

**Draft Minutes of the 63rd Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
Held on March 11-13, 2019 in New York, United States**

Voting Members

Present: Stavros Thomadakis (Chairman)
Richard Fleck (Deputy Chair)
Michael Ashley (from 2nd half Day 1)
Sanjiv Chaudhary
Brian Friedrich
Hironori Fukukawa
Kim Gibson
Liesbet Haustermans
Robert Juenemann (from 2nd half Day 1)
Winifred Kiryabwire
Caroline Lee
Alden Leung (Days 2 & 3)
Ian McPhee
Andrew Mintzer
Patricia Mulvaney
Jens Poll (Days 2 & 3)
Sylvie Soulier

Technical Advisors

Saadiya Adam (Mr. Fleck)
James Barbour (Mr. Ashley)
Denise Canavan (Ms. Haustermans)
David Clark (Ms. Soulier)
Gregory Driscoll (Ms. Lee)
Jens Engelhardt (Mr. Poll)
Ellen Gorla (Mr. Mintzer and Ms. Madden)
Selene Ho (Mr. Leung)
Ian Hutchinson (Mr. Friedrich)
Gina Maldonado-Rodek (Ms. Gibson)
Andrew Pinkney (Ms. Mulvaney)
Kemisha Soni (Mr. Chaudhary)
Sundeep Takwani (Ms. Kiryabwire)
Masahiro Yamada (Mr. Fukukawa)

Apology: Myriam Madden

Non-Voting Observers

Present: Kristian Koktvedgaard, IESBA Consultative Advisory Group (CAG) Chair, and Yoshiharu Kawada, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Jane Diplock

IESBA Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Szilvia Sramko, Carla Vijian

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He also welcomed Mr. Don Thomson, Chair of the eCode Working Group (WG) and Mr. Peter Hughes, former IESBA member who is providing technical support to the Part 4B¹–ISAE 3000 (Revised)² Alignment Task Force.

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

- New member and technical advisor appointments:
 - Mr. Andrew Mintzer (US), Board member, practitioner category (3-year term)
 - Mr. Sanjiv Chaudhary (India), Board member, practitioner category (3-year term)
 - Ms Kemisha Soni (India), Technical Advisor (TA) to Mr. Chaudhary
- Appointment of new IAASB Board Liaison to IESBA, Mr. Imran Vanker, who will take over this role from Megan Zietsman.
- Election of the new CAG Chair at the March 2019 CAG meeting, with the outcome to be announced following PIOB approval of the new CAG Chair at the end of this month.
- Activities of the Planning Committee during the quarter, including consideration of a briefing note from the IFAC Professional Accountants in Business (PAIB) Committee Staff on the topic of Trust and Ethics, and plans for 2019 outreach.
- Significant progress on adoption of NOCLAR in Brazil.
- Changes to the composition of the Planning Committee and the Technology Working Group, and the composition of the newly established *Tax Planning* Working Group.
- The outreach activities since the last Board meeting, which included the meeting with the Ethics Committee of the Saudi Organization for Certified Public Accountants (SOCPA) in Bahrain.

APPROVAL OF MINUTES

The Board approved the minutes of the December 2019 public session meeting as presented.

2. Revised and Restructured Code Rollout

Ms. Gibson introduced the topic by providing a summary of the key activities since the last IESBA meeting. IESBA representatives who participated in outreach activities to promote the new Code during the quarter were invited to brief the Board.

Ms. Gibson then informed the Board of the upcoming outreach events to promote awareness of the Code, including the two 90-minute webinars to be held in March and April 2019.

Ms. Gibson also briefed the Board on the status of the “Decoding the Ethics Code Series” (the Series). She then asked the Board to consider a potential list of future topics for the Series and asked for volunteers

¹ Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

² International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

(from Board members and TAs) to author them. Ms. Gibson explained that the IESBA staff was liaising with IFAC staff to agree to a format and launch date for the Series.

FEEDBACK ABOUT WEBINARS AND THE SERIES

The Board was supportive of the webinars and suggested that consideration be given to:

- Including subtitles in the recorded webinars to help make it easier for non-native English speakers to follow the presentation.
- Using webinars or similar web-based tools to brief stakeholders about the IESBA's current and future projects or to focus on specific topics.

With respect to the Series, some IESBA participants suggested that the Task Force consider the questions from webinar participants to identify future topics for the Series.

THE FUTURE OF THE ROLLOUT WORKING GROUP

The IESBA agreed that the Rollout Working Group will continue to be active until after the Code comes into effect in June 2019. The outcome of the Working Group's activities is helpful to support adoption and implementation of the Code.

Dr. Thomadakis noted that at its October 2019 meeting, the Planning Committee will brainstorm about whether, and if so how, the Working Group's objective and approach should change. With respect to adoption and implementation of the Code, he noted that there are limitations to the scope of the IESBA's activities and that IFAC has an important role to play. For example, the IESBA is not responsible for activities relating to the translation of the Code into other languages. He briefed the Board on his discussions with IFAC senior management about how IFAC might support adoption and implementation of the Code.

WAY FORWARD

The IESBA will receive the next update on rollout activities at its June 2019 meeting.

3. Alignment of Part 4B with ISAE 3000 (Revised)

Ms. Haustermans commenced the session by updating the IESBA on Task Force activities since the December 2018 Board meeting. She briefed the Board on the key changes made to the draft text of alignment of Part 4B with ISAE 3000 (Revised) since the previous Board meeting.

