

**Draft Minutes of the 49th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

Held on September 26-30, 2016 in New York, USA

Voting Members

Present: Stavros Thomadakis (Chairman)
Richard Fleck (Deputy Chair) (Day 3,
Day 5 by teleconference)
Helene Agélii
Michael Ashley (Days 1 and 5)
Brian Caswell
Kim Gibson
Gary Hannaford (Days 1 to 3, Day 4 AM,
Day 5 by teleconference)
Liesbet Haustermans
Claire Ighodaro
Robert Juenemann
Chishala Kateka
Atsushi Kato
Stefano Marchese
Ian McPhee
Reyaz Mihular
Patricia Mulvaney
Lisa Snyder (Day 1 PM, Days 2 to 5)
Sylvie Soulier

Technical Advisors

Tony Bromell (Mr. Ashley)
Denise Canavan (Ms. Haustermans)
Elbano De Nuccio (Mr. Marchese)
Jason Evans (Mr. Caswell and Ms. Snyder)
(Days 1 to 4 only)
Tania Vanburen (Mr. Mihular)
Tone Maren Sakshaug (Ms. Agélii)
Heidi Martinez (Ms. Gibson)
Andrew Pinkney (Ms. Mulvaney)
Jens Poll (Mr. Hannaford) (Days 1 to 3, and Day
4 AM only)
Eva Tsahuridu (Mr. McPhee)
Toshihiro Yasada (Mr. Kato)

Apology: Michael Dorfan (Ms. Kateka)

Non-Voting Observers

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair) and Takuya Emoto (Japanese Financial Services Agency (FSA))

Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Chuck Horstmann

IESBA Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (Days 1 and 2, and Day 3 AM only), Ken Siong (Technical Director), Diane Jules, Kaushal Gandhi and Elizabeth Higgs

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He welcomed, in particular, Mr. Horstmann, observing on behalf of the PIOB. He also welcomed Mr. Koktvedgaard, Chair of the IESBA CAG, and Mr. Emoto, the Japanese FSA observer. In addition, Dr. Thomadakis welcomed Mr. Warren Allen, former President of IFAC and now CEO of the New Zealand External Reporting Board (XRB), and Mr. Graeme Mitchell, Chairman of the XRB, both observing part of the meeting. Apologies were received for Mr. Dorfan and Dr. Arteagoitia.

IESBA APPOINTMENTS AND RE-APPOINTMENTS

Dr. Thomadakis announced that the PIOB had approved the appointment of Mr. Hironori Fukukawa from Japan and Ms. Caroline Lee from Singapore to the Board from January 1, 2017 for three-year terms. In addition, the PIOB had approved re-appointments to the Board for Messrs. Caswell and Mihular for two-year terms, and Ms. Soulier for a three-year term. The PIOB had also approved the re-appointment of Mr. Fleck as IESBA Deputy Chair for 2017.

Dr. Thomadakis informed the Board that Mr. Ashley's classification on the Board would be changed from practitioner to non-practitioner from January 1, 2017. In addition, this would be the last IESBA meeting for Ms. Vanburen as she had decided to pursue a career outside the accountancy profession. As a result, she would be stepping down from her position as Mr. Mihular's Technical Advisor after the September 2016 meeting. Dr. Thomadakis thanked her for her contributions to the Board's work and wished her the best for the future.

PROFESSIONAL SKEPTICISM (PS) WORKING GROUP (WG)

Dr. Thomadakis informed the Board that Ms. Mulvaney had joined Mr. Fleck and Ms. Sakshaug to form a dedicated IESBA PS WG. The formation of the WG will bring the IESBA into line with the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Education Standards Board (IAESB) who have also established dedicated WGs to focus on PS from their perspectives.

SEPTEMBER 2016 IESBA CAG MEETING

Dr. Thomadakis noted the projects that were discussed at the September 2016 IESBA CAG meeting, indicating that the meeting had been constructive. Individual Task Force Chairs would report on the main CAG feedback during their sessions. He thanked Mr. Koktvedgaard for the good management of the meeting. Mr. Koktvedgaard thanked Board members and staff for the good agenda material that was prepared for the meeting.

PLANNING COMMITTEE UPDATE

Dr. Thomadakis reported that the Planning Committee had met by teleconference in August 2016 to consider, among other matters, progress on the current projects, forward project timelines and how these might impact the timing of Board meetings in 2017, and a crossover issue relating to independence

regarding the IAASB's consideration of a potential revision to its agreed-upon procedures standard, ISRS 4400¹.

RECENT OUTREACH ACTIVITIES

Dr. Thomadakis provided an update on outreach activities since the June 2016 IESBA meeting. He indicated that an extended outreach had been planned in South America in November 2016, which would include Non-compliance with Laws and Regulations (NOCLAR) workshops at the IFAC Council meeting in Brazil, and meetings with various stakeholders in Brazil, Chile and Peru. He thanked Mr. Juenemann for assisting in organizing meetings in Brazil and for agreeing to join the outreach.

He also thanked all IESBA representatives who had participated or will participate in outreach, and encouraged Board participants to conduct outreach and become ambassadors for the Board within their own jurisdictions.

OTHER MATTERS

Dr. Thomadakis informed the Board that the 2016 IESBA Handbook containing the recently released NOCLAR pronouncement had now been published.

MINUTES OF THE PREVIOUS MEETING

The minutes of the June 27-29, 2016 Board meeting were approved as presented.

2. Safeguards

Mr. Hannaford introduced the topic, outlining the objectives of the session, including reaching agreement on all the substantive revisions to the text of the December 2015 Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code – Phase 1](#) (Safeguards ED-1). He noted that the Task Force continues to work very closely with the Structure Task Force, and reminded the Board that certain parts of the Safeguards agenda materials were developed by the Structure Task Force.

PHASE 1 – POST-EXPOSURE REVISIONS

Description of the Conceptual Framework (CF)

Mr. Hannaford explained the refinements made to clarify a simple three-step approach to identify, evaluate and address threats to compliance with the fundamental principles (FPs) – the conceptual framework. He explained that as part of this approach professional accountants (PAs) are required to:

- Consider new information or changes in facts and circumstances, in order to properly evaluate threats; and
- Consider significant judgments made and overall conclusions reached (i.e., perform an overall assessment/step back) in order to properly address threats.

IESBA members were supportive of the enhancements made to clarify the CF. It was noted that the revisions were responsive to some of the concerns raised by the IFAC Small and Medium Practices

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

(SMP) Committee. Some IESBA members asked that the proposals clarify that the stages in the CF are iterative. For example, it was suggested that the proposals clarify that the need to re-evaluate threats is triggered by new information or changes in facts and circumstances. It was also suggested that the proposals should require PAs to re-evaluate threats:

- Only when new information or changes in facts and circumstances indicate a matter that is contradictory to the PA's initial conclusions; and
- Each time a new threat is introduced, for example when a new non-assurance service (NAS) is provided.

Mr. Hannaford reiterated that the requirement to re-evaluate is part of addressing threats, as part of the PA's consideration of judgments made and conclusions reached. He explained that when a new threat is identified, the PA is required to evaluate whether it is at an acceptable level, and if not, address it. He also explained that the CF already requires PAs to remain alert for new threats.

IESBA members considered a suggestion to have the requirement for an overall assessment be a fourth stage in the CF, but ultimately agreed with the Task Force's proposal to have it be a part of addressing threats.

Description of Reasonable and Informed Third Party (RITP)

Mr. Hannaford explained that in response to the Board's feedback at the June 2016 meeting, the Task Force had revised the description of RITP to clarify the characteristics of the RITP, and the RITP test. He noted that Task Force believes that:

- The RITP test should be applied by the PA, from the perspective of another person, who could be a user or a PA.
- The RITP test is a concept that involves a consideration by the PA about whether the same conclusions would likely be reached by another person, possessing sufficient knowledge and experience to objectively evaluate the appropriateness of the PA's conclusions, and weighing all the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time the conclusions were made.
- Its proposals are responsive to the CAG and regulatory respondents who believe that the RITP should not be a PA.

IESBA members complimented the Task Force on its efforts to clarify the description of RITP given the importance of the concept in the Code more broadly. The Board exchanged views about the level of detail that is needed to explain the characteristics of the RITP. The Board concurred with the Task Force that the description of RITP should be clear, simple and not overly detailed. The Board also agreed with the Task Force's view that the RITP was a concept. However, there were varied views about whether the word "concept" should be used in the Code, specifically in the title of the heading that precedes the proposed definition. While some IESBA members believed that using the word "concept" in the title was helpful, others believed that having the multiple terms "RITP", "RITP test" and "RITP concept" in the Code was unnecessary complex and confusing.

IESBA members asked that the Task Force consider:

- Replacing the word "objectivity" with "impartiality" to properly convey the characteristic of the RITP.
- Revisiting whether the phrase "take into account the RITP..." is appropriate.

Mr. Koktvedgaard noted that the CAG was generally supportive of the revisions made by the Task Force, but continued to have questions about who should perform the test. He added that one CAG representative was of the view that the RITP should be modernized to indicate that the RITP might be a regulator.

