

Final Minutes of the 71st Meeting of the

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on November 30 – December 4, 8 & 9, 2020 – Virtual Meeting via Video Conference

Voting Members

Present: Stavros Thomadakis (Chairman)
Richard Fleck (Deputy Chair)
Michael Ashley
Sanjiv Chaudhary
Laurie Endsley
Brian Friedrich
Hironori Fukukawa
Kim Gibson
Liesbet Haustermans
Richard Huesken
Robert Juenemann (Day 7)
Winifred Kiryabwire
Caroline Lee
Myriam Madden (Days 1-3)
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 Gorla (Mr. Mintzer and Ms. Madden)
Marta Kramerius (Ms. Haustermans)
Gina Maldonado-Rodek (Ms. Gibson)
Andrew Pinkney (Ms. Endsley)
Kemisha Soni (Mr. Chaudhary) (Days 1-3, 5 & 7)
Sundeep Takwani (Ms. Kiryabwire)
Kristen Wydell (Mr. McPhee)
Masahiro Yamada (Mr. Fukukawa)

Non-Voting Observers

Present: Gaylen Hansen, IESBA CAG Chair (Days 1-5 & 7), and Jumpei Kato, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Aileen Pierce

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, Misha Pieters,¹ Astu Tilahun, Diana Vasquez

¹ Seconded from the New Zealand External Reporting Board for the Technology project

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. During the meeting, he also welcomed Ms. Sylvie Soulier, Chair of the Engagement Team – Group Audits Independence (ET-GA) Task Force, and Ms. Denise Canavan, Member of the ET-GA Task Force.

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

- Board member rotations, re-appointments and new appointments.
- The activities of the Planning Committee during the quarter, including an update on the status of the various work streams on the Board's agenda and the forward work plan for 2021; a consideration of the PIOB's updated list of public interest issues as of October 2020 and options for the effective dates for the NAS, Fees and PIE final pronouncements; a discussion of Task Force and Working Group compositions in light of Board member rotations at the end of the year; an update on the transition planning regarding the final Monitoring Group (MG) recommendations; and liaison with the International Panel on Accountancy Education (IPAE).
- The outreach activities since the September-October 2020 IESBA meeting.
- Postponement of in-person outreach plans for Q1 2021 given the ongoing COVID-19 pandemic.

Dr. Thomadakis also invited expressions of interest from Board members and Technical Advisors to join some Task Forces and Working Groups in the light of Board member rotations and the establishment of working groups for new work streams beginning early next year.

APPROVAL OF MINUTES

The IESBA approved the minutes of the September-October 2020 public session as amended.

2. NAS

Mr. Fleck introduced the session by highlighting the remaining substantive issues and walked the Board through the revisions made to the NAS proposed text in response to the feedback IESBA members had provided on an October 2020 draft. He then briefed the Board on the Q4 2020 discussions held with key stakeholders,² including representatives of the CEOAB, IFIAR and IOSCO. He noted that in finalizing its proposals, the Task Force had given due consideration to the input provided by the IESBA CAG and the public interest issues raised by the PIOB, and that the NAS text reflected the [drafting conventions](#) for the Code.

Among other matters, the following were raised:

DETERMINING WHEN A NAS MIGHT CREATE A SELF-REVIEW THREAT (SRT)

Mr. Fleck reported that a NSS meeting participant and several IESBA members who commented on the October draft had suggested that the proposed requirement delineating the circumstances in which a NAS might create a SRT lacked clarity.

² In Q4 2020, the NAS Task Force briefed representatives of key stakeholder groups on the significant issues raised by ED respondents and obtained directional input on the Task Force's responses. Such stakeholders included the: Forum of Firms (FoF); IFAC Small and Medium Practices Advisory Group (SMPAG); National Standard-Setters (NSS); the International Organization of Securities Commissions (IOSCO); the International Forum of Independent Audit Regulators (IFIAR); and the Committee of European Auditing Oversight Bodies (CEAOB).

- To avoid a risk of unintentionally reintroducing the concept of materiality in determining whether a NAS might create a SRT, the IESBA agreed to delete the reference to “audit procedures.” Under the extant NAS provisions, the use of the phrase “not subject to audit procedures” in relation to the output of a NAS means that if a firm has determined that the output of the proposed NAS would be immaterial, the firm may provide the NAS to the audit client.

The IESBA reaffirmed that in the case of audit clients that are PIEs, the SRT prohibition applies for NAS that “might create” a SRT irrespective of materiality. Accordingly, all explicit and implicit references to materiality (e.g., “audit procedures”, “significant” or “insignificant”) are eliminated in describing how to determine whether a NAS might create a SRT.

- The IESBA noted that an IFIAR representative had questioned whether the Task Force had considered using the commonly understood phrase “other than clearly insignificant” in explaining how firms are to determine whether a SRT might arise. The IESBA agreed with the Task Force’s recommendation not to take up this suggestion so as to avoid reintroducing the concept of materiality. The IESBA reaffirmed that the concept of materiality, which is subjective in nature, should not be a factor in determining whether a NAS might create a SRT. The IESBA agreed that this approach will help enhance consistency of application of the SRT prohibition.
- IESBA members deliberated how the SRT prohibition should be applied in the case of related entities of an audit client that is a PIE (including when a related entity is listed and when it is unlisted). This matter arose in the context of a question raised by an IFIAR representative about whether there was a potential “gap” with respect to the applicability of the SRT prohibition regarding certain related entities, specifically in the case of an unlisted parent entity of a PIE audit client.

The IESBA agreed that the extant Code’s related entity provision in paragraph R400.20 should apply. Therefore, the SRT prohibition applies to the PIE audit client and certain related entities. The IESBA also agreed that the long-standing exception in [extant paragraph R600.10](#) that applies to certain related entities once strict conditions are met should be retained. However, the final NAS text makes clear that such NAS will be prohibited if a SRT arises.

- The CAG Chair questioned whether users of the Code would understand the meaning of the word “might.” Mr. Fleck and a few other IESBA members explained that the word “might” is a defined term and is therefore explained in the [Glossary to the Code](#). Mr. Friedrich noted that the eCode includes a pop-up feature for the descriptions and definitions in the Glossary. In addition, an explanation for how the word “might” is used in the Code is included in the [Guide to the Code](#).

PROVIDING ADVICE AND RECOMMENDATIONS, INCLUDING AS PART OF THE AUDIT PROCESS

Mr. Fleck highlighted the refinements to clarify the requirements and application material relating to the provision of advice and recommendations (A&R) when the audit client is a PIE and when it is not. The following matters were considered as part of the IESBA’s deliberations.