IESBA members broadly agreed to the Task Force's proposals and the refinements made during the meeting, including:

- Clarification in the definition of "assurance client" to refer to the assurance client as a party rather than an individual or entity, as initially proposed in the [December 2018](#) text. The term 'party' can refer to both an individual or an entity, depending on the circumstances.
- Fine-tuning the definition of responsible party.
- Deletion of the proposed definition of "measurer or evaluator" as this is used only once in the text and the term is already described in paragraph 900.14 A2.

- Revisions to paragraph 900.14 A2 to describe more clearly the circumstances in which the firm needs to be independent of the measurer or evaluator.
- Including definitions of “attestation engagement” and “direct engagement” in the Glossary of Terms, and clarifying the reference to “the criteria” in the former.

APPROVAL OF EXPOSURE DRAFT (ED)

After agreeing all the necessary changes to the document, the Board unanimously approved the ED of proposed revisions to Part 4B of the Code to reflect the terms and concepts used in the ISAE 3000 (Revised). The Board set the comment period at 90 days from issuance of the ED.

4. Technology

Ms. Mulvaney introduced Mr. Anand Rao, Global Leader of AI at PwC, as the guest speaker on the topic of artificial intelligence (AI).

PRESENTATION “ARTIFICIAL INTELLIGENCE: OPPORTUNITIES AND RISKS: ETHICAL CHALLENGES FOR PROFESSIONAL ACCOUNTANTS”

Mr. Rao introduced the topic by providing an overview of the recent developments in AI, including its rapid growth in capabilities, and its broad impact in geographies and industry sectors. He explained that AI can be defined as the theory and development of computer systems that can sense the environment, make decisions, and perform tasks that would normally require human intelligence. He provided a high-level summary of some key areas of focus in AI development, including natural language search (NLS), machine learning (ML), deep learning (DL) as well as responsible AI. He pointed out that industries have exploited AI to increase their revenues, reduce costs, improve customer experience and disrupt business in significant ways.

Mr. Rao highlighted two particular types of AI risk: Bias and fairness as well as security such as cyberattacks and privacy risks. Mr. Rao stressed that AI risks must be assessed, mitigated and managed accordingly. In this regard, he noted that PwC uses its responsible AI framework to address AI risk based on five pillars: Bias, interpretability, robustness and security, governance as well as ethics and legal. He also pointed out that there have been significant efforts in AI standardization globally with a large number of national and international standards.

With respect to the impact of AI on the accounting profession, Mr. Rao noted that AI is already being used extensively across many areas of accounting, financial modelling, reporting and compliance through technologies such as NLS and ML. Mr. Rao also pointed out that situations involving algorithmic decision making may impact the ethical behavior of professional accountants (PAs), particularly with respect to the fundamental principles of objectivity and professional competence and due care. He also provided examples of ethical dilemmas faced by businesses and the public sector as they incorporate AI systems in their decision making.

Following the presentation, Mr. Rao responded to IESBA participants’ reactions and queries. Among other matters:

- With regards to professional competence and due care, Mr. Rao reiterated the need to develop PAs who are AI-savvy.

- In terms of job loss, Mr. Rao noted that whilst routine transactions would be and should be automated for both efficiency and consistency, he is skeptical that there will be wholesale loss of accounting jobs. He is of the view that it is more a case of changing roles similar to how the profession has evolved over the last few decades.
- In relation to preventing machine bias, Mr. Rao explained that developers can include in an AI algorithm any types of predictive variables available. These predictive variables include factors such as age, gender, ethnicity as well as zip codes which may be highly correlated with certain ethnic groups. He noted that although accuracy might be reduced by eliminating these types of predictive variables, the outcomes will be more equitable. This enables management to seek a balance between fairness and accuracy when developing their AI systems. He further pointed out that there should be an appropriate process that governs how a decision from the machine can be altered. He also suggested that AI is likely to force people to justify decisions that are based on 'intuition' and 'gut feelings'.
- In relation to how audit should be costed with the introduction of AI, Mr. Rao was of the view that whilst there should be reduction in cost, resources should only be redeployed when there is sufficient evidence that AI is doing the right thing. He also noted that technology has a large fixed investment cost that needs to be amortized over time. Mr. Rao was of the view that AI will help to improve audit quality by allowing PAs to make better judgments as there is more relevant data for analysis and more time to think, including creatively.
- Mr. Rao noted that written consent from clients is currently not required before new technologies are used. He further noted there has been a recent proposal by New York University to make large infrastructure projects declare where and how government is using ML algorithms, and to open those projects to public consultation before implementation with periodic review.
- Mr. Rao does not see the Code as necessarily requiring revisions, but suggested PAs need to know how to operationalize the fundamental principles. He also suggested that the use of scenarios would be helpful guidance material for users of the Code.

TECHNOLOGY WORKING GROUP UPDATE

Ms. Mulvaney provided an update on the Working Group's information gathering activities and the feedback received from the March 2019 CAG meeting, which included strong support for the IESBA technology initiative.

Ms. Mulvaney presented five emerging themes from work performed to date which, amongst other things, include the following:

- Stakeholders did not identify any noticeable gaps in the fundamental principles or the rest of the Code in how PAs should deal with technology-related ethics issues.
- AI ethics frameworks often include the concepts of fairness, transparency and accountability which might intersect with the Code. The Working Group intended to further examine the interaction between these concepts and the fundamental principles.
- Stakeholders mentioned the importance of PAs having the appropriate mindset, including advisory and growth mindsets.