During the meeting, the IESBA considered two sets of revisions developed by the Task Force to address the comments raised with respect to the description of the RITP. The Board agreed to describe the RITP as “a consideration by the PA about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a RITP, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The RITP does not need to be an accountant, but would possess the relevant knowledge and experience, and impartiality, to understand and evaluate the appropriateness of the accountant’s conclusions.”

PIOB Observer’s Comments

Mr. Horstmann shared his reflections of the CAG discussion on the topic. He noted that the PIOB is of the view that describing the RITP is a public interest issue. He noted that in his view the Task Force’s proposals were sound and at the right level of detail.

Acceptable Level

Mr. Hannaford noted that the Task Force continues to believe that the term acceptable level should be described in an affirmative manner, and should be given prominence by being included in the body of the Code under its own subheading. It was suggested that the description of acceptable level be elevated to a requirement, and positioned in close proximity to the requirement to apply the RITP. Mr. Thomson explained that such an approach would be inconsistent with the new structure and drafting conventions. On that basis, the IESBA agreed with the Task Force’s proposal for including the description of acceptable level under its own subheading as application material to the requirement to evaluate threats.

Addressing Threats, Including Description of Safeguards

Mr. Hannaford explained that the Task Force’s proposals to clarify that a threat can be addressed by one of the following:

- (a) Eliminating the circumstance, including interests or relationships creating the threat;
- (b) Applying safeguards, where they are available and capable of being applied; or
- (c) Declining or ending the professional activity.

Mr. Hannaford also reiterated that the proposals clarify that conditions, policies and procedures established by the profession, legislation, regulation and the firm are no longer safeguards, but rather might be useful to the PA’s identification and evaluation of threats.

In response to a question raised during the discussion, IESBA members exchanged views about whether a safeguard could eliminate a threat, or whether safeguards can only reduce the threats to an acceptable level. The IESBA concluded that threats can only be eliminated by either:

- Eliminating circumstance, including interests or relationships creating the threat; or
- Declining or ending the professional activity.

The Board agreed that safeguards are “actions, individually or in combination, that the PA takes that effectively reduce threats to compliance with the FPs to an acceptable level.”

Some IESBA members also questioned the rationale for having the statement “There are some situations when there are no safeguards to eliminate the threats or reduce them to an acceptable level” and its relevance in the context of applying the conceptual framework when providing NAS to audit clients. Mr. Hannaford explained that the statement was intended to be responsive to a call from some within the regulatory community for having an explicit statement in the Code that there are some situations in which safeguards cannot be applied. It was suggested that this statement be merged with the proposed definition of safeguards for clarity. The IESBA agreed to this approach as presented in the Task Force’s updated proposals developed during the meeting.

Conditions, Policies and Procedures

Some IESBA members questioned whether having the examples of conditions, policies and procedures in the section titled “Identifying Threats” in Section 120 was appropriate and suggested that it be moved to the section titled “Evaluating Threats”. Those IESBA members noted that doing so would be more consistent with how the material is presented in Section 300, and would clarify that conditions, policies and procedures are factors that assist PAs in evaluating the level of threats. Mr. Hannaford explained that the Board had debated this issue in finalizing Safeguards ED-1, and concluded that conditions, policies and procedures help with both the identification and evaluation of threats. During the meeting, the Board agreed to refinements to the relevant paragraphs in Section 120 to clarify this position.

Dr. Thomadakis suggested that the Task Force’s proposal include an example of a condition, policy or procedure that is established in regulation. Mr. Hannaford explained that the bullet “professional or regulatory monitoring and disciplinary action” is intended to be such an example, but agreed to consider adding a more specific example. During the meeting, the Task Force presented updated proposals with a specific example, reinstated from the extant Code, “external review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.”² The Board considered the addition and agreed to revert to the Task Force’s initial proposal without that addition.

Applying the Conceptual Framework – PAs in Public Practice (PAPPs)

Mr. Hannaford summarized the revisions made to Section 300, noting that most of them were made to align to the revisions in Section 120 and the revisions to Structure ED-1. He explained that in response to Board feedback, the examples of actions that might be Safeguards had been further refined and that the example “consulting or seeking approval with TCWG” had been deleted.

IESBA members generally agreed with the revisions to Section 300, but asked that the Task Force:

- Further refine the examples of actions that might be safeguards, so that they are less audit/assurance specific.
- Consider specifying which FPs the threats and safeguards apply to.
- Align the examples of threats and safeguards for PAPPs to those in Section 200 for PAs in business (PAIBs).

² See paragraph 100.14 of the extant Code.

Some IESBA members suggested that the term “professional services” be used in Section 300, instead of professional activities in order to be consistent with the approach used in the extant Code. The Board agreed with the Task Force’s response to use the term professional activities in Section 300 only when discussing the CF.

PIOB Observer’s Comments

Mr. Horstmann noted that in his view, perceptions about the level of threats in the context of audit and assurance engagements is generally higher and suggested that it is in the public interest for the Board to include specific examples of actions that can be safeguards that focus on audit and assurance.

PHASE 2 – PROPOSED SECTION 600, PROVISION OF NAS

Mr. Hannaford explained that in developing Section 600, the Task Force was mindful of the April 2015 pronouncement, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#).³ He explained that the Task Force’s proposals built on the April 2015 NAS changes, and the enhancements set out in Structure ED-1 and Safeguards ED-1. Mr. Hannaford then led the Board through a second-read of the Task Force’s proposed revisions to the NAS section of the extant Code, proposed Section 600.

General Provisions

Mr. Hannaford summarized the proposed new general provisions to:

- Emphasize the need to comply with the FPs, as well as independence, when providing NAS to audit clients.
- Clarify that subsections set out requirements and application material that are relevant to specific types of NAS.
- Clearly state that in some cases, the Code prohibits a firm or network firm from providing a NAS to an audit client because there can be no safeguards to address the threats that might be created.
- Evaluate and address threats created by providing any NAS that is not addressed in the Code.
- To explain materiality in relation to an audit client’s financial statements.
- To explain that a firm or network should consider the combined effects of threats created by providing multiple NAS to the same audit client.

Mr. Hannaford also explained that the Task Force’s recommendation to make the provisions for avoiding the assumption of management responsibilities when providing a NAS more prominent, by moving it to the general provisions in the Code. He added that Task Force generally agreed that doing so would make

³ In April 2015, IESBA approved NAS changes that became effective in April 15, 2016. Those changes:

- Prohibit auditors from assuming management responsibility when providing NAS to audit clients;
- Remove provisions that permitted an audit firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations;
- Introduce new and clarified application material regarding what constitutes management responsibility; and
- Clarify guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

it clearer that those requirements applied when providing all NAS.

The Board expressed general support the Task Force's proposals in Section 600, including the recommendation to move the provisions relating to avoiding management responsibilities into the general provisions section. However, some Board members suggested that the Task Force consider whether the new placement for the management responsibility provisions:

- Affects other requirements in the NAS section of the Code (e.g., the requirements for when a firm provides a NAS to certain related entities); or
- Results in a gap in the types of NAS that can be provided to an audit client.

Reference to Independence

Some IESBA members suggested the need for a specific reference to independence when describing threats in each subsections. Mr. Hannaford explained that under the new drafting convention for the restructured Code, duplication is generally avoided and that the introduction for the subsection was intended to explain that providing NAS to audit clients might create threats to compliance with the FPs and threats to independence.

Matters Relevant to the Subsections

Mr. Hannaford then led the discussion about the revisions to the subsections. He explained that the Task Force sought to apply a consistent layout in each subsection, including the placement for prohibitions for audit clients that are not PIEs and for audit clients that are PIEs. He also explained that:

- For litigation support services, the Task Force had developed new application material to explain that the audit client's legal and regulatory environment in which the service is performed is a factor in evaluating the level of threats created.
- For recruiting services, the requirement in the extant Code that prohibits firms and network firms from providing certain recruiting services to audit clients that are PIEs was extended to audit clients that are not PIEs.
- With respect to the examples of safeguards, the Task Force did not believe that the Code should specify whether the review of the NAS should be done by a professional that is internal or external to the firm.

The Board generally agreed to the Task Force's proposed layout for the subsections, but provided several suggestions to further improve the consistency and flow of the subsections. This was particularly relevant to the taxation services subsection. The Board also asked that the Task Force:

- Review its proposals to ensure that similar safeguards are described in the same way.
- Consider whether obtaining advice is specific enough to meet the new description of safeguards.
- Questioned whether the advocacy threats created from providing expert witness services can be addressed and whether it should continue to be permissible, in particular because there are no examples of safeguards in the Code. Some Board members noted that in some jurisdictions, law and regulation requires auditors to be expert witnesses and specify the scope of their work, and cautioned against prohibiting a service that might be required by law in some jurisdictions.

Mr. Koktvedgaard wondered whether the proposals should indicate the types of threats to independence in mind as well as independence in appearance. Mr. Hannaford explained that such an approach would

be inconsistent with how other sections in the Code deal with independence.

