

Meeting: IESBA
Meeting Location: Virtual
Meeting Date: March 15-17, 23 & 31, 2021

Agenda Item 3

Benchmarking Independence Standards for Audits of Public Interest Entities

Phase 1 – IESBA Versus US SEC/PCAOB

Objectives of the Meeting

1. The objectives of this meeting are to:
 - Note a recap from the July 2020 IESBA meeting benchmarking session and the Working Group's (WG)¹ recent activities.
 - Discuss and agree on the timeline for Phase 1 of the initiative, including the proposed timing for the WG's analysis of the various sections in the [International Independence Standards](#) (IIS).²
 - Agree on the proposed format for the deliverables arising from the initiative.
 - Receive an overview of the terminology that the WG is proposing to use to present its conclusions, for example to describe the various situations, and the level of similarities and differences between the IIS and the independence rules that are developed and issued by the US Securities and Exchange Commission and the US Public Company Accounting Oversight Board (i.e., the SEC/PCAOB rules).

Recap of July 2020 IESBA Discussion

2. A key objective of the IESBA's multi-phase Benchmarking initiative is to highlight the changes made to the Code since the previous global benchmarking exercise was undertaken in 2011 (i.e., the IESBA's [2011 benchmarking work](#)). The resulting outputs of the initiative will serve to provide insights to stakeholders about the similarities and key differences between the IIS and independence requirements in major jurisdictions.
3. At its July 2020 meeting, the IESBA discussed the potential scope and methodologies for the Benchmarking initiative. The IESBA also considered the [WG's preliminary analysis](#) regarding Phase 1 of the initiative, including the comparison of the general independence provisions in the IIS and the general SEC/ PCAOB rules.

Scope

4. The IESBA agreed that Phase 1 of the Benchmarking initiative would focus on comparing the IIS

¹ The Working Group members are:

- Laura Friedrich, Working Group Chair
- Richard Fleck, NAS Task Force Chair
- Richard Huesken, IESBA Member

² [Click here](#) to access an overview of the various parts and sections of the Code, including the IIS.

provisions (both its requirements and application material) that apply to audit clients that are PIEs to the analogous SEC/PCAOB rules. While the WG plans to focus its analysis on the independence rules that are developed and issued by the SEC and the PCAOB, any significant information that is relevant to understanding the SEC or PCAOB independence rules will be captured in a separate note (e.g., differences between the PCAOB interim standards and SEC rules).

Methodology and Planned Deliverables

5. Regarding the methodology to be used for the comparison, the IESBA supported the WG's recommendation that the underlying benchmarking data be structured in a manner that will provide a comprehensive analysis/ report in the form of a paragraph-by-paragraph comparison, starting first with the provisions in the Code's IIS along-side the relevant SEC/ PCAOB rules.
6. The IESBA generally supported the WG's proposed plan to summarize the key aspects of the Code's [conceptual framework to independence](#) and the SEC/PCAOB General Standards³ relating to independence. This summary will form part of an overview for the detailed report.
7. The WG believes that the overview of the two different frameworks and their overarching approaches will be an important element in addressing stakeholders' perceptions about the Code versus the SEC/PCAOB rules. One of the WG's preliminary observations is that although the terminology and concepts that are used in the two sets of independence frameworks differ, they both include: (i) principles-based overarching provisions; and (ii) specific requirements that prohibit certain relationships, interests, services or other auditor actions. In other words, neither set of standards are entirely "principles-based" or entirely "rules-based" they are both hybrid approaches.
8. The WG also plans to issue summary information in addition to the detailed report in a format that is user friendly and responsive to stakeholder questions about how the Code compares to the SEC/ PCAOB rules (e.g., in relation to topics such as the permissibility of NAS to an audit client or requirements relating to the disclosure of fee-related information to those charged with governance and the public).

WG's Activities

9. The IESBA prioritized finalizing its Non-Assurances Services (NAS) and Fees projects by December 2020. Therefore the activities of the Benchmarking WG were put on hold in Q3 and Q4 of 2020. The WG resumed its work in January 2021 and has met three times via videoconference to progress the initiative and to develop the agenda materials for the March 2021 IESBA meeting.
10. On March 10, 2021, the WG Chair will brief the IESBA Consultative Advisory Group (CAG) on its developments since July. In addition, CAG Representatives will receive a presentation from SEC Staff on the recent changes to the SEC independence rules. During the March 2021 meeting, the WG Chair will brief IESBA members on any significant matters arising from that CAG meeting.

