

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

Held Virtually on September 1 & 10 and October 13

PRESENT

Gaylen Hansen (Chair)

Noémi Robert

Dr. Christian Orth

Dr. Claes Norberg

Mohini Singh

Prof. Hysen Cela

Laura Shiffman

Paul Sobel

Daniel Sarmiento Pavas

Dr. Conchita Manabat

Sanders Shaffer

Natasha Landell-Mills

Paul Munter

Takeshi Hirai

Huseyin Yurdakul

James Dalkin

Dr. Bello Lawal Danbatta

Inanc Yazar

Asha Mubarak

Wei Meng

Member Organizations

National Association of State Boards of Accountancy (NASBA)

Accountancy Europe (AE)

AE

Business Europe (BE)

CFA Institute

European Federation of Accountants and Auditors for SMEs (EFAA)

Financial Executives International (FEI)

Institute of Internal Auditors (IIA)

Inter-American Accounting Association (IAA)

International Association of Financial Executives Institutes (IFEI)

International Association of Insurance Supervisors (IAIS)

International Corporate Governance Network (ICGN)

International Organization of Securities Commissions (IOSCO)

IOSCO

IOSCO

International Organization of Supreme Audit Institutions (INTOSAI)

Islamic Financial Services Board (IFSB)

Organisation for Economic Cooperation and Development (OECD)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

World Federation of Exchanges (WFE)

Observer Organizations

Dawn McGeachy-Colby

IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)

Megan Ziestman¹

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

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

George Kabwe² International Money Fund

Public Interest Oversight Board (PIOB)

Shigeo Kashiwagi

IESBA Members and Staff

Dr. Stavros Thomadakis IESBA Chairman

Richard Fleck IESBA Deputy Chair and Non-Assurance Services Task Force Chair

Ian McPhee IESBA Member and Fees Task Force Chair

Sylvie Soulier Former IESBA Member, Chair of Objectivity of Engagement Quality Reviewer (EQR) and Other Appropriate Reviewers Task Force, and Chair of the Engagement Team-Group Audits Independence Task Force

Brian Friedrich IESBA Member and Technology Task Force Chair

James Gunn Managing Director, Professional Standards

Ken Siong Senior Technical Director

Diane Jules Deputy Director

Geoffrey Kwan Principal

Kam Leung Principal

Szilvia Sramko Manager

Carla Vijian Manager

APOLOGIES

Member Organizations

Henri Fortin World Bank (WB)

Robert De Tullio Basel Committee on Banking Supervision (Basel Committee)

² As agreed with the CAG Chair, Mr. Kabwe attended as an observer for IMF with speaking rights.

A. Opening Remarks

Mr. Hansen welcomed all participants to the meeting. He welcomed, in particular, Mr. Shigeo Kashiwagi as the PIOB observer. He also welcomed Mr. Paul Munter as the new Representative for IOSCO and Mr. George Kabwe as an IMF Observer for this meeting. Mr. Hansen also bid farewell to Mr. Nigel James (IOSCO Representative) and Mr. Simon Bradbury (IMF Representative) as they have rotated off the CAG and thanked them for their contributions to the work of IESBA over the years.

APPROVAL OF MINUTES AND REPORT-BACK

The CAG approved the minutes of the March 2020 public session as presented.

The CAG also noted the report-back on the March 2020 discussion relating to the Role and Mindset project and did not raise any further comments.

UPDATE ON THE IESBA'S COVID-19 RESPONSES

Mr. Fleck updated the CAG on the IESBA's responses to the impact of the COVID-19 pandemic on the global financial system, which included issuance of an IESBA [staff Q&A](#) publication as well as the establishment of a working group with a number of national standards setters (NSS). The working group consists of representatives from Australia, Canada, China, South Africa, the UK and the US. Its objective is to develop non-authoritative guidance material to assist professional accountants in applying the Code when facing circumstances created by the pandemic. Mr. Fleck reported that the working group has to date developed, in collaboration with Australia's Accounting Professional & Ethical Standards Board (APESB), [one publication](#) relating to scenarios in taxation and valuation services. He further noted that future publications are being developed on topics relating to fraud and money laundering, the use of specialists and applications for government support programs.

UPDATE ON MONITORING GROUP REVIEW

Mr. Gunn provided the CAG with a high-level summary of the Monitoring Group's (MG's) final paper on the reforms to the Standard-setting Boards (SSBs), [Strengthening The International Audit And Ethics Standard-Setting System](#). He noted that the MG's recommendations included, amongst other matters, the IAASB and IESBA continuing to exist as separate and independent boards but with multi-stakeholder representation, the establishment of a separate legal entity for the SSBs, a revised role and composition for the PIOB, a new public interest framework to guide public interest consideration and assessment, as well as the establishment of SSB stakeholder advisory councils. Mr. Gunn also noted that the MG review is now in the transition planning phase with multiple workstreams focusing on different aspects of the MG's recommendations. The transition planning phase will continue until March-April 2021. It will then be followed by the implementation phase over a period of 3 years. He further highlighted that the IAASB and IESBA have jointly submitted their list of priority implementation issues to the MG which, amongst other matters, emphasized the importance of ensuring the two Boards can complete their current work plans.