- Bias in AI (machine bias) is a significant risk and can be present in the data AI consumes and the algorithms used to analyze the data.
- Some stakeholders asked if PAs have broader role in society as ethical leaders and champions in their organizations as well as whether firms should have an ethical responsibility to discuss with their clients about the use and risks of particular technology.

The Board discussed the Working Group's observations and raised the following questions and observations for the Working Group's consideration:

- Which aspects of automated outputs require more transparency and what is the interplay between this concept and the principle of confidentiality?
- Where should accountability lie when part of a judgment was made by machine?
- Professional accountants in public practice (PAPPs) and PAIBs would have a similar responsibility to advise on risks and benefits of new technologies being used.
- Some of the Working Group's observations do not necessarily or solely relate to ethical behavior of PAs as the observations also deal with issues such as firms' business model and talent development.
- There was a view that the fundamental principles are largely sufficient in dealing with technology-related ethics issues and that it may be more appropriate to develop other guidance material outside of the Code.

WAY FORWARD

The Working Group will continue with its information gathering activities in Q2, 2019, including a session at the upcoming IESBA-National Standard Setters meeting in May. Ms. Mulvaney also noted that the Working Group will consider the merits of preparing non-authoritative material for issuance.

5. Role and Expected Mindset of PAs

Mr. Fleck introduced the topic and explained that the key aim of the session was to reach agreement on the direction and focus of key changes proposed by the Task Force.

Mr. Fleck briefed the Board on the most recent quarterly Professional Skepticism (PS) joint chairs teleconference. He noted that there was overall support for the direction of travel for the proposed text, particularly the new Introduction to the Code as well as the material on bias and organization culture. He further noted that the IAASB PS Sub-working Group (PSSWG) will provide additional feedback after its meeting in relation to key proposed changes relevant to IAASB standards.

Mr. Fleck provided a report-back on the feedback received at the March 2019 IESBA CAG meeting, noting that there was also general support for the proposed text and its location. He pointed out that there was a lengthy but constructive discussion on the relationship between compliance with the Code and acting in public interest, and how the Code should articulate this relationship. Whilst agreeing that the Code should not define the term "public interest," Mr. Fleck stressed that the Code has a substantive role in guiding PAs on how they should discharge their professional obligations in the public interest. Mr. Koktvedgaard also asked the Board to carefully consider the significance of the material in the new proposed Introduction before introducing it as a new section to the Code.

INTRODUCTION TO THE CODE

The Board discussed in detail the proposed text of the new Introduction and its proposed location. Some IESBA members suggested that, given there are only three paragraphs, it might be more effective if the proposed material be further condensed and merged into the introductory paragraphs in Section 100. Dr. Thomadakis and another IESBA member were of the view that it is helpful to place the introductory material in a new section as proposed by the Task Force.

Mr. Fleck reiterated the Task Force's view that whilst the Code cannot determine if compliance with it means that a PA has acted in the public interest, it is important to give PAs some confidence that complying with the Code will lead them towards acting in the public interest. In response to queries about the proposed text relating to the spirit of the Code, Mr. Fleck noted the view expressed by CAG Representatives that the Code will never be "up-to-date" or be able to fully address the changing expectations of the public. Therefore, it is important that a PA looks beyond complying with the letter of the Code but also its spirit. A few IESBA members, including Dr. Thomadakis, supported the inclusion of "the spirit of the Code." They pointed out that the rationale for such inclusion is consistent with the concept of 'stepping back' as stated in Section 120 of the Code.

Ms. Diplock expressed support for the direction of the proposed material and agreed that whilst compliance with the Code is important to the public interest, such compliance does not amount to PAs fulfilling their responsibility to act in the public interest in its entirety.

After further deliberation, there was general support from the Board for the Task Force to merge paragraph 3 of the new Introduction relating to the spirit of the Code with the introductory paragraphs in Section 100. Mr. Fleck noted that the Task Force will also consider if the remaining material should be kept in the new Introduction.

SECTION 100

Mr. Fleck noted that the proposed revisions in Section 100 aim to clarify that the provisions of the Code set out the behavior and approach expected of PAs in meeting their responsibility to act in the public interest. These revisions also seek to address some stakeholders' query about the Code's applicability as well as to highlight the central role of the fundamental principles and the conceptual framework in the Code.

The Board agreed with the Task Force's decision not to add a requirement for PAs to act in the public interest.

A few IESBA members queried the relevance and accuracy of the proposed text in paragraphs 100.1 A2 and 100.1 A3 relating to the applicability of the Code, suggesting that it might invite more questions than provide answers. Whilst noting that an integral part of the project is to enhance readers' understanding, including those who are not PAs, about whom the Code applies to, Mr. Fleck agreed that the Task Force will review these paragraphs for accuracy.

SECTION 110

The Fundamental Principle of Objectivity

Mr. Fleck explained that the description of objectivity was reframed to be more affirmative in nature in order to be more consistent with how the other fundamental principles are described in the Code. Whilst one IESBA member expressed reservation about the proposal, the Board was generally supportive.

After considering the addition of “perception, emotion or imagination” as a factor that might compromise the PA’s exercise of professional judgment, the Board did not support it. There was, however, a suggestion that the Task Force explore the use of this factor as part of the proposed material on bias. It was also suggested that the Task Force reconsider the use of the phrase “independently of” to avoid confusion with the use of the term “independence” in the Code.

