

**Draft Minutes of the 73<sup>rd</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on June 9-11, 14 & 25, 2021 – Virtual Meeting via Video Conference**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Caroline Lee (Deputy Chair)  
Saadiya Adam  
Michael Ashley  
Vania Borgerth  
Sanjiv Chaudhary  
Laurie Endsley  
Brian Friedrich  
Hironori Fukukawa  
Kim Gibson  
Liesbet Haustermans  
Richard Huesken  
Sung-Nam Kim  
Winifred Kiryabwire  
Ian McPhee  
Andrew Mintzer  
Jens Poll  
Yaoshu Wu

**Technical Advisors**

James Barbour (Mr. Ashley)  
David Clark (Mr. Huesken)  
Gregory Driscoll (Ms. Lee)  
Jens Engelhardt (Mr. Poll)  
Laura Friedrich (Mr. Friedrich)  
Ellen Gorla (Mr. Mintzer)  
Marta Kramerius (Ms. Haustermans)  
Gina Maldonado-Rodek (Ms. Gibson)  
Ki-Tae Park (Mr. Kim)  
Andrew Pinkney (Ms. Endsley)  
Kemisha Soni (Mr. Chaudhary) (Days 1-3 & 5)  
Sundeep Takwani (Ms. Kiryabwire)  
Jeanne Viljoen (Ms. Adam)  
Kristen Wydell (Mr. McPhee)  
Masahiro Yamada (Mr. Fukukawa)  
Xiaoye Yuan (Ms. Wu)

**Non-Voting Observers**

Present: Gaylen Hansen, IESBA Consultative Advisory Groups (CAG) Chair, and Jumpei Kato, Japanese Financial Services Agency (FSA)

**Public Interest Oversight Board (PIOB) Observer**

Present: Robert Buchanan

**IESBA Staff**

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director) (Days 1, 2 & 4), Geoffrey Kwan, Kam Leung, Szilvia Sramko, Carla Vijian, Astu Tilahun, Diana Vasquez

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He also welcomed Ms. Sylvie Soulier, Chair of the Engagement Team-Group Audits Independence (ET-GA) Task Force, Ms. Denise Canavan, Member of the ET-GA Task Force, and Mr. Richard Fleck, member of the Benchmarking and NAS & Fees Rollout Working Groups (WGs). Dr. Thomadakis gave a special welcome to Mr. Peter Oastler on joining the Benchmarking WG as an external expert. In addition, he welcomed Ms. Josephine Jackson, the Definitions of Listed Entity and Public Interest Entity (PIE) Task Force correspondent member and member of the International Auditing and Assurance Standards Board (IAASB) for the PIE session. Dr. Thomadakis acknowledged and credited the IESBA's virtual meeting arrangements for the significant increase in access to public observers who observed this and recent Board meetings live via the IESBA's YouTube Channel.

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

- The activities of the Planning Committee during the quarter which included consideration of the progress on key projects/initiatives such as PIE, Technology and Tax Planning; consideration of the PIOB's updated list of public interest issues as of June 2021; an update on the transition planning regarding the Monitoring Group recommendations regarding strengthening the international audit and ethics standard-setting system; and planning for the September and December 2021 IESBA meetings.
- Publication of an article in May titled "5 Ethical Challenges that Will Intensify as the Pandemic Wanes," which was developed by the IESBA-National Standard Setters (NSS) COVID-19 WG.
- The outreach activities since the March 2021 IESBA meeting.
- Postponement of in-person outreach plans for Q3 2021 given the ongoing COVID-19 pandemic.

### APPROVAL OF MINUTES

The IESBA approved the minutes of the March 2021 public session as amended.

## 2. Quality Management-related Conforming Amendments

Ms. Haustermans, IESBA Member Liaison to the IAASB, welcomed Ms. Klonaridis, IAASB Deputy Director and the staff in charge of the IAASB's ISQM 1<sup>1</sup> project, to the session. Ms. Haustermans then briefed the Board on recent coordination efforts with IAASB representatives concerning the proposed conforming amendments to the Code arising from the finalization of the IAASB's Quality Management (QM) Standards.

### PROJECT PROPOSAL

Ms. Haustermans briefly explained the background to this limited scope project, noting the objective to develop conforming amendments to the Code so that it is aligned and interoperable with ISQM 1 and ISQM 2,<sup>2</sup> which were issued by the IAASB in December 2020. She noted that the project is focused on relevant

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<sup>1</sup> [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 Engagement*

<sup>2</sup> [ISQM 2](#), *Engagement Quality Reviews*

provisions in Parts 1,<sup>3</sup> 3,<sup>4</sup> 4A<sup>5</sup> and 4B<sup>6</sup> of the Code that refer to ISQM 1 or ISQM 2, or terms and concepts used or defined in those two QM standards. Ms. Haustermans informed the Board that consequential and conforming changes to the Code as a result of the finalization of [ISA 220 \(Revised\)](#),<sup>7</sup> in particular revisions to the definition of an engagement team, are being addressed in the ET-GA project.

Ms. Haustermans recommended that, subject to the Board's approval of the Exposure Draft (ED), the proposed conforming amendments be issued for public comment for a 60-day comment period. The Board will then consider the significant comments received on the ED at the December 2021 meeting and any refinements to the conforming amendments before their final approval. The anticipated effective dates of the conforming amendments will be aligned with the effective dates of the relevant QM standards.