B. Objectivity of Engagement Quality Reviewer and Other Appropriate Reviewers

Ms. Soulier introduced the session by recapping the key revisions proposed in the Exposure Draft (ED), [Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers](#). She presented the report-back on CAG feedback received during the CAG teleconference held in December 2019. She informed the CAG that the 38 respondents who submitted comment letters were generally supportive of the project.

Mr. Soulier summarized the significant comments received to each of the three specific questions posed in the ED and the Task Force's responses to those comments and revised proposals. She pointed out that the most significant comments related to the cooling-off requirement and the location for the requirement.

Amongst other matters, Mr. Soulier highlighted the Task Force's key proposals to address respondents' significant comments:

- Linking the principles-based guidance in the Code to the cooling-off requirement in proposed ISQM 2.³

There was a significant weight of support from respondents for a cooling-off requirement to address the issue of the objectivity of an engagement partner (EP) moving into an engagement quality reviewer (EQR) role. While views were split among respondents regarding the location of the requirement, there was nevertheless substantial support among respondents for the Code to take a principles-based approach to the matter. The Task Force therefore proposed to link the principles-based guidance in the Code to the cooling-off requirement in proposed ISQM 2. This proposal was tentatively supported by the IESBA at its June 2020 meeting.

- Extending the scope of the proposed guidance addressing the objectivity of EQRs to the objectivity of appropriate reviewers (ARs), recognizing that an EQR is an AR under the Code.

The Task Force sought to respond to concerns among some respondents that a prescriptive cooling-off period may further limit the availability of individuals to serve in an EQR role. The Task Force recognized in this regard, following coordination with IAASB representatives, that under proposed ISQM 1,⁴ firms are not limited to engagement quality reviews but may determine that other responses are appropriate to address quality risks. Such other responses may include, for example, reviews of certain significant judgments by individuals within the firm who have specialized technical expertise but with the requisite objectivity, i.e., individuals who would be ARs under the Code. The Task Force therefore proposed to extend the scope of the proposed guidance to ARs.

- Placing the guidance in Part 3 of the Code to better reflect the broadened scope to ARs.

Given the broadening of the scope of the guidance to cover the objectivity of ARs, the Task Force proposed that the guidance be placed in a new standalone Section 325.⁵

LOCATION OF THE COOLING-OFF REQUIREMENT AND BROADENED SCOPE OF THE GUIDANCE

Participants raised the following matters:

- Mr. Dalkin expressed support for having the cooling-off requirement in ISQM 2 on the grounds that this is a matter that relates more to quality management. He commented that, based on his experience dealing with similar issues concerning the objectivity of a reviewer, he has endeavored to take a principled-based approach to the matter. However, he noted that there had been inconsistencies regarding the characteristics of individuals appointed as reviewers. He therefore emphasized the importance of guardrails around objectivity. Regarding Section 325, he accepted that these guardrails have been provided but noted that they are in the Code. He therefore wondered

³ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

⁴ Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁵ Proposed Section 325, *Objectivity of Appropriate Reviewers*

whether users would need to turn to the Code for guidance regarding the objectivity of reviewers and whether that would unintentionally create more confusion.

- Ms. Zietsman observed that broadening the scope from EQR to AR represented a significant shift from a targeted project to one that is quite broad. She queried whether there would be some unintended consequences as a result. She referred to the issues paper that provided the example where more experienced engagement team members reviewing work of less experienced team members would be considered ARs. She indicated that it was not clear from the proposed Section 325 that the concept of an AR would include those more experienced engagement team members. Accordingly, she flagged that there might be some questions about who would be scoped in.
- Mr. Hirai echoed the same sentiment. He noted that the concept of an AR in the Code was developed to serve as one possible safeguard to address threats to compliance with the fundamental principles or to independence. With the concept now broadened to cover relationships within an engagement team, he wondered whether this would create confusion in practice. He suggested that should the Board support the broadening of the scope to AR, there should be clarity in the Code itself rather than in the Basis of Conclusions as to the individuals who might be captured. Ms. Soulier explained that with respect to independence and safeguards, the Code is clear that an AR is not a member of the engagement team. However, the use of an AR is not limited to audits but could include other engagements where some type of review is needed. The description of an AR in the Code is therefore, by design, broad. The IESBA had not intended to be prescriptive in this regard. She noted, however, that the Task Force would consider the comments regarding the potential for unintended consequences.
- Ms. Robert emphasized the same point as Ms. Zietsman with regards to the broadening of the scope to ARs when the objective was originally to address the objectivity of an EQR. She shared her concern about the potential for unintended consequences. She felt that there was an undue focus on the objectivity of ARs as opposed to their other essential attributes. She also inquired about which stakeholders had supported, in their responses to the ED, an extension of the scope to ARs.

