

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

**Held on June 20, 2016 via Teleconference**

**PRESENT**

Kristian Koktvedgaard (Chair)

Anne Molyneux

Francis Nicholson

Atsushi Inuma

Huseyin Yurdakul

Jim Dalkin

Gaylen Hansen

Lucy Elliott

Gayani L. Perera

**Member Organizations**

BusinessEurope

International Corporate Governance Network (ICGN)

Institute of Internal Auditors (IIA)

International Organization of Securities Commissions (IOSCO)

IOSCO

International Organization of Supreme Audit Institutions (INTOSAI)

National Association of State Boards of Accountancy (NASBA)

Organisation for Economic Cooperation and Development (OECD)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

**Observer Organizations**

Lillian Ceynowa

U.S. Public Company Accounting Oversight Board

**IESBA Members and Staff**

Dr. Stavros Thomadakis

IESBA Chairman

Richard Fleck

IESBA Deputy Chair

Gary Hannaford

IESBA Member and Safeguards Task Force Chair

Don Thomson

Former IESBA Member and Structure Task Force Chair

Ken Siong

Technical Director

Diane Jules

Deputy Director

Kaushal Gandhi

Manager, Standards Development and Technical Projects

**Public Interest Oversight Board (PIOB)**

Chuck Horstmann

**APOLOGIES**

Vânia Borgerth

Nicolaas van der Ende

Mohini Singh

Matthew Waldron

Dr. Juan-Maria Arteagoitia

Noémi Robert

Myles Thompson

Erik Bradbury

Marie Lang

Dr. Obaid Saif Hamad Ali Al Zaabi

Jean-Luc Michel

Sanders Shaffer

Jaseem Ahmed

Sherif Ayoub

Patricia Miller

Nigel James

Irina Lopez

Wei Meng

Simon Bradbury

Dawn McGeachy-Colby

**IESBA Members and Staff**

James Gunn

**Member Organizations**

Associação Brasileira de Instituições Financeiras de Desenvolvimento

Basel Committee on Banking Supervision (Basel Committee)

CFA Institute

CFA Institute and IAASB CAG Chairman

European Commission (EC)

Fédération des Experts Comptables Européens (FEE)

FEE

Financial Executives International (FEI)

European Federation of Accountants and Auditors for SMEs (EFAA)

Gulf States Regulatory Authorities (GSRA)

International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)

International Association of Insurance Supervisors (IAIS)

Islamic Financial Services Board (IFSB)

IFSB

IIA

IOSCO

World Bank (WB)

World Federation of Exchanges (WFE)

**Observer Organizations**

International Monetary Fund (IMF)

IFAC Small and Medium Practices (SMP) Committee

Managing Director, Professional Standards

## A. Opening Remarks

Mr. Koktvedgaard opened the public session, welcoming Representatives and thanked them for taking the opportunity to provide early input to the Safeguards Task Force on the proposed revisions made to Safeguards ED-1 in advance of IESBA June 2016 meeting. He welcomed in particular Mr. Horstmann as the PIOB Observer, Dr. Thomadakis, IESBA Chairman and Mr. Fleck, IESBA Deputy Chair. He also welcomed official observer Ms. Ceynowa from the PIOB, and public observer Robyn Erskine, IFAC SMPC Ethics Task Force Chair.

## B. Safeguards

Mr. Hannaford presented an overview of respondents' feedback on the December 2016 Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (Safeguards ED-1).<sup>1</sup> He noted that the Board received 53 comment letters, and that there was in general strong support for the project objectives. He then provided an overview of the general and more specific comments received from respondents. He noted some respondents commented on the timing of the project and expressed a desire to see how Phase 1 and 2 of the project fit together and with the whole restructured Code.

Mr. Hannaford described some of the specific issues raised by respondents to Safeguards ED-1 and explained how the Task Force addressed them in their revised proposals. He explained that the CAG would receive at its September 2016, a paper that summarizes the issues raised by respondents, and the Task Force's proposals.

Mr. Hannaford noted that the Task Force continues to work very closely with the Structure Task Force. He explained that the agenda materials include preliminary proposals to address concerns raised about the interaction between independence and the fundamental principles. He explained that the Structure Task Force is planning to present those proposals to IESSBA at its June 2016 meeting and that is planning to obtain views the CAG at its September 2016 meeting.