The Board unanimously approved the project proposal as presented.

#### CONFORMING AMENDMENTS

Ms. Liesbet Haustermans walked through the proposed conforming amendments to the Code. She explained the rationale for the main changes and highlighted substantive matters for the Board's consideration. Amongst other matters, the following were raised by IESBA participants:

##### *Paragraph 300.7 A5 – Engagement Partner Authority for Engagement Acceptance Decisions*

- Regarding paragraph 300.7 A5, the Board noted the feedback from IAASB Staff that the wording of this provision suggests that the engagement partner makes the decision to accept engagements to provide services to the client. IAASB Staff noted that between ISQM 1 and ISA 220 (Revised), the firm makes the decision and the engagement partner merely confirms that the firm followed its policies or procedures in this regard. An IESBA member noted that in some jurisdictions, engagements are under the name of engagement partners for licensing reasons. Another IESBA member noted that in practice, the engagement partner retains the authority for the decision even though the decision will be in the firm's name.

Ms. Klonaridis explained that during the IAASB's discussions in revising ISQM 1, the IAASB was of the view that the engagement partner may not be involved in making the decisions about accepting or providing services to a client in all circumstances. Accordingly, the IAASB had concluded that it would remove these references to acceptance by the engagement partner from ISQM 1 and ISA 220 (Revised) to acknowledge the differing practices. An IESBA member noted that the engagement partner needs to take responsibility for services provided to the client. It was also noted that ultimately an individual has to be accountable for the decision.

After further deliberation, the Board agreed to make no amendments to paragraph 300.7 A5 but to include a specific question in the explanatory memorandum (EM) to the ED to invite respondents' views on the matter.

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<sup>3</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

<sup>4</sup> Part 3 – Professional Accountants in Public Practice

<sup>5</sup> Part 4A – Independence for Audit and Review Engagements

<sup>6</sup> Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

<sup>7</sup> ISA 220 (Revised), *Quality Management in an Audit of Financial Statements*

#### Other Matters

- Regarding paragraphs 400.4 and 900.3, consideration should be given to including a reference to “the network” (in addition to network firms and service providers) to ensure full alignment with ISQM 1.
- Given the asynchronous timing of finalization of the conforming amendments arising from this project and the revisions from the ET-GA project, there is a possibility of the terms “quality management” and “quality control” co-existing in different sections of the Code for a period of time. It was suggested that this matter be highlighted in the EM.

In relation to other matters IAASB Staff had raised on potential conforming amendments to the Code arising from the QM standards, the Board agreed that some of the matters were substantive in nature and overlapped with matters being considered under the ET-GA project. Accordingly, the Board asked the ET-GA Task Force to consider these matters as part of that project.

#### APPROVAL

After agreeing the refinements, the Board unanimously approved the ED. The draft EM will be shared with IESBA members for fatal flaw review prior to issuance of the ED for a 60-day comment period.

#### OTHER MATTERS

During the review of the potential conforming amendments to the Code, Ms. Haustermans highlighted the need for an amendment to the Guide to the Code to align the Guide to the recently finalized Role & Mindset revisions to the Code. Specifically, Ms. Haustermans noted that paragraph 6 of the Guide should be amended to reflect that applying the conceptual framework requires a professional accountant to have an inquiring mind. The Board agreed the amendment.

#### WAY FORWARD

The Board will undertake a full review of respondents’ comments on the ED at the December 2021 IESBA meeting.

### 3. Definitions of Listed Entity & Public Interest Entity

Mr. Ashley introduced the session by providing a high-level breakdown of the 69 respondents that had submitted comment letters to the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED). He informed the Board that the objective of the session was to seek IESBA members’ directional input on the Task Force’s preliminary views on key comments received and proposed way forward.

#### TASK FORCE PRELIMINARY VIEWS

Mr. Ashley provided a high-level overview of the significant comments received and the Task Force’s suggested responses following its preliminary analysis.

- Overarching objective
  - Respondents, including a Monitoring Group member (the International Organization of Securities Commissions (IOSCO)), were generally supportive of the proposed overarching objective.

- Concerns raised include questions about the clarity of the term “financial condition” in paragraph 400.8. and whether reference to enhancing confidence in the audit of financial statements of PIEs in paragraph 400.9 will lead to a perception of two levels of independence and audit quality.
- The Task Force’s preliminary views:
  - Retain the overarching objective and its focus on the entity’s financial condition.
  - Refine paragraphs 400.8 and 400.9 in light of comments received and to consider keeping these two paragraphs separate.
- Approach to developing the PIE definition
  - Overall, there was more support for the broad approach (i.e., high-level definition). However, many respondents, including IOSCO, firms and respondents from the EU, preferred the narrow approach (i.e., baseline definition).
  - Key concerns raised about the broad approach include the potential for inconsistency, confusion for both firms and users, and dependency on local bodies’ ability and appetite to make the necessary refinements.
  - Whilst there was general support for local bodies to refine the PIE definition, there were concerns about the perception that they could exclude an entire PIE category at the local level.
- Publicly traded entity and other PIE categories
  - Respondents were generally supportive of the term “publicly traded entity” as a replacement for “listed entity” but suggested further refinements, such as defining the term “financial instruments.” A few respondents, including IOSCO, preferred the term “listed entity” to be retained on the basis that it is a well-understood and well-used term.
  - With regards to the remaining specific PIE categories under subparagraphs R400.14 (b) to (e), there were stronger support for categories (b) and (c). More concerns were raised regarding categories (d) and (e), particularly with respect to the numbers and types of entities that might be scoped in.
  - There is little support for adding a new category to scope in entities that fundraise via initial coin offerings or other less conventional and newer forms of fundraising.
  - The Task Force’s preliminary views:
    - Retain the broad approach, reaffirming IESBA’s previous view regarding challenges with a baseline definition at the global level.
    - To avoid any confusion, emphasize in the proposals that it is not generally expected that local bodies will remove entire categories.
    - Consider whether to retain categories (d) and (e) as part of the Task Force’s full review of the comments received.
    - Meet with IOSCO representatives in Q3 to discuss IOSCO’s comments on the broad approach and preference for the term “listed entity.”