PIOB PUBLIC INTEREST ISSUES

Subsequent to the June 2020 board meeting, Ms. Soulier informed the CAG representatives of the matters raised by the PIOB and the Task Force's deliberations in relation to those matters. She noted that the most significant matter raised by the PIOB was a recommendation for an explicit cooling-off requirement in the Code.

Mr. Kashiwagi thanked Ms. Soulier on the presentation. He noted that the PIOB is predominantly concerned with three main public interest issues in relation to objectivity of a reviewer, which are:

- The existence of two different cooling-off requirements addressing long association and objectivity of EQR in two different locations, which the PIOB feels might create confusion in practice. The PIOB is of the view that including further explanations in the Basis of Conclusions document and IESBA Staff Frequently Asked Questions (FAQs) would not be sufficient as these documents are non-authoritative. Mr. Kashiwagi felt that inclusion of explicit material in the Code would be needed.
- On the location of the cooling-off requirement, whilst he appreciated that the Board wished to maintain a principles-based approach in the Code, Mr. Kashiwagi noted that a precedent already exists in

Section 540⁶ where the Code sets out explicit cooling-off requirements. He was concerned that the proposed guidance in Section 325 did not amount to a requirement, but only highlighted cooling off as a possible safeguard and hence seemed weak. He felt that safeguards to address threats to objectivity is an ethical matter that the Code should address.

- In relation to paragraph 325.7 A2 as drafted, he wondered if it was clear that cooling-off does not apply to an AR but to an EQR. He felt that there was ambiguity as the first sentence addressed ARs but the second sentence spoke about an EQR. He therefore questioned whether there was also a cooling-off requirement for an AR.
- On the last matter the PIOB has raised, Mr. Kashiwagi indicated that the Task Force's response seemed satisfactory.
- Regarding the matter of re-exposure, Mr. Kashiwagi felt that the broadening of the scope of the project is a significant issue. He mentioned that he would be interested in hearing the views of CAG representatives.

Participants raised the following matters:

- Ms. Landell-Mills supported the observations made by Mr. Kashiwagi. Referring to stakeholders who had responded to the ED, she expressed disappointment that there was no respondent from the investor community, especially given that they are the beneficiaries of the standards. She felt that from an investor perspective, the level of protection in the proposals in safeguarding the objectivity of the reviewer was weak. She was of the view that two years for the cooling-off period was very short and that she would seek a longer period, and even for the EQR to be an individual outside the firm, as often the perception of objectivity is more important.
- Mr. Munter observed that the matters raised by the PIOB cut across the observations made by Ms. Zietsman and Mr. Hirai regarding the broadening of the scope to ARs. Referring to the role of an EQR, he noted that there is a specific purpose associated with that role, and therefore the importance of protecting the EQR's objectivity and the appearance of that objectivity. Hence, cooling off is a large part of thinking about safeguarding that objectivity. However, when looking at other review functions beyond an engagement quality review, the appearance of objectivity from an external standpoint is not so relevant as often, these other ARs are more focused internally on a firm's quality processes. Hence, he felt that the question of whether the Code should include a cooling-off requirement is linked to whether the Code should be broad and principles-based, or narrowly focused on the specific issue of EQR objectivity. He was therefore of the view that if the Board chose to go with a broader scope, there would need to be a clear explanation of the thought process in going from EQR objectivity to the objectivity of an AR.
- Ms. Meng supported in principle a cooling-off requirement in the Code. However, given the short timeframe to complete the project, she felt that the public interest would be better served if the Task Force could coordinate its efforts with the ISQM 2 Task Force. She suggested that the IESBA could explore having a cooling-off requirement in the Code in the future.
- Dr. Thomadakis noted that the primary question is not about the location of the cooling-off requirement, but whether it should in both the Code and ISQM 2. He agreed with Mr. Munter in that there has been a "division of labor" between the Code and ISQM 2 in that the former is addressing

⁶ Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

the broader topic of the objectivity of ARs whereas the latter is addressing the narrower, yet related, topic of EQR objectivity. He questioned whether there would be any additional benefit to be gained for the public interest by duplicating the requirement in the Code.

- Mr. Siong emphasized that the matter at hand is not about whether a cooling-off requirement is needed to address the matter of an EP moving into an EQR role but whether there should be duplication of the same cooling-off requirement in both ISQM 2 and the Code. Regarding the argument that some jurisdictions may adopt the Code but not IAASB standards, as put forward among the arguments presented by Ms. Soulier supporting a cooling-off requirement in the Code, he noted that few, if any, jurisdictions have adopted the Code but not IAASB standards. In addition, he emphasized that both IESBA and IAASB standards are now closely interlinked such that a number of requirements in IAASB standards that could legitimately be in the Code are not in fact repeated in the Code, for example, in relation to the assignment of appropriate resources for an audit engagement, and documentation. He added that both Boards are committed to continuing to strengthen the connectivity between, and interoperability of, their standards in the public interest.