- The IESBA accepted the Task Force’s proposal that the prohibition on undertaking a NAS that might create a SRT does not preclude a firm from providing A&R in the normal course of an audit, provided that the firm does not assume a management responsibility and any identified threats to independence not at an acceptable level are addressed. This applies even when the audit client is a PIE.
- Therefore, the IESBA agreed to make clear that as an exception to the SRT prohibition in paragraph R600.16, a firm or a network firm may provide A&R to an audit client that is a PIE in relation to information or matters arising in the course of an audit provided that the firm does not assume a

management responsibility, and applies the conceptual framework in relation to threats other than the SRT that might be created.

- For enhanced clarity, the IESBA agreed to add a cross-reference to direct users to the relevant requirements and application material relating to assuming a management responsibility in Section 400.³
- In addition, the IESBA agreed to proposed examples of A&R that might be provided in relation to information or matters arising in the course of an audit. This application material is adapted from [extant paragraph 601.3 A3](#).

The IESBA asked that its position on the provision of A&R be appropriately explained in the Basis for Conclusions.

FIRM COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE (TCWG)

The IESBA deliberated how best to address a suggestion to extend the proposed requirements relating to the firm's communication with TCWG about NAS to circumstances where a NAS is provided to a parent entity (listed or unlisted) of a PIE audit client.

The IESBA agreed that greater communication between the firm and TCWG about the NAS to be provided and the related NAS fees will better assist TCWG to exercise effective oversight of the auditor's independence and that this is especially important in the case of audit clients that are PIEs. On that basis, the IESBA agreed to principles-based provisions that establish a mechanism whereby TCWG can corroborate the firm's evaluation of the impact of the proposed NAS to be provided to: (i) the PIE audit client; (ii) any entity that controls the PIE; or (iii) any entity that is controlled by the PIE. The IESBA noted that this approach would be responsive to practical challenges that have been put forward by stakeholders because it would:

- Accommodate different corporate governance structures by providing the flexibility for firms and TCWG to establish a pre-determined process provided that such process achieves the same outcome as the new requirements.
- Include considerations for situations where a firm is prohibited from providing information about a proposed NAS to TCWG of the PIE, or where the provision of such information would result in the disclosure of sensitive or confidential information.

The IESBA noted that in some circumstances the firm's ability to communicate relevant information to TCWG of the PIE about a NAS to be provided to a parent entity may be restricted by professional standards, laws, or regulations, or may involve sensitive or confidential information that should not be disclosed. The IESBA agreed that the firm can provide the proposed NAS if it provides such information to TCWG of the PIE as it is able without breaching its legal or professional obligations, confirms that the provision of the NAS would not adversely affect its independence as auditor of the PIE, and TCWG do not disagree with that conclusion.

Matters that Might Affect Accepting the NAS Engagement or Continuing the Audit Engagement

The IESBA deliberated whether it is in the public interest to allow a firm to have the option to end the audit engagement in situations where TCWG are unable to assess, or disagree with, the firm's conclusions with respect to the impact of a proposed NAS on the firm's independence. There was a concern that the firm might opt to retain the relationship that is commercially more beneficial at the expense of prioritizing a public

³ Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

interest need in carrying out the audit.

On balance, IESBA members agreed that it is reasonable and appropriate to reflect that option in the final NAS provisions because:

- The decision to end an audit engagement or decline a proposed NAS often involves input or authorization from TCWG, management of the PIE, or the parent entity. That decision is not made solely by the firm.
- In circumstances that involve a network firm, the firm undertaking the audit of the PIE may not have the authority to require the network firm to decline the proposed NAS.
- The approach is consistent with the overarching requirement for addressing threats in the conceptual framework.

Finally, the IESBA noted that the following public interest considerations might be relevant in deciding whether to end the audit engagement:

- The interests of the audit client's non-controlling shareholders.
- Reputational damage to the audit client.
- Any timing, legal or regulatory constraints in finding a new auditor with the appropriate qualifications, expertise, and experience.

APPROPRIATENESS OF NAS SAFEGUARDS

The IESBA accepted the Task Force's recommendation to retain the NAS safeguards involving:

- Using professionals who are not audit team members to perform the NAS.
- Having an appropriate reviewer who was not involved in providing the NAS review the audit work or the NAS performed.

The IESBA exchanged views about a comment raised by IOSCO that there might be an inherent "conflict of interest [because] the professional may be incentivized to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors."

There was a general consensus among IESBA members that the suggested "conflict of interest" would not necessarily be avoided if the audit firm arranges for the review of the audit work to be undertaken by a professional from another firm because of the potential for a relationship between that professional and the firm. In addition, an IESBA meeting participant pointed out that a parallel approach exists under the IAASB's [quality management standards](#) in that firms already source individuals internally as engagement quality reviewers to perform objective reviews of specified audit engagements for audit quality purposes.

Finally, the IESBA noted that the NAS text built on the concepts already established in the extant Code which came into effect in June 2019 (with safeguards-related enhancements). Such enhancements include:

- Explicit language which emphasizes the importance of proper application of the conceptual framework to determine whether a safeguard is available and capable of addressing a threat to independence. New application material explains that in some circumstances, safeguards might not be available and that in some situations the threat to independence might necessitate the firm declining the NAS or ending the audit engagement.
- A new description of safeguards which clarifies that an action is a safeguard only when it is effective in reducing a threat to an acceptable level.

- New application material that explains that an “[appropriate reviewer](#)” is an individual who has the (i) authority and (ii) knowledge, skills and experience to review work performed in an objective⁴ manner and that that individual may be external to the firm or employed by the firm.

The IESBA agreed that the removal of the NAS safeguards would not be in the public interest and that:

- In the case of audit clients that are PIEs, the introduction of the SRT prohibition and the additional restrictions on the provision of NAS that might create an advocacy threat (e.g., when acting as an expert witness) will substantially reduce the types of NAS in respect of which a firm may be permitted to apply safeguards to reduce threats to independence to an acceptable level.
- In the case of audit clients that are non-PIEs, the NAS safeguards should be retained because they are capable of addressing actual and perceived threats to independence. In addition, withdrawing them would have significant adverse consequences for audits of non-PIEs such as increased costs if the audit firm is required to engage another firm to review the outcome of the NAS.

Mr. Fleck added that one of the IOSCO representatives had welcomed the suggestion to include a discussion about the appropriateness of NAS safeguards in the Basis for Conclusions as a response to IOSCO’s comment on the matter.

ACCOUNTING AND BOOKKEEPING SERVICES (SUBSECTION 601)

Exemption for the Preparation of Statutory Financial Statements

An IESBA member suggested that the NAS provisions allow for an exemption for a firm or a network firm to prepare the statutory financial statements for certain related entities of an audit client that is a PIE under certain predefined circumstances. It was noted that a similar exemption exists under the US SEC Rules.

After extensive deliberation, the IESBA agreed to allow such an exception to the SRT prohibition subject to certain strict preconditions. The exemption is intended to accommodate situations in which a PIE audit client has related entities located in different jurisdictions across the world,⁵ and a local regulator requires the issuance of financial statements for those related entities that are prepared in accordance with the local law or regulation.