- Role of firms
  - Most respondents from the regulatory and NSS communities were supportive of the proposed requirement for firms to determine if additional entities should be treated as PIEs in paragraph R400.16. Most firms, however, were not supportive of this proposal. Key concerns are that the requirement would create inconsistencies between firms and that such responsibility should not rest with firms.
  - The proposed requirement for firms to disclose if an audit client was treated as a PIE in paragraph R400.17 received similar support to that for paragraph R400.16. Key concerns are that the requirement may lead to a misconception that there are two levels of independence and that non-PIE audits are of lower quality. Some respondents also suggested that more information would need to be disclosed to avoid confusion.
  - The Task Force's preliminary views:
    - Revert the proposed requirement in paragraph R400.16 back to application material as an encouragement for firms but with the focus on whether to apply additional independence requirements applicable to PIEs to non-PIE audits.
    - Refocus the proposed requirement in paragraph R400.17 to firms disclosing if they have complied with additional independence requirements applicable to PIEs.
    - The above suggested refinements would still apply some market discipline to firms in any determination they do make as to whether or not to apply the additional requirements to the audit of an entity which is not specified as a PIE.

Mr. Ashley also noted that there was general support from respondents for the IESBA's conclusion not to review the definition of "audit client" in paragraph R400.20 at this time and its conclusion not to propose any revisions to Part 4B. He further noted that a number of respondents have recommended the effective date be extended beyond December 15, 2024.

#### IESBA FEEDBACK

The IESBA was generally supportive of the Task Force preliminary views and proposed way forward on the various issues. Whilst there was some support from IESBA members for the suggestion of removing the proposed PIE categories (d) and (e) under paragraph R400.14, the IESBA asked the Task Force to only firm up its recommendations after a fuller analysis of the comments received. In particular, it was suggested that the Task Force consider whether larger pension funds and collective investment vehicles could be better differentiated from smaller ones. In relation to the effective date and a few respondents' comments about the need for transitional arrangements, it was suggested that consideration be given to existing provisions in the Code that already deal with the situation of when an audit client becomes a PIE.

Mr. Buchanan noted that he was broadly supportive of the Task Force's proposed way forward, recognizing the role of local bodies to refine the PIE categories under the Board's broad approach. He recommended that the IESBA not rule out proposed categories (d) and (e) as yet given the support these categories received from some respondents. Mr. Buchanan also suggested that the IESBA may wish to seek additional views from others in the regulatory community. In response, Mr. Siong noted that the International Forum of Independent Audit Regulators (IFIAR) had previously indicated that they would not respond to the PIE ED as they were not able to reach a consensus view on the proposed PIE definition. Mr. Siong also noted

that additional views will be sought from stakeholders during the upcoming joint IESBA-IAASB CAG session and NSS meeting to be held in Q3 and Q4.

#### WAY FORWARD

The Task Force will present its full analysis of the comments received, including its responses and proposed revisions, at the September 2021 IESBA meeting.

#### 4. Technology Non-authoritative Material & Fact Finding

The IESBA received an update from the Technology WG on the WG's work relating to the development of non-authoritative material (NAM) and its fact-finding activities in identified technology areas. Among other matters, the IESBA was briefed on a Technology [Briefing Paper](#) that the WG developed to support its outreach activities, the WG's contribution to the development of a thought-leadership paper titled, [Complexity and the Professional Accountant](#), and various targeted stakeholder outreach meetings.

The IESBA received two external presentations on blockchain: (1) [Use of Blockchain in Corporate and Financial Reporting, and Regulatory Implications](#), from Drs. Kathleen Bakarich and John Castonguay, both Assistant Professors, Hofstra University; and (2) [Blockchain and Internal Control – Relevant Insights and Perspectives](#), from Dr. Sri Ramamoorti, Associate Professor, University of Dayton, and Eric Cohen, Owner of Cohen Computer Consulting. IESBA participants found the presentations insightful and raised a number of questions for clarification with the guest speakers.

The IESBA also received an update from Brett James, IAASB Deputy Director, on the IAASB Technology WG's activities and their linkage to the IAASB's strategic actions and current work plan. Some discussion followed, including how the IAASB's standards will evolve over the next decade, how the concept of an engagement team will evolve given that it is currently focused on accounting and auditing skills, and the challenges of extracting usable data from the huge volumes being produced by modern technology.