WAY FORWARD

Ms. Soulier thanked the representatives for their valuable input and informed the CAG that the IESBA will consider the Task Force's proposals and the CAG's feedback at its September 2020 meeting.

C. Technology

Mr. Friedrich, Chair of the Technology Task Force, walked the CAG representatives through the Task Force's work and thinking on issues related to Phase 2 of the Technology initiative. He also pointed representatives to the Technology report-back, which included a summary of the CAG's March 2020 discussion on the topic and the related Task Force/IESBA responses.

Representatives had no comments on the report-back. Representatives expressed strong support for the project direction. Among other matters, the following were raised:

COMPLEXITY

- Mr. Dalkin highlighted the significance of technological developments as an issue to address with respect to ethics and independence in the current environment. He applauded the Task Force's research and ideas for additional application material contained in the presentation. However, he expressed concern that users such as auditors might not be sufficiently clearly guided if Option 2-4 (highlighting complexity as a pervasive factor when applying the conceptual framework) were implemented. He shared that questions received via an ethics technical hotline are typically focused on seeking specific advice as to how to apply principles-based guidance. Accordingly, Mr. Dalkin thought that Option 2-3 (adding a new threat category) would be more helpful for users.
- Mr. Norberg commented on the helpful discussion of the "complicated versus complexity" continuum and agreed that complexity needs to be addressed. He expressed his preference for Options 2-1 (modifying the lead-in to paragraph 120.6 A3 to recognize the potential for additional threat categories) and 2-4, but emphasized that just changing the Code would not be enough in itself as it is also necessary for any change to have an impact on professional accountants' (PAs') behavior. He encouraged the Task Force to reach out to stakeholders for further thoughts on the options. Mr. Friedrich signaled that preliminary feedback from a few stakeholder groups have been mixed, and

that the Task Force's upcoming outreach activities are expected to help further inform which option(s) should be pursued in developing the forthcoming Exposure Draft.

- Mr. Hansen noted his preference for Options 2-1 and 2-4 and agreed that the options are not mutually exclusive.

OTHER MATTERS

- Messrs. Sobel and Thompson expressed support for principles-based drafting that avoids wording specific to individual technologies given the breadth of the field.
- Ms. McGeachy-Colby noted the informative presentation and expressed that the IFAC SMP Advisory Group would find non-authoritative guidance preferable as that would allow for more nimble responses to the developments, especially given the breadth of the project scope and the rapid pace of the technological developments. Mr. Kashiwagi echoed support for non-authoritative guidance as a potential interim response as the project is a significant one that will require time to complete. Dr. Thomadakis acknowledged the differing directions that the project could take and the time it may take to finalize it. He therefore supported the idea of exploring opportunities to develop non-authoritative guidance. Mr. Friedrich noted that the Task Force has been actively engaging with IFAC on the matter of developing non-authoritative material as IFAC is better placed than IESBA in this regard.
- Mr. Hansen observed that many of the issues appear intuitive but once they are put together, they create a complicated picture. He expressed support for addressing the issue of data privacy in the Code as well as clarification of the concept of a "routine and mechanical" service when the delivery of that service relies on the use of technology. Mr. Friedrich noted that it is difficult to ignore issues individually as many stakeholders have raised them. However, he agreed that there would be potential for never completing the project if every matter of detail were pursued. With respect to the concept of "routine and mechanical," he noted that the Technology Task Force was coordinating an appropriate response with the NAS Task Force. He also signaled that the Technology Task Force is working together with the NAS Task Force to address technology-related comments received in connection with the NAS exposure draft.

D. Fees

CAG Representatives noted the report-back to the comments provided at the September 2019 CAG meeting and did not raise any comments.

Mr. McPhee, Task Force Chair, presented a high-level summary of the key comments received on the January 2020 Exposure Draft, [Proposed Revisions to the Fee-related Provisions of the Code](#) (Fees ED) and the Task Force's responses and proposals to address those comments.

Representatives generally supported the proposals. Among other matters, the following were raised.

THREATS CREATED BY FEES PAID BY AN AUDIT CLIENT

Mr. Hansen supported the Task Force's proposal for the IESBA to address the issue of threats created by the client relationship as part of a separate project. He was of the view that fees can impact the client-relationship and vice versa, especially where the level of the fees is too low or too high.