In addition to editorial suggestions, Representatives commented on the following:

### GENERAL COMMENTS

- Mr. Hansen complimented the Task Force on its progress to-date. Reflecting on the discussions

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<sup>1</sup> The Safeguards ED-1 includes:

- Enhancements aimed at clarifying the conceptual framework (CF) by shifting the professional accountant's (PA's) focus to identifying, evaluating and addressing threats to compliance with the fundamental principles rather than just seeking to apply safeguards.
- New requirements in proposed Section 120 that more explicitly direct PAs to identify, evaluate and address threats to compliance with the fundamental principles.
- A requirement for PAs to re-evaluate those threats if new information becomes available, or if facts and circumstances change.
- An improved description of the following terms and concepts:
  - Reasonable and informed third party;
  - Acceptable level; and
  - Safeguards.
- A new requirement for the PA to perform an overall assessment (i.e., "step back") by reviewing judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level and that no further action is needed.

from the June 2016 national standards-setters meeting, Mr. Hansen questioned the planned timing for Phase 1 and Phase 2 of the safeguards project and asked for views about suggestions to finalize the safeguards project before finalizing restructured Code. Mr. Hannaford explained that planned timing for the release of Safeguards Phase 1 and 2 coincide with the timeframe for the Structure of the Code project. Accordingly, IESBA's planned approval for the Safeguards and Structure Phase 2 exposure drafts is December 2016. Mr. Hannaford explained that the Safeguards and Structure Task Forces plans to recommend that IESBA make available a document to assist stakeholders understand the finalized wording for Phase 1 of the projects at the same time that Phase 2 is released.

- Ms. Elliott questioned whether IESBA plans to review the provisions for professional accountants in business (PAIBs). Mr. Hannaford explained that the provisions in Section 120 are applicable to all professional accountants and that as part of its Phase 2 work, the Task Force plans to develop conforming changes to the rest of the Code, including to the provisions that are applicable to PAIBs. He also explained that in September 2016, IESBA will consider updated proposals to restructure the Part C Close off document titled, *Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles* (Part C Phase 1). He also noted that those proposals would form part of the Phase 2 ED for the Structure of the Code project.
- Ms. Molyneux noted that the changes in the revised proposals are strong, extensive but some for example those pertaining to describing the reasonable and informed third party might be difficult to implement. She emphasized the importance of educating and training professional accountants to ensure the effective implementation of the revised provisions. Mr. Hannaford explained that much like its other standard-setting projects, the IESBA plans to undertake efforts to promote awareness and implementation of the final safeguards pronouncements.
- Mr. Koktvedgaard wondered about whether the enhanced requirements and application material in the conceptual framework encourage more or less auditor judgment. Mr. Hannaford explained that the more robust requirements in the conceptual frameworks specifies an approach to assist professional accountants think through how to identify, evaluate and address threats to compliance with fundamental principles. He explained that the application of the conceptual framework would avoid a situation whereby a professional accountant or firm simply try to apply safeguards without regard to the level of the threat or the appropriateness of such safeguards.

#### REASONABLE AND INFORMED THIRD PARTY

- Mr. Horstmann pointed to the feedback from International Forum of Independent Audit Regulators (IFIAR) and questioned who might be able to perform the reasonable and informed third party test. He questioned whether the reasonable and informed third party test needed to be performed by a professional accountant versus a layperson (i.e., "Joe Public."). Ms. Ceynowa and Mr. Hansen echoed Mr. Horstmann views and suggested that the reasonable and informed third party test should be from the perspective of a user. Mr. Koktvedgaard wondered whether the reasonable and informed third party test should be different for independence of mind, versus independence in appearance. Mr. Hannaford noted that some participants in the June 2016 national standards-setters meeting expressed similar views. He explained that the intent was for the reasonable and informed third party to be performed from the perspective of an objective person who possess sufficient skills and experience to challenge the judgments and conclusions reached professional accountant. He explained that feedback from the NSS indicate that the use of the word "skills"

created the impression that the reasonable and informed third party needed to also be a professional accountant. The Task Force is recommending that the word “skills” be deleted.