#### PIOB OBSERVER'S REMARKS

Mr. Buchanan noted that he found the external presentations informative and valuable to the WG's fact-finding activities. He further commented on the good progress of the fact-finding work and the good coordination with the IAASB WG.

#### WAY FORWARD

The IESBA will receive a further update from the WG at its September 2021 meeting.

#### 5. Technology Project

The IESBA discussed the Technology Task Force's preliminary proposed technology-related revisions to the Code regarding the recommendations outlined in the approved [project proposal](#) as informed by the [Phase 1 report](#). The proposals in the [June 2021 draft](#) incorporated the IESBA's feedback on the:

- ["Strawman draft"](#) tabled for discussion at its December 2020 meeting;
- [Stakeholder responses](#) to the two [technology surveys](#) that the Technology Task Force had issued in October 2020; and

- Feedback from targeted stakeholder outreach since the release of the Phase 1 report, including with the International Auditing Standards Subgroup of the Committee of European Auditing Oversight Bodies (CEAOB) in May 2021.

The key comments raised by the IESBA on the June 2021 draft, both in advance of, and at its June plenary session, included the following.

#### PART 1 OF THE CODE

The IESBA noted that many of the proposals for Part 1 of the Code were editorial in nature and did not appear to add substantive enhancements to the Code. There was general agreement that related recommendations were already addressed as part of the [Role and Mindset project](#). Instead, IESBA members suggested that the Task Force should focus on:

- Clarifying the type or nature of professional skills that are needed by professional accountants (PAs) in the digital age in Subsection 113 *Professional Competence & Due Care*. There was a view that the language in the June 2021 draft was too vague and could be clarified.
- Developing guidance on the interplay between transparency and confidentiality. There was a view that explaining how PAs could address the inherent tension between the fundamental principle of confidentiality and demands for PAs to be transparent would enhance the Code.
- Expanding on what the Task Force intends with the use of the term “protect” in Subsection 114 *Confidentiality* and considering if its use is appropriate.

#### PART 4A OF THE CODE

##### Section 520 *Business Relationships*

The IESBA expressed broad support for the Task Force to include an example(s) of a close business relationship created by arrangements involving technology in Section 520. However, a few IESBA members felt that the examples in the June 2021 draft were confusing. It was suggested that the co-development of technology by the firm and the audit client might be a more appropriate and clearer example.

In relation to the sale and licensing of technology, mixed views were expressed on whether the Code should include a “signpost” in Section 520 to prompt firms to refer to Section 600 *Non-assurance Services*. Some IESBA members emphasized the importance of such a signpost in Section 520 while others deemed it unnecessary.

##### Section 600 *Non-assurance Services*

The IESBA expressed broad support for the Task Force’s proposal to include an introductory paragraph in Section 600 to explain that a non-assurance service (NAS) can be performed by an individual within the firm or a network firm, or by technology or a combination of both. However, some IESBA members noted that the language in the June 2021 draft could be simplified and clarified.

##### Subsection 606 *IT Systems Services*

The June 2021 draft proposed a prohibition on hosting services and the operating, maintaining, monitoring or updating of IT systems for all audit clients. Key feedback from IESBA members included:

- Questions on whether a prohibition for all audit clients is reasonable, and requests for the Task Force to consider the impact of such a prohibition on small and medium practitioners (SMPs).



- A view that services involving operating, maintaining, monitoring or updating of IT systems do not usually create a threat to independence as long as no management responsibility is assumed, and the NAS do not: (1) pertain to IT systems that relate to internal controls over financial reporting, or (2) generate information forming part of the accounting records or financial statements.
- A request for the Task Force to clarify in the proposed text whether the prohibition on hosting services extends to collecting and retaining data in the course of providing a permissible NAS. There was general agreement that the prohibition should not be extended to such circumstances.

The IESBA was broadly supportive of the Task Force's proposal to withdraw "implementing 'off-the-shelf' accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant" as an example of an IT systems service that does not usually create a threat. An IESBA member noted that in finalizing the NAS ED, such withdrawal had also been considered by the NAS Task Force, and it was suggested that the Task Force liaise with the NAS Task Force accordingly.

#### PIOB OBSERVER'S REMARKS

Mr. Buchanan commended the Task Force on developing the draft provisions addressing business relationships and hosting services. He observed, however, that it would be important to articulate the principles clearly as there are significant perception issues around firms engaging in those relationships with, or providing those types of services to, audit clients. He also commended the Task Force on reaching out to the regulatory and wider stakeholder community beyond the profession.

#### COORDINATION WITH THE IAASB

The IESBA also noted the recent coordination activities with the IAASB which have enabled the Task Force to brief the IAASB Technology WG on the IESBA's technology workstreams.

#### WAY FORWARD

The IESBA asked the Task Force to consider the feedback from the Board and present a first-read draft of the proposed revisions to the Code at its September 2021 meeting.

## 6. Engagement Team – Group Audits Independence

Ms. Soulier, Chair of the Task Force, briefed the Board on the Task Force's coordination efforts with IAASB representatives since April 2021 in relation to the IAASB's project to revise ISAs 600.<sup>8</sup> During the meeting, Ms. Soulier also reminded the Board that the Task Force's work is dependent on the progress of the ISA 600 Task Force's work.

