

**Final Minutes of the 70<sup>th</sup> Meeting of the**

**INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on September 14-21, 29 & October 1, 2020 – Virtual Meeting via Video Conference**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair)  
Michael Ashley (Days 1 & 3-8)  
Sanjiv Chaudhary  
Laurie Endsley  
Brian Friedrich  
Hironori Fukukawa  
Kim Gibson  
Liesbet Haustermans  
Richard Huesken  
Robert Juenemann (Days 1-6)  
Myriam Madden  
Winifred Kiryabwire  
Caroline Lee  
Ian McPhee  
Andrew Mintzer  
Jens Poll

**Technical Advisors**

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

Apology:

Kemisha Soni (Mr. Chaudhary)

**Non-Voting Observers**

Present: Gaylen Hansen, IESBA CAG Chair, and Junpei Kato, Japanese Financial Services Agency (FSA)

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

Present: Robert Buchanan

**IESBA Staff**

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Kam Leung, Szilvia Sramko, Carla Vijian, Astu Tilahun, Diana Vasquez, 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 Ms. Marta Kramerius, the new technical advisor to Ms. Haustermans. He also welcomed the IESBA CAG Chair, Mr. Gaylen Hansen; PIOB Observer, Mr. Robert Buchanan; and Japanese FSA Observer, Junpei Kato. During the meeting, Dr. Thomadakis also welcomed Ms. Sylvie Soulier, Chair of the Engagement Quality Reviewer (EQR) Objectivity and Engagement Team – Group Audits Independence (ET-GA) Task Forces; Ms. Denise Canavan, Member of the EQR Objectivity and ET-GA Task Forces; eCode Working Group members Mr. Joseph Bryson, IFAC Quality & Development Director, and Ms. Michelle Brody, IFAC Head of Intellectual Property; and IFAC Staff presenters, Ms. Jennifer DiClerico, IFAC Communications Director, and Mr. David Johnson, IFAC Communications Senior Manager. In addition, Dr. Thomadakis welcomed Ms. Josephine Jackson, the Definitions of Listed Entity and Public Interest Entity (PIE) Task Force correspondent member and member of the International Auditing and Assurance Standards Board (IAASB) for the PIE session.

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 a discussion on the next steps in the PIE project and coordination of effective dates with the NAS and Fees projects; the PIOB's updated list of public interest issues as of July, including on the EQR Objectivity project; an update on the forward work plan and December board meeting planning; an update on the transition planning regarding the final Monitoring Group (MG) recommendations; and the Q2 2020 forecast and 2021 budget.
- The outreach activities since the June 2020 IESBA meeting.
- Postponement of in-person outreach plans for Q4 2020 given the COVID-19 pandemic.

### APPROVAL OF MINUTES

The IESBA approved the minutes of the June and July 2020 public sessions as amended.

## 2. IAASB-IESBA Coordination

Ms. Haustermans, IESBA Board member liaison to the IAASB, briefed the Board on coordination activities with the IAASB during the quarter. The activities covered the IAASB's three quality management projects as well as the EQR Objectivity, ISA 600,<sup>1</sup> ET-GA, PIE and Technology projects. In addition, she provided a report-back on the specific proposals of the IAASB's ISQM 1<sup>2</sup> Task Force.

Ms. Haustermans drew the Board's attention to the need for conforming amendments to the Code once the IAASB's quality management projects are completed. She indicated that the Board would be asked to consider those conforming amendments in Q1 2021 as part of the quarterly update on IAASB-IESBA coordination.

Dr. Thomadakis acknowledged the substantial and sustained efforts on coordination between the two Boards. He thanked Ms. Haustermans for the informative update.

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<sup>1</sup> International Standard on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> 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*

### 3. EQR Objectivity

Dr. Thomadakis welcomed Mr. Imran Vanker, IAASB member and Chair of the ISQM 2<sup>3</sup> Task Force, who observed the session.

Ms. Soulier introduced the session by recapping the Task Force's key proposed revisions in response to (a) respondents' comments on the Exposure Draft (ED) [\*Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers\*](#), and (b) key comments raised during the June 2020 IESBA discussion and the September 1, 2020 CAG discussion.

#### SCOPE OF THE PROPOSED GUIDANCE

Ms. Soulier explained that the Task Force had sought to respond to concerns among some respondents that a prescriptive cooling-off period may further limit the availability of individuals to serve in an EQR role. The Task Force recognized in this regard, following coordination with IAASB representatives, that under proposed ISQM 1, firms are not limited to engagement quality reviews but may determine that other responses are appropriate to address quality risks. Such other responses may include, for example, reviews of certain significant judgments by individuals within the firm who have specialized technical expertise but with the requisite objectivity, i.e., individuals who would be appropriate reviewers (ARs) under the Code. The Task Force therefore proposed to extend the scope of the guidance to ARs.

A few IESBA members questioned the Task Force's rationale for such extension of scope. It was felt that ARs are not at the same level as the EQR as many ARs are used in the Code for purposes of implementing a safeguard and there is no standard for them equivalent to ISQM 2. In addition, unlike an EQR, an AR need not be a professional accountant (PA). It was also noted that the project objective was focused on EQRs. Further, it was questioned whether it would be appropriate to address the objectivity of ARs more broadly given that other key attributes of such individuals, for example, skills and experience, are not being equally addressed.

Ms. Soulier explained that the revised proposals are first and foremost addressing the objectivity of EQRs. The Task Force did not see other ARs as being at the same level as an EQR, as the EQR should be subject to the most stringent standard given the unique quality role served by an EQR. However, because an EQR meets all the attributes of an AR as described in the Code – and the EQR is therefore an example of an AR – the Task Force believed it would enhance the robustness of the guidance in the Code by having it also cover other ARs. Other IESBA members were supportive of the Task Force's proposal, noting that threats to the objectivity of other ARs can be created in different circumstances just as much as for the EQR.

After further deliberation, the IESBA broadly supported the Task Force's proposals to (a) make clear in the proposed new Section 325 that an EQR is an example of an AR, (b) extend the scope of the guidance addressing the objectivity of an EQR to cover other ARs, (c) reorient the guidance to focus primarily on the objectivity of the EQR, and (d) amend the title of Section 325 accordingly. To avoid the potential for unintended consequences, the IESBA also agreed to limit the extension of the scope to only circumstances in which ARs are used in the Code, i.e., for purposes of implementing safeguards.

#### LOCATION OF THE PROPOSED GUIDANCE

The IESBA reaffirmed its support for the Task Force's proposal to relocate the guidance from Section 120 to the new Section 325.

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<sup>3</sup> Proposed ISQM 2, *Engagement Quality Reviews*

## APPLICABILITY OF THE PROPOSED GUIDANCE TO PROFESSIONAL ACCOUNTANTS IN BUSINESS (PAIBS)

During the June 2020 Board discussion, an IESBA member had highlighted paragraph 250.11 A6 in the Code which also refers to an appropriate reviewer in the context of applying safeguards.<sup>4</sup> Section 250, however, applies to PAIBs only.

Given that the proposed Section 325 is in Part 3 and therefore applies only to PAs in public practice, the Board noted that it would not apply to circumstances where PAIBs use appropriate reviewers, as in the example in paragraph 250.11 A6. The Board considered three options for addressing this matter. Based on the cost-benefit analysis of each option presented by the Task Force, the Board agreed that no further action was warranted at this time. The IESBA considered that if Part 2 of the Code is further developed in future and there is increased guidance addressing PAIBs' use of appropriate reviewers, the Board would have an opportunity to develop guidance similar to Section 325 in Part 2.

