Agenda Item 2-A

Non-Assurance Services
Remaining Issues & Task Force Responses

I. Introduction

1. At its September 2020 meeting, the IESBA considered a full analysis of the significant comments received from respondents to the Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions in the Code* (NAS ED) and a "first read" of the Task Force's revisions to the NAS ED. The IESBA expressed general support for the revised proposals and provided directional input for the Task Force to consider in refining the proposals.

2. At its December meeting, the IESBA will consider a revised draft with a view to approving a final pronouncement during the December 2020 meeting. Section II of this paper includes a summary of the remaining substantive issues and the Task Force responses. These issues relate to the following:

   - Self-review threat (SRT) prohibition and the related requirement to determine whether a NAS might create a SRT.
   - Providing advice and recommendations (A&R) as part of the audit process.
   - Communication with those charged with governance (TCWG).
   - Matter relating to the provision of certain tax services.
   - Other Matters, including appropriateness of safeguards.

3. Section III and IV of this paper discuss the date from when the revisions should be effective and address certain due process considerations.

II. Remaining Issues and Task Force Responses

A. SRT Prohibition & the Related Requirement to Determine Whether a NAS Might Create a SRT

Recap of IESBA September 2020 Discussions

4. The NAS ED included a requirement that generally prohibited firms and network firms from providing NAS to audit clients that are public interest entities (PIE audit clients) if there is risk that a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion. At the September meeting, the IESBA considered the Task Force's suggested revisions to the NAS ED which were intended to address respondents' requests for greater clarity in the drafting of the proposed requirement in ED-R600.14 and related application material in paragraph ED-600.11 A2. IESBA members considered various iterations to position relating to the likelihood or possibility of a SRT and agreed to revised language in September. Among other amendments, this revision included a replacement of the words "will create" with "might create" – a suggestion that was put forward by many respondents to the NAS ED.

Feedback from October 2020 NSS Meeting

5. A participant in the IESBA's National Standard Setter Liaison Group (NSS) October 2020 meeting

noted that the September 2020 version of paragraph R600.13[1] was unclear, and questioned the meaning and intent of sub-paragraph (b) and how it should interact with sub-paragraphs (a) and (c).

Task Force Response

6. Paragraph R600.13 of **Agenda Item 2-B** includes further clarifications and a simplification to the October 2020 draft which explains how firms and network firms are to determine whether the provision of a NAS might create a SRT.

7. The subparagraphs in paragraph R600.13 have been merged to simplify and clarify it. The removal of the reference to "audit procedures" has been removed also addresses concerns raised by certain respondents[2] that the reference to audit procedures might indirectly re-introduce materiality as a factor to be taken into account in identifying a self-review threat.

8. The Task Force is of the view that the revised texts in paragraphs R600.13 and R600.15 are clearer, more robust and responsive to the comments and suggestions raised by the respondents to the NAS ED.

9. The NAS Basis for Conclusions will include a discussion that explains the rationale for the changes to the proposed SRT prohibition.

Subsections in Section 600 and Section 400

10. Within subsections 601, 603, 604, 605, 606, 607, 608, and 610 of **Agenda Item 2-B:**

    - The language relating to the SRT prohibitions has been aligned to the language in paragraph R600.13.[3]
    - A reference to paragraphs R600.13 and R600.15 has been added SRT prohibition in the relevant subsections to emphasize that the relevance of the material in those paragraphs to the appropriate application of these SRT prohibition requirements for specific types of NAS. Similar conforming changes have been made in paragraph R400.32 of **Agenda Item 2-B**.

---

1 Paragraph R600.13 as presented to the NSS (mark-up from the NAS ED) is set out below for ease of reference:

R600.13 ~~600.11 A2 Identifying whether the provision of~~ Before providing a non-assurance service to an audit client ~~will create a self-review threat involves determining,~~ a firm or network firm shall determine whether ~~there is a risk that~~ the provision of that non-assurance service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion;

(b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and

(c) When ~~making an~~ performing such audit ~~judgement~~ procedures, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the non-assurance service.