IMPACT OF SERVICES OTHER THAN AUDIT PROVIDED TO AN AUDIT CLIENT

- Regarding the exception provided to the requirement that firms not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client, Mr. Dalkin noted that in jurisdictions where auditors are allowed to prepare financial statements, the proposal may support the argument that this practice is cost-effective. The exception could convey the message that if cost savings can be achieved, firms could argue that the audit client should engage them to provide NAS and they can rebate the audit fee because of cost efficiencies. Ms. Wei supported the proposal. However, she also had a concern about the firm's objectivity when evaluating the cost savings achieved by the provision of other services. Mr. McPhee explained that Task Force's intention was to acknowledge the benefit of genuine cost savings achieved by previous services rendered. He added that the Task Force would consider whether the wording could be further clarified to avoid unintended consequences.
- Mr. Hansen questioned whether the Task Force had considered how to deal with discounts offered when firms intend to move into new markets or business areas or they are in less busy times. Mr. McPhee responded that the Task Force considered and deliberately did not propose any provisions on pricing as the proposals clearly set out that determining the level of fees is a business decision. In addition, the audit needs to be performed in compliance with all applicable professional standards.
- Ms. Manabat noted that in her experience, firms tend to engage the auditor for the provision of non-audit services if there is a trust that has been built between the audit firm and the client. It is more than just a business consideration. However, she agreed that the audit should not be subsidized by the provision of non-assurance services (NAS).
- Mr. Munter noted that he did not disagree with the proposal conceptually. However, he asked how the auditor can demonstrate compliance with this requirement. He pointed out that there are several factors that firms usually take into account when determining the level of audit fees. He was of the view that compliance with this requirement could create some challenges from a quality management perspective.

PROPORTION OF FEES

- Mr. Norberg expressed his support for the Task Force's approach regarding the provisions relating to the proportion of fees and for not setting out a specific cap on NAS.

FEE DEPENDENCY ON NON-PIE AUDIT CLIENTS

- Mr. Norberg was of the view that the proposed threshold and the requirement were reasonable for audit clients that are not public interest entities (PIEs). Mr. Thompson also supported the Task Force's proposals. He noted that even if there is no specific evidence supporting the proposed threshold, it is a balanced, fair and measured approach.
- Mr. Dalkin had a concern that there is nothing that would prevent firms from lowering the audit fees in order to keep the non-audit engagements. Mr. McPhee explained that while the Task Force proposed no specific provisions on pricing, there are other provisions in the Fees ED and in auditing standards that relate to or have a bearing on the level of fees and with which the firm must comply.
- Mr. Dalkin suggested that the proposal clarify whether the firm can continue the engagement if fees from the client exceed the 30 percent threshold. Mr. McPhee responded that in the case of audit clients that are non-PIEs, on balance, the proposal sets out that if an external review is a safeguard

to reduce the threats to an acceptable level each year, the firm can continue the engagement. The effect of the safeguard in practice would be to introduce some level of discipline for the firm.

- Mr. Hansen asked about the form of the external review. Ms. Sramko clarified that the extant Code already includes the review performed by an appropriate reviewer as a safeguard. In this case, however, the review must be performed by a professional accountant outside of the firm.
- Ms. McGeachy-Colby was of the view that that requiring a review performed by a professional accountant external to the firm would create significant burden for SMPs. Mr. McPhee responded that the Task Force believed that the proposed requirement would provide a reasonable balance in the case of such a high level of fee dependency.
- Mr. Norberg was the view that a principles-based approach is always best. However, in this case, the proposal appeared balanced and reasonable. Accordingly, he supported it.
- Mr. Yurdakul suggested further clarification regarding the type of the external review. In relation to the IAASB's current project on engagement quality review, he questioned whether the review set out in this proposal is an engagement quality review as contemplated in the IAASB's project.
- Mr. Hirai noted that stakeholders in Japan had concerns that there was not enough evidence that would warrant a requirement in the case of non-PIE audit clients. He suggested that the IESBA consider a post-implementation review of the 30 percent threshold in future. Mr. McPhee remarked that the Task Force had already been provided with information about the market specificities in Japan and had considered the possible consequences while developing the current proposal.

FEE DEPENDENCY ON PIE AUDIT CLIENTS

- Ms. Robert asked which year the firm should first have a review performed in the case of fee dependency on PIE audit clients. In this regard, she suggested that the IESBA consider aligning the requirement with the pre-existing requirements in other jurisdictions. Ms. Sramko clarified that there were no proposed changes regarding when the firm is first required to have a pre-issuance review performed. There is already a pre-existing difference between the requirements of the extant Code and the EU Regulation.

TRANSPARENCY OF FEE-RELATED INFORMATION

- Mr. Hirai supported the provisions on enhanced transparency and the Task Force's approach. He commented that the disclosure in the audit report could create the perception that the audit is not of a high quality, especially if stakeholders do not find the audit fee appropriate. He suggested that the Task Force should consult and coordinate with the IAASB regarding the content of the disclosure. Mr. McPhee responded that the proposal encourages firms to disclose further information that could enhance stakeholders' understanding about the audit fee and its relationship with the firm's independence. He added that the IESBA had already consulted with the IAASB regarding the location of the disclosure in the audit report.
- From investors' point of view, Ms. Landell-Mills remarked that it is really important to have public disclosure of the fee-related information. In relation to those charged with governance (TCWG), she noted that audit reports in many jurisdictions are addressed to the shareholders. Accordingly, she felt it important that TCWG are made aware of the fee-related information as they are responsible for the appointment of auditors.

