

Agenda Item

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Meeting: IESBA Consultative Advisory Group
Meeting Location: Virtual Meeting
Meeting Dates: September 7 and 20, 2021

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULATIVE ADVISORY
GROUP (CAG)**

Held Virtually on March 10, 2021

PRESENT

Gaylen Hansen (Chair)

Hilde Blomme

Dr. Christian Orth

Robert De Tullio

Dr. Claes Norberg

Prof. Hysen Cela

Paul Thompson

Jazmin Gamboa

Paul Sobel

Daniel Sarmiento Pavas

Dr. Conchita Manabat

Natasha Landell-Mills

Robert Choromanski

Takeshi Hirai

Huseyin Yurdakul

James Dalkin

Inanc Yazar

Asha Mubarak

Xiomara Morel

Member Organizations

National Association of State Boards of Accountancy (NASBA)

Accountancy Europe (AE)

AE

Basel Committee on Banking Supervision (Basel Committee)

Business Europe (BE)

European Federation of Accountants and Auditors for SMEs (EFAA)

EFAA

Financial Executives International (FEI)

Institute of Internal Auditors (IIA)

Inter-American Accounting Association (IAA)

International Association of Financial Executives Institutes (IAFEI)

International Corporate Governance Network (ICGN)

International Organization of Securities Commissions (IOSCO)

IOSCO

IOSCO

International Organization of Supreme Audit Institutions (INTOSAI)

Organisation for Economic Cooperation and Development (OECD)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

World Bank

Wei Meng World Federation of Exchanges (WFE)

Observer Organizations

Dawn McGeachy-Colby IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)

Lillian Ceynowa¹ U.S. Public Company Accounting Oversight Board (PCAOB)

George Kabwe International Money Fund

Public Interest Oversight Board (PIOB)

Shigeo Kashiwagi

IESBA Members and Staff

Dr. Stavros Thomadakis IESBA Chairman

Caroline Lee IESBA Deputy Chair

Brian Friedrich IESBA Member, Technology Working Group Chair

Richard Huesken IESBA Member, Technology Task Force Chair

Laura Friedrich IESBA Technical Advisor and Benchmarking Chair

Richard Fleck Former IESBA Deputy Chair, Benchmarking Working Group Member

Ken Siong Senior Technical Director

Diane Jules Deputy Director

Geoffrey Kwan Principal

Kam Leung Principal

Szilvia Sramko Manager

Carla Vijian Manager

Astu Tilahun Assistant Manager

Diana Vasquez Executive Assistant

David Johnson Senior Manager, Communications

APOLOGIES

Member Organizations

Mohini Singh CFA Institute

Sanders Shaffer International Association of Insurance Supervisors (IAIS)

Dr. Bello Lawal Danbatta Islamic Financial Services Board (IFSB)

Paul Munter IOSCO

¹ Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or other Board members or staff.

A. Opening Remarks

Mr. Hansen welcomed all participants to the meeting. He welcomed, in particular, Mr. Shigeo Kashiwagi as the PIOB observer. He also welcomed Mr. Thompson as the second representative for EFSA; Ms. Jazmin Gamboa as the new Representative for FEI; Ms. Morel as the new Representative for the World Bank; Ms. Ceynowa as the new Representative for the US PCAOB; Ms. Blomme as the second Representative for AE; Mr. Kabwe as the official observer from the IMF; and Mr. Choromanski as one of the IOSCO Representatives for this meeting.

Mr. Hansen bid farewell on behalf of the CAG to: Ms. Noemi Roberts from Accountancy Europe; Mr. Henry Fortin from the World Bank; Ms. Laura Shiffman from the Financial Executives International; and Ms. Megan Zietsman from the PCAOB.

APPROVAL OF MINUTES

The CAG approved the minutes of the September-October 2020 IESBA CAG meeting and the October 2020 IAASB-IESBA joint session as presented.

REPORT-BACKS

The CAG received report-backs on the September 2020 IESBA CAG discussions relating to the non-assurance services (NAS), Fees, and Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers projects. The CAG also received a report-back on the October 2020 joint IESBA and IESBA CAG discussion on the Definitions of Listed Entity and Public Interest Entity project. The CAG did not raise any further comments.