2 **PAOs/ NSS**: ACCA & CAANZ, AE, ASSIREVI, CNCC, ICPAU, ICAS, SAICA, WPK; **Firms**: BDO, BKTI, MAZARS, PwC, RSM; **Other**: SMPC

3 See paragraphs R601.5, R603.5, R604.10, R604.15, R604.19, R604.24, R605.6, R606.6. R607.6, R608.6 and R610.8 of **Agenda Item 2-B.**

11. The Task Force reviewed the paragraphs assessing the likelihood of a particular service creating a SRT and confirmed its view that:

    - Providing accounting and bookkeeping services to an audit client creates a SRT.[4]
    - Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that support such balances creates a SRT.[5]

12. The Task Force considered the Public Interest Oversight Board's (PIOB) concern that the phrase "…in relation to the audit of the financial statements on which the firm will express an opinion" in paragraphs R601.5 and R604.10 in the October draft text had the effect of reopening the possibility that provision of such services might not give rise to a SRT. The Task Force concluded that the words are inconsistent with position expressed paragraphs 601.3 A1 and 604.8 A1 and, therefore, unnecessary. Accordingly, the phrase has been deleted.

Input from November 2020 Video Conferences with MG Members

13. International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR) expressed support for the revisions to the SRT prohibition, including the elevation of paragraph ED-600.11 A2 to a requirement as set out in paragraph R600.13 of **Agenda Item 2-B**. During the meetings, the following matters were discussed and resolved.

    - One IFIAR representative questioned whether the Task Force had considered using the phase "other than clearly insignificant" in paragraph R600.13, a phase that is commonly used in Canada in the context of discussing threats to that are at an acceptable level.

      The Task Force Chair explained that the use of a term such as "significant" or "insignificant" would be regarded as a way of reintroducing the concept of materiality. He explained that the concept of materiality is deliberately excluded as a criterion in determining whether a NAS might create a SRT in order to achieve consistency in application. It was noted that the use of terms that signal the concept of materiality reinstate a degree of subjectivity to the approach, which some regulators consider has the potential to be used inconsistently or inappropriately.

    - Another representative wondered whether there is potentially a "gap" with respect to the applicability of the SRT prohibition for certain related entities, specifically in the case of an unlisted parent entity of the PIE audit client.

      The Task Force Chair explained that the SRT prohibition applied to the PIE audit client and related entities as defined under the extant Code. With respect to related entities that are unlisted and not controlled by the PIE audit client, the Task Force Chair explained that extant paragraph 400.20 would apply and that consideration of changes to that paragraph were outside the remit of the NAS project. In relation to this issue, the Task Force Chair also referred meeting participants to the strengthened provisions relating to communications with TCWG of a PIE audit client where it is proposed that a non-assurance service should be provided to a parent of that PIE audit client (see Section II.C below).

---

4 Paragraph 601.3 A1 of **Agenda Item 2-B**

5 Paragraph 604.8 A1 of **Agenda Item 2-B**

Matter for Consideration

1. Do IESBA members agree with the clarifications relating to the SRT prohibitions, especially paragraphs R600.13 and R600.15 of **Agenda Item 2-B**?

B. Providing A&R, including as Part of the Audit Process

14. The NAS ED emphasized that the provision of advice and recommendations (A&R) might create a self-review threat. During its September meeting, the IESBA discussed:

    - How to ensure that the prohibition on undertaking NAS that create a SRT does not preclude the provision of A&R arising out of the normal course of an audit (provided that the firm does not assume a management responsibility) (i.e., the activities in paragraph 601.2 A2 of **Agenda Item 2-B**).

      The Task Force has revised the wording of paragraph 600.10 A2 of **Agenda Item 2-B** to clarify that the position. The Task Force also reaffirmed its view that the placement of paragraph 601.2 A2 within subsection 601 is appropriate and has not adopted the suggestion from to move that paragraph to follow immediately after paragraph 600.10 A2. To achieve a comparable effect, a cross-reference to paragraph 601.2 A2 has been added to paragraph 600.10 A2.

    - Whether it is correct for the Code to state that the provision of A&R would create a SRT notwithstanding that the firm or the network firm does not assume a management responsibility.

      The IESBA reaffirmed its ED position and concluded that such determination is based on the application of paragraph R600.13. Accordingly, paragraph 600.10 A1 is retained.

15. IESBA meeting participants who commented on the October draft questioned whether the term "network firm" should be deleted in the first line of paragraph 600.10 A2. The Task Force concluded that the term should be retained in order to reflect the possibility that the A&R may be provided to the audit client either by the "firm" or by another firm within its network.