#### REPORT BACK ON OUTREACH ACTIVITIES

Ms. Soulier briefed the Board on the feedback received from various outreach activities held with the IESBA CAG, NSS,<sup>9</sup> and representatives from IOSCO,<sup>10</sup> IFIAR,<sup>11</sup> and some larger firms. Among other matters, the Board was informed of the stakeholders' general support for the coordination effort between the IESBA and

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<sup>8</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>9</sup> National Standard Setters

<sup>10</sup> [International Organization of Securities Commissions](#)

<sup>11</sup> [International Forum of Independent Audit Regulators](#)

the IAASB on this project and the ISA 600 project, the proposed principles on independence with respect to non-network component auditors (CAs), and the proposed approach when a breach of independence is found at the CA level.

The Task Force was encouraged to coordinate closely with the IAASB in terms of the effective date of the proposed standard. There was also a recommendation from the CAG that the Task Force consider further consultation with the investor community. Ms. Lee also noted the CAG's support for the alignment of definitions of terms between proposed ISA 600 (Revised) and the proposed changes to the Code arising from the ET-GA project.

#### DEFINITION OF ENGAGEMENT TEAM (ET)

Following the [March 2021](#) Board meeting, Ms. Soulier informed the Board that the Task Force had taken into account the recommendations from Board members in proposing the final refinements to the ET definition. In particular, regarding the exclusion from the ET of internal auditors who provide direct assistance on an audit engagement when the external auditor complies with ISA 610 (Revised 2013),<sup>12</sup> Ms. Soulier noted that the Task Force proposed to reinstate the reference to the exclusion of internal auditors. Similarly, the Task Force also proposed adding a reference to ISA 620<sup>13</sup> (which deals with an auditor's external expert) to clarify the exclusion of such an individual from the ET definition.

Ms. Soulier also noted that the Task Force would provide further explanation in the Explanatory Memorandum to the ED to make it clear that internal auditors who provide direct assistance on an audit and an auditor's external expert are not part of the ET.

Overall, Board members were supportive of the Task Force's proposed refinements to the ET definition.

#### INDEPENDENCE CONSIDERATIONS FOR ENGAGEMENT QUALITY REVIEWERS SOURCED FROM OUTSIDE THE FIRM AND ITS NETWORK

At the [March 2021](#) meeting, the Task Force noted a matter which required further consideration relating to the independence considerations for engagement quality reviewers (EQRs) sourced from outside the firm and its network. The extant definitions of "audit team" (AT), "review team," and "assurance team" do not scope in such individuals. Accordingly, to address this gap in the Code, the Task Force proposed to amend the definitions of these three terms to include those individuals.

Overall, Board members were supportive of the Task Force's proposal. Among other matters, IESBA participants raised the following for the Task Force's further consideration:

- Whether the wording "engaged by the firm" in bullet (b) of the AT definition suggests that a firm enters in direct contractual engagement with individuals outside the firm. An IESBA member noted that the common practice would be for firms to be engaging other firms rather than the individuals themselves. The IESBA member argued that the group engagement partner (GEP) has an obligation to ensure the competence of the individuals engaged, although the GEP does not directly engage the individual.

Ms. Soulier explained that the Task Force's intent was to capture all types of contractual engagements. While the Code is not prescriptive in terms of the type of contract, the Code is clear on which individuals are considered members of the AT. The Task Force will consider clarifying through application material and the Explanatory Memorandum what the wording "engaged by the

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<sup>12</sup> ISA 610 (Revised), *Using the Work of Internal Auditors*

<sup>13</sup> ISA 620, *Using the Work of an Auditor's Expert*

firm” encompasses. A Task Force member noted that during the outreach with some of the larger firms, the questions raised were specific to service providers and external experts. There were no particular concerns raised around the wording "engaged by the firm."

- Why bullet (c) in the AT definition would not also encompass those outside the network who can directly influence the outcome of the audit engagement, even if this would be less likely.

Ms. Soulier explained that bullet (c) reflects the position in the extant Code and is intended to focus on the chain of influence within the network.

#### UPDATED STRAWMAN SECTION 405

At the [March 2021](#) meeting, the IESBA was briefed on the Task Force's analysis of the implications of a breach of independence by a CA firm in the context of a group audit, including the communication expectations with respect to the group engagement team and those charged with governance of the group (TCWG). During the meeting, Ms. Soulier presented an updated strawman of Section 405, structured to reflect:

- Proposed definitions specific to group audit independence;
- A new subsection addressing the independence of non-network CAs;
- Application material to clarify independence expectations for individual team members; and
- Breaches provisions, including communications with TCWG.

In generally supporting the direction of the strawman, IESBA participants raised the following for the Task Force's further consideration:

#### *Proposed Terms and Definitions*

- An IESBA member noted that the key terms and definitions are important and that they would help demonstrate the usefulness of the eCode in that regard. However, the IESBA member observed that some of the proposed terms and definitions had been modified compared to those in the proposed ISA 600 (Revised). Given these differences, the IESBA member cautioned against the potential for misunderstanding among users of both standards.

