

**Draft Minutes of the 69th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

Held on July 22, 2020 – Virtual Meeting via Video Conference

(MARK-UP FROM POSTED VERSION)

Voting Members

Present: Stavros Thomadakis (Chairman)
Richard Fleck (Deputy Chair)
Sanjiv Chaudhary
Laurie Endsley
Brian Friedrich
Hironori Fukukawa
Kim Gibson
Liesbet Haustermans
Richard Huesken
Winifred Kiryabwire
Caroline Lee
Myriam Madden
Ian McPhee
Andrew Mintzer
Jens Poll

Technical Advisors

Saadiya Adam (Mr. Fleck)
Denise Canavan (Ms. Haustermans)
David Clark (Mr. Huesken)
Gregory Driscoll (Ms. Lee)
Jens Engelhardt (Mr. Poll)
Laura Friedrich (Mr. Friedrich)
Ellen Gorla (Mr. Mintzer and Ms. Madden)
Gina Maldonado-Rodek (Ms. Gibson)
Kemisha Soni (Mr. Chaudhary)
Sundeeep Takwani (Ms. Kiryabwire)
Kristen Wydell (Mr. McPhee)
Masahiro Yamada (Mr. Fukukawa)

Apologies: Michael Ashley
Robert Juenemann

James Barbour (Mr. Ashley)
Andrew Pinkney (Ms. Endsley)

Non-Voting Observers

Present: Gaylen Hansen, IESBA CAG Chair, and Junpei 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), Geoffrey Kwan, Szilvia Sramko, Carla Vijian, Michelle Colon (Chief of Operations, Professional Standards),

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants to the meeting. He welcomed in particular the new PIOB observer, Mr. Robert Buchanan, to his first IESBA meeting. Dr. Thomadakis noted that Mr. Buchanan is familiar with the IESBA's work as he has been representing the New Zealand External Reporting Board at the IESBA-National Standard Setters (NSS) meetings.

Dr. Thomadakis noted the launch of the [IESBA YouTube Channel](#) and greeted the public observers who, for the first time, were observing a Board meeting on the new IESBA social media channel. He added that in addition to the audio recordings available on the IESBA website, the virtual recordings will now be available on the YouTube channel.

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

- The IESBA-IAASB joint press release in response to the Monitoring Group's final paper concerning reforms to the global standard-setting process for audit, assurance and ethics, [Strengthening The International Audit And Ethics Standard-Setting System](#).
- The addition of Ms. Endsley to the Tax Planning Working Group and Mr. Huesken to the Benchmarking Working Group, and the resignation of Ms. Canavan from the Emerging Issues and Outreach Committee (EIOC) and the Benchmarking Working Group as she was completing her service as Ms. Hausermans's Technical Advisor given new responsibilities she would be taking on within her firm.
- Activities of the Planning Committee during the quarter, including consideration of the forward work plan for 2020-2021 and upcoming outreach in Q3.
- The outreach activities since the June 2020 IESBA meeting.

2. Fees

The Fees Task Force Chair, Mr. McPhee, presented a high-level summary of the key comments from the [64 comment letters](#) to the [Fees Exposure Draft](#) (Fees ED). Mr. McPhee in particular asked for Board members' comments on the following substantive issues as they would impact how the revisions to the proposals would be progressed.

THREATS CREATED BY FEES PAID BY AN AUDIT CLIENT

Mr. McPhee explained that some respondents to the Fees ED suggested that the inherent threats created by fees paid by an audit client are more the result of the "client relationship" – rather than an issue specifically related to fees – and are already addressed by compliance with professional standards, including the Code. He asked the Board whether the inherent threats related to the client relationship ought to be addressed by the Task Force or be the subject of a separate project.

The Board:

- ~~(i)~~ (i) Supported the Task Force's view that the inherent threats arising from the client relationship are outside the remit of the Fees project; and
- ~~(ii)~~ (ii) ~~should be considered under a separate project. The Board a~~ Agreed that the Fees project should continue to address the matter of threats created by fees paid by an audit client and that broader

considerations regarding the client relationship might be addressed as a separate project in the future.

FEE DEPENDENCY ON AN AUDIT CLIENT THAT IS NOT A PUBLIC INTEREST ENTITY (PIE)

Mr. McPhee briefed the Board on respondents' comments on the proposed threshold in the case of fee dependency on a non-PIE audit client. He sought the Board's views as to whether the Code should include the proposed 30% threshold or ~~include~~ no threshold in the proposed requirement.

Dr. Thomadakis reminded the Board that the IESBA had already discussed this issue at length and had agreed that there is a need for a specific threshold in the requirement to create a consistent approach regarding the expectations in the case of non-PIE audit clients, recognizing that the general provisions applicable to all audit clients would still apply even in those cases when the specific threshold is not exceeded.

An IESBA member acknowledged the comments suggesting that the IESBA revert to a principles-based approach. The IESBA member felt that the 30 percent threshold in conjunction with 5 years seemed to represent a weak position in the Code and that if a principles-based approach were taken, it would be better to allow for the exercise of appropriate professional judgment than to use specific thresholds. Another IESBA member reiterated his previous support for a principles-based approach.

Overall, however, the Board broadly supported retaining the approach proposed in the ED and agreed, on balance, that the 30 percent threshold for non-PIE audit clients would promote consistent application.