## PIOB PUBLIC INTEREST ISSUES

Ms. Soulier briefed the Board on two matters raised by the PIOB subsequent to the June 2020 Board meeting, and the Task Force's related deliberations and proposals.

### *Cooling-off Requirement*

In relation to the first matter, the PIOB had commented that while the Code should remain principles-based whenever possible, the requirement of a cooling-off period for an engagement partner (EP) who moves directly to an EQR role, as proposed in ISQM 2, should also be established in the Code to ensure consistency of both IAASB and IESBA standards.

After due deliberation, the Board reaffirmed its support for such a requirement to be located in ISQM 2 for the reasons articulated by the Task Force in the agenda material. The Board was concerned to retain the holistic and comprehensive outcome achieved through the extensive coordination with the IAASB, including the symmetry reflected in the specific mutual cross-references woven into ISQM 2 and Section 325.

Regarding Board concerns about duplication of the cooling-off requirement in the Code, Mr. Buchanan was of the view that the issue should not be framed as one of duplication but one of a parallel provision in the Code. Given that objectivity is both an ethical as well as a quality issue, he advised the Board to consider whether there would be merit in including an explicit acknowledgement in Section 325 that threats to objectivity can be both an ethical and a quality matter.

Acknowledging the validity of the point raised by Mr. Buchanan and after further deliberation, the Board determined to add a clear statement in Section 325 that the cooling-off requirement in ISQM 2 serves to enable both compliance with the principle of objectivity and the consistent performance of quality engagements. Such a statement duly recognizes that objectivity has a dual character as an ethical principle and a quality precondition.

### *Interaction of the Cooling-off Requirement in ISQM 2 and the Partner Rotation Requirements under Long Association*

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<sup>4</sup> Section 250, *Inducements, Including Gifts and Hospitality*, notes that an example of an action that might be a safeguard to address threats created by offering or accepting an inducement is having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the accountant with respect to the individual or organization from which the accountant accepted the inducement.

In relation to the second matter, the PIOB had commented that the Board should clarify that the cooling-off period addressing threats to the objectivity of an EP when moving to the role of EQR is different from and does not substitute the cooling-off period required in Section 540<sup>5</sup> addressing independence and familiarity threats created by long association with an audit client. The PIOB was of the view that Section 540 should explicitly explain the implications of the cooling-off period addressing threats to objectivity on the 7-year “time-on” period allowed with an audit client. It had also added that restrictions on the different key audit partner roles allowed during that time of service should be clarified.

Ms. Soulier acknowledged the PIOB’s comments. She briefed the Board on the Task Force’s response in terms of proposed guidance in both Sections 540 and 325 to clarify the interactions between the cooling-off requirement to address the specific matter of EQR objectivity and the partner rotation requirements under Long Association.

After considering the Task Force’s proposal and further deliberation, the Board came to the view that providing guidance in the Code without a sufficient level of detail could potentially confuse stakeholders, especially given that different scenarios can arise in practice. Instead, the Board determined to make clear that the cooling-off period required by ISQM 2 is distinct from, and does not modify, the partner rotation requirements in Section 540, and vice versa. The Board agreed to commission IESBA Staff to develop a non-authoritative staff publication to provide practical guidance regarding the interaction between the cooling-off period addressing EQR objectivity in ISQM 2 and the cooling-off period required under Section 540.

#### 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 provisions. Ms. Soulier 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. IESBA members did not consider that there were matters raised by respondents to the ED, 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 IESBA approved, with the affirmative votes of 16 out of the 17 IESBA members present, the final revisions to the Code addressing the objectivity of an EQR and other ARs.

Ms. Lee abstained from the vote. She was of the view that the project was focused on the objectivity of an EQR and did not contemplate other ARs. She acknowledged that any AR would need to be objective and consider threats to objectivity. However, she was concerned that Section 325 is heavily focused on the EQR role and in referring also to other ARs, it might create confusion to stakeholders.

Mr. Vanker congratulated the Board on approving the final provisions, noting that the project had benefited from close coordination between the ISQM 2 and EQR Objectivity Task Forces and Staff of the two Boards. Dr. Thomadakis acknowledged Mr. Vanker’s comments and conveyed his best wishes to the ISQM 2 Task Force and the IAASB regarding the upcoming consideration and approval of the final text of ISQM 2 at the September 2020 IAASB meeting.

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<sup>5</sup> Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

Mr. Buchanan thanked the Board for its consideration and responsiveness to the PIOB's comments. He added that the PIOB had been concerned about the issue of EQR objectivity and that it was important to recognize objectivity as being both an ethics and a quality characteristic.

#### 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 ED were in response to the comments received from respondents and did not represent substantial changes to the ED. Therefore, the Board determined that re-exposure was not necessary.

#### EFFECTIVE DATE

The Board set the effective date of the final provisions to be aligned with the effective date of ISQM 2, i.e., under Part 4A, for audits and reviews of financial statements for periods beginning on or after December 15, 2022. For Part 4B, the provisions will be effective for assurance engagements beginning on or after December 15, 2022. Finally, for all other engagements within the scope of Part 3, the provisions will be effective for engagements beginning on or after December 15, 2022.

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

#### 4. Non-Assurance Services (NAS)

Mr. Fleck introduced the sessions on September 14, 15 and 29 by providing:

- A full analysis of the significant comments raised by respondents on the ED, [Proposed Revisions to the Non-Assurance Services Provisions in the Code](#) (NAS ED) and a "first read" of the Task Force's revisions to the NAS ED;
- A report-back on the input received from the IESBA CAG; and
- An overview of the comments received from the PIOB in its list of public interest issues in IESBA projects.

During the meeting, the Board also considered a "[turnaround draft](#)" of key paragraphs in the NAS proposals. The key issues discussed and the IESBA meeting participants' responses are summarized below.

#### KEY ISSUES RAISED

##### *Timing*

The Board noted comments received from some stakeholders encouraging consideration of a deferred timeline for the NAS project given a lack of certainty regarding the PIE audit clients that will be covered by the revised NAS provisions in light of the ongoing PIE project; disruptions caused by the COVID-19 pandemic; and the scale and pace of changes to the Code.

On balance, the Board reaffirmed the importance of finalizing the NAS provisions as planned in December 2020 given the critical importance of the project to the public interest. However, the Board committed to coordinating the effective dates of the revisions arising from the PIE, NAS and Fees projects to provide an appropriate transition for adoption and implementation of the changes.

##### *Communication with Those Charged with Governance (TCWG)*

The NAS ED set out new provisions to strengthen firm communication with TCWG, including a proposed requirement for firms to obtain concurrence from TCWG of PIE audit clients before providing NAS to those clients (including controlled entities).

The Task Force presented revisions to address concerns raised by several regulatory stakeholders who suggested that the IESBA consider extending the proposed requirements relating to firm communication with TCWG of the PIE audit client to also include a communication about the circumstances where a NAS is provided to a parent (listed or unlisted) entity of that PIE audit client. The Task Force explained that its approach was intended to provide TCWG of the PIE audit client, information that is relevant to their “third party review” of the firm’s self-evaluation of independence. IESBA meeting participants provided various suggested refinements and asked the Task Force to consider the practical challenges arising from the obligations on firms to treat certain information as confidential. They also asked the Task Force to provide guidance that might assist firms in dealing with the implications of circumstances where the information that should be provided to TCWG of the PIE audit client is not available or is incomplete. The Task Force was also asked to consider how its proposals would be applied in the case of private equity structures which are often complex.