PIOB Observer's Comments

Mr. Horstmann shared his reflections from the CAG meeting, noting that questions were raised about whether the Code views monitoring to be part of taking management responsibility. Mr. Hannaford explained that the Code permits the provisions of certain monitoring activities only when management takes responsibility for them.

PROPOSED CONFORMING AMENDMENTS

Mr. Hannaford provided an overview of the proposed conforming amendments arising from the Safeguards project to other areas in the Code, including to the proposed restructured text developed by the Structure, Long Association and Part C Task Forces. The Task Force was of the view that no conforming amendments need to be made to the restructured NOCLAR text.

The Board was generally supportive of the proposed conforming amendments. Mr. Siong suggested that the Task Force consider revising the phrase "factors that are *important* to evaluating threats..." to "factors that are *relevant* to evaluating threats..." The Board supported this suggestion.

Some IESBA members questioned whether certain examples of safeguards in the Code continued to meet the new description of safeguards or whether they should be re-characterized as conditions, policies or procedures (i.e., factors that are important/relevant to evaluating threats).

WAY FORWARD

The Board asked the Task Force to present a revised draft of the Phase 1 text with a view to reaching agreement in principle at its December 2016 meeting.

With respect to Phase 2, the Board asked the Task Force to present a revised draft of Section 600 with a view to approval for exposure at the December 2016 meeting. At that meeting, the Board will also consider further refinements to the proposed conforming amendments arising from the Safeguards project to all other areas in the Code.

3. **Structure of the Code**

Dr. Thomadakis introduced the topic, noting that the Structure project is a high priority and strategic project, with the Structure Task Force having overall responsibility for the restructuring of the Code.

Mr. Thomson summarized the project's background and status. He explained that he would focus on the remaining issues and proposals to be discussed and then lead the Board through a review of the text. He noted that the IFAC SMP Committee had written to the Task Force prior to the meeting expressing general support for the proposals and encouraging the Board to give more consideration to how best to reach out to SMPs to elicit feedback from them on its proposals.

OVERARCHING REQUIREMENTS AND ORDERING OF MATERIAL

Mr. Thomson explained that the Task Force had refined the introductory paragraphs in the restructured text to follow the sequence of: complying with the FPs; maintaining independence when required to be independent; and applying the CF. He explained that specific requirements and application material (AM) had been refined to support compliance with the FPs and in the independence sections, the requirement to be independent. He also explained that the order and flow of the restructured material were designed

for readability and clarity and were consistent with the Code's principles-basis and the CF. In addition, requirements addressing public interest entities (PIEs) were clearly distinguished. He indicated that at its September 2016 meeting, the CAG had expressed support for this approach.

IESBA members broadly supported the approach outlined. In addition to editorial and consistency matters, IESBA members asked the Task Force to consider the following:

- Focusing the introductory material more on compliance with the FPs as opposed to application of the CF.
- Whether the introductory paragraphs for a given section should cite the specific FPs concerned.
- Using headings and subheadings only where necessary.
- How to better determine when to include material in the introduction as opposed to in the AM.

Mr. Thomson indicated that the compilation of the draft restructured Code would offer an opportunity to review for consistency the ordering of material and headings and other matters. He explained that the Task Force had concluded that it was generally not possible to refer to a specific FP in introductory material because this would depend on the facts and circumstances of the particular situation. He also acknowledged that determining which material belonged in the introduction vs AM was a balancing act and that the Task Force would undertake an overall review of all the sections in this regard.

REPEATED REQUIREMENTS

Mr. Thomson explained that the enhanced introductory material increased the prominence of the requirements to comply with the FPs, to be independent and to apply the CF. He explained that the Task Force had deleted many of the duplicated requirements to apply the CF; retained the requirement to apply the CF in general Sections 200, 300, 400 and 900; and retained the requirement to be independent in Sections 400 and 900. The Board supported this approach.

TITLE OF RESTRUCTURED CODE

Mr. Thomson indicated that since the June 2016 addition of parentheses to the second part of the title, the Task Force was not proposing any further changes. He reported that a question was raised at the September 2016 CAG meeting that keeping the word "Professional" in the title might limit the Code's reach. Mr. Koktvedgaard explained that the discussion at the CAG arose given a concern regarding the length of the title. He indicated that CAG Representatives strongly supported the use of the word "International" but debated including the word "Professional." Although the CAG is aware that the Code's remit is PAs, there was a view that it might be inspirational for those who are not PAs.

Among other matters, IESBA members made the following comments:

- The Code was gaining greater relevance as an international benchmark such that courts of law reference it. There might be merit in considering its applicability to individuals who perform functions similar to PAs.
- "Professional" derives from individual accountants' membership of professional accountancy bodies and therefore their obligation to comply with professional standards. The inclusion of the word "Professional" in the title would not preclude others from using the Code.
- The Code defines the term "Professional Accountant" and it would cause confusion if the term "Professional" were dropped.

After further deliberation, the Board agreed to retain the title as proposed.

THE GUIDE TO THE CODE

Mr. Thomson summarized the main changes to the Guide, noting that in response to comments from respondents, the Task Force proposed separating it from the Code as the Guide is non-authoritative in nature.

Among other matters, the following were raised in addition to editorial comments:

- Whether describing the Guide as a “non-authoritative aid” was necessary. Mr. Thomson explained that the use of the term “non-authoritative” was deliberate to clarify the Guide’s status to users.
- Whether Parts 4A and 4B (the *IIS*) should be renamed Parts 3A and 3B to make it clear that they are related to Part 3 which applies to PAPPs. Mr. Thomson explained that using the separate Parts 4A and 4B was to give the IIS greater prominence.
- The need to avoid repeating the provisions of Section 120 in paragraph 10 of the Guide as this might give an interpretation of Code concepts which are better explained in the Code. Mr. Thomson confirmed that the provisions of Section 120 would not be repeated.
- The addition of the word “firm” in the Guide could be confusing because the definition of the term “professional accountants in public practice” already includes firms. In the Guide, both “firm” and “professional accountant” are used whereas Section 400 indicates that it uses the term “firm.” An additional reference in the Guide to PAIBs might assist. Mr. Thomson indicated that the Task Force would consider further refinements to the text to address these comments.

SECTION 100

Mr. Thomson noted that there were few changes to Section 100. Among those, he explained that the text regarding “disproportionate outcomes” had been returned to the Code in paragraph 100.3 A2. In response to a comment on Structure ED-1, the Task Force had added the words “in order to comply with the fundamental principles” to this paragraph to make clear that this must be the overriding objective. He also explained that for consistency with the extant Code the term “oversight authority” had been returned to the Code in paragraph 100.4 A1, and the explanation for the use of the “R” and “A” paragraph designation was added in paragraph 100.2

IESBA members raised the following matters for the Task Force’s further consideration, among others:

- Paragraph 100.3 A2 seemed to suggest that in order to comply with the FPs a PA would have to consult with a regulator.
- In paragraph 100.3 A2, it should be more that the PA believes that there would be a disproportionate outcome as opposed to the Code not permitting such outcome.

SECTION 110

Mr. Thomson explained that Section 110 changes included, among other matters: reverting in paragraph 110.1(b) to the extant objectivity definition, in R112.1; including a requirement to comply with each FP; and returning the ethical conflict resolution paragraphs to the Guide from the Code.

Among other matters, the following were raised:

- The requirement to be objective is expressed in the negative and might be better worded positively. Mr. Thomson commented that the Task Force had reverted to the current statement because expressing the requirement positively had previously led to suggestions of a change of meaning.
- The material regarding each FP in Subsections 111 to 115 should be moved closer to paragraph R110.1 to avoid cross-referencing this material.
- For consistency, whether the reference to threats to compliance with the FP of objectivity in paragraph 112 A2 should be deleted or similar discussion added to the other subsections addressing the other FPs.
- Whether the material on ethical conflict resolution could be relocated to the section on addressing threats; and in addition, whether it could be linked back to the concept of the public interest as this is what would guide the conflict resolution. Mr. Thomson indicated that expanding the material on ethical conflict resolution would be outside the mandate of the Task Force.

SECTIONS 120 AND 300 (SHADED TEXT) AND SECTIONS 310 TO 350

Mr. Thomson explained that this text reflected the Board's June 2016 agreement to: add a "roadmap" to additional material in other Parts; clarify the linkage between Sections 120 and 400 using the independence definition; add a reference to "firm;" and clarify the application of the CF to independence. Mr. Thomson further explained that in Sections 310 to 350, various adjustments had been made to align the restructured Code to the extant Code.

Among other matters, the following were raised:

- Whether the placement of paragraph 330.4 A5, which addresses the purchase of another firm, could be reconsidered to give it appropriate prominence.
- Whether it would be helpful to provide examples regarding the material in Section 310.9 addressing network firms and the existence of separate practice areas for specialty functions within a firm.

SECTIONS 400 TO 535

Mr. Thomson explained that, among other changes, the Task Force had: more closely aligned paragraph 400.5 to ISQC 1;⁴ explained that both firms and PAs within firms each have responsibility; and highlighted the linkage of objectivity to the independence definition. In response to respondents' comments, the term "network firm" had been added to the R510.7 and R521.7 preambles and Section 524; and paragraph 520.5 had been subdivided in response to a comment from an IESBA member.