16. An IESBA member questioned whether, under the NAS proposals, a firm or a network firm is permitted to convert existing financial statements from one financial reporting framework to another. The revised proposals clarify that discussions about *[emphasis added]* how to convert existing financial statements from one financial reporting framework to another do not usually create threats to independence provided that the client accepts responsibility for making decisions and the firm does not assume a management responsibility.

Matter for Consideration

2. Do IESBA members agree with the Task Force's conclusions relating to the provision of A&R, including with respect to the provision of A&R as part of the audit process?

C. Communication with TCWG

17. The NAS ED set out new provisions to strengthen firm communication with those charged with governance (TCWG), including a requirement for the firm to obtain concurrence from TCWG of PIE audit clients for the provision of NAS to PIE audit clients, including controlled/ "down-stream" entities.

Input on the September and October Drafts

18. During the September meeting, IESBA members discussed the proposal made by a number of regulators that the IESBA consider extending the proposed requirements relating to the firm's communication with TCWG to those circumstances where a NAS is provided to a parent (listed or unlisted) entity of a PIE audit client. In particular, the Task Force was asked to consider the issues arising from the obligations on firms to treat certain information as confidential and the implications if the information provided to TCWG is not available or incomplete.

19. In response, the Task Force put forward revised wording in paragraphs R600.18 and R600.19 of the October draft. Commentors on the October 2020 draft questioned the clarity of these paragraphs and suggested that the Task Force revisit its proposed approach. For example, questions were raised about the interaction between the revised communication paragraphs and (i) extant paragraph R400.20, and (ii) the SRT prohibition and the "not subject to audit" exemption for certain related entities that also exists under extant paragraph R600.10. Further, some IESBA members questioned the need for the new requirements, taking the view that extant paragraph R400.20 already provided appropriate requirements to address regulators' concerns.

20. The PIOB also commented on the October draft and suggested that the IESBA consider an approach that would require the audit firm to provide information to, and obtain the views of, TCWG on the firm's assessment of the firm's independence from the PIE audit client in circumstances where the firm or a network firm is to provide a NAS to a parent entity of a PIE audit client.

Task Force Considerations and Response

Communication about Proposed NAS to a Parent Entity

21. The Task Force considered a number of different approaches before determining a way forward. In adopting the approach set out in paragraphs R600.21 to R600.22 of **Agenda Item 2-B**, the Task Force adopted the following principles:

    - Where it is proposed that a firm or network should provide a NAS to a parent of a PIE audit client, TCWG of the PIE audit client should, so far as possible, be provided with the opportunity to consider the effect of the provision of that NAS <u>on the firm's independence as auditor of the PIE audit client</u> *[emphasis added].*
    - Provision of relevant information about the NAS that is to be provided to the parent of a PIE audit client is necessary if TCWG of the PIE audit client are to be able to make an informed decision about the firm's independence as auditor of the PIE audit client.
    - As the range of potential related entities other than parent entities is very large and the reporting structures may be complex and complicated (e.g., private equity complexes), the Task Force determined that it is should limit its proposals to parents of PIE audit clients and rely on R400.20 to govern the position of other potential related entities.

22. The Task Force's revised approach takes into account the following:

    - As a standard setter for professional accountants and firms, the IESBA cannot establish requirements for TCWG and cannot require firms or network firms to share information that is otherwise not permitted or required by local law or regulation.
    - Before disclosing information to TCWG of the PIE audit client about a NAS that is to be provided to a parent entity (whether it is listed or unlisted) of that audit client, the firm should

be required to obtain permission to do so from that parent entity.

- The audit firm should be required to confirm to TCWG of the PIE audit client that the firm has determined that the provision of the NAS to the parent entity will not create a threat to the firm's independence from the PIE audit client, or that any threat created will be eliminated or reduced to an acceptable level. The information that is provided to TCWG is intended to help TCWG make an informed assessment about the audit firm's independence.

23. The Task Force noted that in some circumstances, the parent entity may refuse to permit the firm to provide information about the proposed NAS to the PIE audit client. In such circumstances, the Task Force determined that some information might be provided without the parent entity's permission and that the potential reasons for such refusal may also be relevant. The Task Force is, therefore, proposing application material to guide the firm's decisions in such circumstances (see paragraph 600.21 A1 of **Agenda Item 2-B**).