Mr. Fleck acknowledged the various comments and noted the Task Force’s commitment to revising its proposals in a manner that both strengthens firms’ communication with TCWG whilst also considering the practical challenges raised by IESBA meeting participants.

#### *Self-review Threat (SRT) Prohibition*

The NAS ED included a requirement that generally prohibited firms and network firms from providing NAS to PIE audit clients if there is a risk that a SRT will be created in relation to the audit of the financial statements on which the firm will express an opinion.

The Board considered the Task Force’s suggested revisions to the proposed requirement and related application material to address respondents’ requests for greater clarity to paragraphs ED-R600.14 and ED-600.11 A2. During the meeting, IESBA members considered various iterations of wording relating to the likelihood or possibility of a SRT and agreed to revised language. Among other amendments, the IESBA agreed to replace the words “will create” with “might create” – a suggestion that was put forward by many respondents to the NAS ED.

#### *Advice and Recommendations*

The NAS ED emphasized that the provision of advice and recommendations might create a SRT. Amongst other matters, respondents to the ED questioned whether advice and recommendations arising out of the normal course of an audit would also be prohibited. The IESBA agreed with the Task Force’s recommendation and provided suggestions to clarify the new application material that was added to explain that firms may continue to provide advice and recommendations that form part of the audit process provided that the firm does not assume a management responsibility. Mr. Fleck acknowledged the drafting suggestions and noted that the Task Force would refine the language.

#### *NAS that are Routine or Mechanical*

IESBA meeting participants noted a new application material paragraph that was jointly developed by the NAS and the Technology Task Forces taking into account the feedback and suggestions from NAS ED respondents who called for the term to be clarified. Mr. Friedrich, Chair of the Technology Task Force, noted that from the Technology Task Force’s perspective, the new application material still needs to be further considered holistically with the other changes being explored as part of the review of the impact of

technology on auditor independence in the Technology project. In response, Mr. Fleck suggested that the IESBA consider deferring the technology-related changes. The Board concurred.

### *Tax Planning*

Adapted from US Public Company Accounting Oversight Board (PCAOB) Rule 3522, the NAS ED prohibited firms and network firms from providing a tax service or recommending a transaction to an audit client if the service or transaction relates to marketing, planning or opining in favor of a tax treatment for which the significant purpose is tax avoidance unless certain conditions are met, such as the transaction having a basis in tax law that is *likely to prevail*.

The Board discussed how to respond to questions raised by respondents to the NAS ED about the difference in the meaning between the term “more likely than not” used in PCAOB Rule 3522 and the term “likely to prevail” used in the NAS ED. A few IESBA members suggested that the Task Force consider using the terminology already used in the PCAOB Rule, noting that it is well understood and also used in US tax law and the International Accounting Standards Board’s (IASB’s) standards. Other Board members questioned the meaning of “more likely than not” and expressed a preference for “likely to prevail,” noting that the latter is easier to translate. The Task Force noted the PIOB’s caution about the use of the term “more likely than not,” which it perceived as being too low a threshold and difficult to translate.

A straw poll was conducted during the meeting to gauge Board members’ indicative views as to the level of confidence that firms should have. IESBA members generally agreed that the audit firm should have a high level of confidence but had varied views about how best to describe that desired threshold. Mr. Fleck highlighted the comments raised about the need to consider translatability given that the IESBA Code is intended for global use. He indicated that the Task Force would further refine the proposed text to clearly convey that the prohibition will apply unless the firm or the network firm is “confident” that the tax treatment has a basis in applicable law or regulation that is likely to prevail.

### *Safeguards*

The Board noted the question raised by MG respondents about the appropriateness and adequacy of extant NAS safeguards that involve using an individual employed by the same audit firm that conducts the audit engagement to review the NAS. During the meeting, Mr. Fleck explained and emphasized that the NAS proposals build on the concepts set out in the extant Code which state that:

- “Safeguards are actions, individually or in combination, that the firm takes that *effectively* reduce threats to compliance ... to an acceptable level” and that “...in some situations...safeguards might not be available... [and], the application of the conceptual framework ... requires the firm to decline or end the NAS or the audit engagement.” (Emphasis added.)
- An “appropriate reviewer” is an individual who has the (i) authority, and (ii) knowledge, skills and experience to review work in an objective manner and that individual may be external to the firm, as well as employed by the firm.

Mr. Fleck also noted during the meeting that:

- In the case of PIE audit clients, the introduction of the SRT prohibition limits the circumstances in which a firm would apply safeguards as many NAS create a SRT. He added that the proposed text also includes restrictions on the provision of NAS that might create an advocacy threat (e.g., acting as expert witness or general counsel).

- In the case of non-PIEs, he explained that the Task Force is of the view that these safeguards should be retained because:
  - To withdraw them would have significant adverse consequences for audits of non-PIEs in terms of increased cost and complexity (through being required to instruct another firm).
  - In evaluating the effect on the public interest, it is relevant to take account of the economic significance of enabling small entities to develop and grow rather than increasing the regulatory burdens on them.

The IESBA supported the Task Force's position and asked that it present its reasoning to the MG respondents and report back to the Board in December.

#### *Other Matters*

Mr. Fleck provided an overview of the refinements and clarifications to the proposals in the NAS ED, including to the provisions relating to: (i) litigation services; (ii) recruiting services; (iii) appointment as auditor of a PIE; and (iv) loan of personnel to an audit client. The Board noted the proposals and raised a few points of clarification and provided several drafting suggestions.

The IESBA asked that the Task Force undertake a consistency review of its proposed text and ensure that it has followed the drafting conventions for the revised and restructured Code.

#### WAY FORWARD

The Task Force Chair informed the IESBA that the Task Force will circulate a revised draft of the revisions to the NAS proposals in October with a view to obtaining IESBA members' input in advance of the November/December meeting. The IESBA will consider a further revised draft of the provisions with a view to approving the final pronouncement at its December 2020 meeting.

### **5. Fees**

Commencing the session, Mr. McPhee, the Fees Task Force Chair, presented:

- A high-level summary of the key comments received on the [2020 January Exposure Draft, Proposed Revisions to Fee-related Provisions in the Code](#) (Fees ED); and
- The Task Force's responses and proposals to address those comments.

IESBA members generally supported the proposals. Among others, the following matters were raised.

#### THREATS CREATED BY FEES PAID BY AN AUDIT CLIENT

An IESBA member questioned how the revised provisions would deal with fees paid by sister entities. The IESBA member noted that he was not aware of other independence frameworks that would require firms to report on the activities of sister entities, mainly due to confidentiality issues and to other practical challenges. Mr. McPhee responded that the Task Force followed the general approach set out in [paragraph R400.20 of the Code](#). However, he recognized that in the case of public disclosure, when specific information is required to be communicated, the disclosure is limited only to downstream controlled related entities. He explained that the Task Force is not proposing that firms collect fee-related information at a granular level with respect to sister entities, but in case of the evaluation of the threats, the Code would require a broader view of related entities, in line with paragraph R400.20. A Task Force member also clarified that in the case of the provisions on fee dependency, the provisions call for fees from sister entities to be included, but it would still not be necessary to have detailed information about fees from such entities.