With regards to the example about the impact of technology on objectivity in the proposed paragraph 112.1 A1, Mr. Fleck noted that the Task Force will review its location following further discussions with the IAASB’s PSSWG.

The Concept of Resolve under “Integrity”

The Board discussed the Task Force’s proposal to insert the concept of “resolve” as new application material relating to the fundamental principle of integrity under subsection 111. Whilst there was support for recognizing the concept of having the determination to act appropriately as an aspect of integrity, some IESBA members queried if the use of the term “resolve” is necessary as it creates the need to interpret a new term and may be difficult to translate.

Upon consideration, the Board agreed to retain the concept without adding a new term and to combine proposed paragraphs 111.2 A1 and 111.2 A2.

SECTION 120

Questioning Mindset

Mr. Fleck explained that the proposed material relating to the concept of questioning mindset aims to clarify that it is not sufficient for PAs to accept information and situations at face value. Instead, they must approach them with at least some measure of curiosity and apply critical analysis or assessment if issues arise.

The Board was generally supportive of the concept of questioning mindset but agreed not to add it to professional judgment as part of the requirement in paragraph R120.5 in light of comments received from the CAG.

An IESBA member suggested that there needs to be scalability given that PAs’ services vary and require different levels of questioning mindset. The IESBA member expressed the view that the proposed text has met this need.

A few IESBA members expressed the view that the concept of questioning mindset might be better placed in Section 110 on the basis that:

- The purpose of the Code is broader than the application of the conceptual framework;
- The expected behavior cannot be achieved by simply adding questioning mindset to the term professional judgment; and
- The concept of questioning mindset is fundamental and therefore should be included in the material on the fundamental principles.

In response to such views, Mr. Siong reminded the Board that at the December 2018 IESBA meeting, the Board had considered the Task Force’s proposal to expand the concept of professional judgment and to move the material to Section 100. He noted that the Task Force’s rationale then was that the concept of professional judgment is relevant to not only the application of the conceptual framework but also all the activities undertaken by a PA. The Board had not supported the Task Force’s proposal on the basis that

the concept is central to the application of the conceptual framework. In addition, the Task Force members noted that:

- The concept of questioning mindset is an important element of professional judgment. The assessment of whether the fundamental principles have been complied with itself involves the exercise of the professional judgment. Accordingly, the Task Force was comfortable with linking the proposed material on questioning mindset with the concept of professional judgment in Section 120;
- One option that the Task Force could explore is whether to add the proposed material to a new subsection after the material on the fundamental principles in Section 110; and
- In addition to the proposed text in Section 120, it might be helpful to consider adding a reference to new material in Section 110.

After further deliberation, the Board agreed to retain the proposed material on questioning mindset under the concept of professional judgment in Section 120. The Board asked the Task Force to also consider adding a general reference to the exercise of professional judgment in Section 110.

In response to a query about whether the proposed text aims to differentiate the term “questioning mindset” from the various concepts embedded in the term “professional skepticism,” Mr. Fleck noted that the Task Force is open to using other terms, if available, to describe the concept of having a degree of “curiosity.” Dr. Thomadakis further clarified that the approach agreed by the Board is not to make a distinction but to describe questioning mindset in the Code as a basic attribute for all PAs, with professional skepticism being addressed specifically to auditors.

Bias

The Board generally supported the proposed text on bias, including the list of examples of bias. An IESBA member suggested that the material is too lengthy and might be better as non-authoritative material. The Board also agreed that the terms used to describe each category of bias in proposed paragraph 120.12 A2 should be removed to avoid any translation issue.

Among other matters, Mr. Fleck agreed that the Task Force will further consider the following comments made by IESBA members:

- Whether the proposed material might better serve as non-authoritative material.
- Whether the term should be “unconscious bias” or “subconscious bias.”
- Whether the concept of bias should be connected to the exercise of professional judgment instead of the application of the conceptual framework.
- Whether the description for “overconfidence bias” used in the IAASB’s Exposure Draft for ISA 220 (Revised) is more appropriate.

Organizational Culture

Mr. Fleck noted that the proposed material aligns with the relevant material in the IAASB’s Exposure Draft relating to [ISQM 1](#).³ He also noted that the Task Force will consider a suggestion raised at the March 2019 CAG meeting to include management style in the proposed text.

³ International Standard on Quality Management (ISQM) 1, [Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#)

Considerations for Audits, Reviews and Other Assurance Engagements

The Task Force will reconsider whether the material under the subheading “Considerations for Audits, Reviews and Other Assurance Engagements” should stay in its current location under Section 120. It will also consider whether any revisions need to be made to the material on the relationship between the fundamental principles and professional skepticism, taking into account the revisions to the descriptions of the fundamental principles.

WAY FORWARD

The Task Force will seek further input from the Board in late April as it prepares the proposals for Board consideration with a view to approval for exposure at the June 2019 IESBA meeting.

6. Fees

Mr. McPhee introduced the session, explained the Task Force’s proposals and solicited input on them. The Board generally agreed to Task Force’s recommendations and provided its indicative direction to inform the Task Force’s proposed revisions to the fee-related provisions in the Code.