24. The Task Force determined that it should address the position if TCWG do not concur with the firm's assessment of its independence from the PIE audit client if the NAS is provided to the parent entity of the PIE audit client. Paragraph R600.22 of **Agenda Item 2-B** therefore provides that the firm or the network firm should either decline the NAS, or the firm can end the audit engagement. It was noted that in some jurisdictions, the firm may not be permitted to end the audit engagement.

Consideration of the long-standing exemption for certain related entities

25. The Task Force considered how its revised proposal for firm communication with TCWG about NAS provided to parent entities would interact with paragraph R600.25 of **Agenda Item 2-B** (i.e., extant R600.10) and concluded that the two provisions would be compatible because:

    - The primary objective of its proposed approach in paragraphs R600.21 to R600.22 of **Agenda Item 2-B** is to establish a mechanism whereby TCWG can corroborate the firm's independence assessment with respect to the NAS provided to the parent entity.

    - In contrast, the requirement in paragraph R600.25 provides an exemption that allow firms to provide NAS that would otherwise be prohibited under Section 600 of the Code provided that certain conditions are met.

26. The Task Force does not intend to change the applicability of the long-standing exemption in R600.25 with the introduction of its revised proposals.

Overview of Proposed Requirements to Communicate with TCWG

27. Having strengthened the requirements for firms to communicate with TCWG about NAS to be provided to parent entities, the Task Force revisited the various scenarios that might warrant a communication with TCWG about NAS and these are set out in the table that follows. The Task Force believes that proposed approach (a "three-pronged approach") is comprehensive and responsive to the PIOB and regulatory concerns and will drive enhanced firm communications with TCWG about NAS matters that may impact auditor independence.

28. The following table summarizes the three-pronged approach.

Scenario	**Ref. to Proposed Text**
(a) Proposed NAS to be **provided to PIE audit clients, including controlled related entities** (substantively unchanged from the NAS-ED).	Before providing the proposed NAS • **R600.19(a)** Confirm no independence issue to TCWG • **R600.19(b)** Provide information to TCWG • **R600.20** If no TCWG concurrence, decline NAS
(b) Proposed NAS to be **provided to a parent entity (listed or unlisted) of PIE audit client**. New proposal intended to respond to the feedback from respondents and the PIOB.	Before providing the proposed NAS • **R600.21(a)** Request permission from parent entity to disclose information to TCWG of PIE audit client • **R600.21(b)** If granted, confirm no independence issue and provide information to TCWG of PIE audit client • **R600.21(c)** If refused, confirm no independence issue and provide such information to TCWG of PIE audit client as may be possible without breaching confidentiality • **R600.22** If TCWG does not confirm, decline NAS, or end audit engagement
(c) Proposed NAS to be **provided to uncontrolled related entities** (other than the parent entity).	Before providing the proposed NAS • **600.23 A1** Comply with extant R400.20

Feedback from IFIAR, IOSCO and CEAOB on the Three-pronged Approach

27. The Task Force Chair obtained input from IFIAR, IOSCO and Committee of European Audit Oversight Bodies (CEAOB) on the Task Force's revised approach in November 2020. Meeting participants generally viewed the approach as being responsive to the comments raised on the NAS-ED.

28. In the course of those meetings, the following observations were made:

- One participant wondered whether the Task Force's approach would address certain situations that had been observed in practice where a firm had provided a NAS to a parent entity of a PIE audit client which in fact had the potential to impact downstream related entities, including the

PIE audit client. The participant asked whether such a situation would be permissible under the proposed NAS provisions.

The Task Force Chair explained that under the extant Code NAS can be provided to the parent entity under certain circumstances (extant paragraph R600.10). Under the approach proposed in **Agenda Item 2-B**, the requirement to inform TCWG of the PIE audit client of the proposal to provide a NAS to its parent entity should enable TCWG of the PIE audit client to assess the position. Further, if the intention were to be to circumvent the SRT prohibition, the firm would breach the Code's fundamental principle of integrity which is set out in subsection 111.[6]

- It was suggested that the revised provisions should clearly articulate the firm's obligations if the parent entity refuses permission to disclose information about the proposed NAS to the PIE audit client. This comment is addressed in paragraph 600.21 A1 of **Agenda Item 2-B.**
- A meeting participant questioned whether the Task Force considered including a reference to the Code's provisions relating to the pressure that might be exerted on a firm or network firm to facilitate provision of the NAS to the parent entity. The participant explained that in his view, there are circumstances in which a relationship partner for the parent of the PIE audit client might exert undue pressure on the partner of the PIE audit client.