#### IMPACT OF SERVICES OTHER THAN AUDIT ON AUDIT FEES

An IESBA member questioned how firms can demonstrate compliance with the proposed requirement that would prohibit audit fees from being influenced by the provision of services other than audit. A Task Force member clarified that the Task Force's aim was to influence firms' policies and procedures on determining audit fees. Firms could document their approach to compliance with this requirement through such policies.

Regarding the proposed exception to the prohibition:

- An IESBA member noted that the proposals from the NAS project will prohibit the provision of NAS that create a SRT to audit clients that are PIEs. The IESBA member questioned what services the Task Force considered a firm could still provide for PIEs. He was of the view that the proposal basically sets out that the firm can only consider the work other firms have done. Mr. McPhee and Task Force members explained the benefit of the exception and highlighted that this provision is relevant to all audit clients, not only PIEs.
- Another IESBA member was concerned that the exception could have unintended consequences. The IESBA member questioned how firms can consider possible cost savings achieved after the audit fees have been determined. In this regard, he felt that the proposed wording might be too restrictive. Mr. McPhee clarified that the proposal was aimed at emphasizing that the cost savings need to be "demonstrably" achieved. A Task Force member noted that a firm can still adjust the level of audit fee if the cost saving is realized or achieved only at a later stage of the audit.

#### FEE DEPENDENCY

In relation to the proposals on fee dependency in the case of non-PIE audit clients, a few IESBA members asked for clarification regarding the nature and scope of the review set out as a safeguard in the proposal. They suggested that either the Code or a staff publication provide guidance regarding such reviews. Mr. Hansen concurred. A Task Force member noted that the objective of this safeguard is to give confidence that the audit work has been performed satisfactorily. Consequently, the nature and scope of the review should be determined by the reviewers, based on their professional judgment and the facts and circumstances, bearing in mind that objective. He added that the scope of the review cannot be prescribed in advance.

Regarding fee dependency in the case of PIE audit clients, an IESBA member noted that stakeholders in Japan, including SMPs, still have strong concerns about the practical implications of the 5-year cap on serving as the auditor. He supported that the IESBA perform a post-implementation review to evaluate how effectively the proposed requirement has been implemented globally.

#### TRANSPARENCY OF FEE-RELATED INFORMATION

IESBA members were generally supportive of the Task Force's proposal for a more flexible approach aimed at emphasizing that disclosure of fee-related information is mainly the audit client's responsibility. An IESBA member felt that in practice, the auditor will discuss the menu of options for disclosure with the client, and most clients would choose to make the disclosure themselves.

The following matters were raised.

##### *Confidentiality*

A few IESBA members commented that if the client refuses to disclose fee-related information, disclosure by the firm can raise some breach-of-confidentiality issues in some jurisdictions, based on the relevant

national laws and regulations. An IESBA member also questioned how firms can comply with the disclosure requirements if the client refuses to disclose the information and there is a contractual agreement on confidentiality. The IESBA member wondered whether in this case a contractual agreement on confidentiality would be equivalent to a legal prohibition. In response:

- A Task Force member noted that it would not be in the public interest to enforce a contractual confidentiality clause.
- A Board member explained that contractual agreements as private agreements could not be regarded as laws and regulations. Another Board member agreed but noted that in continental European laws, there might be a clause that specifies that a contractual agreement can be enforced. So, some jurisdictions can require private agreements to be enforced. Nevertheless, he added that even in those cases there are jurisdictional protections against such contractual agreement on confidentiality.

Mr. Hansen pointed out that in the US, the Securities and Exchange Commission (SEC) rules include prohibitions for indemnification agreements which are similar to this issue. He was of the view that if indemnification agreements can be restricted, confidentiality agreements could also be so restricted.

Mr. Siong remarked that the IESBA had discussed the same issue in relation to the NOCLAR standard. Staff has published [Q&As](#) supporting the adoption and implementation of the NOCLAR pronouncement. The Q&A publication advises firms to discuss their obligations under the Code with their clients and make appropriate modifications to contractual clauses in order to enable the firms to perform the engagements in compliance with the Code. Accordingly, confidentiality agreements in contracts should not override PAs' and firms' obligations under the Code.

The IESBA member acknowledged that it would be uncommon for a client to refuse disclosure. However, if that were the case, the firm would have two options: either resign or not issue the audit report. The IESBA member questioned whether there are any other options. A Task Force member responded that if the client objects, the firm can still issue the audit report. However, the firm might have to disclose the fee-related information somewhere else in line with the Task Force's proposal, and not in the audit report. He suggested that the IESBA clarify this issue in a staff Frequently Asked Question (FAQ).

Mr. Hansen agreed that confidentiality can be a real issue in relation to public disclosure. He pointed out that when the IAASB discussed its auditing standard<sup>6</sup> on communicating key audit matters in the auditor's report, the IAASB's premise was that auditors do not disclose original information of the client. He was of the view that fee-related information could be considered original information. To mitigate this issue, he suggested referring to the fees charged by the firm as opposed to the fees paid by the client.

#### *Other Issues*

A Board member had a concern about the disclosure of fee-related information in the case of private equity complexes. She noted that the audit client definition in the Code is broader than in the US SEC's independence framework. Consequently, she cautioned the IESBA that the disclosure of fee-related information in the case of private equity complexes based on the US laws and regulations might not comply with the proposed provisions.

Regarding the proposed location for disclosure of fee-related information by the firm, Mr. Hansen agreed with the Task Force's revised, more flexible approach. He added that this area and the methods for disclosure would evolve and receive greater visibility. Mr. Kato expressed concern about the disclosure of

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<sup>6</sup> ISA 701, *Communication of Key Audit Matters in the Independent Auditor's Report*

fee-related information in the audit report, especially based on the requirements in ISA 700.<sup>7</sup> He suggested that the IESBA further coordinate with the IAASB.

#### OTHER MATTERS

##### *Conforming Amendments*

A Board member expressed her support for the amendments in Section 270.<sup>8</sup> She noted that the discussion and consultation with TCWG in that Section are approached only from an escalation standpoint, which did not appear to be aligned with the approach taken in relation to communication with TCWG in the fee-related proposals. She asked the Task Force to consider the matter further.

##### *Anti-trust Issue*

Mr. McPhee drew the Board's attention to the brief summary in the agenda material regarding the preliminary outcome of the consultation with external legal counsel, Cravath, Swaine & Moore ("Cravath"), on whether the ED proposals might be regarded as anti-competitive under US laws. Cravath's advice was that it is highly unlikely that the proposed revisions would be found to be anti-competitive in the US. Mr. McPhee noted that Cravath would be asked to confirm its preliminary advice in December based on the final provisions to be approved by the Board.

Mr. McPhee also reported that respondents to the ED were generally of the view that the proposals would not give rise to anti-trust or anti-competition issues in their respective jurisdictions.

#### PIOB'S OBSERVER'S REMARKS

Mr. Buchanan noted the PIOB's support for the direction taken and the enhancements to the fee-related proposals. He agreed that the current project should focus only on fee-related matters. Nevertheless, he was of the view that the broader issue of the client relationship should be considered as part of a separate project in the future.