Ms. Soulier explained that the definitions remained fluid as the ISA 600 Task Force had made changes as its work evolved. The Task Force nevertheless intended to remain aligned as closely as possible with the proposed ISA 600 (Revised) and will consult the ISA 600 Task Force with respect to any further changes.

- In relation to the proposed definition of component audit client, an IESBA member sought confirmation that non-controlled related entities were not caught under the “business unit” part of the definition. Another IESBA member questioned whether it was logical to extend the application of the independence requirements to an entire entity in the situation where assurance is sought only on a single line item at the component level. The IESBA member wondered whether it might not be more appropriate in such a situation to address the independence requirements via Part 4B of the Code.

Ms. Soulier noted several challenges with the proposed definition of a component in proposed ISA 600 (Revised) given the need to create the appropriate linkages between the concepts of “business unit,” “function” and “activity” and the relevant entities in a group. She noted that the key was to have a link to a legal entity as the independence provisions in the Code operate on the basis of legal

entities. She added that representatives of IOSCO and IFIAR had also raised a similar matter during the outreach. The Task Force will continue to work with ISA 600 Task Force to address this issue.

- An IESBA member sought clarification as to whether individuals in component auditor firms are considered part of the group engagement team as these individuals can also directly influence the outcome of the group audit engagement.

Ms. Soulier confirmed that these individuals are caught as component auditors are now part of the engagement team as defined in ISA 220 (Revised).<sup>14</sup>

#### *General Approach to Strawman*

- A few IESBA members recommended that the Task Force maintain a focus on simplicity in Section 405. It was suggested that if the Task Force felt a need to elaborate on detailed situations, it would be advisable to develop Frequently Asked Questions (FAQs) or other non-authoritative material.

#### *Independence Considerations Applicable to Component Auditor Firms Outside the Group Auditor Firm's Network*

Concerning the proposed prohibition on a CA firm outside the group auditor firm's network from holding a direct or material indirect financial interest in the group audit client:

- An IESBA member queried whether the wording of the prohibition was intended to prohibit financial interests in entities under common control with the parent entity (i.e., sister entities) given that when the group audit client is a listed PIE, it is defined to include all its related entities, including sister entities.

Ms. Soulier explained that it is necessary to consider the independence provisions from the perspective of the component audit client as this is the audit client for the component auditor firm. The Task Force therefore intended to capture the component audit client and all of its controlled related entities. With respect to the financial interest prohibition, she explained that the Task Force's intent was not to exclude sister entities from the prohibition. She indicated that the Task Force would further consider the wording of the paragraph.

- A few IESBA members also wondered whether the same prohibition that applies when the group audit client is a PIE should also apply when it is a non-PIE, as is currently the approach in paragraph R510.6 of the Code.

Ms. Soulier responded that the Task Force's approach was to rely on the extant provision in paragraph R510.6 as that would apply in the case of non-PIEs. However, she added that the Task Force would consider this matter further.

Regarding the provision addressing the use of the conceptual framework as a result of applying the reason-to-believe test in relation to interests or relationships of a firm within the CA firm's network with the component audit client, an IESBA member queried whether there would be specific interests or relationships that should be prohibited explicitly as opposed to relying on the conceptual framework. The IESBA member also wondered why the reason-to-believe test was needed in relation to any related entity of the component audit client other than controlled related entities given the overarching requirement in

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<sup>14</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

paragraphs R405.6 and R405.7 to apply Part 4A, which already includes the related entity provision in paragraph R400.20.

#### *Breaches of Independence by a Component Auditor Firm*

- An IESBA member queried whether it would be an option for the group engagement team not to use the work of the CA firm where TCWG do not concur with the group engagement partner's assessment and proposed actions regarding a breach at the component auditor level.

Ms. Soulier confirmed the Task Force's intent to allow an option to remove the component auditor firm from the group audit engagement. The Task Force will revisit the wording of paragraph R405.17 in that regard.

- Concerning paragraph 405.12 A1, an IESBA member wondered whether it would be appropriate to require the group engagement partner to respond to and address the breach. It was noted that the norm is for the component auditor firm to address the breach.

Ms. Soulier confirmed that the wording of paragraph 405.12 A1 reflects the requirement in proposed ISA 600 (Revised). The Task Force intends to align as closely as possible with proposed ISA 600 (Revised) and will consult the ISA 600 Task Force regarding any further changes.

#### PIOB OBSERVER'S REMARKS

Mr. Buchannan commended the progress on this project, noting the strong public interest consideration throughout the discussion. He also acknowledged the outreach efforts to the regulatory community. He added that the PIOB was focused on the risk of complexity around the provisions being developed, especially concerning external experts, component auditor independence, and breaches provisions. He encouraged the Task Force to further reflect on the feedback provided by IESBA participants in drafting Section 405 so that it is simple and straightforward for users. He also pointed out that the project is a clear example of the important coordination efforts between the IESBA and IAASB.

#### WAY FORWARD

The IESBA will continue its discussion of the issues and consider the first-read draft of the proposed text at its September 2021 meeting.

### **7. Benchmarking**

Ms. Friedrich, Chair of the Benchmarking WG, provided an update on Phase 1 of the IESBA's benchmarking initiative. Phase 1 focuses on the comparison of the US Securities and Exchange Commission (SEC) / Public Company Accounting Oversight Board (PCAOB) independence provisions against the Code's independence provisions relevant to PIE audit clients. Among other issues, Ms. Friedrich presented and asked for input on the list of independence-related topics that the WG intended to be focus areas for the Phase 1 final report.