LEVEL OF AUDIT FEES

- There was a view that the issues concerning the level of fees and the related proposals pertained more to audit quality than independence, and that those audit quality issues were addressed in the IAASB’s proposed Quality Management standards. After exchanging views about whether it is in the IESBA’s remit to emphasize the need for firms to have appropriate resources to perform an audit in accordance with professional standards, the Board asked the Task Force to clarify its proposals and:
 - Avoid duplicating material that is in the IAASB’s International Standards unless there is a particular objective within the remit of IESBA.
 - Be mindful of including proposals relating to level of fees in the *International Independence Standards* as it could trigger all the other independence provisions, including for example those relating to breaches. In relation to this point, the Board agreed that the issues relating to the level of fees create threats to professional competence and due care and to independence, in particular independence in appearance.
 - Consider the relationship between audit fees quoted and other services provided to the audit client which could raise issues pertaining to independence in appearance and not just audit quality. There was a view that there is a public perception that auditors low-ball audit fees to secure other work and that there is a need for the Code to include distinct provisions addressing the level of fees quoted for audit and for services other than audit, including for non-assurance services (NAS).

ROLE OF PAIBS

The IESBA exchanged views about how the Code might address the responsibilities of PAIBs when they are involved in setting audit fees, particularly having regard to the provisions in the Code dealing with pressure to breach the fundamental principles.

Among other matters, the following were raised:

- In some cases, PAIBs do not have enough knowledge about the provisions in the Code or resources

to undertake their responsibilities. Mr. McPhee explained that the Task Force's proposal focused on pressure exerted by PAIBs on firms to set audit fees and explained that the proposals are intended to address behavioral issues.

- There was a question about whether the Task Force's proposal should also address the behavior of leadership in the firm (e.g., CEOs or others who set revenue/ fee targets within the firm). It was noted that in some cases pressure is exerted by individuals within the firm, and not necessarily from the client.
- The Task Force was cautioned against encroaching on anti-competition and anti-trust laws in developing its proposals.

ENHANCED TRANSPARENCY REGARDING AUDIT FEES

The IESBA generally agreed in principle to enhancing transparency about the level of audit fees. However, the Board extensively deliberated how this transparency might be achieved, including for example, through auditor communication with those charged with governance (TCWG) and public disclosure.

Auditor Communication with TCWG

- There was a view that the provisions relating to auditor communication with TCWG in the IAASB's International Standards should not be duplicated. Those who held that view suggested that the Task Force develop material that will focus on specifics about the communication (e.g., the structure of fees).
- There was also a concern that the communication should be more than just a statement.
- It was observed that in some cases fees are negotiated between the auditor and management, and that establishing a requirement for auditor communication with TCWG about fees could help curb this issue and thereby enhance auditor independence.

Public Disclosure of Audit Fees

Among other matters, the following were raised:

- There was a question about whether the IESBA has authority to establish requirements for firms to publicly disclose audit fees, in particular in the audit report. Mr. Siong noted that it would be within the IESBA's remit to do so provided that the provisions relate to ethics and independence matters.
 - There was a view that this issue is a matter more for regulators to address, and that public disclosure about fees could have the unintended consequence of triggering issues relating to competition among firms and confidentiality.
 - It was suggested that it might be more appropriate for issues relating to public disclosure about fees to be dealt with at the jurisdictional level.
- The Task Force was asked to reconsider how the public disclosure should be made, including the examples that were included in the strawman of the proposals. For example, it was suggested that the disclosure about fees:
 - Would be better positioned in the auditor's report because investors and other users of financial information may not readily find information about fees on a firm's website.

- Can be made publicly available at shareholders' meetings.
- Should include any relevant explanation or other information that would help stakeholders understand the fee disclosure and avoid creating misperceptions.
- Might need to be tailored for group audits. It was noted that in some cases a single network firm does not audit all the components and the network might not have access to the component auditors' fee-related information.
- The Task Force was asked to consider whether a failure to timely disclose fees would mean that the firm is not independent. There was a preliminary view that while transparency is an important part of demonstrating integrity, not complying with a fee disclosure requirement would not contravene the concept of independence. In response, the Task Force was asked to further consider why transparency about fees is so important, in particular for audit clients that are public interest entities (PIEs), as well as what would be the effect of not providing such transparency.

FEE-DEPENDENCY

The following pertinent matters were raised.

Audit Clients that are PIEs

- Board members suggested that the Task Force consider the effectiveness of "post-issuance review" and the case of requiring only pre-issuance review as safeguard.
- There were some practical challenges raised about the Task Force's proposal.
 - For some jurisdictions (e.g., Japan), the proposal might have unintended consequences. For example, it may have the same effect as mandatory firm rotation requirements.
 - There are some jurisdictions where the auditor cannot resign from an audit engagement. For example, in Europe, under the EU Audit Regulation⁴ the decision to end an audit engagement is the responsibility of TCWG.
- Some Board members asked the Task Force to consider aligning its proposals regarding the number of years with the provisions related to partner rotation in the Code.

Audit Clients that are Not PIEs

- There was some concern about the Task Force's proposal to "encourage" firms of audit clients that are not PIEs to publicly disclose audit fees. There was a view that this might create confusion in terms of implementation and enforcement. In particular, there was a concern that some regulators might interpret the word "encourage" to be a requirement.
- There was a view that the Task Force's proposed 30 percent threshold appeared to be too high.
- There was a view that in certain non-PIE markets where audits are not mandatory, some entities may choose not to engage firms to conduct an audit of financial statements.
- There were questions about the benefit to be derived from enhanced auditor communication with TCWG in a non-PIE context.