Regarding the enhanced provisions on fee dependency, he noted that the PIOB was supportive of the IESBA's decision to retain the specific threshold set out in the ED in the case of non-PIE audit clients. From the public interest perspective, he highlighted this as an area where some prescription is justified while still retaining the Code's principles-based approach. He agreed with the Task Force's approach regarding the objective of the external review as a safeguard. However, he pointed out the importance of maintaining scalability in terms of actions required to address threats in the proposals on fee dependency.

He noted that the PIOB supported the project's aim to provide global transparency in the Code. Nevertheless, he encouraged the IESBA to initiate dialogue with the IASB about fee disclosure as part of the applicable financial reporting framework.

He appreciated that the Task Force intended to harmonize the proposals on communicating fee-related information to the public with the IAASB's approach regarding communication with external stakeholders in the proposed ISQM 1.<sup>9</sup> However, he reported that the PIOB had concerns about the range of options set out in the proposals on the grounds that this could undermine consistent application. He supported Mr. Hansen's suggestion that the fee-related disclosures be suitably prominent.

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<sup>7</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>8</sup> Section 270, *Pressure to Breach the Fundamental Principles*

<sup>9</sup> Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Finally, he asked the Task Force to consider whether terms such as “large proportion” and “significant” in the proposals are sufficiently tight.

#### WAY FORWARD

The IESBA will consider revised proposals from the Task Force at its December 2020 meeting with a view to approving the final text of the proposed revisions to the fee-related provisions of the Code.

### **6. Definitions of Listed Entity and Public Interest Entity**

Mr. Ashley introduced the session by providing a report-back on the July 2020 IAASB discussion of the Task Force’s proposals. He noted that, amongst other things, the IAASB was generally supportive of a shared overarching objective for additional independence and audit quality-related requirements. The IAASB was also supportive in principle of replacing “listed entity” with “public interest entity” but wanted to consider the impact on a case by case basis.

Mr. Ashley also provided highlights of the responses to the question in the NAS ED about whether the IESBA should undertake the PIE project. He noted that most respondents were supportive of the project and that no new significant issues were raised.

The Board noted Mr. Ashley’s report-back and did not raise any further comments.

#### OVERARCHING OBJECTIVE

The Board was generally supportive of the revisions to the overarching objective and the list of factors set out in proposed paragraphs 400.8 and 400.9. Amongst other matters, the following matters were raised:

- Consideration should be given to adding new application material to reference the connection between the overarching objective in paragraph 400.9 and independence for auditors and firms.
- With regards to the new factor in bullet #2 of paragraph 400.8 that relates to regulatory supervision, a few IESBA members queried its relevance in light of bullets #1 and #6 unless it references prudential regulation. An IESBA member, on the other hand, supported the draft wording, noting that prudential regulation is not necessarily restricted to financial markets. In addition, Mr. Ashley clarified that if an entity is subject to regulatory supervision that includes meeting its financial obligations, there may be significant public interest in that entity’s financial condition and its audits may be required to be subject to more independence and audit quality-related requirements.
- Whether the list of factors in paragraph 400.8 should cover entities that hold large volumes of sensitive data given that misuse of such data may lead to a significant adverse impact on the public interest. In response, Mr. Ashley noted that whilst there is public interest in the use of data by some entities, it is unclear if there is the same level of public interest in those entities’ financial condition which underpins the objective of defining a PIE.

#### EXPANDED LIST OF CATEGORIES OF PIES

Mr. Ashley explained the revisions to some of the high-level PIE categories in proposed subparagraphs R400.14 (a) and (f) as well as revisions to paragraph 400.16 A1. Amongst other matters, the following comments were made with respect to the list of high-level PIE categories in paragraph R400.14:

- A few IESBA participants preferred the term “securities” in subparagraph (a) and suggested the Task Force to consider “securities and other types of financial instruments” instead of “equity or debt

instruments.” In response, Mr. Ashley indicated that the Task Force would consider replacing “instrument” with “securities.”

- A few IESBA participants queried if “publicly traded” in subparagraph (a) is sufficiently clear and understandable.
- In response to queries about subparagraph (e), Mr. Ashley clarified that this category is intended to capture mutual funds that allow investors to sell their interests back to the fund and not investment trusts in respect of which investors can only redeem their investments by selling their interests to third parties, which would be captured by subparagraph (a).

Mr. Ashley noted that the Task Force plans to develop non-authoritative guidance material that further explains the terms used in the proposed text to assist adoption and implementation by local authorities as well as facilitate consistent application by users of the Code.

The Board supported the Task Force’s view that financial market infrastructure entities, stock and commodity exchanges as well as audit firms should not be included in the list of PIE categories.

Mr. Buchanan cautioned against the potential for wholesale exclusions at the local level if the list of categories were too broad. He was of the view that jurisdictions should be oriented towards strengthening their local codes as opposed to weakening them relative to the IESBA Code.

#### EXPECTED ROLE OF LOCAL BODIES

##### *Questionnaire to Professional Accountancy Organizations*

Mr. Ashley informed the Board that, with the assistance of the IFAC Quality and Development team, the Task Force had circulated a questionnaire to approximately 40 professional accountancy organizations (PAOs) across all regions. The purpose of this questionnaire was to seek input from PAOs, particularly in less developed jurisdictions, about the capacity of the relevant local bodies to refine the revised definition of PIE as part of the adoption process.

Mr. Ashley pointed out that the 20 or so responses received were primarily from PAOs in Asia and Africa reflecting a mixture of direct, shared or no authority to adopt the Code. He further noted that many of them, including 6 African jurisdictions, already have a local PIE definition. There was strong indication from the responses received that local refinement can be achieved without any significant adoption issue relating to local body capacity.

The IESBA noted Mr. Ashley’s report and did not raise any further comments. Mr. Ashley will provide an update at the December 2020 IESBA meeting.

##### *Rebuttable Presumption*

Mr. Ashley asked the Board for directional input on whether the Task Force should pursue the suggestion of using a rebuttable presumption in the proposed text under limited circumstances. He explained that such use would be aimed at addressing the issue of local bodies not having the capacity to refine the PIE definition or adopting it without the necessary local refinements. He cited the Independent Regulatory Board for Auditors’ (IRBA’s) *Code of Professional Conduct for Registered Auditors* (South African Code) as an example of the use of a rebuttable presumption at a local level.

The Board did not support the use of a rebuttable presumption on the basis that such an approach is likely to encroach upon the role and authority of local bodies in deciding how the Code should be adopted. A few

IESBA members also pointed out that the use of a rebuttable presumption in the proposed text may lead to undue variability as well as the unintended outcome of local bodies not making the necessary refinement.

Mr. Buchanan also expressed concerns about such an approach and agreed with the Board's conclusion in this regard.

#### ROLE OF FIRMS

With respect to the additional list of factors set out in paragraph R400.17 for consideration by firms when determining if additional entities should be treated as PIEs, Mr. Ashley:

- Explained that bullet #1 aimed to remind a firm that it might be unreasonable for it to determine as a PIE an entity which has been specified by law or regulation as not being a PIE.
- Agreed that the Task Force would consider revising the factor in bullet #2 relating to entities likely to become a PIE by building a less prescriptive time element.
- Explained that bullet #4 related to whether a firm should treat an entity as a PIE if it has a weak governance structure as there is a presumption in the quality of the governance of a PIE. In this regard, Mr. Buchanan suggested that the Task Force carefully explain the considerations in the ED to avoid the situation where weak governance at an audit client leads a firm to discount the entity as a PIE when in fact it should be.
- Agreed that the Task Force would consider adding a new factor about whether an entity has been previously treated as a PIE.