29. IESBA meeting participants explained that Section 300 notes that Section 270 of the Code also applies to PAPPs, including the auditor. The Task Force Chair noted that this point will be highlighted in the NAS Basis for Conclusions. The Task Force also notes that instalment 10 of the IFAC's Exploring the IESBA Code publication series, deals with *Pressure to Breach the Fundamental Principles* and there is a further opportunity to explain in a non-authoritative document/ education piece how the Code's provisions relating to pressure are to be applied in the context of an audit engagement.

Matter for Consideration

3. Do IESBA members agree with revised three-pronged approach to communicate with TCWG about NAS?
4. Do IESBA view the revised approach as being responsive to the feedback provided by respondents to the NAS-ED, including the MG members and the PIOB?

D. Matter Relating to the Provision of Certain Tax Services

Use of "More Likely than Not" versus "Likely to Prevail" in the General NAS Prohibition[7]

30. Adapted from US Public Company Accounting Oversight Board (PCAOB) Rule 3522, paragraph ED-R604.4 prohibited firms and network firms from providing a tax service or recommending a transaction to an audit client if the service or transaction relates to marketing, planning or opining in

[6] The description of the fundamental principles of integrity set out in Code has been revised as part of the Role and Mindset project. The final pronouncements were released in October 2020 and will come into effect in December 2021.

[7] The term "likely to prevail" is also used in the last bullet of paragraph 604.12 A2 of **Agenda Item 2-A** to describe one of the circumstances in which the provision of tax planning or tax advisory services will not create a SRT. Accordingly, the language in that paragraph 604.12 A2 is updated so that is consistent with the language used in paragraph R604.4.

favor of a tax treatment for which the significant purpose is tax avoidance unless that tax treatment has a basis in applicable law and regulation that is likely to prevail *[emphasis added]*.[8]

Feedback from IESBA Members

31. During its September 2020 meeting, IESBA members discussed how to respond to questions raised by respondents to the NAS ED about the difference in the meaning of the term used "more likely than not" used in PCAOB Rule 3522 and the term "likely to prevail" used in the NAS ED.

32. Some IESBA members suggested that the Task Force consider using the terminology that is already used in the PCAOB Rule noting that it is well understood and also used in US Tax law and the International Accounting Standards Board's (IASB's) standards. Other IESBA members questioned the meaning of "more likely than not" and expressed a preference for "likely to prevail" noting that it is easier to translate. The Task Force noted the PIOB's caution against the use of "more likely than not" which they viewed as being too low a threshold. The IESBA asked the Task Force to further consider the issue and bring forward terminology that clearly indicates that the prohibition will apply unless the firm or the network firm is confident that the "…tax treatment has a basis in applicable law and regulation..."

33. During an October 2020 meeting, members of the Forum of Firms (FoF) suggested that the IESBA use a term that is clear, well understood at the global level and translatable. The FoF cautioned against the use of "terms of art" or "jargons", albeit that they may be well understood in some jurisdictions, because they are unclear to others. One FoF participant suggested that the IESBA consider using "plain English" language to express what it intended and that view received substantial support from other FoF members. A few FoF participants noted that a move away from the use of "more likely than not" in paragraph R604.4 would result in the Code having a term that is different from what is used in PCAOB Rule, the international accounting standards as well as US tax laws, and that in their view that might give rise to practical issues.

34. IESBA meeting participants' comments on the October draft were as follows:

    - Some IESBA members reiterated their support for use of the term "more likely than not," pointed out that the term is used in PCAOB Rule 3522.
    - A question was raised about the use of the term "tax avoidance" and there was a suggestion that the Task Force coordinate with the Tax Planning Working Group. An IOSCO meeting participant raised a similar comment.
    - One member wondered whether the addition of phrase "…firm has confidence …" has benefited from sufficient stakeholder input and whether there would be a need to consider re-exposure.
    - There was a concern that the prohibition in R604.4 applies to all audit clients, including non-PIEs. This concern arises because non-PIE entities (generally) do not have access to the resources that PIE entities have and therefore it is in the public interest for non-PIE entities to be allowed the flexibility to turn to their auditor for tax and other advice and recommendations.

[8] See paragraph ED-R604.4.

Input from November 2020 Video Conferences with MG Members

35. One IOSCO meeting participant questioned whether the Task Force had considered emphasizing that a high degree of confidence is required and suggested that the phase "high level of confidence" be used.