B. Benchmarking of Independence Frameworks relevant to Audits of Public Interest Entities

Ms. Friedrich, Chair of the Benchmarking Working Group (WG), provided an update on the objective, scope and methodology of Phase 1 of the IESBA's benchmarking initiative. Phase 1 focuses on the comparison of the US Securities and Exchange Commission (SEC)/PCAOB independence provisions against the Code's independence provisions relevant to PIE audit clients.

Representatives acknowledged the challenges related to comparing these different frameworks. Among other matters, the following comments were raised:

- Mr. Hansen asked if the objective of the comparison was to make a judgment on which framework is more stringent. Mr. Kashiwagi wondered about the point of the exercise if the report arising from the initiative does not indicate once and for all which is more stringent – US SEC/PCAOB provisions or IESBA Code. Ms. Friedrich explained that the WG does not intend to provide an overall conclusion regarding which framework is more stringent. However, the comparison will identify the similarities and key differences with respect to the specific topics.
- Ms. Landell-Mills questioned the level of objectivity of the exercise and asked whether the initiative had a pre-determined objective to demonstrate that the principles-based approach is as effective as a rules-based approach. She pointed out that the benchmarking should highlight the strengths and advantages of the principles-based approach as well as of the rules-based approach. Ms. Friedrich clarified that the IESBA had no such pre-determined objective. Instead, the WG's intent is to demonstrate how the principles-based approach works and what its strengths are. She reiterated that the WG would keep an objective and open mind while progressing the benchmarking exercise.

- Ms. Landell-Mills asked for further clarification regarding the methodology used for the comparison. Ms. Friedrich responded that the WG aimed to capture areas that are of particular interest to stakeholders and that it would seek the appropriate level of granularity in which to present the results in the final report.
- Ms. Manabat wondered about the value of the benchmarking and whether the intent was to validate a particular hypothesis. She asked what objective the IESBA intended to achieve with this initiative. Ms. Blomme also wondered about the objective of the initiative. Mr. Fleck clarified that the WG aimed to provide an objective comparison of the two regimes as well as identify considerations for possible amendment or supplementation in the Code. The overall aim of the initiative is to provide objective, reliable and informative comparisons for the IESBA and its stakeholders. He acknowledged that there are some challenges in undertaking the comparison given some conceptual differences between the US SEC/PCAOB provisions and the Code. Nevertheless, the objective was very much intended to be a targeted examination of the Code against the corresponding US SEC/PCAOB provisions.
- Mr. Dalkin noted that one of the challenges for the US Government Accountability Office (GAO) in developing ethics standards is that application of the principles often relies on professional judgment, and professional accountants can have significantly different views in applying those principles. He shared that the GAO had therefore found a hybrid approach helpful, i.e., establishing some “floors and ceilings” to help with that judgment.
- Ms. Blomme questioned whether the IESBA planned this initiative to be a multi-phase exercise with other national independence frameworks to be considered in the future.
- Mr. Sarmiento-Pavas observed that the Code is developed by an international community and it is intended for global application. By contrast, the US SEC/PCAOB provisions are developed by a specific jurisdiction.

Dr. Thomadakis reiterated that the benchmarking exercise did not intend to promote the approach of any independence framework or to make easy judgments over provisions that are difficult to compare. As an important point to the context, he highlighted that the principles-based Code is a globally used framework that has to fit different legal backgrounds worldwide. He emphasized that it is not the IESBA’s intent to make an overall judgment as to which framework is better. He clarified that one of the objectives of the benchmarking initiative is to inform the IESBA’s future strategy and work plan, and that the intent was indeed to consider future comparisons in other jurisdictions over time.

WAY FORWARD

Ms. Friedrich informed the CAG Representatives that the IESBA will consider the proposed objective, methodology and terminology for Phase I of the benchmarking initiative at its March 2021 meeting.