With respect to the Task Force's suggestion of adding a transparency requirement in the IAASB's standards for auditors' reports to disclose whether the particular entity was treated as a PIE, Mr. Ashley reported that the Task Force had received mixed views from the IAASB during its July 2020 PIE session. He further noted that IAASB representatives have since developed three options for consideration by the IAASB at its next PIE session. These options include no change to the auditor's report, further assessment as part of the IAASB's on-going Auditor Reporting Post-Implementation Review and revisions to paragraph 700.28 (c) of the Auditor Reporting standard (ISA 700). The Board did not raise any further comments.

#### RELATED ENTITY

Mr. Ashley explained the Task Force's current approach and view on the issue of related entity. He noted that there is at least a prima facie case for extending the universe of related entities for a listed entity audit client in paragraph R400.20 of the extant Code to be the same for all PIE audit clients. He further observed that concerns previously raised by IESBA members, including the difficulty in identifying all relevant entities and the nature of holding entities such as sovereign wealth funds (SWFs), may rebut this prima facie case. Mr. Ashley also pointed out that the Task Force does not have the capacity to adopt a piecemeal approach to the relevant sections in Part 4A of the Code.

Following deliberation, the Board acknowledged the complexity of the issue and agreed that further research on this topic, including the ownership structures of private equity complexes and SWFs, was warranted to better understand the ramifications of extending the universe of related entities for all PIEs. The Board also agreed that given the timeframe for this fact-finding work, addressing this issue will be outside the scope of this project.

The Board asked the Task Force to continue its research in Q4, potentially with a view to developing either a discussion paper or additional material to accompany the exposure draft to highlight the key issues.

## EFFECTIVE DATE

The Board deliberated on the effective date for the project's final revisions, taking into account the possible effective date for the final texts from the NAS and Fees projects, both of which are targeted for Board approval in December 2020.

The Board acknowledged that, whilst the initial intention was for the effective dates of the three projects' final revisions to be aligned, it was unlikely that this would take place given that the PIE exposure draft had yet to be released. The Board also agreed that stakeholders should be kept informed of the developments and be provided with guidance material on transitioning to the new PIE definition with respect to the implementation of the NAS and Fees revisions. The Board also noted that for those jurisdictions that have already implemented their own PIE definitions, the option of early adoption of the PIE final text is important as this may allow those jurisdictions to effectively adopt and implement the three sets of final texts at the same time.

Mr. Buchanan noted that the PIOB was expecting the effective dates of the three final sets of provisions to be aligned but acknowledged the practical challenges. He added that allowing early adoption would be important.

The issue of effective dates with respect to the PIE, NAS and Fees projects will be further discussed by the Board at the December 2020 meeting.

## WAY FORWARD

The Task Force Chair will present an update on the project to the CAG and IAASB in October and November 2020 respectively. The Task Force will present a second read of the proposed text at the December 2020 IESBA meeting.

## 7. Technology

Mr. Friedrich introduced the session by providing a report-back on the input received from the IESBA CAG and other stakeholders on the preliminary views and proposals of the Task Force regarding the seven recommendations identified within the approved [project proposal](#). Mr. Friedrich then briefed the Board on the Task Force's proposed approaches to progress the seven recommendations.

### RECOMMENDATION 1: THE CRITICAL ROLE OF ETHICS AND PROFESSIONAL JUDGEMENT

The Board expressed support for the general direction of the Task Force's proposal to add application material in Section 120 of the Code. A Board member suggested a separate section to encapsulate all technology-related changes rather than tagging on piecemeal changes throughout the Code. This suggestion was supported in principle by a few other Board members. Mr. Friedrich acknowledged the suggestion, but expressed a preference for referring to technology where it would be most relevant. Nevertheless, he noted that the Task Force would consider the suggestion.

### RECOMMENDATION 2: COMPLEXITY OF THE PROFESSIONAL ENVIRONMENT

Mr. Friedrich provided a recap of the four non-mutually exclusive options that the Task Force is considering to address the issue of complexity of the professional environment in the Code. He noted that the preliminary feedback from the Board had not indicated a clear consensus on any particular option. He signaled that stakeholder outreach was planned in quarter four to gather further views on this matter. Mr. Friedrich also introduced the elements differentiating what might be regarded as "complicated" and what

might be regarded as “complex.” He walked through a case study of how complexity interacts with compliance with the fundamental principles in the Code.

The IESBA complimented the Task Force on its thought-provoking analysis. Some IESBA members expressed support for the Task Force’s direction of travel. A few IESBA members, however, expressed the view that complexity is not a new issue that PAs face and that it would be better addressed through the development of non-authoritative material. Among other matters, the following were raised:

- Whether “complex” is the right term as opposed to “unknown.”
- The Board could miss the mark by not addressing the issue. However, the challenge will be whether to address it by way of guidance or prescription in the Code.
- Complexity is pervasive and could affect any of the fundamental principles (FPs). Also, characterizing it as a threat could limit its scope.
- Consideration could be given to finding the linkages to the FPs and then filling in any gaps.
- Technology brings risks to be minimized and opportunities to be maximized, just like any organizational issue. The question is how to incorporate it into the framework of the Code’s FPs.
- The considerations do come back to the FPs, especially professional competence and due care. However, it will be important to explain the issue in a way that stakeholders can understand.
- While the world has become more complex, the real issue is how to deal with the conceptual nature of complexity.
- The question is what a PA would do differently to address complexity if it were a threat. In practice, if a PA does not have the competence to address a complex matter, the PA would be expected to call upon or otherwise engage others with the appropriate expertise to address it.

Mr. Friedrich thanked the Board for the varied feedback and emphasized that although complexity is not new, it has been exacerbated by technology. He noted that the Task Force intends to bring indicative drafting and feedback from additional outreach to the Board in December.

#### RECOMMENDATION 3: TRANSPARENCY

Mr. Friedrich explained the Task Force’s approach to incorporating the concept of transparency: (i) in paragraph R111.2 on integrity in terms of not withholding information in a manner that would be deceptive; and (ii) in paragraph 113.1 A3 on diligence, incorporating the idea of “shedding enough light” to inform the decision making of others.

The Board was supportive. However, there was a concern with “shoehorning” the second aspect of transparency within application material related to diligence. The Task Force was also encouraged to consider how a level of transparency should permeate all processes in the Code.

#### RECOMMENDATION 4: ACCOUNTABILITY

Board members deliberated the Task Force’s proposed changes to paragraph 220.7 on relying on the work of others to emphasize accountability. In particular, the Board discussion focused on the extent of a PA’s responsibility to understand what is “under the hood” and how far down the chain of reliance the PA would need to go in order to demonstrate that the reliance is reasonable. In this regard, it was noted that a distinction should be made between a senior PA in business (PAIB), such as a CFO, and other PAIBs. The Task Force was also encouraged to go further and highlight accountability more broadly because simply

referring to it in Section 220 in relation to the preparation and presentation of information appeared to downplay its importance. It was noted that the essence is that the PA should not avoid being held accountable relative to the PA's duties and responsibilities.

Mr. Friedrich noted that the Task Force will consider the comment about not downplaying accountability, which was not the Task Force's intent. He emphasized that a reference to technology in the 'reliance on the work of others' section is akin to not relying on the work of another PA blindly.