- The exemption allows the firm or a network firm to assist in the preparation of the local statutory financial statements for these entities in instances where accounting resources and expertise are not readily available provided that all the strict conditions are met.
- The preparation of statutory financial statements as set out in the exemption would not constitute a management responsibility because the firm or the network firm would be required to use client-

⁴ The IESBA also noted that the newly established Section 325, [Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) provides new guidance that is relevant in evaluating threats to the objectivity of an appropriate reviewer, including:

- The role and seniority of the individual.
- The nature of the individual’s relationship with others involved on the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

⁵ In particular, the exemption in paragraph R601.6 allows for the Code to take a similar approach to US SEC independence requirements, which contain an analogous exemption to US SEC [Rule 2-01 of Regulation S-X](#), [SEC Release \(2003\) - Strengthening the Commission’s Requirements Regarding Auditor Independence](#). That US SEC exemption allows for the preparation of statutory financial statements of affiliate foreign companies as long as the accountant’s independence is not impaired, and those statements do not form the basis of the financial statements that are filed with the SEC.

approved and client-prepared accounting records in preparing those statutory financial statements, and a SRT would not arise.

PIOB Observer Remarks

Ms. Pierce acknowledged the need to incorporate a “narrow” exemption to the SRT prohibition on the provision of accounting and bookkeeping services in the case of PIE audit clients. She noted that one of the preconditions for the exemption is that a SRT should not be created in preparing the statutory financial statements. She observed that while it is not always possible to anticipate all the ways in which the exemption would be used, in her personal view, the exemption with the specified preconditions did not appear to be unreasonable. Ms. Pierce commented that only time will tell if the exemption is working as the IESBA intended. She suggested that this is a matter that would warrant further explanation in the Basis for Conclusions, and possibly as part of future non-authoritative guidance material.

PROVISION OF TAX SERVICES (SUBSECTION 604)

Use of Term “Likely to Prevail”

The IESBA agreed to the Task Force’s further revisions to address the questions raised about the meaning of the phrase “likely to prevail.” Having considered the feedback from the FoF and other stakeholders, the IESBA agreed to retain it with the clarifications presented in the NAS text. Accordingly, the revised NAS provisions state “... unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail”. The IESBA agreed that the approach:

- Retains extant language that is already well understood at the global level and therefore translatable. The IESBA agreed that the inclusion of the words “is confident” would clarify expectations without using “terms of art” which may be well understood in some jurisdictions but unclear in others.
- Retains the PIOB’s preferred language. The PIOB had previously expressed the view that the term “more likely than not” would be perceived as being too low a threshold.

The IESBA envisaged that a firm will ordinarily document the factors considered in determining its confidence that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

Use of the Concept of “Tax Avoidance”

Some IESBA members continued to question the use of the concept of “tax avoidance” in the requirement that prohibits the provision of certain tax services or recommending a transaction if it relates to marketing, planning, or opining in favor of a tax treatment initially recommended by the firm and a significant purpose of which is tax avoidance, unless certain conditions are met. Specifically, those members wondered whether additional input would be needed from the IESBA Tax Planning [initiative](#) to finalize the new requirement. In addition, an IOSCO representative had questioned the meaning of “tax avoidance” and pointed out that firms and their clients do not typically state “tax avoidance” as the purpose of a tax service or transaction.

- Mr. Poll, Chair of the Tax Planning Working Group, explained that the prohibition does not deal with the broader public debate about the provision of tax advice, tax treatments or tax transactions for the purpose of tax minimization. He added that in his view the provision relates to the permissibility of specific NAS and consequently did not fall within the scope of the Tax Planning and Related Services initiative.
- It was noted that the term “tax avoidance” is currently used in professional standards (e.g., in PCAOB Rule 3522) and appears to be well-understood. Further, the IESBA noted that local regulators,

professional accountancy organizations (PAOs) and NSS would be well-positioned to provide additional guidance based on local tax law or regulation to address any concerns about potential misunderstanding or inconsistent application.

- An IESBA member commented that the prohibition may be misconstrued as a prohibition on providing tax services for non-PIE audit clients. Mr. Fleck reiterated that the prohibition restricts the provision of tax services and transactions that relate to “marketing, planning, or opining in favor of a tax treatment initially recommended by the firm” He noted that the Basis for Conclusions will include an explanation of the IESBA’s position and emphasize that the new requirement is not intended to introduce a blanket prohibition on all tax services to audit clients.

OTHER MATTERS

Litigation Support Services (Subsection 607)

In response to a question from an IESBA member, the NAS provisions relating to acting as an expert witness were clarified. The approved NAS text states that in the case of audit clients that are PIEs, acting as an expert witness is prohibited except in specified circumstances. These circumstances are set out in paragraph 607.7 A3 and are similar to the approach taken by the American Institute of Certified Public Accountants (AICPA), i.e., the advocacy threat created by acting as an expert witness on behalf of an audit client will be at an acceptable level in the following situations:

- Where a firm or a network firm is appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- Where a firm or a network firm is engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) and certain criteria are met.

Corporate Finance Services (Subsection 610)

The IESBA agreed on clarifications to the prohibition on providing corporate finance services that involve promoting, dealing in, or underwriting shares, debt, or other financial instruments issued by the audit client. The revised NAS provisions expressly provide that the NAS prohibition applies to the provision of advice on investment in such shares, debt, or other financial instruments.

DUE PROCESS

Mr. Siong advised the IESBA that up to and including this meeting, the IESBA had adhered to its stated due process in finalizing the revisions to the NAS provisions of the International Independence Standards in the Code.

Mr. Fleck confirmed that all significant issues discussed by the Task Force had been brought to the IESBA’s attention and that the Task Force did not believe there was a need for further consultation on, or field testing of, the proposals.

The 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 refinements to the provisions to address the comments raised during the meeting, the IESBA unanimously approved the final NAS text with the affirmative votes of 15 out of the 15 IESBA members present.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IESBA assessed whether there was a need to re-expose the approved text. The IESBA 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 IESBA determined that re-exposure was not necessary.

EFFECTIVE DATE

The IESBA set the effective date for the final provisions to be as follows:

- Revised Section 600⁶ and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022.
- The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to subject matter covering periods of time will be effective for periods beginning on or after December 15, 2022; otherwise, they will be effective as of December 15, 2022.

The IESBA agreed to permit early adoption.

The IESBA also set a transition to the revised NAS provisions in that for NAS engagements entered into before December 15, 2022 and for which the firm or a network firm has already commenced work, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

3. Fees

Commencing the session, the Fees Task Force Chair, Mr. McPhee, presented the Task Force's views on the open issues since the September 2020 meeting and asked for Board members' comments on the final fees proposals with a view to approving the final pronouncement.