Task Force Response

36. After deliberation, the Task Force decided to retain the term "likely to prevail" (being the term used in the NAS ED and extant 604.7 A3). To ensure that the threshold to be met is appropriately robust, the revised paragraph states that "… unless the firm ~~has~~ is confident that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail."[9]

37. The Task Force believes that the introduction of the phase "the firm is confident…" helps to explain the intended outcome of the requirement in a clear and "plain English" manner that is translatable. The Task Force does not envision issues with its use of the term "likely to prevail" because of its use in the extant Code. Given that paragraph R604.4 contemplates a situation where the firm has developed the proposed treatment, the Task Force envisages that a firm will ordinarily have documented the factors that the firm considered in determining its confidence that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail.

38. The Task Force does not believe that this change warrants re-exposure because the change represents a refinement to clarify a proposed requirement that was set out in the NAS ED. The Task Force's refinements are intended to incorporate input from the IESBA's Consultative Advisory Group (CAG), the PIOB and ED respondents.

39. With respect to the concerns raised about that gap in resources/expertise for non-PIEs, the Task Force emphasizes that the prohibition in paragraph R604.4 pertains to NAS that involves the firm or network firm developing and "advocating" a particular tax treatment/ transaction for which the significant purpose is tax avoidance.

40. Noting the concerns raised about potential confusion, particularly for those who also use the analogous PCAOB rule, the Task Force plans to include a discussion of the rationale for its approach and the intended expectations in the NAS Basis for Conclusions.

Matter for Consideration

5. Do IESBA members agree with revisions to paragraphs R604.4 and 604.12 A2 to clarify the meaning of the term "likely to prevail"?

E. Other Matters

Appropriateness of NAS Safeguards

41. During the September meeting, the Task Force informed the IESBA that IFIAR and IOSCO have questioned the appropriateness/adequacy of the following NAS safeguards when the individual providing the review is employed by the same firm that conducts the audit engagement.

    - Using professionals who are not audit team members to perform the NAS

[9] See paragraph R604.4 of **Agenda Item 2-B**.

- Having an appropriate reviewer who was not involved in providing the NAS review the audit work of the NAS performed

Input from November 2020 Video Conferences with MG Members

42. Representatives of IOSCO Committee 1 reiterated the concern that was cited in IOSCO's comment letter that professionals within the same firm "…may be incentivized to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors."

43. During the meeting, the Task Force Chair explained and emphasized that the NAS proposals build on the concepts set out in the extant Code which state that:

    - "Safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to compliance … to an acceptable level" and that "…in some situations…safeguards might not be available… [and], the application of the conceptual framework … requires the firm to decline or end the NAS or the audit engagement."
    - An "appropriate reviewer" is an individual who has the (i) authority and (ii) knowledge, skills and experience to review work in an objective manner and that that individual may be external to the firm, as well as employed by the firm.

44. The Task Force Chair noted during the meeting that:

    - In the case of PIE audit clients, the introduction of the SRT prohibition limits the circumstances in which a firm would apply NAS safeguard as many NAS create a SRT.
    - In the case of PIE audit clients, the proposed text includes restrictions on the provision of NAS that might create an advocacy threat (e.g., acting as expert witness, general counsel).
    - In the case of non-PIEs, the IESBA believes that these NAS safeguards should be retained because:
        - To withdraw them would have significant adverse consequences for audits of non-PIEs in terms of increased cost and complexity (through being required to instruct another firm).
        - In evaluating the effect on the public interest, it is relevant to take account of the economic significance of enabling, rather than increasing the regulatory burdens on small entities to develop and grow.

Task Force Response

45. The Task Force noted the November meeting discussion and is of the view that the suggested "conflict in interest" would not, in fact, be avoided if the audit firm arranges for the proposed NAS or the review of the audit work to be undertaken by a professional from another firm. The threat to independence might also be created by the relationship between that professional (who is external to the firm) and the firm.

46. For these reasons, the Task Force continues to believe, as did the IESBA in September, that the removal of these safeguards would not be in the public interest.

47. Given the concerns expressed by IFIAR and IOSCO, the Task Force believes that the NAS Basis for Conclusions should include a prominent discussion of its analysis of the concerns expressed about the efficacy of the NAS safeguards and the characteristics of an appropriate reviewer.