#### RECOMMENDATION 5: CONFIDENTIALITY

Board directional thoughts were sought on the Task Force's preliminary approach to modifying the language of the fundamental principle of Confidentiality. A Board member thought that there was merit in the Task Force exploring if the misuse of data could be explicitly addressed in relation to confidentiality.

#### RECOMMENDATION 6: ENABLING COMPETENCIES AND SKILLS

Directional thoughts were sought on three options that the Task Force proposed to incorporate guidance on professional skills within the Code, by leveraging the International Education Standards (IESs) now developed by IFAC (advised by the International Panel on Accountancy Education (IPAE)), and previously issued by the International Accounting Education Standards Board.

Board members queried how the Code should best interact with the IESs, given that the IESs no longer fall under the oversight of the PIOB. The need for some caution was therefore noted in relation to cross-referring to the IESs in the Code. Mr. Friedrich acknowledged that it is important to consider the interaction, but emphasized that the IESs continue to be in effect and still have authority, and that in particular, IFAC member bodies still have to comply with them.

#### RECOMMENDATION 7: AUDITOR INDEPENDENCE

Board views were sought on the Task Force's approach to address new tools and services being offered within Section 600 and its subsections regarding the provision of non-assurance services (NAS) to an audit client, and Section 520 regarding business relationships.

General support was expressed for the approach of focusing on what is being delivered to the client as opposed to how it is being delivered (for example, through technology or a human resource). However, some Board members expressed concern that the Task Force viewed the simple existence of a software license as constituting a business relationship. These Board members noted that a business relationship only exists when there is a mutuality of interests between two parties, for example when both parties work together to drive business through an alliance.

A Board member also encouraged the Task Force to deal with, and distinguish between, customization and configuration. It was noted that the former would typically involve upgrading of coding to such an extent that the solution no longer matches regular software upgrades from the vendor. On the other hand, the latter would typically only constitute taking off-the-shelf products and calibrating functionalities to meet client needs.

Regarding modernizing terminology for the term "office," a few Board members queried why the definition needed to be updated given its longstanding use and the current environment. It was suggested that the Task Force reflect on the objectives of the provisions referring to "office" and consider the structure and organization of the firm, such as in terms of the concept of a "cohort" of individuals sharing similar characteristics.

Mr. Friedrich acknowledged the Board's comments and noted that the Task Force would consider them. He also noted that the Task Force's thinking regarding customization and configuration is aligned with the views expressed by the Board. With respect to sales or licensing arrangements between firms and their audit clients, Mr. Friedrich emphasized that the Task Force differentiates between business relationships, more broadly, and close business relationships, as described in Section 520. It is anticipated that most technology sales and licensing agreements would likely result in no threat to independence. However, there needs to be a prompt in the Code to require a PA or firm to assess whether a close business relationship has, in fact, been established.

#### PIOB OBSERVER'S REMARKS

Overall, Mr. Buchanan expressed general support for the direction of travel and emphasized four points of importance to the public interest: (i) Complexity; (ii) Competence; (iii) Independence; and (iv) Timing of the project. In relation to the latter, he suggested that consideration be given to the development of non-authoritative material given that the project is not expected to be completed until the latter part of 2022.

#### WAY FORWARD

The Task Force Chair will present an update on the project, including results of further outreach, to the Board at its December 2020 meeting.

### **8. eCode Phase 2 and Update on IFAC Digital Publication Initiative**

#### ECODE PHASE 2

Mr. Friedrich introduced the session by informing the Board that Phase 2 of the eCode initiative had been completed and the eCode platform would be handed off to IFAC for future updates and maintenance. He briefed the Board on the eCode Working Group's activities for Q3, noting that the content of the eCode has been updated to reflect the final revisions to Part 4B that will come into effect in June 2021. Mr. Friedrich demonstrated the live versioning feature that provides users access to different versions of the Code, including future versions from a drop-down menu.

Mr. Friedrich then updated the IESBA on ongoing promotion and awareness raising activities, highlighting eCode usage statistics since its launch in June 2019. The number of users of the Code (PDF and the eCode combined) has been steadily increasing.

IESBA meeting participants commented as follows:

- An IESBA member queried what would happen to the extant version in the future, for example in June 2021, when the upcoming version becomes effective. Mr. Friedrich confirmed that the extant version will still be accessible in the eCode as a prior version. The purpose of the versioning feature is to cover both future and past versions of the Code.
- An IESBA member also queried if there is any way to see or highlight where the changes are in the upcoming versions. Mr. Friedrich noted that the changes are not highlighted between versions, but users would be able to access upcoming pronouncements by clicking on a link within the eCode. This link would take users to the relevant page of the IESBA website which provides an overview and a detailed summary of the changes to the Code.

#### IFAC DIGITAL PUBLICATION INITIATIVE

Ms. Brody provided the IESBA with an update on IFAC's digital publication (ePub) initiative. She reminded meeting participants that the objective of the initiative is to create a digital platform for the standards that are developed by all of the international standard-setting boards (SSBs) IFAC supports. She explained that the new platform builds on the work done by the IESBA eCode Working Group and would include an enhanced version of the eCode. The IFAC ePub team is a staff-led cross functional team (including representatives of each SSB's staff) that is working with an external vendor. Ms. Brody noted that there is periodic engagement with the SBB Chairs to ensure all perspectives are considered. Ms. Brody informed the IESBA that the project is at the "build phase" with an expected completion date of Q4 2020.

As part of her update, Ms. Brody also provided an overview of the key messages heard in response to a user survey undertaken to inform development of the IFAC ePub platform. She noted that the responses to that survey validated the process being followed by the IFAC ePub team and confirmed that the eCode has had a positive impact on users' ability to access, navigate and use the Code. The survey highlighted that the strongest attributes of the eCode include the search feature, the ability to copy and paste content, and reviewing the glossary of terms. In addition, the survey results identified opportunities for improvement, including: improving the visibility of features (e.g., the cross-referencing between the authoritative text of the Code and non-authoritative material such as Bases for Conclusions or IESBA Staff Q&As), sharing of content with multiple email addresses, and filtering. There was also a strong desire to access a localized version of the platform on the user's device versus needing to be online when accessing the eCode.

Mr. Buchanan complimented the ePub team on the rapid development of the new platform, noting that it will have a pervasive impact across all three SSBs. He noted that it will bring many benefits to SMPs and other stakeholders. He also emphasized the importance of keeping the momentum built up with the eCode. Regarding copyright to the standards, he noted that the question has been taken up with IFAC and that the PIOB has an interest in the matter in the context of the transition to the new international audit and ethics standard-setting system following the issuance of the MG recommendations.

Dr. Thomadakis noted that the eCode continues to be strategic to, and of vital importance for, the Board in the context of the Board's efforts to increase global adoption of the Code. He was also pleased with the constructive collaboration with IFAC and the external developer in relation to the ePub, noting that it will be important to maintain close coordination with IFAC given the Board's strategic interest in future improvements to the eCode as it transitions to the ePub. In this regard, he invited expressions of interest from Board participants for a small advisory group to advise IESBA staff in its coordination efforts with IFAC staff.

Dr. Thomadakis thanked Mr. Friedrich and Ms. Brody for the informative update.