Among other matters, the following were raised:

DISCLOSURE OF FEE-RELATED INFORMATION

- In the context of fee disclosure regimes established by law or regulation whereby it is the client that is required to make the disclosure compared with the disclosure approach proposed for the Code, a Board member was concerned about an after-the-fact discovery of an issue leading to a breach of the fee-disclosure requirements of the Code and therefore a potential need to undertake a re-audit. Furthermore, in the context of private equity complexes and sovereign wealth funds, the Board member questioned the practicality of assessing fees paid by other related entities besides downstream consolidated related entities. It was argued that in those corporate structures, such information is often not available and therefore the firm would not be able to assess the relevance of the fees paid by those related entities. Mr. McPhee explained that the Task Force's intention was to find a balanced approach that could address the complexity of corporate structures such as private equity complexes, where not all controlled related entities are required to be consolidated. With respect to the matter of hindsight judgment, Mr. Siong noted that the Code's premise is that firms will meet their responsibilities to comply with the provisions of the Code in good faith based on the facts and circumstances known to them at the time. It would therefore not be appropriate to subject them to second guessing.

⁶ Part 4A – Independence for Audit and Review Engagements, Section 600, *Provision of Non-assurance Services to an Audit Client*

- Ms. Pierce commented that the “reason to believe” test with respect to the inclusion of other related entities in the disclosure considerations, besides downstream consolidated related entities, seemed to be a weak safeguard. She wondered whether there was another approach as she felt that it would be difficult to make such an assessment from the perspective of third parties. A Board member was of the view that the “reason to believe test” was an appropriate compromise as it is a pre-existing concept in the Code. Mr. Siong concurred, noting that the “reason to believe” test is already used quite extensively in the Code.

After further deliberation, the Board supported retaining in the Code the proposed disclosure provision relating to a firm determining whether the fees paid by other related entities, besides downstream consolidated related entities, are relevant to the firm’s independence, instead of dealing with the issue as part of Frequently Asked Questions (FAQ) developed by IESBA Staff.

EXCEPTION TO DISCLOSURE REQUIREMENT FOR A PARENT ENTITY THAT ALSO PREPARES GROUP FINANCIAL STATEMENTS (“SINGLE ENTITY”)

Ms. Pierce commented that the exception provided with respect to a single entity might seem to weaken the requirement on fee disclosure in terms of making the fees paid by that entity less visible. Nonetheless, she acknowledged the potential complexity and confusion in endeavoring to make such disclosure. A Task Force member explained that the presumption is that the requirement for transparency will be met, whether by the client or by the firm. In this regard, it was noted that in some major jurisdictions such as the US, the regulatory regime requires disclosure of fees only at the group level and not at the single entity level. Ms. Pierce encouraged the Board to commission IESBA Staff to develop FAQs to clarify the application of the disclosure requirement in this situation.

OTHER MATTERS

- Concerning the factors the firm should consider when evaluating the threats created by fees paid by an audit client, a Board member suggested that the proposal include “the nature of the services” as an additional example of such a factor, especially given that the services could be covered by International Auditing and Assurance Standards Board (IAASB) standards. It was therefore argued that this factor would be relevant as the provision of assurance and non-assurance services could create different levels of threats to independence. A Task Force member noted that the level of the self-interest threat created by the fees paid by the audit client is irrespective of the types of services provided. It was also noted that the point was effectively already covered in the list of factors relating to the topic of proportion of fees. It was suggested that consideration be given to moving the relevant factor from that topic area to the list of general factors at the beginning of proposed Section 410.⁷
- In relation to the application material regarding the possible ways to achieve public disclosure, Mr. Kato asked whether the Task Force had a preference regarding the disclosure method. Mr. McPhee noted that the proposal aimed to provide a flexible approach for firms. He added that the Task Force did not wish to limit firm innovation and preferred to allow some common practice to develop over time.
- Regarding the matter of antitrust in the US context, Mr. McPhee confirmed that independent legal counsel had reviewed the proposed final text and advised that the revisions do not raise material antitrust concerns under applicable US law and precedent. Independent legal counsel had also advised that it is highly unlikely:

⁷ Proposed Section 410, *Fees*

- That the revisions would be found to be anti-competitive; and
- That any of the Board members of the IESBA would be held personally liable for any potential antitrust violation in the US.

DUE PROCESS

Mr. Siong advised the IESBA that up to and including this meeting, the IESBA had adhered to its stated due process in finalizing the revised fee-related provisions.

Mr. McPhee confirmed that all significant issues discussed by the Task Force had been brought to the IESBA's attention and that the Task Force did not believe there was a need for further consultation on, or field testing of, the proposals.

The IESBA members did not consider that there were matters raised by respondents to the Exposure Draft (ED), in addition to those summarized and reported by the Task Force, that should be discussed by the Board.

APPROVAL OF THE FINAL PRONOUNCEMENT

After agreeing the Task Force's refinements to the provisions to address the comments raised during the meeting, the Board approved the final text with 14 affirmative votes out of the 15 Board members present.

Mr. Mintzer voted against the final text because he did not support the requirements relating to fee dependency, which he felt included "bright line" rules that could be circumvented and therefore would weaken the Code. In his view, the public interest would have been better served by taking a more principles-based approach to addressing the issue of fee dependency.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IESBA assessed whether there was a need to re-expose the approved text. The IESBA 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 IESBA determined that re-exposure was not necessary.

EFFECTIVE DATE

The IESBA set the effective date for the final provisions to be as follows:

- For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after December 15, 2022.
- For the revised Section 905: in relation to assurance engagements with respect to subject matter covering periods of time, effective for periods beginning on or after December 15, 2022; otherwise, effective as of December 15, 2022.
- For conforming and consequential amendments to other Sections of the Code: effective as of December 15, 2022.

The IESBA agreed to permit early adoption.

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

Mr. Ashley introduced the session by providing a report-back on meetings with key stakeholders and other information gathering activities since September 2020, which included an IAASB session and a joint IAASB-IESBA CAG session.

OVERARCHING OBJECTIVE

Mr. Ashley noted that the IAASB continued to support the concept of a common overarching objective for use by both the IESBA and IAASB in establishing additional independence and audit requirements for audits of financial statements of certain entities.

Mr. Ashley further noted that some IAASB members had suggested that the public interest focus should not be on the “financial condition” of an entity as they felt that the term is too broad. Rather, they suggested that the focus should be on more specific concepts such as “financial position” or “financial performance.” In this regard, he pointed out that the Task Force was proposing on balance to retain the focus on “financial condition” as other terms were too narrow.

Following deliberation, the Board agreed with the Task Force’s proposed revisions to paragraphs 400.8 and 400.9 dealing with the overarching objective as well as the Task Force’s recommendation to retain the term “financial condition.”

