

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
CONSULATIVE ADVISORY GROUP (CAG)
Held on September 1, 2020 in New York, USA**

B. Objectivity of 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 2.¹

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 1,² 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.

¹ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

² Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- 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 325.³

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 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.

³ Proposed Section 325, *Objectivity of Appropriate Reviewers*

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 540⁴ 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

⁴ Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

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 be 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 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.