## **8. Engagement Team – Group Audits Independence**

Ms. Soulier, Chair of the Task Force, briefed the IESBA on the Task Force's coordination efforts with IAASB representatives since June 2020 in relation to the IAASB's projects to revise ISA 220<sup>10</sup> and ISA 600. She explained the Task Force's proposal to adopt the final revised definition of engagement team in [ISA 220 \(Revised\)](#).<sup>11,12</sup> She also highlighted the need to address the potential implications for the Code as the term "engagement team" is a concept central to the International Independence Standards (IIS).

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<sup>10</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>11</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>12</sup> The package of Quality Management standards were being approved at the IAASB's September 2020 meeting.

#### DEFINITION OF ENGAGEMENT TEAM

Overall, Board members were supportive of the Task Force's direction regarding revising the definition of engagement team in the Code, including the proposals to introduce the new terms "audit engagement team" (AET), "review engagement team" and "assurance engagement team."

Among other matters, IESBA participants raised the following for the Task Force's consideration:

- Regarding the definition of engagement team as per ISA 220 (Revised), whether the Task Force had inadvertently extended the definition of AET by including text from application material in ISA 220 (Revised) as part of the definition. It was suggested that the application material be italicized in the Glossary to address the issue.
- While there would be benefit in introducing the proposed new terms, whether doing so might lead to potential confusion with the extant concepts of "audit team," "review team" and "assurance team."
- Why the "review engagement team" would not include the same individuals as the AET, especially given that interim reviews feed into the audit and are often performed by the same individuals who perform the audit.
- Whether there would be any change regarding how internal auditors are dealt with in the Code given that the extant Code currently excludes from the engagement team internal auditors undertaking audit procedures when providing direct assistance to auditors. Ms. Soulier responded that the use of internal auditors to provide direct assistance on an audit was discussed extensively by the IESBA previously. The IESBA had determined that auditors should be able to use the work of internal auditors provided that there is appropriate consideration of their objectivity in relation to the work performed. However, independence requirements do not apply to internal auditors in this situation because these individuals are employed by the audit client. Hence internal auditors are explicitly excluded from the extant definition of engagement team and the revised definition in proposed ISA 220 (Revised).

#### INDEPENDENCE PRINCIPLES FOR A GROUP AUDIT

Ms. Soulier explained the Task Force's proposed principles regarding how to apply the Code's independence provisions in a group audit context, including with respect to non-network component auditors. She indicated that this work would be progressed in coordination with the IAASB as the IAASB progresses its project to revise ISA 600.

With respect to the Task Force's preliminary views regarding independence requirements that should apply at the individual level, the following matters were raised:

- The level of personal independence requirements that should apply regarding components as defined under proposed ISA 600 (Revised) (for example, inventory) that are not captured by the definition of an audit client under the Code. Ms. Soulier responded that even if a component is not a legal entity, it would probably belong to a legal entity. Therefore, to the extent audit procedures are performed with respect to a component that belongs to a legal entity, independence would be required of that legal entity and its related entities. It was noted in this regard that such an approach could result in much higher independence expectations than would be reasonable. It was suggested that applying an approach similar to that taken in Part 4B with respect to subject matter and subject matter information might be more appropriate.
- How the Task Force planned to deal with the "chain of command" at a component auditor firm with respect to personal financial interests. Ms. Soulier responded that the extant definition of audit team

focuses on the chain of command within the firm expressing the opinion on the group financial statements. The Task Force did not intend to go beyond the current scope.

- Consideration should be given to the prohibitions that already exist and the need to balance the level of threats with circumstances involving non-network component auditors.

With respect to the Task Force's preliminary views regarding independence requirements that should apply at the firm level, the following matters were raised:

- While there has been a significant focus on personal independence, consideration should equally be given to independence at the firm level, especially with respect to NAS, business relationships, etc.
- With respect to PIEs, while there are prohibitions that apply to component auditor firms within the group auditor's network, why the same prohibitions would not also apply to component auditor firms outside the group auditor's network. In this regard, similar to the IAASB's approach of recognizing any individual who performs audit procedures on the engagement as being part of the engagement team, it was questioned whether the Code should be agnostic as to whether component auditor firms are within or outside the group auditor's network in relation to the independence requirements that should apply to them.
- There is a distinction that should be made between independence applicable at the component firm level and at the individual level. In this regard, consideration should be given to addressing the concern about limiting the availability of individuals to perform the work as a result of the personal independence requirements. It was also suggested that with respect to independence at the firm level, the Task Force approach it through the IAASB's lens of audit risk as opposed to whether the component is material.
- Given that the materiality of a component will affect how audit procedures are carried out from one year to another, this can present a challenge in establishing the appropriate basis for determining independence requirements that should apply. Accordingly, consideration should be given to whether perceptions of threats present a sufficiently strong rationale for justifying differences in treatment between network and non-network component auditors.
- Whether FAQs illustrating various group scenarios can be developed to explain the application of the proposed independence principles.

#### PIOB OBSERVER'S REMARKS

Mr. Buchanan noted that this project was a clear example of the important coordination efforts between the IESBA and IAASB. He acknowledged that there are a number of practical issues to address, especially in relation to NAS when multiple entities are involved. Regarding the matter of external experts, he wondered whether there is a public interest question about addressing independence for these individuals if they are involved on the audit engagement, especially given the expected increased involvement of external experts under ISA 540 (Revised).<sup>13</sup>

#### WAY FORWARD

The IESBA will continue its discussion of the issues in the project at its December 2020 meeting.

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<sup>13</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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

Mr. Buchanan thanked the Board for the opportunity to observe a stimulating virtual meeting. He praised the public interest focus the Board took through both the Task Forces' and IESBA members' contributions. He then congratulated the NAS and Fees Task Forces and the Board on their hard work and reaffirmed the PIOB's continued support for the direction of both projects. He noted the NAS discussions as particularly useful and was pleased that the Board recognized the independence issues which include both ethical and quality characteristics.

With regards to Fees, Mr. Buchanan highlighted that some of the enhancements to the provisions add clarity and reduce duplication. He noted the discussion around the safeguard of using an "appropriate reviewer" and supported the IESBA CAG's comment that this matter be further considered by the Fees Task Force. Furthermore, he suggested reviewing the language used in the proposals so that terms such as "large proportion of fees" and "significance" are appropriately applied.

Mr. Buchanan then raised three points he supported in relation to both the NAS and Fees projects: the effort to coordinate the effective date of the revisions to the NAS and Fees provisions with the effective date of the final PIE provisions; further consideration of the appropriateness of using an "appropriate reviewer" as a safeguard; and the need for close coordination between the NAS Task Force and the Technology Task Force regarding the technology-related provisions pertaining to independence, including those addressing the "routine and mechanical" NAS.

With respect to the PIE project, he further highlighted that the PIOB is strongly supportive of the project and welcomed the IESBA's collaboration with the IAASB. However, he urged the Board to continue assessing and refining the list of categories against the overarching objectives. He then emphasized the importance of this project encouraging local bodies to strengthen and not lessen the application of the global Code.

In closing, Mr. Buchanan noted the virtual meeting format worked very well. He congratulated the Board on the structure and clarity of the Task Force presentations during the meeting, which was well managed in the public interest. He also noted that the PIOB is committed to the oversight relationship working collaboratively, which is the focus of the MG as it looks to the implementation of the reforms.

## **10. Next Meeting**

The next Board meeting is scheduled for November 30 - December 1-4 and 8-9, 2020.

## **11. Closing Remarks**

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