EXPANDED LIST OF CATEGORIES OF PIEs

Mr. Ashley outlined the key revisions made by the Task Force to the proposed list of PIE categories and other related changes, which included:

- The introduction of a new term “publicly traded entity” in subparagraph R400.14 (a) to replace “listed entity” in the extant Code.
- Refinement to the categories in subparagraphs R400.14 (e) and (f).
- The introduction of a new proposed paragraph 400.15 A1 that aims to clarify the high-level nature of the proposed PIE categories and the role of the local bodies.

The Board discussed extensively the new term “publicly traded entity” with the following key matters raised:

- A few board members queried if the definition of the term should be expanded to include other aspects such as the need for a public trading mechanism. Other board members were of the view that further explanation is not necessary as the term is a commonly used term by financial market regulators across jurisdictions.
- Whether initial coin offerings (ICOs) would be captured under subparagraph R400.14 (a). Mr. Ashley responded that it would depend on whether the ICOs represent an interest in the entity and whether they are redeemable. Accordingly, it would depend on the intent behind the ICOs. He added that local bodies can be more specific in this regard.
- Whether collective investment vehicles (CIVs) limited to sophisticated investors would be captured. Mr. Ashley responded that such investors are generally invited to participate in a special offering with respect to a CIV. He clarified that these entities would not be caught within the definition. He added that this could be made clear at the local level.
- In response to queries about entities that are publicly listed but are not traded (such as those held within a group), Mr. Ashley clarified that such entities would not be captured by the proposed definition.

Ms. Pierce asked if the Board was satisfied that the proposed PIE categories did not include entities in non-financial sectors that could pose risks to financial stability. In response, Mr. Ashley noted that the proposals were aimed at providing a minimum set of categories with appropriate guidance in paragraph 400.8 on how local bodies can refine them. He added that the list of categories largely conformed to national PIE definitions the Task Force had considered. Dr. Thomadakis reiterated that it is not feasible to develop a global definition because of the great variety of practice around the world. For instance, even in the EU, there is great variation with respect to what are considered to be entities of systemic importance. The Board's focus instead was on developing a standard that would allow room for local bodies to appropriately refine the PIE categories. The Board agreed in this regard that socialization of the proposals would be very important so that local bodies actually play their part.

Following deliberation, the Board agreed, subject to minor refinements, to the Task Force's proposed changes to the list of PIE categories in paragraph R400.14 as well as other related changes. The Board also agreed that IESBA members should be given the opportunity to review the explanatory memorandum to the ED to satisfy themselves that the Board's approach, in particular with respect to the role of local bodies, is clearly explained.

ROLE OF LOCAL BODIES AND FIRMS

The Board agreed to the Task Force's proposed strategy to mitigate the risk of local bodies not properly refining the list of PIE categories and did not raise any further comments.

The Board also noted the IAASB's decision to further assess whether the auditor's report should include disclosure about whether the audited entity was treated as a PIE. In this regard, the Board agreed to the Task Force's proposal of a more general firm disclosure requirement without stating how the disclosure should be made.

OTHER MATTERS

With respect to the matter of whether to review the scope of related entities encompassed in the definition of an audit client as specified in the Code, the Board noted the responses to the questionnaire to the Forum of Firms members. The Board agreed with the Task Force's recommendations that:

- The definition of audit client in extant paragraph R400.20 be reviewed as a separate IESBA workstream in the future.
- The term "listed entity" in paragraph R400.20 be replaced by the proposed new term "publicly traded entity."

The Board agreed with the Task Force's recommendations and rationale that revisions to Part 4B of the Code would not be necessary as part of the PIE project.

The Board also agreed to the IAASB's request to use the ED as a vehicle to seek initial input from its stakeholders on the use of "listed entity" in its standards and on the transparency issue regarding required disclosure by the auditor of an audit client being treated as a PIE.

APPROVAL OF EXPOSURE DRAFT ⁸

After duly considering all the necessary refinements to the proposed text, the Board approved it for exposure with 15 affirmative votes out of the 15 Board members present. The Board set a comment period

⁸ The effective date for the PIE final text was discussed in conjunction with that of the NAS and Fees final texts during the Board discussion on the NAS proposed text.

of 90 days from the date of issuance of the ED. In relation to the development of the explanatory memorandum to the ED, the Board asked the Task Force to liaise with IAASB representatives with respect to the discussion of the overlapping issues and the formulation of specific questions to stakeholders to inform the IAASB's further considerations relative to its standards. Dr. Thomadakis thanked the Task Force and staff for their efforts in reaching this milestone.

5. Technology

Mr. Friedrich introduced the session by providing a report-back on outreach undertaken since the September meeting, including two surveys issued in October. The surveys closed late November but remain open at the request of a few stakeholders. The Task Force will undertake a comprehensive analysis of the detailed feedback in due course. Recent feedback highlighted that some stakeholders are increasingly concerned about the planned timing of the Technology ED and the potential unintended consequences of layering various changes to the Code arising from different IESBA projects too close together.

Mr. Friedrich briefed the Board on the Task Force's proposed approach to facilitate the development of non-authoritative material with interested stakeholders, including national standard setters and professional accountancy organizations.

Mr. Friedrich then briefed the Board on overarching matters and then on the Task Force's further work in relation to each of the seven recommendations in the approved [project proposal](#).

OVERARCHING MATTERS

The Board generally agreed with the Task Force's recommendation not to define "technology," noting that the term is broadly understood and that the current plain English approach is better as it would not need to be changed over time.

Mr. Friedrich outlined the Task Force's analysis of the suggestion from the September meeting for a separate section to encapsulate all technology-related changes rather than tagging on piecemeal changes throughout the Code. While the Task Force saw some short-term merit in including a separate technology section, overall, the Task Force did not recommend such an approach. This was because a separate technology section might easily be overlooked, would go against the "building blocks" approach of the Code, might appear to be an afterthought or "bolt on," and run the risk of quickly becoming obsolete.

A few Board members raised caution at the extent of technology-related changes being considered to the upfront sections of the Code, noting that technology appears to be taking over the part of the Code that has a focus on the Fundamental Principles and how these apply in all situations.

RECOMMENDATION 1: THE CRITICAL ROLE OF ETHICS AND PROFESSIONAL JUDGEMENT

The Board expressed caution in response to the Task Force's recommendation to add a new application paragraph in Section 120⁹ to highlight the broader role of a professional accountant (PA) in promoting ethical behavior with respect to technology. Among other matters, the following were raised:

- The placement of, or focus on, technology under the subheading on organizational culture contained in the [Final Pronouncement: Revisions to the Code to promote the Role and Mindset expected of Professional Accountants](#), appeared to downgrade the importance of the overall ethical culture throughout the organization.

