitions of the term PIE and equivalent terms in a number of jurisdictions, the Task Force has reached the view that it would be difficult, if not impossible, to develop a single definition of PIE at a global level that can be consistently applied by all jurisdictions without significant modification and further refinement at a local level.

Mr. Ashley therefore presented the Board with two possible approaches towards revising the extant definition:

- (a) Approach 1 – A narrower approach with a short and narrow list of categories, similar to the current definition of PIE in the Code, to which local bodies may continue to add; or
- (b) Approach 2 – A broader approach with a longer and broader list of categories of entities which national bodies can modify by tightening definitions, setting size criteria and adding or exempting particular types of entities.

Mr. Ashley pointed out that the Task Force's preference is Approach 2 on the basis that it is difficult to further refine the extant definition of PIE under a narrower approach (Approach 1) and that local bodies, such as regulators and authorities, are best placed to determine which entities should be treated as PIEs given the national circumstances.

Mr. Ashley noted that under the Task Force's preferred broader approach (Approach 2), there are three key components: (1) an expanded list of PIE categories (role of the Code); (2) refinement by local bodies at a national level (role of local bodies); and (3) determination by firms if additional entities should also be treated as PIEs. Amongst other matters, Mr. Ashley further noted the following:

- The Task Force has developed an initial list of common PIE categories based on its review of various national standards and definitions.
- Local bodies have the necessary knowledge to refine the list, scope in and scope out entities as appropriate to their national circumstances. However, there is the reality that changes at the local level may take time to effect. Mr. Ashley cited the United Kingdom, Australia and South Africa as examples of jurisdictions with an expanded list of entities deemed to be PIEs.
- Instead of being encouraged to do so as under the extant Code, firms should be required to determine if additional entities should be treated as PIEs in addition to what is required by laws and regulations. Where management, those charged with governance of an entity or other stakeholders request the entity to be treated as a PIE, the firm would need to consider a number of factors, including the entity's corporate governance arrangements.
- The Task Force is of the view that it should be clear from an entity's financial statements or the audit report when the entity was treated as a PIE. Mr. Ashley noted that the Task Force will discuss this point with the IAASB correspondent members on the Task Force.

The IESBA was generally supportive of the Task force developing its proposals in accordance with Approach 2. A few stakeholders, however, have expressed concern as to whether local bodies in some jurisdictions have the capacity to consider and implement the necessary local refinements to the proposed

list to ensure that the appropriate entities are scoped in within their national contexts. It was also noted that some jurisdictions might simply adopt the Code wholesale without any modifications. Other comments or questions raised by IESBA participants included the following:

- A view that the Task Force's initial list of PIE categories was too focused on entities in the financial sector.
- A query as to whether large private entities or private equity entities should be included in the list of PIE categories. Mr. Ashley responded that given the challenge of drawing the boundaries around these types of entities on a global basis, it is not appropriate to include them in a global Code and that these are more matters for the local bodies' consideration.
- A query as to whether local bodies should be given the option to remove entities from the list in the Code. In response, Mr. Ashley agreed that the Task Force's preferred approach does rely on local bodies having the necessary capacity to do so. He suggested that additional guidance might be helpful, particularly for developing jurisdictions.
- A query as to whether firms need, or are able, to make such determination for all their clients. In particular, there was a question as to how disagreement between a firm and its client about whether the client should be treated as a PIE could be addressed. In response, Mr. Ashley noted that it is ultimately the decision of a firm. He noted the Task Force's preliminary view that transparency will ensure that the public is aware if an entity has been treated as a PIE.
- A question regarding whether the factors for a firm's consideration as currently set out in the Code would be retained. Mr. Ashley agreed that this point will be further considered by the Task Force.

Mr. Ashley also pointed out the Task Force's preliminary view that the term "PIE" may give the wrong impression that the audit of these entities needs more stringent independence requirements because only those entities have any public interest. He suggested a new term "significant public interest entity" ("SPIE") as a possible replacement for "PIE." However, IESBA members generally preferred the term "PIE" over "SPIE" given that the former is quite entrenched in the professional literature as well as in laws or regulations.

LISTED ENTITY AND RELATED ENTITY

Mr. Ashley informed the Board that the Task Force is only at the initial stage of its information gathering with respect to the definition of a listed entity. He noted that the Task Force will be considering this matter further, including whether terms such as "publicly traded" and "public market" will provide more clarity, and whether entities whose securities are traded in more "lightly regulated" markets (such as over-the-counter markets) should be treated as listed entities.

Mr. Ashley also noted that the Code contains one reference to "listed entity" in the International Independence Standards that is separate from its treatment as a PIE. Paragraph 400.20 provides that the types of related entities that would be included as part of an audit client for purposes of applying the independence requirements depends on whether the audit client is a listed entity or not. Mr. Ashley informed the Board that the Task Force will consider whether the reference to listed entity in paragraph 400.20 should be expanded to all PIEs.

WAY FORWARD

The IESBA asked the Task Force to consider the feedback from the session and present its further thinking on the issues at the June 2020 IESBA meeting.

5. IAASB-IESBA Coordination

Dr. Thomadakis introduced the session and invited Ms. Haustermans, IESBA member liaison to the IAASB, to present an update on the coordination activities with the IAASB. Ms. Haustermans took over the role as IESBA member liaison from Ms. Soulier in January 2020. Ms. Haustermans proceeded to brief the IESBA on the coordination efforts with the IAASB since January 2020 and on the significant matters raised in the various discussions that IESBA representatives had with their IAASB counterparts on the responses the IAASB received on the ISQM 1¹⁰ and ISQM 2¹¹ EDs.