The IESBA generally agreed to the proposed approach and its focus areas. It was suggested that the WG also consider as potential further areas: (i) gifts and hospitality, and (ii) relevant provisions that contribute to the fight against corruption.

An IESBA member expressed support for the objective of the initiative. She highlighted that this initiative would enable the IESBA to obtain information about existing national independence standards and consider other frameworks with a view to seeking harmonization on relevant issues, for example, definitions. Ms.

Friedrich clarified that it was not the aim of the benchmarking initiative to identify issues for harmonization. However, the outcome of the benchmarking regarding similarities and key differences between the Code and other independence frameworks could help inform the IESBA's future strategy and work plan.

Mr. Hansen also supported the WG's approach. He asked whether the WG would consider – as part of the comparison – the 'Frequently Asked Questions' (FAQs) issued by the SEC/PCAOB Staff regarding the interpretation of the SEC rules and PCAOB standards. Ms. Friedrich responded that the benchmarking exercise would include consideration of the FAQs as long as they are related to the specific focus areas and important to the analysis.

Mr. Gunn suggested that the final report highlight why the national independence framework took a particular approach in addressing a specific issue. He was of the view that this information could help stakeholders better understand the reasons for the specific differences between the Code and the national frameworks, and would add color to the benchmarking. Dr. Thomadakis agreed.

Dr. Thomadakis commended the new approach and supported moving away from a paragraph-by-paragraph comparison. He pointed out that although the IESBA has started the benchmarking initiative with the US independence framework, further jurisdictions would follow.

#### PIOB OBSERVER'S REMARKS

Mr. Buchanan supported the proposed focus areas and noted the importance of this initiative from the public interest perspective. However, he raised that the comparison of national independence frameworks with the Code's independence provisions carried some risks and could generate some perceptions about the Board's intent. Therefore, he reiterated his suggestion to keep the benchmarking exercise jurisdiction-neutral, focusing on awareness-raising of the principles-based Code to promote its adoption and not on seeking to harmonize the Code with national requirements.

He agreed that the outcome of the benchmarking could inform the IESBA's future workplan. However, he asked the Board to continue the usual fact-finding activities as part of its projects. He believed that the benchmarking initiative and the fact-finding activities serve different objectives, and they have different benefits.

#### WAY FORWARD

The IESBA will receive a further update on Phase 1 of the benchmarking initiative at its September 2021 meeting.

### **8. NAS & Fees Rollout**

Ms. Gibson, Rollout WG Chair, presented an update regarding the rollout plan aimed at raising awareness and promoting the adoption and implementation of the revisions to the NAS and fee-related provisions of the Code. Mr. David Johnson, IFAC Senior Manager, Communications then presented an outline of the communication strategy related to IESBA's rollout plan.

IESBA members noted the updates and supported the efforts.

#### WAY FORWARD

The IESBA will receive a further update on the WG's activities at its September 2021 meeting.

## **9. Tax Planning & Related Services**

Prof. Poll introduced the session, recapping the Tax Planning WG's activities in Q2 2021, including outreach to the IESBA CAG and the IESBA-NSS liaison group in May 2021 and desk research into developments and publications relating to the topic. He then summarized the key themes emerging from the WG's fact-finding efforts to date in presenting the WG's preliminary report.

### PRELIMINARY REPORT

Overall, the Board supported the WG's direction in terms of the various matters presented in the preliminary report. It was noted that the draft report was comprehensive and presented a robust rationale for the WG's preliminary recommendation for an IESBA project.

### TERMINOLOGY

Prof. Poll briefed the Board on the WG's views regarding terminology that would appropriately describe the focus of the issues to be addressed. He noted that it is difficult to adequately define "aggressive tax planning" at a global level and that there is a lack of authoritative literature that clearly describes it. He added that the WG explored the merit of a principles-based decision-making framework to guide professional accountants (PAs) in identifying what would be deemed acceptable or unacceptable tax planning practices. IESBA participants raised the following matters, among others:

- While the WG has moved away from the term "aggressive tax planning," there is a question of whether the same challenges will arise in defining or describing what would be considered "unacceptable tax planning," given that views will vary worldwide. An IESBA member noted that it would be challenging to capture all circumstances pointing to unacceptable tax planning in the Code. Nevertheless, it was suggested that what is unacceptable will depend on the context. Accordingly, it might be useful to describe unacceptable tax planning in terms of the surrounding circumstances. It was also suggested that the focus could be on illustrating what would be considered ethical vs. unethical.
- In going down the path of acceptable vs. unacceptable tax planning, it might be worth reflecting on factors that might guide the PA's judgments or feature within a "reason to believe" framework. However, an IESBA member cautioned that it might not be achievable to describe what is unacceptable given that tax policies and regulations differ across jurisdictions. Another IESBA member noted that while legality and ethics overlap, ethics extends beyond the law.
- There was a concern about the potential to place PAs as a disadvantage compared with the legal profession. Prof. Poll acknowledged that the topic is viewed in a different light within the legal profession, and lawyers often turn to legal privilege. Nevertheless, he noted that there has been a significant shift in stakeholder perceptions about the topic. Having the Code deal with the topic will demonstrate the importance the accountancy profession attaches to it. It would also help further differentiate PAs from others who are not subject to ethical requirements as robust as the Code.
- There may be a need to better understand what is legal but in respect of which there are social perceptions of fairness, and what is legal but uncertain. Prof. Poll noted that there is a gray zone that needs to be addressed in the Code.
- Consideration should be given to revisiting the reference to "PAs' greater societal role" as it would seem to extend PAs' responsibilities beyond the requirements in the Code. In particular, it is expected

that PAs will behave in a manner that would instill the public's trust in the profession but not be expected to influence the behavior of society as a whole.