- Ms. McGeachy-Colby supported the enhanced transparency requirements and the Task Force's approach. She asked the Task Force to consider dealing with possible breach situations, as it is quite a complex task for firms to monitor the disclosure in the context of relevant laws and regulations in different jurisdictions. She suggested that the IESBA commission a Q&A publication in relation to the fee-related proposals.
- Ms. Robert supported the transparency proposals in principle. However, she was of the view that disclosure of fee-related information is a corporate governance issue. She added that requiring disclosure by the firm can put the auditor in a difficult situation, especially when the client refuses to make the disclosure. She also remarked that this could raise confidentiality issues. Mr. McPhee responded that if the issue is to be addressed by those responsible for corporate governance requirements, it could be a long time before that happens.
- Ms. Mubarak pointed out that from regulators' perspective, the enhanced provisions on disclosure of fee-related information are important. She added that in Sri Lanka, there are already existing requirements on disclosure of audit fees and non-audit fees.

Mr. Kashiwagi noted the PIOB's support for the fee-related proposals, especially the new provisions on fee dependency in the case of non-PIE audit clients and the enhanced provisions on transparency.

E. Non-assurance Services and Benchmarking Initiative

Mr. Fleck, Chair of the NAS Task Force, walked the CAG representatives through:

- A summary of significant matters arising from responses to the Exposure Draft on Non-assurance Services (NAS ED); and
- The Task Force's responses and revised proposals which took into account preliminary Board views from the July 2020 IESBA discussion.

Representatives generally expressed strong support for the project direction. Among other matters, the following were raised.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

- Ms. Landell-Mills commented that the Task Force's proposal concerning communication with TCWG in relation to the provision of NAS to related entities which the PIE audit client does not control, lacked transparency from the investor perspective. She was of the view that an increased level of transparency would ensure a higher level of rigor in terms of handling potential independence conflicts and help strengthen public trust.
- Mr. Fleck agreed with Ms. Landell-Mills on the importance of transparency, but emphasized that it is influenced by TCWG because auditors are limited in their rights and obligations to shareholders as well as the prevailing legal and regulatory framework. As such, it would be impracticable for the Code to include requirements that cannot be implemented. Nevertheless, Mr. Fleck highlighted that the Code would shift dramatically from having no prohibitions on the provision of NAS that might create a self-review threat to the current proposals on the prohibition of NAS to PIE audit clients when a self-review threat might be created. Furthermore, Mr. Fleck noted that the changes to the Code arising from the Role & Mindset project have emphasized the professional accountant's responsibility to act in the public interest.

- Mr. Hansen asked whether the Task Force had thought about the situation where a NAS is provided to the PIE audit client but is paid for by a related entity. He was concerned about the lack of transparency in this situation. Mr. Fleck responded that it is still the responsibility of TCWG of the PIE audit client to determine whether the firm should provide the NAS.
- Mr. Munter observed that increasingly, PIE audit clients sit within a large private equity structures, meaning that the threats to independence arising from the provision of NAS to related entities under direct versus indirect control of the PIE audit client could be viewed differently based on one's perspective. Mr. Fleck responded that the Task Force would consider drawing out the distinctions between directly and indirectly controlled related entities in application material or the Basis for Conclusions.

SAFEGUARDS

- Mr. Hansen noted that for PIE audits, he did not agree with having another professional within the same firm review or perform the NAS because professional accountants within the same firm rely on the firm's quality management policies and procedures, hence generating a level of implicit trust. He commented that in his experience in the United States, it is typical that professional accountants within the same firm are not used as a safeguard. However, he did not disagree with the use of this safeguard for non-PIE audits. Ms. Landell-Mills echoed the comments made.
- Mr. Thompson noted the importance of the provisions being proportionate. He added that this safeguard has been longstanding and withdrawing it would create significant difficulties for smaller firms and entities.
- Ms. Mubarak commented that having another professional within the same firm as a safeguard is common in her jurisdiction, despite the regulators in her jurisdiction having mixed views on its effectiveness. She further noted that there are no laws or regulations that prohibit the practice.
- Mr. Fleck acknowledged the concerns raised regarding the application of this safeguard for PIE audits. However, he emphasized the pervasive impact for non-PIE audits if the safeguard were withdrawn. He further highlighted that since the provision of NAS that might create self-review threats would be prohibited for PIE audit clients, the safeguard in question would be capable of reducing any other remaining threats to independence, such as advocacy threats, to an acceptable level.

PROHIBITION ON NAS THAT MIGHT CREATE A SELF-REVIEW THREAT

- Mr. Hansen commented that the revised NAS proposals were well-thought out and responsive to the feedback received on the ED.