Among other matters, the following were raised:

- Why the words "directly or indirectly" in paragraph 510.3 A2 had been deleted.
- In relation to factors to evaluate the level of threats, why paragraph 510.10 A3 included a reference to "the role of the individual on the audit team" but not paragraph 510.10 A1.

⁴ International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- R520.4 currently implied that business relationships would be precluded if any financial interest was held by a network firm whereas the extant Code required the interest to be a material one.
- The wording of paragraph R510.10(d) might imply that in addition to the inclusion of a partner in this requirement in the extant Code, the restructured Code also included an audit team member, which was a change in meaning. Mr. Thomson explained that the Task Force had made no change here because it remained of the view that the text is consistent with the extant Code and the requirement to apply the CF.

THE GLOSSARY

Mr. Thomson explained that, among other changes to the Glossary, the Task Force had: distinguished the engagement period for audit and review engagements from the period for other assurance engagements; and added a reference to the descriptions of materiality in the body of the restructured Code. Additionally, the Task Force had included the terms: “may” and “might;” “non-compliance with laws and regulations;” “senior professional accountants;” and “substantial harm.”

An IESBA member commented with regard to materiality that there were two sentences making reference to materiality, one referring to a number of individual paragraphs and the other to two particular Sections. The IESBA member wondered whether it was necessary to refer to all the individual paragraph numbers. Mr. Siong suggested that the Task Force consider whether the specific categories of circumstances where materiality is referred to in the Code could be identified to shorten the references in the Glossary.

OTHER SIGNIFICANT MATTERS

Having concluded the review of the Structure ED-1 text, Mr. Thomson invited IESBA members to comment on any other significant matters which had not already been addressed.

Among other matters, the following were raised:

- Whether there was an unintended change in meaning in Section 340, *Gifts and Hospitality*. It was noted that in the extant Code, if a reasonable and informed third party believes that a gift is trivial or inconsequential then a PA can assume that a threat is at an acceptable level. In the restructured Code, it is the PA's belief that is relevant. Mr. Thomson indicated that this was a safeguards conforming amendment and the two Task Forces would review the matter.
- Whether the paragraphs regarding network firms in 400.51 could be streamlined into key criteria rather than a list of different circumstances.

In relation to the material describing the concept of a PIE, Mr. Thomson commented that the reference to member bodies in the paragraph that encourages them to consider whether to treat additional entities as PIEs would be deleted as the Code's remit is PAs and not IFAC member bodies. Mr. Siong noted that this reference was originally included in the extant Code because at the time IFAC had not yet finalized its Statements of Membership Obligations for its member bodies.

THE PROPOSED RESTRUCTURED TEXT – ED 2

Mr. Thomson explained that the Task Force had refined the wording of the Phase 2 text in sections 800 and 900. It had also overseen restructuring work by the Long Association, NOCLAR, Part C and Safeguards Task Force.

SECTION 800

Among other matters, the following were raised:

- Rather than referring to the preparation of a restricted use report it may be better to refer to the need for independence when working on certain audits because is not the preparation of the report that triggers the provisions in Section 800.
- The relative dependencies in paragraph R800.3 might require revision perhaps by merging sub-clauses (a) and (b).

SECTIONS 900 TO 999

Mr. Thomson explained that, among other matters, the Task Force had made changes to Section 900 including: conforming amendments from Part 4A and for safeguards. It had also made an adjustment to make clear that audits of specific elements, accounts or items of a financial statement (specific line items) are within the scope of Section 900.

An IESBA member wondered whether it was appropriate to refer to specific line items in Section 900. Mr. Siong explained that in the Independence 1 project, the Board had originally intended these audits to be within the scope of Section 290.⁵ However, after deliberation taking into account respondents' comments, the Board had determined that it would not be appropriate to impose the full burden of the independence requirements that apply to audits of financial statements on audits of specific line items. Accordingly, the Board had decided that these audits should instead be within the scope of extant Section 291.⁶

IESBA members supported this clarification.

FORWARD TIMELINE AND NEXT STEPS

Mr. Thomson outlined the next steps in the project. He indicated that a number of respondents to Structure ED-1 had asked for adequate time to consider the entire restructured Code. The Task Force therefore proposed that a Staff-prepared compilation of the entire Code be made available with Structure ED-2, with a 120-day exposure period for ED-2. The aim would be to finalize the restructured Code by December 2017.

The Board noted the need to encourage stakeholders to give early consideration to implementation issues. In this regard, Mr. Thomson noted that while the restructuring of the Code is not intended to change the meaning of the Code, the restructured Code would include substantive changes arising from the Safeguards, Long Association and Part C projects.

WAY FORWARD

The Board asked the Task Force to present revised drafts of the Phase 1 text for agreement-in-principle and the Phase 2 text for approval for exposure at the December 2016 meeting.

⁵ Section 290, *Independence – Audit and Review Engagements*

⁶ Section 291, *Independence – Other Assurance Engagements*

4. Review of Part C of the Code

Ms. Agélii introduced the topic, recapping the background to Phase 2 of the Part C project. She then led the Board through the matters for consideration.

APPLICABILITY OF EXTANT PART C TO PAPPs

Ms. Agélii recapped that the Board had agreed that provisions applicable to PAIBs can also be applicable to PAPPs. To clarify this, two “applicability paragraphs” had been developed for inclusion in the Code to clarify that the material in extant Part C should be considered on a holistic basis. She indicated that at the September 2016 CAG meeting, the CAG had no comments on these proposed paragraphs. She then presented revised “applicability paragraphs” that incorporated feedback received at the June 2016 IESBA meeting.

Example within the “Applicability Paragraphs”

In addition to editorial suggestions, the following matters were raised:

- The example presented might not be appropriate as PAPPs should have sufficient skills and training to perform the work assigned to them. Similarly, reference to unrealistic deadlines would not be appropriate as demanding deadlines are a reality in an audit context. An alternative example might be pressure from another department within the firm to protect fee income.
- Auditing standards have requirements for PAPPs to have skills appropriate for the complexity of the audit assignment. Further, the phrase “unrealistic deadlines” is subjective. A more realistic example may be of a senior partner placing pressure on a junior partner to accept a client’s preferred accounting treatment in order to retain the client.

Dr. Thomadakis agreed with the views expressed and suggested that the example be amended to consider how pressure might affect a PAPP’s judgement.

Revised Example within the “Applicability Paragraphs”

Pursuant to the feedback earlier in the meeting, the Task Force presented the revised example below:

120.X A1 For example, where a professional accountant ~~in public practice~~ is placed under ~~pressure~~ faced with pressure from an engagement partner to ~~perform a task without sufficient skills or training~~ accept a client’s questionable accounting treatment on a specific financial reporting issue in order to retain the client, ~~or with unrealistic deadlines,~~ the requirements and application material set out in Section 260 would might be relevant.

Some IESBA members supported the revised example as it reflected a situation that might occur in reality which, while not illegal, is against the FPs. A Task Force member added that it is the Task Force’s view that a suitable example has to reflect a situation that occurs in practice to ensure that the guidance is robust. A theoretical example could dilute the guidance, rather than strengthen it.

An IESBA member expressed the view that the example was contrary to auditing standards as a partner in a firm should not place pressure on a junior PAPP to accept a client’s preferred accounting treatment in order to retain a client. The IESBA member felt that if this were to occur, it would indicate a problem of governance within the firm. The IESBA member suggested that feedback on the example should be sought from the IAASB or an alternative example devised that is not related to audit scenarios. Another participant felt that it is possible for a client, especially one that constitutes a large account for a firm, to

pressure the firm's leadership on a matter on which the engagement partner and client disagree. A few IESBA members noted that the situation depicted is not exclusive to audit situations but could arise for non-audit clients, such as with respect to the preparation of financial statements. A Part C Task Force member confirmed that the example was not intended to be limited to audit situations. An IESBA member suggested that the example could relate to pressure not to comply with the FP of professional competence and due care in the PAPP's work in order to remind PAPPs of the need to comply with the FPs.

Dr. Thomadakis concluded the discussion by indicating that while he did not interpret the example in an audit context, he acknowledged that if the example is interpreted as relating to an audit engagement it could be perceived as contrary to requirements under auditing standards. The Board asked the Task Force to reflect on the example further in the light of the discussion.

EXPOSURE OF "APPLICABILITY PARAGRAPHS"

Ms. Agélii explained that the "applicability paragraphs" would introduce a new requirement for PAPPs to consider provisions in extant Part C that the Code currently only suggests they might find relevant to their particular circumstances. As such, the Task Force was of the view that the "applicability paragraphs" would need to be exposed for public comment either as part of Structure ED-2 or as part of the Part C Phase 2 ED. Mr. Thomson added that as these paragraphs constituted a change in the meaning of the Code, they were beyond the scope of the Structure project. Hence, if exposed as part of Structure ED-2, they would be included in a separate section.