⁴ Regulation No. 537/2014 of the European Parliament and of the Council, Article 4

SAFEGUARDS

The IESBA agreed with the Task Force's recommendation that no further changes would be needed to the fee-related safeguards in the Code. It was agreed that the Task Force's collective proposals would be sufficient to respond to the underlying concerns of the stakeholders who suggested that the fee-related safeguards in the Code should be reviewed for potential further enhancement.

PIOB OBSERVER'S REMARKS

Ms. Diplock noted that the PIOB believes that there are public interest issues to address with respect to the level of audit fees. She explained that in some cases, the level of fees quoted for an audit may create the perception that firms are not acting with integrity.

She emphasized the need for transparency and encouraged the Task Force to explore the public interest benefit of public disclosure about fees. She added that in her view, with respect to fee-related matters, the interest of firms and the interests of the public may not be aligned. Therefore, she asked the Board to prioritize the public interest needs.

WAY FORWARD

The IESBA asked that the Task Force further refine its proposals. The Board will consider a "first-read" draft of the proposed fee-related changes to the Code at its June 2019 meeting.

7. Non-Assurance Services

Mr. Fleck introduced the session, explained the Task Force's proposals and solicited the Board's input with respect to key policy decisions relating to the NAS project. The Board generally agreed to the Task Force's recommendations and provided its indicative direction to inform the Task Force's proposed revisions to Section 600.

IESBA participants complimented the Task Force on its progress and welcomed the format and level of detail of the agenda materials. Among other matters, the following were raised:

GENERAL

It was suggested that the Task Force should carefully consider and take into account projects and initiatives that are being led by others to respond to the underlying NAS issues that are summarized in the NAS project proposal.

- Questions were raised about whether the Task Force should clarify the descriptions of the various types of NAS that might be provided to audit clients (in particular, when those services are prohibited). In that context, the Task Force was also asked to clarify whether the NAS provisions should apply when an audit firm is involved in the development of a product or the particular NAS forms part of a business relationship or arrangement.
- The IESBA asked the Task Force to adhere to the [General Drafting Conventions](#) and architecture established in finalizing the revised and restructured Code.

DISTINCTION IN THE CODE FOR PIEs AND NON-PIEs

Most of the Task Force's proposals (and the Fees Task Force's proposals) apply to audit clients that are PIEs. Accordingly, the Board reflected on whether it should accelerate its future initiative relating to the definition of "listed entity" and "public interest entity."

After extensive deliberation, the Board agreed to move up the timeline for its strategic commitment to review the definition of listed entity and PIE in the Code with a view to coordinating the effective dates of any changes to those definitions with the changes arising from the NAS and Fees projects.

NAS THAT CREATE SELF-REVIEW THREATS – PROHIBITION FOR AUDIT CLIENTS THAT ARE PIEs

The Board deliberated whether the Code should prohibit firms and network firms from providing NAS to audit clients that are PIEs if the outcome of that service might be included directly or indirectly in the financial statements, and the service creates or might create a self-review threat; and, if so, how the Code might explain the concept of an “indirect” impact on the financial statements.

The Task Force was asked to revisit the phrase “direct and indirect effect on the financial statements,” which was viewed as unclear or ambiguous.

- It was suggested that the phrase “... services not subject to audit procedures...” should be used in articulating the new prohibition to clarify that the intent is that the firm avoid undertaking a NAS that is likely to position to the firm to subsequently audit its own work. It was noted that this language is already used in paragraph R600.10 of the current Code and that the approach is consistent with the US Securities and Exchange Commission (SEC) Independence Rules.
- Mr. Koktvedgaard noted that the CAG Representatives expressed similar concerns and asked that the Task Force’s proposals clarify the intended meaning of “indirect effect on the financial statements.”
- There were questions about whether the phrase “might create self-review threats” in the proposed requirement could be replaced with “creates self-review threats.” Mr. Fleck explained that the phrase “might create self-review threats” is used because the prohibition is intended to apply as long as there is a likelihood of a self-review threat.

Summary List of Prohibition (“NAS Blacklist”)

- After extensive deliberation, the Board agreed that the Code should not include a summary list of the NAS prohibitions in the Code. It was agreed that having such a list in the Code could have the unintended consequence of a firm incorrectly concluding that the provisions of a NAS is permitted if it is not included in the list. The Board agreed with:
 - The Task Force’s view that depending on certain facts and circumstances, a firm may determine after proper application of the conceptual framework that the firm should not provide the specific NAS even when the NAS is not expressly prohibited by the Code.
 - The Task Force’s suggestion that the advance search feature in the eCode and [existing non-authoritative guidance](#) might be a better way to highlight the NAS prohibitions in the Code.

ENHANCED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

The Board had a lengthy discussion about whether and, if so, how and under what circumstances there should be enhanced transparency by firms regarding the ratio of NAS fees and audit fees to: (i) TCWG; and (ii) the public (the IESBA noted the need for coordination with the Fees Task Force on this particular matter).