C. US SEC Staff Update

Ms. Jenifer Minke-Girard (Senior Associate Chief Accountant), Mr. Vassilios Karapanos (Associate Chief Accountant), Ms. Jasdeep Mangat (Associate Chief Accountant) and Mr. Matt Hodder (Associate Chief Accountant) briefed the CAG on the recent revisions to the US SEC’s auditor independence rules. They highlighted at a high-level the rationale for such revisions.

Concerning the current practice and interpretation of the SEC rules, Representatives raised, among others, the following queries:

- Ms. Landell-Mills was interested in any examples from practice where auditors had been found not to have complied with the principles-based portion of the SEC rules. The SEC Staff noted that if there were any issues of non-compliance with principles-based rules, these would come up in the SEC's enforcement releases; however, the SEC Staff added that compliance with the principles-based rules is always a consideration in any kind of consultation (especially queries from firms) with the SEC.
- Mr. Yurdakul questioned what types of violation are the most common. The SEC Staff noted that cases of non-compliance and consultations are usually related to the provision of non-audit services to audit clients and affiliates. These non-audit services include legal, management, internal control, and IT-related services. The SEC Staff added that providing bookkeeping services is not as common anymore, especially in large firms. However, some violation cases concerned small firms preparing financial statements or providing accounting calculations to their audit clients.
- Mr. Dalkin inquired whether the SEC considers its independence framework as principles-based, rules-based, or a hybrid of these two approaches. The SEC Staff clarified that the SEC usually refers to its independence regime as a rules-based framework. However, SEC rules cannot contemplate all scenarios related to auditor independence; therefore, Rule 2-01 also includes principles.

Regarding the context and rationale of the recent revisions, Representatives were interested in the following issues:

- Ms. Landell-Mills asked whether any amendments were driven by queries from investors. The SEC Staff shared that the SEC typically does not receive questions directly from investors. The SEC Staff saw this as a common challenge regulators face globally.
- Ms. Manabat asked what had driven the SEC to propose the most recent changes. The SEC Staff explained that some of the proposals in 2019 were informed by stakeholder feedback to the loan rule changes. The SEC Staff also indicated some rule violations had been found not to impact firms' objectivity and impartiality to any significant extent, especially in the case of services provided to affiliates of investment company complexes and affiliates under common control. Therefore, the SEC's efforts have focused more on non-audit services and business relationships, both of which have a greater impact on independence.
- Mr. Hirai questioned how stakeholders had received the SEC rule changes. He also asked the SEC Staff to provide some insight regarding the impact of the changes, especially concerning the definition of affiliate of the audit client. The SEC Staff noted that the reception of the changes was primarily positive. Nevertheless, they added that it was too early to comment on the impact of the changes. Until recently, most of the questions regarding the amended rules were related to the "look-back period" regarding the audit relationship. The SEC Staff also noted that with the changes, the SEC's affiliate definition was now more aligned with the IESBA's audit client definition in relation to related entities.
- Mr. Hansen pointed out that the most important building block of the principles-based Code is the conceptual framework. He asked if the SEC's independence regime has anything similar to the Code's "threats and safeguards" approach. The SEC Staff clarified that the SEC rules do not include references to threats or safeguards. Given this difference in the overarching approaches, they echoed the importance of the IESBA's benchmarking initiative in identifying the similarities and key differences between the two independence frameworks.

Mr. Hansen thanked the SEC representatives for the helpful and informative presentation.

D. Technology

Mr. Friedrich, Chair of the Technology Working Group, reported back on the September 2020 meeting and provided the CAG representatives with an update on the proposed way forward for the Technology project. He described the scope and focus of the Technology Working Group's proposed remit to progress the development of non-authoritative material (NAM). He then explained the Planning Committee's and Technology Task Force's recommendation to defer the issue of the technology exposure draft by six months, taking into account not only the need to allow the newly approved revisions to the non-assurance services (NAS) and fee-related provisions of the Code to be implemented but also the increased pressures on stakeholders in the COVID-19 environment.

Among other matters, the following were raised:

DEFERRAL OF THE EXPOSURE DRAFT

- Mr. Kashiwagi expressed support for the bifurcation of the work streams and welcomed the intent of strong collaboration between the two technology groups. While he appreciated the reasons for the deferral, he expressed a hope that there would be no further delay given some urgency in addressing issues arising from the rapid pace of technology developments.