IESBA members agreed that the "applicability paragraphs" needed to be exposed. With respect to packaging, the following matters were raised:

- It is preferable to include the proposals in Structure ED-2 as this would provide stakeholders with the opportunity to consider how the paragraphs affect the restructured Code.
- Packaging the proposals as part of Structure ED-2 would signal that there has been appropriate coordination between the different work streams.

Mr. Koktvedgaard noted that the issue had not been considered by the CAG, but that his preference was to expose as part of Structure ED-2.

The Board deferred a decision on packaging to the December 2016 IESBA meeting.

Location within the Restructured Code

Ms. Agélii recapped the proposed locations of the "applicability paragraphs" in the restructured Code. An IESBA member supported the Task Force's proposed positioning of the "applicability paragraphs" in Sections 120 and 300. However, another IESBA member was of the view that they should not be placed within Section 120 and only in Section 300. Ms. Agélii noted that the Board had already agreed to place the "applicability paragraphs" in both Sections 120 and 300 at its June 2016 meeting. Dr. Thomadakis concurred with Ms. Agélii.

RESTRUCTURING OF PART C PHASE 1 CLOSE-OFF DOCUMENT

Ms. Agélii recapped the work already performed on the restructuring of the Phase 1 close-off document and summarized the additional changes made since the June 2016 meeting.

Advocacy and Self-Interest Threats

In addition to editorial suggestions, the following matters were raised for the Task Force's further consideration:

- The examples should relate to unethical actions, not illegal acts.
- The examples should focus on circumstances that could result in unethical conduct and not make a value judgment as to whether the conduct is appropriate or inappropriate.
- Consideration should be given to whether to exclude inconsequential gifts as what is inconsequential for some might not be for others.
- Consideration should be given to deleting the self-interest threat example relating to a PA's concern over employment security, as the self-interest threat is not the concern over employment security but rather possible actions that the PAIB might take as a result of this concern.

Linking Threats to the FPs

An IESBA member suggested that the threats be linked to the FPs to which they apply. In response, the following views were expressed:

- While it would be beneficial to link threats to specific FPs, many of the threats related to more than one, but not necessarily all, of the FPs. Hence, it would not be an exercise that could be readily undertaken.
- The electronic Code might provide an opportunity to link threats to specific FPs. However, caution should be exercised given the risk of a non-authoritative tool being interpreted by users as being more authoritative than intended.
- Matching threats to FPs would be a significant endeavor that would require time and resources. Ms. Agéllii concurred, noting that this might be considered as part of developing the Board's next SWP.

The Structure Task Force Chair noted that while the idea had merit in principle, it would be difficult to execute in practice. He also noted that this matter was beyond the remit of the Structure of the Code project.

GLOSSARY DEFINITION OF A PAIB

Ms. Agéllii explained that the revisions made in Phase 1 of the Part C project had resulted in a discrepancy between the glossary definition of a PAIB and application material within paragraph 300.3 of the Part C Phase 1 close-off document.⁷ As a result, the Task Force proposed revisions to the glossary definition to resolve the discrepancy.

The Board considered the various types of roles that a PA could take outside of public practice. There was a suggestion that wording be added to clarify that the roles mentioned in the glossary definition do not constitute a finite list. Ms. Agéllii noted that while a definition requires an exhaustive list of roles, a description does not and under the restructuring guidelines a description can be included in the glossary. The Board asked the Task Force to consider the matter of alignment further in the light of the discussion.

⁷ <http://www.ethicsboard.org/system/files/meetings/files/Agenda-Item-D-3.1-Part-C-Phase-1-Close-Off-Document.pdf>

Dr. Thomadakis observed that the title of Part 2⁸ did not seem to reflect the fact that PAs in government are within scope even though they are PAIBs as defined. He added that the term “business” might also translate differently in different languages and suggested a possible alternative title. Other IESBA members offered the following views, among others:

- The term “business,” while associated with commercial activities, does not preclude other activities. Hence, caution should be exercised before changing the title from PAIB.
- If a change to the title is to be considered, the Board should liaise with the PAIB Committee within IFAC to understand how it approaches the term PAIB.
- PAIB is a commonly used term and unless a more appropriate alternative can be found, it would be preferable to maintain it.

The Board resolved not to change the title of Part 2.

PROPOSED SECTION 250, *INDUCEMENTS*

Ms. Agélii summarized the key feedback received at the June 2016 IESBA meeting and the September 2016 CAG meeting on the preliminary issues regarding proposed Section 250. She then explained the Task Force’s responses to this feedback and the changes made to the strawman as a result.

IESBA members broadly supported the direction of the revised strawman. Among editorial and other matters, the following comments were raised for the Task Force’s further consideration:

- It might be better to use terminology that refers to compliance with the FPs than use the term “unethical.” If a PA complies with the FPs he or she would be acting ethically. Using the term “unethical” could result in confusion.
- A general definition of bribery and corruption should be added, along with guidance on what constitutes corruption.
- Examples of inducements that are not illegal but unethical would be useful.
- Whether political lobbying, where not illegal, could be an inducement.
- With respect to the intent test, intent is central to all illegal acts. Consideration might be given to using a more objective test than intent, such as where the inducement could result in the obtaining of an undue benefit.
- For PAPPs it is obvious that a counterparty offering or accepting an inducement is a client, but the counterparty for a PAIB is not obvious and should be clarified.
- An inducement that might be perceived as having an inappropriate intent by a reasonably informed third party should also be prohibited.
- An actual or perceived threat could arise even if the value of an inducement is trivial and inconsequential but made with inappropriate intent. Hence, the value of the inducement should not be considered when evaluating the intent behind the inducement.

⁸ Proposed Part 2 – Professional Accountants in Business

- The scope could be more clearly defined by indicating early within the section that illegal inducements are out of scope and addressed within the NOCLAR provisions of the Code.
- Recusal does not meet the revised definition of a safeguard but instead is an action that can be taken to eliminate the circumstances relating to the inducement.
- Much research has been done on the topic of gifts. Gifts affect people subconsciously.

Mr. Koktvedgaard reported that the CAG was in favor of explicitly addressing bribery and corruption within the scope of the section. In addition, he suggested that consideration be given to the circumstances in which the inducement is offered and how these might affect the recipient's response. He also suggested that the PA could be referred to policies and procedures of other organizations for guidance. With respect to circumstances where a PA has declined an inducement, he highlighted a question at the CAG as to whether the PA should document the matter.

In addition to the above, suggestions on possible conforming changes that would be needed to align the revised section to the revised Safeguards provisions were made for the Task Force's consideration. Ms. Snyder noted that the CAG was broadly supportive of the proposed approach regarding identifying and addressing threats and assessing intent.

Cultural Differences

Ms. Snyder briefed the Board regarding feedback from the CAG on the matter of cultural differences. Mr. Koktvedgaard noted that CAG Representatives had indicated that cultural issues should be considered within the revised Section 250. An IESBA member agreed that cultural issues should be acknowledged but cautioned against considering all cultures within a global Code. The IESBA member suggested that the discussion of cultural issues in paragraph 22 of Agenda Item 4-D could be used within the guidance.

Another IESBA member suggested that cultural issues could be considered within an employing organization's policies and procedures. There was support for this view as the matter could then be linked to the "tone at the top" principle, with senior PAIBs influencing relevant policies and procedures within their organizations.

Title of Revised Section 250

Participants debated whether the proposed title of "Gifts, Hospitality and other Inducements" was appropriate. Among other matters, the following were raised:

- "Inducements" is not a neutral term as on translation it has more of a negative connotation. In contrast, "gifts and hospitality" is a more neutral term.
- The title could revolve around the giving and receiving of inducements.
- The title could be descriptive in order to clarify that when referring to "other Inducements" the section is aimed at inducements that might affect compliance with the FPs.

Mr. Koktvedgaard suggested that the term "inducement threats" could be included in the title, noting that by doing so it would make this the only section containing a threat within the title. He also noted that a CAG Representative had suggested "Gifts, Hospitality and Inducements."

Dr. Thomadakis observed that a section title should signal to the reader what it addresses and not be a summary of the section. Accordingly, the title should not be over-engineered. While he supported the

proposed title as it covered a range of the matters the section addresses, he acknowledged that the word “inducement” might not be ideal from a translation point of view.

After further deliberation, the Board resolved to move forward with the proposed title.

Other Matters

A participant asked for clarification on how proposed Section 340⁹ would be conformed to the revised Section 250. Ms. Agéllii indicated that the Task Force aimed to present the conforming changes to proposed Section 340 for exposure at the same time as the proposed revisions to Section 250.

Mr. Koktvedgaard highlighted that this project provided an opportunity for the Board to lead the way on the topic of unethical inducements.

WAY FORWARD

The Board asked the Task Force to present revised drafts of the applicability proposals and the restructured text of the Phase 1 close-off document for approval for exposure at the December 2016 meeting. The Board also asked the Task Force to present a first-read draft of the revised Section 250 for consideration at that meeting.