Matter for Consideration

6. IESBA members are asked to note and react to the Task Force's response to the MG members (i.e., IFIAR and IOSCO) and the PIOB concern about NAS safeguards involving a review by an individual within the firm.

Adherence to the Code's Building Blocks Architecture and Drafting Conventions

48. During the September 2020 meeting, some IESBA and CAG participants pointed out instances in which the proposed text appeared to be inconsistent with the Code's drafting conventions.

Task Force Response

49. The Task Force and Staff has carefully considered these suggestions in developing the revised draft in **Agenda Item 2-B** and has taken into account the Final Drafting Guidelines for the revised and restructured Code, a summary of which is set out in the *Guide to the Code*. The following matters are noteworthy:

- In general, the extant Code is drafted in an interconnected manner that avoids duplication of material that is dealt with in the conceptual framework or the general sections of the Code – i.e., Sections 120, 200, 300, 400 and 900 (i.e., a building blocks approach). However, in some cases, important material is repeated for emphasis. The Task Force has carried forward this approach and in limited instances has repeated certain material that is otherwise covered in earlier sections of the Code for emphasis and enhanced clarity.
- A general description of the category of threats applicable to PAPPs – i.e., self-interest, self-review, advocacy, familiarity and intimidation – is set out in Section 120 and 300. For enhanced clarity the word "different" is used in paragraphs 600.9 A2 and 950.7 A2 of **Agenda Item 2-B** to emphasize that the list of factors in those paragraphs are relevant in identifying and evaluating all categories of threats that might be created by providing a NAS – not only self-review threats. In this regard, a statement has been added after the list of factors in the subsections to remind readers that when a SRT for a PIE audit client has been identified, the SRT prohibition applies.[10] The Task Force believes that this emphasis is important to reinforce consistent application of the SRT prohibition.
- Refinements have been made to the introductory paragraphs with examples of "factors" based on a consistency review. These paragraphs now reflect the general drafting guidelines and whether the factors are relevant to: (i) identification and evaluation; (ii) identification only; or (iii) evaluation only.

Other Matters Specifically Raised by MG Members & PIOB

50. The Task Force has carefully reviewed all comments from Monitoring Group members and taken incorporated feedback in refining and in some cases redrafting the proposals in the NAS ED. The Task Force has also carefully reviewed and responded to the following PIOB comments.

[10] See the last sentence in paragraphs 603.3 A2, 604.12 A3, 604.22 A1, 607.4 A1, 610.4 A1

PIOB's Public Interest Issues	**Task Force Responses**
• The PIOB welcomes the current IESBA proposals to prohibit firms and network firms from providing NAS to audit clients that are PIEs….The proposal to elevate to a requirement the assessment of a self-review threat strengthens these provisions. • …welcomes the strengthening of the prohibition for audit firms to provide certain NAS, such as bookkeeping and accounting services, to audit clients which are PIEs, without further assessment of the creation of a self-review threat. • The requirement for audit firms to obtain agreement from TCWG before providing NAS to audit clients that are PIEs is a necessary measure responsive to PIOB's suggestions.	*Support noted.*
• The self-review threat prohibition and the requirement for firm communication with TCWG in relation to NAS provided to related entities of a PIE need to be clearly addressed in the Code, either by the NAS or Fees TFs, and applied consistently to all PIEs (whether listed or not) to achieve certainty.	*Comments accepted.* See revised provisions in **Agenda Item 2-B** and the related discussions of key issues in Sections II. of this paper.
• The IESBA needs to consider the comments that stricter provisions for PIEs are already applicable in several jurisdictions, including where NAS provided to PIEs are prohibited in all instances; and that a Code that is less strict in respect of NAS requirements than current regulation in many jurisdictions would risk becoming redundant and would hinder global adoption and comparability.	*Comment accepted*. In developing the proposed revisions set out in the NAS ED, the IESBA considered the jurisdictional-level NAS requirements that apply in major jurisdictions, especially the EU and the US. The Task Force believes that: • The vast majority of NAS will be prohibited as a result of SRT prohibition in the case of PIE audit clients. • The NAS revisions aligns the Code more closely with the NAS approach set out EU Regulation and US Securities and Exchange Commission (SEC) Rules. In