Mr. Friedrich thanked the PIOB for the support for the way forward. He acknowledged the challenge in striking a balance between ensuring a timely release of new standards and being sensitive to the burdens on stakeholders implementing them. Dr. Thomadakis added that the Planning Committee had reflected carefully on the way forward, recognizing that the technology field is very broad. Ultimately, the objective is to develop timely NAM while working on potential enhancements to the Code to maintain its relevance and fitness for purpose.

- Mr. Kashiwagi also sought to better understand the role of Planning Committee.

Dr. Thomadakis explained that the Planning Committee is a longstanding, informal group of IESBA members, usually made up of the chairs of the main Task Forces and Working Groups in addition to the Board Chair and Deputy Chair. The primary role of the Planning Committee is to advise the Chair on the management of the Board's operations and strategic work plan. He emphasized that the Planning Committee is not a decision-making committee of the Board.

- Ms. McGeachy-Colby noted that there are a lot of interesting activities on technology across the profession. She expressed support for a principles-based approach to developing the exposure draft, noting a desire that there be no significant changes to the Code given the need for a period of stability.

Mr. Friedrich noted that the Technology initiative's views around a principles-based approach and minimizing Code changes are aligned with those Ms. McGeachy-Colby expressed.

SCOPE OF THE WORKING GROUP'S WORK

- Ms. Blomme thanked Mr. Friedrich for his involvement in the AE podcast and noted that AE members have a preference for addressing ethical matters arising from technology through NAM, with Code changes only as necessary. She expressed support for the topics identified as a priority by the Technology Working Group, especially with respect to confidentiality as technology is making rapid changes to the traditional ways of handling data. Further, use of social media has given rise to a greater appreciation of the importance of confidentiality. Finally, on the topic of data governance,

the issue of data hosting has become more visible in terms of its implications for independence in the context of NAS.

Mr. Friedrich thanked Ms. Blomme for the support and pointed out a generational ethics study by the US Ethics & Compliance Initiative on, for example, how individuals more active on social media interpret 'confidentiality'.

SURVEY RESULTS

Mr. Huesken, Chair of the Technology Task Force, provided the CAG representatives with an overview of the key messages received in response to the two technology surveys that were active in October and November 2020: *Technology and Complexity in the Professional Environment* and *The Impact of Technology on Auditor Independence*.

Among other matters, the following were raised:

COMPLEXITY SURVEY

- Ms. Meng similarly expressed support for the principles-based approach. With regard to the four options explored in the survey, she commented that threats arise from inappropriate behavior. Complexity does not necessarily negatively or inappropriately impact behavior and therefore she did not consider complexity to be a threat. She therefore found the combination of option 2 (to amend the existing threats) and option 3 (to add a new type of threat) not easy to understand but acknowledged that the four options were not mutually exclusive.

Mr. Huesken noted that the Task Force is leaning more towards option 4 (highlighting complexity as a pervasive factor), noting that many respondents had highlighted complexity in examples far broader than technology.

INDEPENDENCE SURVEY

- Mr. Hansen questioned if support services when tagged onto the sale of technology products should also be considered in terms of whether there are implications for independence.

Mr. Huesken noted that the question is whether this matter should be addressed through NAM or changes to the Code. He was of the view that developing NAM could be helpful but that would not preclude changes to Section 606 of the Code addressing IT systems services.

- Mr. Kashiwagi commented that while it is good that 76% of survey respondents agreed that Section 600² should apply to NAS that are enabled by technology, there is an issue if 24% do not. He therefore felt it important for the IESBA to consider how to emphasize that services provided by people or by technology should be equally considered through the NAS provisions.

E. PIOB Observer's Remarks

Mr. Kashiwagi thanked the CAG for the opportunity to participate in the meeting and for the good level of discussions, which he found to be responsive to the public interest.

F. Closing Remarks

Mr. Hansen thanked the CAG participants for their contributions and closed the meeting.

² Section 600, *Provision of Non-Assurance Services to an Audit Client*