⁹ Section 120, *The Conceptual Framework*

- A caution against the extent and specificity of focus on technology. There was a suggestion that it might be more useful if technology was instead used as an example, e.g., in the list of examples in paragraph 120.13 A2.
- To enhance clarity and be more concise with respect to drafting relating to the importance of both the use of technology by a PA and the role of the PA in the development of technology.

Mr. Friedrich noted that the Task Force will consider the comment about not downplaying the importance of organizational culture, which was not the Task Force's intent. The Task Force will also further consider the geography of any additions.

RECOMMENDATION 2: COMPLEXITY OF THE PROFESSIONAL ENVIRONMENT

Mr. Friedrich provided a preliminary overview of the results of the stakeholder survey seeking feedback on the four non-mutually exclusive options to address the issue of complexity of the professional environment in the Code. The preliminary analysis was broadly consistent with the mixed feedback previously reported to the Board, with option 1 (to modify the lead-in in paragraphs 120.6 A2 and A3 to recognize the potential for additional threat categories) and/or option 4 (to highlight complexity as a pervasive factor in decision making while applying the conceptual framework), receiving the most support. However, all four options received more than 50% support overall out of approximately 90 survey responses. This preliminary analysis suggested that stakeholders do see value in incorporating the idea of complexity in the Code, within the threat area.

Mr. Friedrich then sought directional feedback on a possible approach to option 4, noting that this option (unlike the other 3 options) had not yet been explored in detail with the Board. He also outlined a proposed change to paragraph R113.3 to require a PA to highlight the nature of services or activities, and their inherent uncertainties, to the PA's client or employing organization. Among other matters, the following were raised:

- Some reservations about distinguishing between complicated and complex as in many languages there is no substantive difference.
- Ongoing caution that the terms complex and complicated are easily conflated without the benefit of the supporting papers and discussion. Several Board members recommended removing the paragraph that tries to draw out the distinction between complicated and complex, given the risk of being overly academic and too complex. There was a suggestion that there might be merit in dealing with the distinction outside of the Code, through illustrations and examples.
- Encouragement for the Task Force to examine whether a different term than "complexity" might help the PA better understand the issue, and suggestions that it is the "unknown" or "uncertainty" that seems to be at the heart of the issue.
- Overall preference for a more principled and pragmatic approach, with the suggestion that the detail might more usefully be included in non-authoritative material.

With respect to proposed paragraph R113.3, a few Board members raised concern that clients and employing organizations should already know the nature of services and activities of their service providers or employees, so the requirement seemed redundant.

Board members encouraged the Task Force to reconsider the proposed wording, noting that in substance, a PA should understand and be able to articulate the nature of a service and only perform the service if they have the competence to do so. It was also suggested that the Task Force consider whether the proposed addition is sufficiently covered by the Fundamental Principles. Dr. Thomadakis noted that the

issue is much more dynamic than just inherent uncertainties, and that the element of unpredictability is much more important to a PA.

Mr. Friedrich thanked the Board for the varied feedback which will be considered in conjunction with a detailed analysis of the survey results.

RECOMMENDATION 3: TRANSPARENCY

Mr. Friedrich explained the Task Force's recommendation to add explicit references to both accountability and transparency in paragraph 100.4, based on Board feedback from September, i.e., to give more weight to accountability and to avoid shoehorning these concepts into one Fundamental Principle because they underpin them all.

Feedback from the Board noted that these concepts are already implicit, with varying views on the need to make them explicit. A few members questioned the meaning of the sentence "In fulfilling accountability, an accountant considers the level of transparency appropriate in light of the situation," with comments that it is hard to understand and unclear how one might fulfil being accountable. The view expressed was that a PA is held accountable for compliance with the Fundamental Principles.

Mr. Friedrich recapped the Task Force's recommendation to incorporate the concept of transparency: (i) in paragraph R111.2(c) on integrity in terms of not withholding information in a manner that would be deceptive; and based on feedback from September, (ii) in a new paragraph 113.3 A1 to incorporate the idea of "shedding enough light" to inform the decision making regarding the nature of the services or activities.

Feedback from the Board raised concern that:

- Adding the words "lacks transparency in that it..." in paragraph R111.2(c) might downplay the intent of the extant Code.
- Paragraph 113.3 A1 might imply that a PA can get away with as little transparency as possible. It was suggested instead that the level of "appropriate" with respect to transparency be changed to "sufficient" to balance the need for confidentiality with the need for transparency.

RECOMMENDATION 4: ACCOUNTABILITY

Board members deliberated the Task Force's proposed new requirement in paragraph R113.4 to tie accountability to professional competence and due care. In particular, the discussion focused on the practicality of taking reasonable steps to ensure that there is not inappropriate use of or reliance on technology. The Board also considered the need for additional guidance to outline what "reasonable steps" might look like based on a variety of roles, including where the PA's level and sphere of influence is limited, for example in a large organization where systems and controls have been implemented at a level beyond the PA's role.

Mr. Friedrich noted that the Task Force will consider the need for a more scalable approach.

RECOMMENDATION 5: CONFIDENTIALITY

Board directional thoughts were sought on the Task Force's approach to condense the language of the fundamental principle of Confidentiality to include a focus on data governance and safeguarding data. This approach represented a shift to "protecting" rather than simply "respecting" confidential information in order to more actively reflect the current climate of public interest needs, and defining what is meant by confidential information.

Among other matters, the following were raised:

- Concern whether the definition of confidential data might be overly simplistic. The Task Force was encouraged to look at the European General Data Protection Regulation which has been influential around the world.
- Concern that the approach might be read as lessening the significance of confidentiality as confidentiality transcends just data.
- Concern that paragraph R114.2 is too broad and might imply a need to protect a prospective client at all costs, particularly where information was obtained from the public domain.
- A suggestion to link to the principles in the “responding to non-compliance with laws and regulations” sections of the Code, recognizing that confidentiality itself serves the public interest.

Mr. Friedrich noted that the Task Force intentionally avoided a legalistic definition of confidential information to avoid a lengthy definition. Rather, the intent was to capture the higher broader principles.

RECOMMENDATION 6: ENABLING COMPETENCIES AND SKILLS

Mr. Friedrich sought feedback on a proposed approach to enhance the fundamental principle of professional competence and due care by incorporating guidance on the types of professional skills not easily replicable by technology within the Code, and by adding new application material referring to the International Education Standards (IESs) as maintained by IFAC. He noted that the IESs are implemented through the professional competence requirements of IFAC member bodies. No comments were received from the Board.

RECOMMENDATION 7: AUDITOR INDEPENDENCE

Mr. Friedrich provided a preliminary overview of the results of the Task Force’s survey on the impact of technology on auditor independence. Responses indicated that in 30% of the approximately 50 survey responses, technology is sold outright to clients, but only one third of respondents have developed guidance on the impact of technology on independence, suggesting there is more work to be done on this topic.