The Board expressed support for enhanced auditor communication with TCWG about NAS matters, but questioned certain aspects of the specific proposed revisions. The Board noted that there might be practical

challenges in terms of implementation, in particular with respect to the proposed requirement for pre-approval of NAS by TCWG. Among other matters, the Board asked that the Task Force:

- Pay heed to the cautionary remarks regarding having a “bright-line” requirement for TCWG to pre-approve NAS. It was suggested that additional guidance is needed in order for the process of pre-approval by TCWG to be meaningful (i.e. go beyond a “tick-the-box” exercise).
- Consider how best to respond to concerns about implementing the proposals in a group audit context or where a firm provides a NAS to related entities. For example, it may be challenging or unduly burdensome to identify the appropriate body or individual responsible for providing the NAS pre-approval.
- Consider that in some jurisdictions (such as Japan), TCWG may not have the authority to pre-approve NAS services. In response to this comment, it was suggested that “concurrence by TCWG” might be a more appropriate wording option.
- Revisit its proposed documentation provisions related to pre-approval of NAS by TCWG and determine whether to provide additional guidance to clarify how pre-approval should be evidenced if the pre-approval process is automated, such as through technology.
- Reconsider whether there is a need to encourage audit clients that are not PIEs to obtain the pre-approval of NAS from TCWG.
- Reconsider the exception for pre-approval of NAS that are “trivial and inconsequential” because it is susceptible to being misused.

Ratio of NAS and Audit Fees

The Board noted that the Task Force’s proposals are being developed in close collaboration with the Fees Task Force. The Board also noted that in response to the feedback from the IESBA’s [Global Roundtables](#), those proposals:

- Would not include a proposal for a “fee-cap.” Instead, a threshold would be established to trigger a re-evaluation of threats and a review of actions that might be safeguards.
- Will take into account the need for enhanced transparency about fees, including fee ratios.
- Will include guidance to assist firms within a network that provide NAS to audit clients navigate some of the practical challenges involved in accessing fee-related information.

EXCEPTION FOR CERTAIN RELATED ENTITIES

The Board exchanged views about whether to retain the exceptions to some of the requirements in Section 600 pertaining to certain related entities of the audit client. The Board noted that the approach in the Code differs from the approach in Article 5 of the EU Audit Regulation, but that it is aligned to the approach in the US SEC Independence Rules.

After discussion, the Board agreed to retain the exceptions in the Code. The Board also asked that the Task Force consider revisions to clarify the exceptions.

OTHER MATTERS, INCLUDING RESPONSIBILITY TO COMPLY WITH NAS PROVISIONS IN LAWS AND REGULATIONS

- There was a view that the Task Force's proposal to emphasize firms' responsibilities to comply with NAS provisions in laws and regulation in Section 600 was unnecessary because that responsibility is already set out in paragraphs R100.3 to 100.3 A1 of the Code. Mr. Fleck explained that the Task Force had noted that similar to the topic of inducements, the topic of NAS is covered in local laws and regulations in a number of jurisdictions. Accordingly, the approach that the Task Force was proposing for NAS was consistent with the approach that the Board took in finalizing the inducements provisions.
- It was suggested that a reference to the conflict of interest section of the Code should be included in Section 600.
- There was a view that the Task Force should reflect on the new technologies and business practices as well as new methods of service delivery, and determine whether there is a need to rethink certain key concepts, such as what constitutes a professional service, and whether the firms relationships with its audit client could trigger new independence issues.

PIOB OBSERVER'S REMARK

Ms. Diplock complimented the Board on the robustness of the debate and emphasized the importance of the NAS project to the public interest. She noted that in her view, stakeholders all over the world will look to the IESBA's revised approach to determine whether providing NAS to audit clients would be permissible.

WAY FORWARD

The IESBA asked that the Task Force further refine its proposals. The Board will consider a "first-read" draft of the proposed NAS changes to the Code at its June 2019 meeting.

8. IESBA Working Processes

Ms. Soulier gave a report-back on the Discussion Group session at the December 2018 IESBA meeting which focused on:

- How to improve the effectiveness of IESBA working processes, along the dimensions of strategic focus, relevance of standards, timeliness of standard setting; and
- How to improve the efficiency of IESBA working processes at the Board, Task Force/Working Group, and Staff levels.

She then invited views and reactions from Board participants, including areas for improvement to further explore as a priority and additional thoughts or suggestions that should be captured.

Among other matters, the following were raised:

- While global roundtables are an effective way to obtain views on particular topics or issues from a wide range of stakeholders, they are costly. Consideration could be given to smaller virtual roundtables by region as a more practicable option.
- Another option to progress thinking on issues could be small groups led by task force members. This would be more helpful earlier in the project life cycle than later. However, this should be balanced against the need to consult with external stakeholders.

- When directional input is sought on a project or initiative, Board discipline is important to keep the discussion at that level. Editorial comments should be provided offline.
- In relation to drafting changes to the Code, it is important to be mindful of what the objective is.
- The drafting guidelines to the Code should be shared with all new Board members, Technical Advisors (TAs) and staff.
- When issues are re-opened, that may indicate that the debate has not matured yet. These will therefore be areas where the Board and CAG will need to spend adequate time. Equally, the discussion should not be closed off too soon if Board members are not fully comfortable with the positions that have been reached.
- Opportunities to leverage technology to facilitate task force work should be pursued but there are limits to it.
- New Board members and TAs would benefit from being briefed on the status of projects when they join the Board or are appointed.

With regard to a suggestion in one of the discussion groups in December that one option to consider would be to shift the Board meeting cycle to three meetings per annum of four days each, there were concerns about the implications for project timelines and the increased intensity of the meetings, especially as some board meeting days can stretch to 12 hours or more when task forces and working groups meet in the evenings. In this regard, it was felt that having Board meetings of three days each instilled time discipline.