TRANSPARENCY OF FEE-RELATED INFORMATION OF AUDIT CLIENTS THAT ARE PIEs

Mr. McPhee reported that while respondents generally agreed that transparency of fee-related information can serve to better inform views and decisions about the auditor's independence, many of them had concerns regarding the requirement for firms to disclose fee-related information publicly. They questioned in particular whether requiring such disclosure would be within the remit of the Code. Mr. McPhee asked for the Board's input regarding whether transparency could be achieved at a global level in ways other than through modifications to the Code.

The Board agreed that the enhanced transparency of fee-related information, including public disclosure, is an important element of the structure of the proposals and that it should aim to promote global transparency through the Code at the earliest time possible. Nevertheless, the Board noted the Task Force's preliminary view that on the basis of respondents' feedback, there might be merit in reconsidering requiring disclosure of fee-related information with respect to component auditors outside the ~~firm's~~ network of the firm auditing the PIE audit client.

WAY FORWARD

The IESBA will discuss the full analysis of the comments received on the Fees ED and the Task Force's proposed revisions to the fee-related proposals at its September 2020 meeting.

3. Non-assurance Services (NAS)

Mr. Fleck, Chair of the NAS Task Force, introduced the session, highlighting observations and key issues raised by respondents to the NAS exposure draft (ED). He also provided an overview of the 66 respondents to the ED and their feedback in response to the 12 questions outlined in the ED.

Mr. Fleck then guided the IESBA through the key issues raised and presented the Task Force's preliminary

views to address them. During the meeting, the IESBA provided directional input on the following areas:

- Support for progressing the NAS project and establishing the same effective dates for the NAS, Fees and Definitions of Listed Entity and PIE revisions to the Code. It was noted that stakeholders have generally supported the NAS project since its inception, and that conforming changes arising from other concurrent projects can be incorporated before the NAS revisions ~~take go into~~ effect.
- Reconfirmation of the withdrawal of materiality as a factor in determining whether a NAS will create a self-review threat in relation to PIE audit clients. This is because self-review threats cannot be eliminated in such circumstances, and safeguards are not capable of being applied to reduce them to an acceptable level.
- A general view that the PIE and Engagement Team – Group Audits (ET-GA) Independence projects are better positioned to address the definition of related entities and the application of the related entity principle in paragraph R400.20, including whether the self-review threat prohibition for PIE audit clients applies to parent undertakings that are unlisted entities. It was agreed that the Planning Committee would further reflect on a coordinated way forward in relation to the topic of related entities.
- Support for including a new paragraph to clarify that the provision of advice and recommendations contemplated in auditing standards does not fall under the self-review threat prohibition.

WAY FORWARD

The Task Force will present a revised draft of the provisions and an analysis of how the Task Force has addressed feedback from respondents at the September 2020 IESBA meeting. The IESBA will be requested to perform a first-read of the revised text and provide comments at that meeting.

4. Benchmarking

Ms. Friedrich, Chair of the Benchmarking Working Group, introduced the session by presenting the background and the objective of the [IESBA's new Benchmarking initiative](#). Ms. Friedrich informed the Board that under Phase 1 of the initiative, the Working Group will compare the International Independence Standards (IIS) that are applicable to PIEs (including the pending revisions arising from the NAS and Fees Projects) to the requirements of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB). She then presented the approach the Working Group planned to use for this purpose.

An IESBA member highlighted that regarding the main principles set out in the Code and in the SEC rules, the SEC rules include specific prohibitions while the Code allows application of safeguards in certain cases. Therefore, the IESBA member cautioned that the comparison of the main principles may not be straightforward.

Mr. Siong also highlighted the need for care when analyzing provisions relating to NAS given their importance in relation to independence. He also noted that the SEC rules include some exceptions for smaller firms and it would be important to flag those exceptions in the comparison.

WAY FORWARD

The IESBA will receive an update on the progress of the benchmarking, including a demonstration of the mapping structure, in Q1 2021, after the revisions to the IIS arising from the Fees and the NAS projects have been finalized.

5. PIOB Observer's Remarks

Mr. Buchanan thanked the Board for the opportunity to observe his first IESBA meeting as a new PIOB Member.

With regards to the timing of the Fees project, Mr. Buchanan emphasized the importance of keeping the project on the revision of the PIE definition ([PIE Project](#)), the NAS project and the Fees project coordinated in terms of effective dates and transition.

He supported the Board's position regarding the proposed threshold in the case of fee dependency on a non-PIE audit client, seeing the threshold as an important signalling mechanism. However, he suggested that the Task Force consider focusing more prominently on the role those charged with governance (TCWG) can play in determining the actions to be taken in the case of fee dependency on a PIE audit client. He also supported the directional guidance provided by the Board regarding how to achieve transparency with respect to fee-related information of PIE audit clients.

Reflecting on the overall level of support from respondents for the NAS proposals, Mr. Buchanan highlighted that the PIOB was supportive of the positions reached in the ED. He noted the importance of giving appropriate consideration to the comments from national standard setters regarding references to stricter provisions that exist in some jurisdictions in order to continue to facilitate the Code's global adoption. He added that he would leave it to the PIE, NAS and ET-GA Task Forces to further consider the "related entity" issue.

Mr. Buchanan also commented on the questions that arose on exposure in relation to terminology and enhancing clarity of application for both firms and regulators.

In closing, Mr. Buchanan complimented the Board on the progress of the NAS and Fees projects, recognizing that they are addressing difficult topics and working to a challenging timetable. He thanked the Board and looked forward to the full discussions in September.

6. Next Meeting

The next Board meeting is scheduled for September 14-21, 29 and October 1, 2020.

7. Closing Remarks

Dr. Thomadakis thanked the participants for their contributions and closed the meeting.