- Consideration should be given making a distinction between PIEs and non-PIEs as the tax motivation with respect to PIEs might be different compared with non-PIEs. Prof. Poll explained that the focus of the report is on both PIEs and non-PIEs. He noted a growing public expectation that all types of entities report on their corporate social responsibilities as part of the Environmental, Social, and Governance (ESG) developments. He emphasized that the Code needs to remain relevant by responding to the latest developments in the external environment.

#### OPTIONS PRESENTED AND RECOMMENDATION TO UNDERTAKE A PROJECT

During the presentation, Prof. Poll noted other provisions in the Code that are relevant when considering the ethical expectations for PAs who provide tax planning services to their employing organizations or clients. He then summarized the three options the WG had identified for possible Board actions and noted a roughly equal split of support among stakeholders for Options A<sup>15</sup> and C.<sup>16</sup>

Overall, the Board supported the WG's preliminary recommendation for Option A, i.e., that the IESBA undertake a project to develop enhancements to the Code to address ethical considerations when PAs in business (PAIBs) and PAs in public practice (PAPPs) provide tax planning services. Dr. Thomadakis noted that the WG had presented several arguments supporting pursuing a project in the public interest, especially the effort to build trust in the profession. He also welcomed the WG's rationale highlighting the linkage of tax planning to ESG developments.

In broadly supporting the measured approach and direction the WG was recommending, IESBA participants raised the following for the WG's further consideration:

- A principled-based framework would be best developed in Parts 2 and 3 of the Code rather than Part 1 as Option A seemed to suggest.
- Revisiting the reference to the independence provisions concerning NAS when PAPPs provide tax planning services to audit and assurance clients in order not to lessen the importance of those provisions by referring to them as "limited."
- Clarifying that while much of the debate will focus on cross-border corporation tax, the scope of the project will also encompass taxation for individuals and market intermediaries.
- Having regard to the need to clearly distinguish between the responsibilities of PAIBs and PAPPs.

An IESBA member expressed ambivalence about the need for a project on the ground that the Code already contains provisions that require PAs to act ethically.

#### PIOB OBSERVER'S REMARKS

Remarking that the topic is highly complex, Mr. Buchanan commented that the initiative is of significant public interest. He noted the ongoing challenges in this area, especially in the WG's effort to formulate a way forward regarding the appropriate terminology to use. He was of the view that the move from

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<sup>15</sup> Develop overarching material in the Code that will assist PAs comply with the fundamental principles (FPs) and apply the conceptual framework (CF).

<sup>16</sup> Develop material outside the Code (such as IESBA Staff Q&As or case studies) on the types and magnitude of the threats that might be created when PAs perform tax planning activities.



aggressive tax planning to unacceptable tax planning might be a breakthrough, but that the latter would need further consideration. He also commended the WG's rationale for its recommendation for a project, which he felt aligned to the concept of upholding the public interest, adding that the arguments were well-balanced in presenting stakeholder views.

Mr. Buchanan indicated that the PIOB supports Option A, and in particular the notion of a unifying framework, as being responsive to the public interest. He suggested that it would be useful to draw appropriate connections to the NOCLAR and Role & Mindset provisions of the Code, and to some extent relevant provisions in the PIE pronouncement when the PIE project is completed. He also noted that keeping Option C open seemed practical, recognizing PAs' need for guidance.

Finally, Mr. Buchanan noted that he was pleased that the project was now back on track. He added that the PIOB would recommend that the WG provide details of a timeline for the project and set out the public interest objectives in line with the Monitoring Group's Public Interest Framework.

#### WAY FORWARD

The WG will present its final report to the Board at the September 2021 IESBA meeting.

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

Mr. Buchanan thanked the Board for its diligent work over the course of the various sessions. He praised the Board on devoting extra time to the Technology topic at the start of the meeting, which he noted was challenging but illuminating, particularly the blockchain presentation. He hoped the Board benefited from the session which would help with future engagement on technology topics.

With respect to the ET-GA project, Mr. Buchanan complimented the Task Force and the Board on their work and the progress being made. In relation to stakeholder feedback on public consultations, he emphasized the need to consider not only the weight of responses from particular constituencies but also the makeup of those constituencies.

In closing, Mr. Buchanan thanked the Board for the opportunity to observe the meeting and looked forward to the September 2021 meeting.

#### **11. Next Meeting**

The next Board meeting is scheduled for September 13-17 & 27, 2021.

#### **12. Closing Remarks**

In concluding his remarks, Dr. Thomadakis noted the meeting as a successful one. He then thanked the IESBA meeting participants for their contributions and closed the meeting.