PROVIDING ADVICE AND RECOMMENDATIONS

- Mr. Hirai questioned the interaction between the "audit process" specified in the extant paragraph 601.2 A2 and the Task Force's revised proposals on the provision of advice and recommendations. Mr. Fleck responded that the Task Force would consider how to increase the clarity between the interaction of extant paragraph 601.2 A2 and the revised NAS proposals on the provision of advice and recommendations.
- Mr. Dalkin expressed support for the revised proposals on the provision of advice and recommendations but observed that they could also be seen as an exemption from the prohibition of NAS that might create a self-review threat. Specifically, he questioned when advice and

recommendations would turn into authoritative guidance, such as in situations where a new technical standard has been issued and the auditor is asked by the client to help provide education on the standard or help with the preparation of relevant financial statement disclosures. Accordingly, he suggested the need for some guardrails around the provision of advice and recommendations. Mr. Fleck responded that the Task Force would consider whether an explanation in the Basis for Conclusions could be provided to further clarify that auditors cannot assume management responsibility, a principle which is echoed throughout the Code, including Section 600.

TAX PLANNING

- Ms. Landell-Mills voiced a concern that replacing “significant purpose” with “principal purpose” in the revised NAS proposals would weaken the requirement in paragraph R604.4 because even if the tax planning does not have the principal purpose of tax avoidance, it could still be a significant purpose. Mr. Fleck responded that the provision should be viewed in the context of what is intended, i.e., to deal with tax planning that is on the borderline of what is acceptable. So, the dominant focus is on tax avoidance as opposed to a legitimate business purpose.
- Mr. Kashiwagi expressed the PIOB’s support for the use of the phrase “likely to prevail” in paragraph R604.4.

OTHER MATTERS

- Ms. Robert reminded the Task Force to adhere to the Structure drafting conventions. Mr. Fleck responded that the Staff would undertake a final quality check to ensure faithful compliance with the drafting conventions.
- Mr. Kashiwagi expressed thanks for the presentation and noted that the PIOB supported the Task Force’s revised NAS proposals.
- Ms. Mubarak also expressed thanks for the detailed presentation on the revised NAS proposals. She expressed support for the proposals, which she considered would be very helpful to the regulators in her jurisdiction when published.

BENCHMARKING INITIATIVE

Mr. Fleck briefly updated the CAG on the IESBA’s benchmarking initiative aimed at comprehensively reviewing how the Code, as revised through the NAS and Fees projects, would compare with requirements in some major jurisdictions, beginning with the US.

Among other matters, the following were raised:

- Mr. Dalkin expressed support for the initiative, noting that it would be helpful to understand the key differences between the Code and the US requirements, especially in relation to NAS for PIEs.
- Mr. Thompson echoed similar support. However, he cautioned against the view that prescription is always better. He noted that the Code conforms to the principles of good regulation, which include proportionality. He also cautioned against the risk of a “trickle down” effect from the provisions addressing PIEs to those addressing non-PIEs.
- Ms. Landell-Mills noted the initiative as being of high importance. She highlighted the broader question of conflicts of interest, noting that she would like to see it addressed beyond the issue of self-review threats.

- Mr. Kashiwagi also supported the initiative, noting that it will have strong public interest benefits. He wondered whether the coverage would extend beyond the US and the EU. Mr. Fleck responded that no decision had been taken yet in that regard, but he would envision the effort eventually encompassing additional jurisdictions within the G-20 to obtain a good range of perspectives, especially given that the Code is a global set of standards.

F. Engagement Team-Group Audit (ET-GA) project

Mr. Hansen introduced the session and invited Ms. Soulier, Chair of the Task Force, to present the topic. Ms. Soulier briefed the CAG on the coordination efforts with the IAASB's ISA 220⁷ and ISA 600⁸ Task Forces since January 2020.

With respect to the revision of ISA 220 and the IAASB's proposed change to the definition of "engagement team," Ms. Soulier explained the Task Force's proposal to adopt the final revised definition of engagement team in proposed ISA 220 (Revised).⁹ In this regard, she highlighted the need to address the potential implications for the Code as the term "engagement team" is a concept central to the International Independence Standards (IIS).

Ms. Soulier also explained the Task Force's proposed principles in clarifying how to apply the Code's independence provisions in a group audit context, including with respect to non-network component auditors. She indicated that this work would be progressed in coordination with the IAASB as the IAASB progresses its project to revise ISA 600.

CAG Representatives noted the presentation and exchanged views about the Task Force's observations to-date. Amongst other matters, the following were raised.