5. Long Association

Mr. Fleck introduced the topic, recapping briefly the history of the project and the issues that were addressed in the February 2016 re-Exposure Draft (re-ED), [*Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*](#). He then summarized the tentative Board decisions at the June 2016 IESBA meeting and outlined the Task Force’s proposed final refinements to the revised Long Association provisions.

Mr. Fleck also highlighted the late comments received from Committee 1 of the International Organization of Securities Commission (IOSCO) on the re-ED and the Task Force’s responses to them. He noted that the CAG had no comments in this regard. The Board supported the Task Force’s responses to the comments from IOSCO Committee 1.

Mr. Fleck also briefed the Board on the feedback received at the September 2016 CAG meeting and the Task Force’s responses to the CAG comments. He noted strong support from the CAG for the tentative decisions of the Board on the three remaining issues, namely the duration of the cooling-off period for engagement quality control reviewers (EQCRs) on PIE audits, the “jurisdictional provision,” and the issue of how long to cool off when an individual has served in a combination of engagement partner (EP), EQCR and key audit partner (KAP) roles. Mr. Koktvedgaard indicated that Mr. Fleck’s report-back was a fair summary of the CAG discussion.

DEFINITION OF FAMILIARITY THREAT

Mr. Fleck outlined the Task Force’s consideration of how the definition of familiarity threat could be revised to more explicitly recognize an engagement team member’s long association with the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements. He briefed the Board on the discussions between the Long Association and

⁹ [Proposed Section 340, Gifts and Hospitality](#)

Safeguards Task Forces in this regard, including the options they considered. He then noted the Safeguards Task Force's proposal that, absent a clear mandate from the Board to review the definition comprehensively, the extant generic definition be retained unchanged, thus allowing it to be interpreted in the broadest possible sense in the appropriate context. This would include in particular familiarity with client information in the context of long association.

IESBA members broadly supported retaining the extant definition unchanged. There was a concern in particular about linking the familiarity threat to auditors only. In addition, it was noted that the Board would need to reflect further on the implications of the familiarity threat for PAIBs. There was a view that more detailed guidance could be developed as needed in the relevant sections of the Code, as has been done in the Long Association section.

PROPOSED CHANGES TO REVISED PROVISIONS

Jurisdictional Provision

An IESBA member questioned whether the joint audit condition in the jurisdictional provision should be a requirement imposed by law or regulation, or voluntary. It was noted that jurisdictions might establish joint audits for purposes other than to address the familiarity issue. In addition, some firms might choose joint audits as an informal way to safeguard audit quality. Other IESBA members felt that relaxing the condition to circumstances where it is voluntary could open the provision up for misuse and that it is important to limit it to circumstances where it is required by law or regulation.

Mr. Horstmann provided his view that the condition should not be relaxed to cover voluntary joint audits. Mr. Koktvedgaard noted that the CAG was more concerned about the substance of a joint audit than how the condition was framed.

After further deliberation, the Board supported retaining the joint audit condition when required by law or regulation.

Other Changes

In addition to editorial refinements, the Board asked the Task Force to:

- Reframe the example in paragraph 290.154 to more clearly illustrate how the time-on period would be computed if there has been a break in service for a KAP on the audit of a PIE.
- Consider the need to develop a definition of the term "cooling off" as part of developing the restructured text.

Mr. Emoto asked that the Board undertake a post-implementation review of the EQCR cooling-off provisions to ensure that they are effective and do not create unforeseen challenges.

PROPOSED RESTRUCTURED TEXT

Mr. Fleck briefly outlined the main changes to the proposed restructured text, noting that it had benefited from a review by the Structure Task Force. Mr. Hannaford indicated that conforming changes arising from the Safeguards project would be included in the restructured text for exposure.

The Board broadly supported the proposed restructured text.

CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The Board noted that this project had been subject to extensive consultation with stakeholders over a span of more than 3.5 years, including issuance of two exposure drafts, discussion with the CAG on eight separate occasions, and numerous consultations with and outreach to the international and national regulatory communities, national standards setters, firms, IFAC member bodies, and the IFAC SMP Committee. The Board therefore concurred with the Task Force that there was no need to further consult on the revised provisions through, for example, the issuance of a consultation paper, the holding of public fora or roundtables, or the conduct of a field test of the provisions.

CONSIDERATION OF FURTHER ISSUES

The Board considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Task Force, which should have been discussed by the Board. Mr. Fleck confirmed that all significant matters identified by the Task Force as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, had been brought to the Board's attention.

DUE PROCESS

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

APPROVAL

After considering all the necessary changes to the document, the Board approved it as a close-off document under the extant structure and drafting conventions with the affirmative votes of 17 out of the 17 IESBA members present.

CONSIDERATION OF RE-EXPOSURE

The Board concurred with the Task Force that the changes made to the re-ED were in response to the comments received from respondents and did not fundamentally or substantively change the proposals in the re-ED. The Board therefore determined through the affirmative votes of 17 out of the 17 IESBA members present that further exposure was not necessary.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

The Board considered the Task Force's proposal regarding the effective date of the revised provisions. An IESBA member felt that making the provisions effective from December 15, 2018 would provide adopting jurisdictions insufficient time to adopt and implement them, given the need for translation and national due process. Another IESBA member was of the view that two years from the date of approval of the close-off document was long enough for adoption and implementation.

The Board considered the proposed IESBA Staff Q&As setting out the transitional provisions. Among other matters, the Board discussed if and how any proposed transitional provisions could help mitigate the risk of "gaming" (e.g., an individual deciding to serve less than seven years on a PIE audit engagement and begin the cooling off period before the long association provisions became effective in order to ensure the shorter cooling off period would apply), which would have the practical result of deferring the standard's effective date.

Mr. Horstmann provided his view that any transitional provisions should be made part of the long association provisions as opposed to simply being included in the Q&As. He also wondered whether providing for any extension of transition beyond December 15, 2018 would not be considered overly generous and not in the public interest. He questioned if any such transitional extensions would be consistent with approaches taken by regulators or other standard setters to deal with perceived hardships or audit quality concerns. Mr. Fleck explained that firms might have planned resourcing for their audit engagements for some time and the transitional provisions were intended to avoid placing undue hardship on them. Another IESBA member noted that partner rotation should not be implemented at short notice, especially given that EQCRs are a limited resource. Dr. Thomadakis noted that while there is no objective way to measure hardship, it would be important to ensure smooth implementation of the revised provisions given that they contain significant enhancements in a number of areas. Accordingly, he felt that a transition would be a balanced way to introduce significant changes to current practice.

In the light of the discussion, the Board deferred a final decision on the effective date pending further consideration by the Task Force of the transitional provisions and articulation of the public interest rationale for them. The Board asked that staff arrange a teleconference at the earliest opportunity for Board consideration and approval of the effective date and any related transitional provisions.

6. Responding to Non-Compliance with Laws and Regulations (NOCLAR)

RESTRUCTURED TEXTS OF EXTANT SECTIONS 225 AND 360

Mr. Fleck introduced the draft restructured texts, noting that the NOCLAR Task Force had liaised with the Structure Task Force for input regarding matters of consistency with the new structure and drafting conventions. He also noted that the Safeguards Task Force had reviewed the draft restructured texts and had not identified any necessary conforming amendments to align with the proposed changes to the Code arising from the Safeguards project. He then invited comments from the Board.

In addition to editorial changes, IESBA members raised the following matters for the NOCLAR Task Force's further consideration:

- With respect to paragraph 315.1, the proposed wording should be reconsidered as it seemed to suggest that the association of the PA is with the commission of the NOCLAR as opposed to knowledge of the NOCLAR.
- Consideration should be given to moving the paragraph that defines the concept of NOCLAR more upfront in the text to make it clear that the section is addressing NOCLAR committed by the client.
- Whether paragraph 315.14 A1 was needed as it did not appear to add anything substantive to the text.
- The wording of paragraph 315.19 A1 should be reconsidered as it was not as clear as in the extant text that communication by the predecessor auditor is on request by the proposed auditor.

The Board asked the Task Force to consider the input and present revised texts for its consideration and approval for exposure at the December 2016 meeting.

PROPOSED IESBA STAFF QUESTIONS & ANSWERS (Q&As)

Mr. Fleck briefly introduced the draft Q&As, noting that they had been developed by staff with input from the NOCLAR Implementation Working Group. The Q&As will form part of the package of tools and

resources the Board has commissioned staff to develop to facilitate implementation of the NOCLAR provisions. He then invited comment on the proposed Q&As.

An IESBA member wondered whether the list of questions could be reconsidered as there seemed to be an excessive number of them. Mr. Fleck responded that the IWG would do so, but noted that the topic is complex and therefore does not present the usual circumstances for Q&As. In addition, many stakeholders have not been as close to the project as the Board. Dr. Thomadakis added that there have been many requests for implementation support around the world. In this regard, another IESBA member wondered about plans to assist national standard setters and IFAC member bodies. Mr. Siong indicated that staff planned to reach out to them to make them aware of the implementation support tools and resources available on the Board's website and to encourage them to use these materials for their awareness raising and implementation purposes. Dr. Thomadakis encouraged IESBA members to contribute to these efforts by writing articles about the NOCLAR pronouncement and promoting it in their jurisdictions.