PIOB's Public Interest Issues	Task Force Responses
	some cases, the revised NAS provisions are more restrictive (e.g., deletion of the exemption for bookkeeping services in extant R601.6). Once the NAS and Fees projects are finalized, the IESBA will be progressing its Benchmarking Initiative to compare the Code's independence provisions that are applicable to PIEs to the relevant independence requirements that apply in major jurisdictions, starting first with the requirements of the SEC and the US Public Company Accounting Oversight Board. The initiative will serve to provide insights to stakeholders about the similarities and key differences between the Code and the independence requirements in major jurisdictions.
• IESBA should consider the sufficiency and effectiveness of using professionals that are not members of the audit team to perform NAS or appropriate reviewers not involved in the engagement as a safeguard to address threats arising from the provision of NAS. • "…consider whether additional safeguards and alternatives can be applied whenever an appropriate reviewer is not a safeguard available or not scalable…."	• *The first comment is not accepted.* See Section II. E of this paper. • The second c*omment is not accepted*. As noted in Section II. E of this paper, the matter is already addressed under the extant Code. The eCode provides a link to paragraphs 59 and 77 of the Safeguards Basis for Conclusion at extant paragraph 300.8 A4. In finalizing the Safeguards project, the IESBA determined that the "appropriate reviewer" may be an individual external to the firm.
• "… the threshold used in R604.4 to determine whether the provision of tax services is allowable (i.e. "the proposed treatment has a bases in applicable law and regulation that is [likely] or [more likely than not] to prevail") should set a high standard that is clear and provides certainty."	*Comment accepted.* See Section II D. Of this paper and paragraphs R604.4 and 604.12 A2 of **Agenda Item 2-B**.

PIOB's Public Interest Issues	Task Force Responses
• The proposal "maintains the assessment of whether [the provision of a] NAS to related entities create a threat, but eliminates the obligation to inform TCWG of the audited PIE on the grounds of confidentiality (disclosing price sensitive information of another entity - related not controlled – to TCWG of the audited entity may give rise to potential legal issues). Therefore, the assessment stays within the firm, without disclosure or corroboration by third parties (TCWG).	*Comment taken into account*. See Section II.C of this paper.
• PIOB observed that the words "…if the provision of such accounting and bookkeeping services might create a self-review threat in relation of the audit of the financial statement on which the firm will express an opinion" was added in paragraph R601.5 of the October draft subsequent to the September 2020 meeting. The PIOB expressed a preference for the version of the text presented in the September 2020 draft which they believe is stronger as accounting and bookkeeping were prohibited without qualification.	*Comment accepted*. Paragraphs R601.5 and R604.10 of **Agenda Item 2-B** have been revised to take account of this comment

Matters for Consideration

7. Do IESBA members agree with the Task Force consideration and responses to PIOB and MG comments?
8. IESBA members are asked to consider whether there are any additional matters other than those summarized by the Task Force, that they consider should be discussed before finalizing the revisions to the NAS provisions.

III. Consideration of Effective Date

51. Subject to approval of the revisions to the International independence Standards relating to NAS and Fees in December 2020, the two Task Forces will ask the IESBA to determine an effective date for

the revised provisions taking into account the planned finalization and effective date for the revised definition of a PIE (see **Agenda Item 4-E**).

IV. Due Process Matters

Significant Matters Raised by Respondents

52. It is the Task Force's view that all significant matters raised by the respondents in comment letters were identified and considered by the Task Force. The Task Force's analysis of the significant matters identified, and its proposals have also been presented in public agenda papers for the Board's discussions. In the Task Force's view, there are no significant matters raised by respondents that have not been brought to the IESBA's attention.

Need for Further Consultation

53. The Task Force believes that all significant matters have been considered and resolved by the IESBA. During its September 2020 meeting, the IESBA CAG did not raise any concerns about the Task Force's analysis of the significant matters or its proposals.

54. On the basis of the above, the Task Force does not believe there is a need for further consultation with stakeholders.

Consideration of the Need for Further Re-Exposure

55. **Agenda Item 2-D** sets out the revisions that have been made to the NAS ED in mark-up. The Task Force is of the view that the revisions are limited to changes made to address respondents' comments and suggestions.

56. In light of the above, the Task Force believes that re-exposure is not warranted as the text changes post-exposure are in response to feedback from respondents to the NAS ED and do not substantively change the proposals in the ED.

Matter for Consideration

10. IESBA members are asked to consider the revisions to the NAS ED in **Agenda Item 2-D** and approve the revisions to the NAS provisions to Code.