IAASB'S QUALITY MANAGEMENT EDs

IESBA members exchanged views about the ethics- and independence-related aspects of respondents' feedback on the IAASB's EDs and the IAASB Task Forces' responses, including:

- The approach taken in the revised draft of ISQM 1 regarding refinements to the application material pertaining to relevant ethical requirements.
- The approach to addressing the issue of threats to the objectivity of an engagement quality reviewer (EQR), and whether to establish a requirement for a "cooling-off" period before an engagement partner can step into an EQR role on the same audit engagement.

Ms. Haustermans invited Ms. Soulier, Chair of the EQR Objectivity Task Force and former IESBA member, to present the matters discussed on the ISQM 2 ED. Ms. Soulier briefed the Board on the ISQM 2 Task Force's proposal to revise the scope of the engagements subject to an engagement quality (EQ) review.

In summary, the ISQM 2 Task Force considered retaining a separate category for engagements for which the firm determines an EQ review is an appropriate response to assessed quality risks but changing 'nature of the entity' in the specification of the category to 'nature and circumstances of the engagement or the entity'. All other related application material has been updated so that it corresponds to the requirements for each category.

In relation to the requirement for a 'cooling-off' period, Mr. Siong provided the Board with a brief update on the responses received to date on the IESBA's ED on addressing EQR Objectivity. Most respondents supported a cooling-off requirement as an action to address threats to the objectivity of an EQR (specifically for an individual being appointed to the role after previously serving as the engagement partner). Several respondents, however, were opposed to a cooling-off requirement, viewing it as too strict a rule that did not sufficiently take into account other important considerations, including the potential for unintended consequences (e.g., appointing a less competent/experienced individual to serve in the role), and the particular engagement circumstances. For example, in jurisdictions where access to a pool of experienced and qualified individuals to serve as EQR is limited, and given that competence is a significant contributing factor to audit quality, it could be detrimental to audit quality if a cooling-off requirement were to result in a less suitably qualified individual being assigned the role.

Ms. Soulier informed that Board that the Task Force will be discussing these matters in detail at the June 2020 IESBA meeting where a full analysis of the ED responses will be presented. The Task

¹⁰ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹¹ Proposed ISQM 2, *Engagement Quality Reviews*

Force will also be communicating these findings to the ISQM 2 Task Force prior to the June 2020 Board meeting as part of its coordination efforts.

WAY FORWARD

The IESBA will receive a further update on coordination activities with the IAASB at the June 2020 IESBA meeting.

6. Project Proposal – Technology

Mr. Friedrich presented the project proposal to develop enhancements to the Code to maintain its robustness and relevance in an evolving digital age. The project proposal is based on the set of recommendations included in the Technology Working Group's Phase 1 final report, which was submitted to the Board at the December 2019 meeting.

IESBA members broadly supported the project proposal. In addition to editorial suggestions, IESBA members provided suggestions for clarification, including:

- Clarifying that adding new application material in Part 1¹² of the Code to more clearly highlight a broader societal role for PAs in promoting ethical behavior should be within the scope of professional accountants' professional duties and responsibilities.
- In relation to the recommendation pertaining to "enabling competencies and skills," clarifying that the project will consider the International Education Standards (IES) and related guidance documents prepared by the former International Accounting Education Standards Board (IAESB), especially on professional values, ethics and attitudes, and Information and Communications Technology.
- In relation to the sale or licensing of technology applications to audit clients and the use of an audit client's technology tool in the delivery of non-assurance services (NAS) to another entity in the context of auditor independence, clarifying that the project will give careful consideration to whether the particular fact pattern is a business relationship issue or a NAS issue.
- In relation to the project output, clarifying that the Task Force may identify opportunities to recommend the development of non-authoritative guidance or other actions beyond the areas already noted in the Phase 1 report.

APPROVAL

After considering the refinements to the [project proposal](#), the IESBA unanimously approved it. The project will focus on the technologies covered by the Phase 1 report, i.e., artificial intelligence and robotic process automation, and big data and data analytics.

WAY FORWARD

Resources permitting, the IESBA will consider in due course a new fact-finding work stream on other technologies as part of Phase 2 of its Technology initiative. In the interim, the IESBA will explore collaborative opportunities with IFAC and other stakeholders with regard to the development of non-authoritative guidance on ethics-related technology topics.

The IESBA will consider issues and the Task Force's initial proposals in relation to the new project at its June 2020 meeting.

¹² Part 1, *Complying with the Code, Fundamental Principles and Conceptual Framework*

7. PIOB Observers' Remarks

Mr. Ramos thanked the Board for the opportunity to observe the first day of the meeting. He complimented all those involved for a concise and very well executed meeting. He highlighted that the PIOB is strongly supportive of the direction of the Role and Mindset project. However, he noted that the revisions to Subsections 110 and 115 may not be necessary as they soften the language and asked that the Board give the matter further consideration. In closing, he noted that the meeting was conducted in exemplary fashion and that it was managed in the public interest.

Mr. Muis thanked the Board for the virtual hospitality and commented on the great experience of taking part in IESBA's first virtual Board meeting. He congratulated the Board on the disciplined discussions, noting that the deliberation on the PIE topic was very informative and that the project addresses a real concern. In closing, he complimented all those involved for their participation in the meeting and added that it was a pleasure for him to have had the opportunity to observe the last two days of the meeting.

8. Next Meeting

The next Board meeting is scheduled for June 8-15, 2020.¹³

9. Closing Remarks

Dr. Thomadakis thanked the IESBA meeting participants for their contributions and closed the meeting.

¹³ As a result of public health concerns relating to the coronavirus, the IESBA's June 2020 meeting will be held virtually.