Business Relationships

Based on discussions at the September meeting, the Task Force had reconsidered how best to address licensing arrangements within Section 520 of the Code, which focusses on close business relationships. Mr. Friedrich explained that the concept of “business relationships” is very broad and encompasses licensing arrangements. In contrast, “close business relationships” imply mutuality of interests, which may or may not encompass licensing arrangements. Board views were sought on the Task Force’s proposed approach to add technology examples of what is considered mutuality of interest. General support was expressed for this approach. However, some Board members expressed concern that the draft examples were too complicated and specific. They encouraged the Task Force to keep the examples at a higher level.

Technology-enabled Services

Based on general support previously expressed for the notion of a product-to-service continuum, Mr. Friedrich outlined the Task Force’s proposed clarification to paragraphs 600.3, 600.9 A2 and 600.12 A1, to acknowledge that a non-assurance service can be performed by an individual or by technology in some way. A Board member queried whether a service could be performed solely by technology without the involvement of an individual in some way. Another Board member encouraged the Task Force to keep a focus on the nature of the service, querying how any proposed changes would work with the revised NAS

text. A Board member also encouraged the Task Force to consider the implications relating to technology which is commonly sold and then resold again. This might make it challenging for a firm to keep track of its technology over time. Accordingly, the question arises as to the extent to which a firm should have to continue to track its involvement in the development of the technology.

Regarding the need for adding examples of technology-enabled services to the existing service categories outlined in the subsections of the International Independence Standards (IIS), Board members generally agreed that the extant examples are broad enough. The Task Force was guided to balance the need for making it clear that the services include those performed by technology against possible unintended consequences of adding specific technology examples into the Code. Given that the Board had only just approved the final pronouncement in relation to NAS, there was overwhelming support to: (i) avoid further revisions to this section of the Code within a short timeframe; and (ii) develop non-authoritative material to highlight how the Code should be applied in technology-enabled examples.

Information Technology Services

Mr. Friedrich reflected that preliminary results from the Independence survey indicated strong support for clarifying Subsection 606. He outlined the various stages of Information Technology Systems Services and the Task Force's recommendation not to define each stage, avoiding a prescriptive approach. A Board member queried the proposed clarifications to paragraph 606.3 A1, noting that practitioners who deal with independence matters related to technology are familiar with the existing terminology, so revisiting the wording in the Code may not be necessary. Instead, the particular issue could be more easily addressed through non-authoritative material.

In response to the Task Force's recommendation to add additional sub-headings, specific guidance and examples into Subsection 606 to address post-implementation services such as ongoing maintenance and helpdesk services, a few Board members encouraged the Task Force to reflect on whether such guidance and examples might be better addressed through non-authoritative material detailing how the revised and strengthened NAS provisions can be applied in relation to such post-implementation services. A Board member agreed that the Code does not specifically contain provisions that deal with services relating to the hosting of data, which is an important issue to address.

Mr. Friedrich acknowledged the Board's comments but contrasted these views with the preliminary survey results which indicated strong support for clarifying Subsection 606.

WAY FORWARD

It was noted that a new Technology Working Group has been established. The Task Force and Working Group will work together, with input from the Planning Committee, to map out next steps given the myriad of feedback received to date, as well as agree on what actions might be appropriately addressed by the Task Force and the Working Group. In light of some key stakeholders expressing concern with the current timeline for releasing a technology ED (given the global pandemic and concerns about standards overload with two major projects concluding at this meeting), the Task Force and Planning Committee will re-consider the schedule and bring recommendations to the Board at its March 2021 meeting.

6. 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 September 2020 in relation to the IAASB's projects to revise ISA 220¹⁰ and ISA 600,¹¹ in particular understanding the feedback received from respondents on the ISA 600 [exposure draft](#). During the presentation, Ms. Soulier also reminded the Board that [ISA 220 \(Revised\)](#)¹² was approved by the IAASB at its September 2020 meeting as part of the Quality Management suite of standards, including the final revised definition of engagement team (ET) which has significant implications for the Code.

DEFINITION OF ENGAGEMENT TEAM

Following feedback from the Board and CAG meetings held in September and October 2020 respectively, Ms. Soulier informed the Board that the Task Force reconsidered its proposal to bifurcate the term ET into three separate terms for audits, reviews and other assurance engagements. For simplicity, the Task Force proposed a revised approach which:

- Uses the generic term “team” to denote a team of individuals who perform an engagement; and
- Revises the extant definition of ET to align with the definition of ET per ISQM 1,¹³ with additional guidance to clarify the nature of the various teams in reference to the different Parts of the Code.

Overall, Board members were supportive of the Task Force's revised approach to the ET definition. In addition to minor editorial suggestions, IESBA participants raised the following for the Task Force's consideration:

- Regarding the descriptive reference to ISA 220 (Revised) attached to the definition of ET in the Code, whether the description should be inclusive of all types of engagements. It was noted that the specific reference to ISA 220 (Revised) pertains to guidance around individuals engaged to carry out audit engagements whereas the definition of ET applies to all types of engagements.
- Supplementing the definition of ET with further application material to clarify that individuals engaged from a service provider would also be considered part of the ET.

Ms. Soulier responded that it is a matter that the Task Force will consider subject to further input from the ISA 600 Task Force. At present, the IAASB was working through the responses on the ISA 600 ED, one of which relates to individuals engaged from service providers and service organizations, and the relevant independence requirements that should apply to those individuals.

INDEPENDENCE CONSIDERATIONS FOR ENGAGEMENT QUALITY REVIEWERS

Ms. Soulier briefed the IESBA about a matter which required further consideration relating to the independence considerations for engagement quality reviewers (EQRs) sourced from outside the firm and the network.¹⁴ She explained that EQRs are individuals appointed by the firm to perform EQ reviews, and such individuals can be sourced from within or outside the firm or its network. The Task Force believed that

¹⁰ ISA 220, *Quality Control for an Audit of Financial Statements*

¹¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹³ 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*

¹⁴ ISQM 2, *Engagement Quality Reviews*, defines an EQR as “a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.” (The definition of “engagement quality control reviewer” in extant ISQC 1 also scopes in an external individual.)

EQRs, whose independence play an important role in promoting audit quality, should be subject to the same independence requirements regardless of whether they come from within or outside the firm or a network firm. The Task Force therefore proposed amendments to the definitions of “audit team,” “review team” and “assurance team” to allow for the inclusion of EQRs engaged by the firm.

Overall, Board members were supportive of the Task Force’s proposal regarding revising the definitions of “audit team,” “review team” and “assurance team” to include consideration of EQRs engaged by the firm. Among other matters, IESBA participants raised the following for the Task Force’s further consideration:

- In relation to bullet (c) of the definition of audit team (“all those within a network firm who can directly influence the outcome of the audit engagement”), whether those outside the network who could also exert such influence should be scoped in.