- Ms. Elliott suggested the need for a word like “hypothetical” to describe the reasonable and informed third party. Mr. Koktvedgaard suggested that the Task Force focus on describing the characteristics of the reasonable and informed third party. Mr. Hannaford explained Safeguards ED-1 included the word “hypothetical” but that several urged that he IESBA avoid the use of such a word. Respondents suggested that the IESBA instead consider the use the words “uninvolved” or “objective”.
- Ms. Molyneux explained that jurisdictional laws and regulations also describe the reasonable and informed third party and questioned whether the existence of a description in the Code will present an issue. Mr. Hannaford explained that the Code includes a provision to acknowledge that there are circumstances when laws or regulations preclude a professional accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail.
- Mr. Hansen suggested that the description of reasonable and informed third party be included in the glossary with other defined terms. Mr. Hannaford also explained that the description of the reasonable and informed third party is relevant for all situations in the Code where the concept is used, including for in the recently released pronouncement, *Responding to Non-compliance with Laws and Regulations*. Ms. Jules added that the description of the reasonable and informed third party concept is already included in the glossary of the proposed restructured Code.

#### IDENTIFYING, EVALUATING AND ADDRESSING THREATS

- Ms. Ceynowa wondered whether, the requirement for the professional accountant to decline or discontinue a specific professional activity, should be positioned before the requirement to apply safeguards, as presented in paragraph R120.8 of the June 20, 2016 CAG teleconference agenda materials. Mr. Hannaford indicated that the Task Force will revisit the positioning of those provisions, but noted that as part of Phase 2 of the project, more prominence will be given to the prohibitions in the Code that indicate services that cannot be provided.
- Mr. Dalkin noted that one of the most significant and important changes in Safeguards ED-1 is the requirement for re-evaluating threats. He noted that in his view this change is responsive to some of the findings observed in the public sector environment. He expressed support for the revised placement of the provisions as part of the evaluating threats section.
- Ms. Ceynowa and Mr. Hansen questioned whether the requirement for re-evaluating threats is intended to include situations when the professional accountant learns about contradictory information. Mr. Hansen suggested that it would be useful for the Code to include application material to indicate that such new information include contradictory information. Mr. Hannaford responded affirmatively, and indicated that the Task Force would consider whether the Code should include an explicit statement in this regard.

#### WAY FORWARD

Mr. Hannaford thanked the Representatives for their input noting that he would present the views expressed to IESBA at its June 2016 meeting. He explained that the Task Force will consider the CAG feedback as it further refines the provisions in Safeguards ED-1. He noted that the CAG will have another opportunity to provide input on Safeguards ED-1 at its September 2016 meeting. He added that the CAG will also be asked to provide views on the proposed revisions to enhance the safeguards in the non-

assurance services section of the Code and will receive a report back on the March 2016 meeting and June 2016 teleconferences CAG discussions.

Dr. Thomadakis thanked the CAG for its early input into the safeguards project. With respect to the concerns raised by some representatives about the timing and coordination of various IESBA projects, he noted that the Planning Committee is monitoring the activities of the various Task Forces. He noted CAG will be provided an update on the timing of the various IESBA projects at its September 2016 meeting.

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

Mr. Horstmann complimented the Task Force on its progress to-date. He noted that in his view, the CAG's input has been very thoughtful and that the Task Force's has been very responsive. From a public interest perspective, he noted that the most significant issue is the description of the reasonable and informed third party test. He noted that in his view it is important that the Task Force continue to refine its proposals aimed at clarifying the characteristics of the person performing the test (i.e., a reasonable and informed third party).

#### **D. Closing Remarks**

Mr. Kockvedgaard thanked the Representatives for their contributions. He noted that the next IESBA CAG meeting is on September 14, 2016 with a joint session with the IAASB CAG on September 13, 2017. He signaled that the September 14, 2016 IESBA CAG will be a full day and signaled to the Representatives that they will soon be invited to the second annual PIOB Public Interest Workshop on September 15, 2016 in New York immediately following IESBA CAG meeting. He then ended the teleconference.