In addition to editorial suggestions, the following matters were raised on the draft Q&As:

- The response to Q1 should be reconsidered, as Section 225 is about an obligation to respond and not about consultation.
- With respect to Q3, extant Section 225 also applies to individuals not providing professional services.
- Whether Q19 was needed as many jurisdictions do not have statutory audits.
- With respect to Q20, making it clearer that the NOCLAR provisions in the Code have nothing to do with the performance of an audit.
- Whether Q24 was needed or whether it could be combined with the immediately preceding question.
- With respect to Q23, an unwillingness by management or those charged with governance to speak with the auditor raises wider, fundamental relationship issues. Consideration should instead be given to a situation where they are unwilling to address the matter.
- With respect to Q37, making it clear that withdrawal from the client relationship might be prohibited by law or regulation.
- With respect to Q35, consideration should be given to merging this question on the reasonable and informed third party test with the question addressing disclosure to an appropriate authority.
- With respect to Q48, consideration should be given to making it clear that if a PA has been engaged to undertake a forensic engagement, it would not be necessary to deploy the full response process under extant Section 225 given that the PA would already be performing many of the actions required under that section. In addition, consideration should be given to adding a fourth bullet to the response regarding circumstances where disclosure would be precluded, i.e., whether the terms of the engagement specifically disclose that an act of NOCLAR has occurred.

The Board asked staff to consider the feedback and present a revised draft of the Q&As for its final input at the December 2016 meeting.

7. Professional Skepticism

Mr. Fleck introduced the topic, outlining the objectives of the session. He then briefed the Board on stakeholder feedback received to date regarding the concept of professional skepticism (PS) as it applies to the Code, how it could be enhanced in the Code, and the interactions between PS and the FPs and independence. He also provided an overview of recent and upcoming activities relating to the initiative, including consideration of a PS strawman at the June 2016 meeting of the joint IAASB-IESBA-IAESB PS Working Group (PSWG) and the September 2016 meetings of the IAASB and the joint CAGs of the IAASB and IESBA.

Mr. Fleck then summarized the main elements of the PS strawman, noting that it was developed to facilitate discussions about how the Code might approach PS. He also briefed the Board on the views expressed by some members of the PSWG on the strawman as well as the feedback received at the September 2016 meetings of the joint CAGs and the IAASB. Among other matters, he noted general support from the CAGs for the IESBA to explore whether PS can be emphasized in the Code both in the short term (ST) and in the long term (LT), with some caution about the need to avoid any unintended consequences. He also highlighted some concern at the IAASB about extending the application of PS to all PAs, particularly a concern about diluting its meaning in the context of audit and assurance engagements.

Having provided this background, Mr. Fleck invited views on three options regarding the way forward, namely:

- (a) Do nothing further (i.e., retain the extant PS references in the Code);
- (b) Do nothing now, but consider a LT project on PS at a future date; and
- (c) Undertake a ST measure to emphasize PS in the restructured Code combined with a LT project on PS.

Among other matters, the following were raised:

- Whether it was necessary to develop material addressing PS in the Code in the ST. Mr. Fleck explained that there is little substance to the current reference to PS in the Code. Accordingly, it was highly desirable that such reference be developed timely to be responsive to stakeholder feedback.
- The current SWP would seem to be able to accommodate work on PS only insofar as this would complement any action the IAASB might take to enhance audit quality. Accordingly, while this might provide some flexibility for work on PS, it would likely limit how much could be done on the LT part within the current SWP. Mr. Fleck acknowledged this but noted that the Board would have the opportunity to consider pursuing an initiative in the ST if determined important. He added that simply relying on IAASB action would not be appropriate because the IAASB only addresses PS in the context of audit and assurance engagements, not independence and the FPs.
- While the impetus for addressing the topic in the ST is understandable, there is a concern as to whether the Board would have sufficient time and resources to undertake such a project given a full agenda already.
- It might be difficult to develop the linkage between PS and independence in the Code without also addressing longer term considerations regarding the linkage between PS and the FPs.

- The Code would benefit more from a discussion of how PS enhances the exercise of professional judgment.
- Greater clarity is needed in the strawman regarding the meaning of PS as the discussion of the linkage between PS and the FPs appeared to contain an element of circularity. The strawman also seemed to raise questions that cross over into LT considerations. Accordingly, further work and analysis would be needed.
- There is a strategic imperative for the Board to address PS as the Code currently says little about it. A LT project is clearly needed. However, whether to move forward with a ST project will depend on a consideration of what the ST enhancements would be.
- There is merit in exploring the ST option. However, with respect to the LT part, consideration should be given to using a term other than PS if the application of the concept is to be broadened to all PAs.
- It is important to have consistency across the IESBA, IAASB and IAESB regarding terminology and concepts. While the linkage between PS and independence can be explored, care should be taken not to dilute PS as it applies to audits.
- The pursuit of perfection should not hold back progress. The Board has received feedback from stakeholders that there is a need for PAs to demonstrate constructive and at times hard judgment. While due process must be respected, if there is a clear gap in the Code it behooves the Board to address it.

Dr. Thomadakis summarized the discussion, noting in particular that a proper definition of the LT project would be very important; that any ST initiative should not undermine the future work of the PSWG; and the need to have regard to Board resource constraints. However, he felt that these considerations should not lead the Board to be totally risk averse and therefore refrain from any action. He was of the view that the Board would risk little in exploring the feasibility of a ST initiative before making a decision at the December 2016 meeting. Mr. Fleck highlighted that there would be a number of steps to clear in developing the ST initiative. He added that if it proved not feasible or of added value in the final analysis, the lessons learned along the way would be of benefit to the LT initiative.

After further deliberation, the Board supported exploring the feasibility of a ST initiative.

PIOB Observer's Comments

Mr. Horstmann expressed the view that PS could apply to all PAs along the lines of an "enhanced objectivity" concept. However, if it were limited to independence, it would apply only to assurance engagements. He felt that if the intent was to address PS on a ST basis, it would be better to address it across the Code as opposed to limiting it to the audit/assurance context, which the IAASB already addressed.

WAY FORWARD

The Board asked the IESBA PSWG representatives to present its analysis and any proposals with respect to a ST initiative for consideration at the December 2016 Board meeting.

8. Emerging Issues and Outreach

KEY DIFFERENCES BETWEEN THE CODE AND ETHICAL REQUIREMENTS IN G20 AND MAJOR FINANCIAL CENTERS

Mr. Mihular introduced the topic and briefed the Board on the progress of the work of the Emerging Issues and Outreach Committee (EIOC) to analyze the key differences between the Code and ethical requirements within the G20¹⁰ and major financial centers.¹¹ Among other matters, he outlined the background to the initiative and summarized the extent of adoption of the Code within the G20 and major financial centers, focusing on key areas of difference including the CF approach, the definition of a PIE, partner rotation, and the provision of NAS to audit and assurance clients. He indicated that the EIOC would present a final report at a future date.

The following matters were raised, among others:

Adoption within the G20 and Major Financial Centers

An IESBA member wondered about the criteria that the EIOC had used to evaluate whether the Code had been adopted in a particular jurisdiction. Mr. Mihular indicated that if the local IFAC member body or regulator had adopted the Code, the jurisdiction was considered to have been adopted it. Another IESBA member commented that in some jurisdictions, adoption means good practice. The IESBA member was of the view that enforcement is key. Accordingly, it was suggested that there would be benefit in exploring the matter of enforcement further.

Dr. Thomadakis expressed the view that it was important for the Board to consider adoption information relative to the more developed jurisdictions in developing the future Strategy and Work Plan. This was especially relevant when considering the extent to which the Code is applied as some jurisdictions exempt certain groups, notably SMPs, from the Code's more burdensome requirements. He noted, however, that the Board's aim is to develop standards for application by all PAs. Accordingly, differences in adoption should be considered in order to minimize the need for national exceptions.

Outreach

Dr. Thomadakis noted that awareness of the Code in some jurisdictions is not as high as for other international standards such as ISAs and IFRSs. Accordingly, he felt that the Board should prioritize awareness raising in its outreach work. Mr. Mihular noted that the EIOC has explored how the Board's outreach strategy could be oriented towards jurisdictions where awareness of the Code was low. He felt that this was especially true of the emerging markets where local codes of ethics are weak or even non-existent. Accordingly he was of the view that an opportunity existed for the Board to assist such jurisdictions to adopt the Code in the near future rather than converge to it at a later date.

NAS Prohibitions

With respect to NAS prohibitions, an IESBA member suggested that the EIOC consider the work of the Safeguards Task Force to avoid duplicating effort. In relation to the Board's approach to NAS, the IESBA member queried as aspect of the presentation that seemed to suggest that the Code did not have a list of

¹⁰ Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States, European Union

¹¹ Hong Kong and Singapore

prohibited NAS. Mr. Mihular clarified that the EIOC was not suggesting that the Code does not contain any NAS prohibitions but that the Board had addressed prohibited NAS more from a principles-based approach. As a result, the list of prohibitions in the Code was shorter than in many of the jurisdictions being reviewed.