Ms. Diplock commented that from the PIOB's perspective, while working process improvements are important, the public interest focus needs to be at every stage of the standards development process. She was of the view that the improvements being discussed will serve the public interest as they will lead to timelier standard setting. She added that the PIOB nevertheless has to form a view as to whether the outcome of the standard setting process ultimately is in the public interest.

WAY FORWARD

The Planning Committee will reflect on the input from the Board and recommend next steps in due course.

9. eCode

Mr. Thomson introduced the session, recapping the objectives of the initiative. He then invited co-presenter Mr. Jeff Nordstedt of Finn Partners to demonstrate updates to the staged website of the eCode.

Mr. Nordstedt demonstrated the updated features and functionalities of the proposed eCode and explained how the Board's feedback had been incorporated. Mr. Thomson briefed the Board on the timeline for launching Phase 1 of the eCode by June 26, 2019 as well as some of the planned activities to promote awareness and use.

FEEDBACK ON FEATURES AND FUNCTIONALITIES

IESBA members complimented the Working Group on the progress achieved. Among other matters, the Working Group was asked to consider:

- Adding a filter to the list of prohibitions by Part and create shorter lists by user group.
- The need to balance the context of non-authoritative material against a particular relevant extract.

- The need to help users differentiate between the standard and Boolean search features and ensure that users understand how to best use the two options.

The search feature will be refined over time, based on actual search usage. It was agreed that feedback will be collected anonymously, i.e., not to be tailored for individual users, to avoid login and privacy concerns.

BETA TESTING

Beta testing that incorporates perspectives from a wide range of users was supported and its importance emphasized by the Board. It was suggested that additional testing be done to improve the search function (e.g., the ordering of the results was not always the same).

COPYRIGHT AND FUTURE MAINTENANCE

- There is a need to distinguish the copyright and permissions language from the text of the Code.
- It was suggested that further consideration be given to:
 - How updates to the Code will be dealt with in the eCode. There was a view that the IESBA staff will have a role in making such changes to ensure that the links to non-authoritative material remain appropriate.
 - How a user may track changes made to the Code over time. It was suggested that there should be a process for updating the eCode for IESBA-approved changes that are made to the Code. It was suggested that the Working Group should agree to a time frame within which an “old version of the Code” should remain within the eCode and that this “old version” should be made accessible by PDF.
- The Working Group should consider what IESBA’s role should be in agreeing processes or protocols for sharing the eCode platform with others (e.g., national standards setters). It was noted that IFAC also has a role in this process.
- The Board noted that IFAC has an important role to ensure the timely launch of the eCode, including to oversee the transition of the staging site to the IFAC servers.

PROMOTING AWARENESS AND USE OF ECODE

The IESBA plans to release resources, including YouTube videos, to showcase the key features of the eCode. A [publication](#) has been released to outline the objectives of the eCode initiative and some of the features that users should expect to see when the tool is launched in June.

PIOB OBSERVER’S REMARKS

Ms. Diplock complimented the WG and the Board for the progress made on the eCode initiative, noting that this product is in the public interest, and will be of interest to a broad stakeholder group. She emphasized the value of the eCode as a public good. She encouraged IFAC not to monetize the product, but rather leverage it to promote adoption and implementation of the Code in order to contribute to public trust in the accountancy profession.

WAY FORWARD

The IESBA will discuss the scope of and approach to the next phase for the eCode, and related timing, at its June 2019 meeting.

10. Long Association – Additional Q&As

Mr. Siong briefed the Board on additional Frequently Asked Questions (FAQs) proposed by staff for inclusion in the IESBA Staff Questions & Answers (Q&A) publication on the revised Long Association provisions.

The Board supported the inclusion of the proposed FAQs in the document. In addition to editorial suggestions, Board members raised some matters for staff's further consideration in finalizing the additional FAQs prior to publication. These included:

- Aligning the terminology used in the questions more closely to that used in the Code.
- Grouping questions addressing scenarios of a similar nature together.
- Revisiting the second FAQ addressing audits of financial statements for periods other than 12 months to provide a more logical rationale for the position stated in the response.

WAY FORWARD

The Board asked that staff, in consultation with the Long Association Advisory Group, consider the feedback and circulate a revised draft of the FAQs for "fatal flaw" comment prior to finalizing the document for publication in April 2019.

11. PIOB Observer's Remarks

Ms. Diplock commented that it was an honor and pleasure for her to have had the opportunity to observe the meeting. She congratulated all those involved in the discussions, which she found illuminating.

She was impressed with the discussion on Board working processes, noting that modern approaches to standard setting have the potential to lead to greater efficiency and clarity. She was also of the view that it is in the public interest to implement innovations in standard setting, and that improvements in working processes at the IESBA should be shared with other standard-setting boards.

Regarding the Role & Mindset project, she noted that the topic has been a challenge on the table for quite some time. She acknowledged that the issues in the project are difficult, but she complimented the Board on the significant progress made. She added that the topic goes to the heart of the public interest issues the Board should be addressing.

In relation to the Fees and NAS projects, she highlighted the challenges on these topics from the regulatory community. Hence, she felt it was timely that these topics were now being addressed by the Board.

In closing, she noted that the meeting was conducted in exemplary fashion, that it was managed in the public interest, and that there was excellent input from all around the table.

12. Next Meeting

The next Board meeting is scheduled for June 17-19, 2019 in Nashville, Tennessee, USA.

13. Closing Remarks

Dr. Thomadakis thanked the IESBA meeting participants for their contributions, wished them a safe journey home and closed the meeting.