Ms. Soulier noted that bullet (c) in the definition is part of the “chain of command.” However, it is unusual for the chain of command to extend outside the firm unless the individual concerned is engaged by the firm.

- Whether, instead of expanding the scope of bullet (b) through the addition of the phrase “engaged by the firm” to cover the three sub-categories (i)-(iii), the addition of such phrase should be limited to sub-bullet (b)(iii) that deals with individuals involved in providing quality management for the engagement (including EQRs). It was also noted that the wording of individuals “who are involved in providing quality management for the engagement” in the proposed revised definitions could be quite extensive and scope in a wider group of individuals involved in the quality management process across the firm and network. It was suggested that consideration be given to a narrower focus such as “directly influence the outcome of the audit engagement.”

Ms. Soulier noted that the Task Force did not intend to capture all the individuals involved and will revisit the drafting so there is greater clarity around the individuals scoped in.

- Whether the proposal might inadvertently capture individuals such as independent non-executive directors who oversee the operations of a firm, including partner compensation, and who are often not professional accountants (PAs).

A Board member noted that there is a distinction between overseeing and recommending the compensation of partners, and the definitions are focused on the latter and not the former.

SECTION 405 STRAWMAN

Ms. Soulier explained that the Task Force had drafted the Section 405 strawman based on the proposed principles as tentatively agreed by the Board at the [September 2020 meeting](#). The strawman reflected the principles regarding how to apply the 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 proposals on the strawman, the following matters were raised:

- The 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 as they are not legal entities.

Ms. Soulier responded that even if a component were 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.

- With respect to independence at the individual level, why the proposals referred only to specific sections of the Code and not others. It was argued that all the International Independence Standards should apply.
- Revisiting the definition of “financial statements on which the firm will express an opinion” as that definition refers to group financial statements.

Ms. Soulier clarified that it is the Task Force’s intention to ensure that there is alignment of terminologies between the Code and proposed ISA 600 (Revised) as this project progresses.

- How the Task Force planned to deal with private equity complexes, especially with respect to definitions. It was noted that implicitly, group audits deal only with consolidated entities and should therefore exclude private equity complexes.

Ms. Soulier explained that this was also raised at the September 2020 IAASB meeting and the Task Force would reflect further on the matter.

- In the situation where the component is in a non-PIE group but the component is a PIE, consideration should be given to explaining in application material why the independence requirements would be limited to downstream controlled related entities whereas in a statutory audit of the component there would be no such limitation.

An IESBA member also highlighted the need for significant education to be organized to explain the proposals to stakeholders, especially as this is a fundamental revision to the Code that would scope in individuals from outside a firm’s network.

Dr. Thomadakis concluded the session noting that the project involves pivoting around complex technical issues which requires extensive discussion both at the Board level and with stakeholders. He thought it would be prudent for the Task Force to consider a timeline that is not too ambitious to ensure that the Code is aligned with the changes that are being proposed in ISA 600 (Revised) and covers all relevant considerations in carrying out group audit engagements.

PIOB OBSERVER’S REMARKS

Ms. Pierce noted that this project was a clear example of the important coordination efforts between the IESBA and IAASB. She acknowledged that there are a number of practical issues to address and encouraged the Task Force to keep up its effort in working with the IAASB. She also encouraged the Board to take the opportunity not only to align definitions with the IAASB’s and clarify them, but also to strengthen the responsibilities of group and component auditors.

Regarding the matter of external experts, she acknowledged that this was outside the scope of the project. Nevertheless, she encouraged the Board to reflect on how the nature of the work of external experts might call for further consideration of the related implications for independence.

WAY FORWARD

The IESBA will continue its discussion of the issues in the project at its March 2021 meeting.

7. PIOB Observer’s Remarks

Ms. Pierce thanked the Board for the opportunity to observe a meeting that she felt was significant for the IESBA. She praised the Board for strengthening the Code with the revised NAS and Fees provisions as

she felt that those two areas had long been a cause of great concern due to their impact on auditor independence and audit quality more broadly, as well as confidence in the audit profession and the capital markets. However, she found the inclusion of some exceptions in both sets of provisions to detract from the strength of the provisions, and in some cases to undermine the understandability of the Code due to complexity. Nevertheless, she emphasized her appreciation for the immense time and effort by the two Task Forces and the project staff to address all the stakeholders' comments and to bring those projects to conclusion. She added that given the complexity, the exceptions and the level of additional explanation that had been identified as necessary, there was still a lot of work to do, especially by the PIOB, on the two approved standards before their final publication.

With regards to the increased coordination with the IAASB, Ms. Pierce congratulated both Boards on their improved coordination and collaboration efforts. She highlighted the significant progress she had witnessed from an initial exploratory meeting between the two Boards to the current excellent level of coordination where there is a real understanding that it is in the Boards' best interests to work closely together.

With respect to the PIE project, Ms. Pierce complimented the Board on being ready to release the ED for public consultation. She noted that this was likely the missing piece in the NAS and Fees sections of the Code. She also acknowledged the question regarding the extent to which the IAASB may choose to make a distinction between PIEs and non-PIEs in its standards, as opposed to its current approach of distinguishing between listed and unlisted entities. Nevertheless, she hoped that the consultation through the ED would provide important information that might encourage the IAASB to seek closer alignment with the IESBA on this matter.

In closing, Ms. Pierce congratulated the Board and all the other participants who were involved in the intense sessions throughout the Board meeting for their hard work and contributions. Finally, she complimented the Board on its dedication, clarity and the energy it brought to the meeting, and wished everyone a safe and restful break over the holidays and the New Year.

8. Next Meeting

The next Board meeting is scheduled for March 15-17, 23 and 31, 2021.

9. Closing Remarks

Dr. Thomadakis announced the final compositions of Task Forces and Working Groups for 2021, taking into account expressions of interest from Board members and Technical Advisors, and following consultation with the relevant Task Force or Working Group Chairs and the Senior Technical Director.

On behalf of the Board, Dr. Thomadakis conveyed his deep appreciation to Mr. Fleck who would be retiring from the Board at the end of the year after serving the last five years as Deputy Chair. Among other matters, Dr. Thomadakis highlighted the substantial contributions of Mr. Fleck to the Board's achievements during his six-year term on the Board, including leading the major projects on NOCLAR, Long Association, Role & Mindset, and NAS to successful completion, as well as leading many of the Board's outreach engagements with the regulatory and audit oversight communities, the profession and the wider stakeholder community. Dr. Thomadakis also thanked Mr. Fleck for all his tireless support and wise counsel to Dr. Thomadakis and the Planning Committee over the years.

Dr. Thomadakis also thanked the retiring IESBA members Ms. Madden and Mr. Juenemann for their contributions to the Board's work during their terms.

Finally, Dr. Thomadakis thanked the IESBA meeting participants for their contributions, conveyed his best wishes for the holiday season, and closed the meeting.