Dr. Thomadakis observed that prohibited NAS was an evolving area with many countries opting to have blacklists on prohibited NAS. He was of the view that the Safeguards Task Force's work on making prohibitions within the Code more prominent was in line with the imposition of prohibitions at the jurisdictional level, but on a principles-based level.

PIOB Observer's Remarks

Mr. Horstmann noted that while an auditor's report must state that the auditor has complied with independence requirements in performing the audit, this statement could refer to local requirements and not necessarily the IESBA Code. He expressed the view that it would be in the public interest for audits to be performed to a global independence standard, especially as investors are unlikely to be aware of the differences between local codes and the IESBA Code. Related to this point, an IESBA member noted that the largest 27 networks that make up the Forum of Firms have agreed to conform their policies and methodologies to the IESBA Code.

Mr. Horstmann also noted that it is in the public interest to understand the extent of adoption of the IESBA Code around the world and that this is a key area of interest for the PIOB. He suggested that the EIOC liaise with the IFAC Compliance Advisory Panel (CAP) as the CAP has gone further in implementing a process to evaluate IFAC member bodies' self-reporting of their compliance with the IFAC membership obligations. He noted that the CAP has published data on the IFAC website in this regard. He suggested that the Board consider inviting the CAP team to give an update on its work at a future Board meeting.

In addition, Mr. Horstmann suggested that the Board consider liaising with the International Organization of Securities Commissions (IOSCO), the International Forum of Independent Audit Regulators (IFIAR) and national regulators as some have already performed related work which could be shared with the Board. This would then help raise awareness of the Code and support global convergence. Mr. Mihular indicated that the EIOC had considered the recent IFIAR summary inspection reports and had liaised with the Vice Chair of IFIAR, Brian Hunt, to seek to obtain more granular information on the ethics and independence issues within these reports.

Mr. Horstmann concluded by cautioning against assessing adoption in terms of how far jurisdictions have established additional restrictions beyond the Code. He was of the view that additional restrictions are often local nuances that, while required for a particular jurisdiction, do not necessarily indicate a deficiency or weakness in the Code.

WAY FORWARD

The Board asked the EIOC to consider the matters raised during the discussion and present its full analysis of the differences between the Code and national requirements in the G20 and major financial centers at a future meeting.

Mr. Mihular thanked Ms. Vanburen for her contributions in this work, and Dr. Thomadakis conveyed the Board's appreciation to her.

9. Fee-Related Initiative – Update

Dr. Thomadakis welcomed Prof. David Hay, Professor of Auditing, University of Auckland, New Zealand, attending the meeting via teleconference. Ms. Kateka then introduced the topic, reminding the Board of the objectives of the fact-finding initiative. She introduced Prof. Hay as the academic the Board has commissioned to undertake a review of relevant academic and other literature for purposes of informing the IESBA's future actions on the topic. She noted that the Fees Working Group (WG) is interested in understanding trends or other factors that indicate a relationship between fees and threats to compliance with the FPs or auditor independence requirements.

Prof. Hay explained the scope of, and approach to, his review of the relevant literature noting that he had focused on available research from 2006 to 2016 as requested by the WG. He then highlighted the following preliminary findings to-date:

- In general, audit fees are at an all-time high in the US, UK and New Zealand. However, researchers have expressed concern that audit fees are too low in Korea where there is evidence of intense market competition. There are some recent studies to examine and further understand issues relating to the level of competition in audit markets, which could in turn impact audit fees.
- There were not many research studies on the size of fees and dependence. Some studies seemed to suggest perceptions of lower independence when audit fees from a given client are high relative to total firm income. However, there were other studies that indicated the opposite. The studies did not focus on dependence, but rather when an audit fee is more than 15% of the total fees of the audit firm.
- The ratio of non-audit to audit fees has been quite a controversial issue for most of the 21st century with the leading study being [Frankel](#)¹² (2002). The *Frankel* research was wide-ranging and considered US debates about the Sarbanes-Oxley Act. The *Frankel* research concluded that mixing audit and non-audit work increased audit dependence. However, later research, analyzing the same data and taking into account other research, showed contrary conclusions. There is evidence that stock markets react adversely to high non-audit fees, which affects independence in appearance.
- Audit services by firms that also have NAS business lines is an infrequent area of research because of a shortage of data. Some researchers have questioned why a client would choose a firm that provides only audit services, in particular when clients might also require NAS, for example if a client is undergoing a restructuring.

IESBA members expressed their appreciation for Prof. Hay's presentation. Among other matters, the following were raised:

- Whether the *Frankel* research was considered discredited by the research that followed it, and whether the other research was more academic- or more industry-based. Prof. Hay responded that the *Frankel* research had not been retracted, and that the research was academic-based but with a different focus.

¹² Richard M. Frankel (Massachusetts Institute of Technology), Marilyn F. Johnson (Michigan State University) and Karen K. Nelson (Stanford University) *The Relation Between Auditors' Fees for Nonaudit Services and Earnings Management*

- Whether the 2002 *Frankel* research could be considered relevant to the significantly changed current regulatory and audit oversight environment in the post Sarbanes Oxley era. Prof. Hay indicated that he had included the *Frankel* research because it is considered to be landmark research which covered the important principles underlying the subject matter.
- Whether research regarding the audit market in Korea (which uses audit firm rotation) indicate that audit firm rotation led to increased market competition and consequential lower levels of audit fees. Prof. Hay acknowledged the question and noted that he would provide more context in his final report to explain the findings from the Korean study.
- An issue commonly raised regarding firms providing both audit and non-audit services is whether there is a tendency to reduce audit fees which would then be compensated by fees for non-audit work. Some IESBA members asked for more information about whether the research provided insights into the rationale for how firms choose their business models (i.e., the mix of audit versus NAS). Prof. Hay confirmed that there are many research studies that looked at firms that offer NAS and the studies showed that firms are able to charge a higher audit fee in those circumstances. Prof. Hay commented that he was not aware of the Board's interest in the nature of business models relating to audit versus NAS work.
- Whether the surveys about the reactions of stock market participants indicate that the level of fees from the provision of NAS influences stock market prices. Prof. Hay responded that researchers use mathematical models to analyze relationships between audit fees and NAS fees in reaching their conclusions.

Dr. Thomadakis and Ms. Kateka thanked Prof. Hay for informative update.

WAY FORWARD

Ms. Kateka indicated that Prof. Hay will provide his final report at the December 2016 meeting. She also noted that the WG will provide an update on its G20 benchmarking at that meeting.

10. **PIOB 2017-2019 Strategy Consultation**

Mr. Horstmann provided a brief presentation on the PIOB's strategy consultation paper (CP), highlighting the goals of and context for the CP. Among other matters, he outlined the following main discussions in the CP:

- The future challenges in oversight for the PIOB, including the growing challenge of responding to the public interest as stakeholders' involvement increases.
- The PIOB's assessment that there is room for structural improvements to enhance the independence of the standard-setting boards (SSBs) under PIOB oversight and the SSBs' responsiveness to stakeholders.
- Structural considerations that may enhance the responsiveness of the SSBs to public interest threats, including a new review of the SSBs' Terms of Reference and a more structured PIOB process for approval of nominations to SSB vacancies, including for SSB Chairs.
- The PIOB's vision regarding the longer term evolution of the standard setting system, including a stable and diversified funding framework for the PIOB, achieving a more balanced composition of the task forces, and strengthening the perceived independence of the PIOB from IFAC.

Mr. Horstmann concluded his presentation noting that comments on the CP would be due by November 26, 2016. Dr. Thomadakis thanked Mr. Horstmann for his helpful overview, adding that the Board would be discussing the CP in more detail during the Executive Session.

11. PIOB Observer's Remarks

Mr. Horstmann shared his perspective from attending his first IESBA meeting as a PIOB Observer that he had observed a broad level of talent representing the public interest from all backgrounds. He saw no indication that the profession was dominating the discussions. While some of the practitioner members had raised questions regarding the implementation of proposals that were being discussed, he expressed the view that it was appropriate that those from the profession should be raising such questions. Equally, he had also observed that there were several public and non-practitioner members who had raised a number of public interest issues from their backgrounds as directors, audit committee members, etc. He commented that the Board's workload is a significant issue. He also felt that the CAG added a strong perspective to the discussions and that it should continue to have a voice at the IESBA meetings.

In closing, Mr. Horstmann encouraged all Board participants to respond to the PIOB strategy consultation so that the PIOB has all the input on public record.

Dr. Thomadakis thanked Mr. Horstmann for his remarks. He also thanked the PIOB for taking the initiative to arrange the briefing on its CP and for inviting responses to the CP.

12. Next Meeting

The next Board meeting is scheduled for March 13-15, 2017 in New York, USA.

13. Closing Remarks

Dr. Thomadakis thanked IESBA participants for their contributions to a successful meeting. He also thanked IFAC for hosting the meeting and for its administrative support. He then closed the meeting.