DEFINITION OF ENGAGEMENT TEAM

- Ms. Robert queried if the Task Force had assessed the impact of the revised definition of engagement team on the independence requirements of the Code. In this regard, she highlighted the importance of coordination with the IAASB. Ms. Soulier explained that the Task Force had discussed the matter of alignment in the definitions and the related implications for independence with the ISA 220 Task Force. As a result, clarity has now been achieved.
- Ms. Wei was supportive of the three new terms "audit engagement team," "review engagement team" and "assurance engagement team" as proposed by Task Force. She queried the exclusion of external experts from the revised definition. Ms. Soulier explained that the requirement for independence is determined via the definition of engagement team, which dictates who is considered to be an engagement team member on an engagement. The exclusion of external experts from the engagement team was discussed at length with the IAASB in the past in the context of the development of the extant definition. The objectivity of an external expert is addressed through ISA 620.¹⁰
- Mr. Hirai was supportive of the Task Force's proposal to align the definition of engagement team with that proposed in ISA 220 (Revised). He queried if there might be a translation challenge with regards

⁷ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

⁸ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁹ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹⁰ ISA 620, *Using the Work of an Auditor's Expert*

to the terms “audit team” (AT) and “audit engagement team” (AET) as they are quite similar. He suggested that the Task Force consider combining both AT and AET as one definition. He also noted that in Japan, there are quarterly reviews in addition to the audit, and these can be performed by the same individuals. Ms. Soulier explained that the extant Code has already uses the terms AT and engagement team, in addition to “assurance team,” and these have been translated in Japanese. She noted that the AT essentially refers to the “chain of command” within a firm. As the individuals caught under the definitions of AT and AET differ, it would be difficult to avoid making a distinction between AT and AET.

- Ms. Ziestman was supportive of the Task Force’s proposal to align the definition of engagement team with that proposed in ISA 220 (Revised). She felt it important that the concepts are aligned between the two Boards. She also saw it as logical to develop the three new terms. With respect to the terms AT and engagement team, she commented that these can be confusing. The change in terminology to “teams” could add to the potential confusion. She suggested that there was an opportunity for the Task Force to consider whether a broader and different term could be used for the chain of command for clarity. Ms. Soulier responded that the Task Force will consider the suggestion.
- Ms. Landell-Mills commented that from an investor perspective, the independence requirements should cover all individuals who can influence the audit process, including external experts and internal auditors. She suggested consideration of a simpler broader approach to the scope focusing on achieving the right outcome for independence. Ms. Soulier responded that the broader scope of AT serves precisely that purpose.
- Mr. Hansen expressed support for the Task Force’s approach but was concerned to make sure there were not different levels of independence. He wondered whether there was a distinction between independence for reviews and independence for audits. With respect to internal audit, he suggested the need for clarity as to what it is or is not. With respect to external experts, he was of the view that the Task Force’s approach was logical as independence is also not required for experts employed or engaged by the audit client. Ms. Soulier noted that internal auditors are internal to the audit client. Accordingly, it would be impossible to expect them to have the same level of independence as engagement team members.

INDEPENDENCE IN THE CONTEXT OF A GROUP AUDIT

- Mr. Hansen queried the distinction between listed versus PIEs. Ms. Soulier explained that under the extant Code, the scope of related entities of which independence is required is not the same for an audit client that is a listed entity and for an audit client that is not a listed entity. If an audit client is listed, independence is required with respect to all the related entities of the client, otherwise it is required only with respect to the controlled related entities. For personal independence, the Task Force was of the view that the distinction between listed and non-listed would be more appropriate.
- Mr. Hirai reiterated his support for the Code to remain principles-based, i.e., that those who are involved in the audit should be subject to the same independence requirements. Accordingly, he was of the view that the Task Force’s proposals were reasonable. However, he acknowledged that independence with respect to firms could be more complex.
- In relation to the Task Force’s proposal regarding extending independence requirements to network firms of component auditor firms that are outside the group auditor’s network, Ms. Robert raised her concern about the potential challenges for smaller firms, especially given the principles-based

approach. Ms. Soulier noted that the principles the Task Force was considering include, for example, network firms providing prohibited NAS.

PIOB OBSERVER'S REMARKS

Mr. Kashiwagi thanked the Task Force for its hard work. He acknowledged the strong coordination with the IAASB. He also supported the overall direction of the proposals.

With respect to the exclusion of external experts from the engagement team, he shared some of the concerns raised. However, he appreciated that consideration would need to be given to the specific type of work. In this regard, he suggested that there might be a need to impose a level of independence in some respects. He understood that addressing this matter could be outside the scope of this project. Nevertheless, he encouraged coordination with the IAASB on the matter.

Regarding the terminology of AT and engagement team, he agreed that it could be potentially confusing. He encouraged the Task Force to give the matter further consideration.

WAY FORWARD

Ms. Soulier thanked the Representatives for their valuable input and informed the CAG that the IESBA will consider the Task Force's proposals and the CAG's feedback at its December 2020 meeting.

G. PIOB Observer's Remarks

Mr. Kashiwagi thanked the CAG for the opportunity to observe the meeting and for the good level of discussions during the meeting.

H. Closing Remarks

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