Matters for Consideration

Timeline for the Initiative

11. In July 2020, the WG proposed finalizing Phase 1 of the initiative by late June/early July 2021. However, due to the added complexity of undertaking the analysis and its deliberations entirely

³ The General Standard For Auditor Independence as set out in point b) of SEC Rule 2-01, *Qualifications of Accountants* (codified within the Code of Federal Regulations (CFR) 17 CFR Part 210 - Regulation S-X)

remotely the WG has reconsidered its timeline. In addition, the WG is of the view that there would be considerable benefit in obtaining input to the WG's analysis from stakeholders with expertise in the application of specific subject matters in advance of releasing its reports. The revised timeline factors in the time needed to undertake such outreach.

12. Accordingly, in **Appendix I** of this document, the WG has included an updated timeline for Phase 1 of the initiative, setting a revised release date of October/November 2021 for its final reports. The WG believes that its revised timeline will allow for a more realistic timeframe to: (i) progress its initial thinking and analysis, (ii) obtain and consider input from relevant stakeholders, and (iii) finalize its reports and conclusions.

Analysis of IIS Sections

13. The WG plans for the benchmarking exercise to first focus on areas in the IIS that have not been subject to significant revisions. The WG believes that once its process has been socialized and well-established, it will be better positioned to tackle comparing sections of the IIS that have been recently revised, such as Sections 410, *Fees* and 600, *Provision of Non-Assurance Services to an Audit Client*.

Outline of the Final Documents

14. Based on the IESBA's guidance in July 2020, and further informed by its work to date, the WG recommends that the Phase 1 deliverables comprise:
 - (a) A summary report that will provide high-level information on the purpose and the methodology of the Benchmarking initiative and the WG's overall conclusions. For example, the summary report will highlight the areas where the WG has identified important differences. It is anticipated that the design-version of this document will be no more than 10 pages in length.
 - (b) A detailed report that will include:
 - (i) An analysis comparing the overarching provisions that are relevant to the proper application of the IESBA's IIS for audit clients that are PIEs against the SEC/PCAOB rules.
 - (ii) Mapping tables to compare the topic-specific provisions in the IIS that apply to audit clients that are PIEs against the relevant SEC/ PCAOB rules. It is envisaged that these mapping tables provide a comprehensive comparison of the two sets of standards in tabular format and will be categorized by topics/ key issues so that is user-friendly and easier to navigate by users. The tables will include a column with the WG's observations and conclusions. In order to make the report useful and user friendly, the WG will seek to standardize the terminology used in reporting its observations and conclusions.
15. During the meeting, the WG Chair will further explain the WG's planned methodology and anticipated deliverables, using illustrative examples.

Terminology to be Used

16. The WG has developed terminology that it plans to use to describe its conclusions on the extent of similarities and differences between the IIS and the SEC/PCAOB rules in a succinct and consistent manner. The WG has considered the following possible scenarios:
 - (a) Scenario 1: The IIS and the SEC/PCAOB rules each have explicit requirements and such

requirements are “equivalent in effect”.

Equivalent in effect means where both provisions/rules

- apply to the same type of entity(ies),
 - apply to the same circumstances/services and
 - achieve the same effect in terms of prohibiting or permitting an action, transaction, or behavior.
- (b) Scenario 2: Only the IIS or the SEC/PCAOB rules has an explicit requirement, but through the application of either the Code’s conceptual framework or the SEC/PCAOB’s General Standard the independence frameworks are “equivalent in effect” regarding the specific matter.⁴
- (c) Scenario 3: The IIS and the SEC/PCAOB rules each have explicit requirements, but the requirements are “not equivalent in effect,” (e.g., because one is broader in scope with respect to entities or circumstances).
- (d) Scenario 4: Only one set of standards/rules has an explicit requirement and the outcomes are “not equivalent in effect” regarding the specific matter even when considering the proper application of the Code’s conceptual framework or the SEC/PCAOB’s General Standard.
17. During the session, the WG Chair will present illustrative examples to demonstrate how the WG plans to use the proposed terminology to reflect its conclusions.

Actions Requested

18. During the session, IESBA members will be asked to provide their views regarding:
- (a) The WG’s recommended timeline for Phase 1 of the initiative;
 - (b) The format and outline of the final reports, the proposed terminology to be used for the WG’s observations and conclusions; and
 - (c) Any specific areas of comparison that might be particularly informative.

Agenda Materials

Agenda Item 3-A	Benchmarking Slide Presentation
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⁴ Given the difference in the overarching approaches, the WG believes that in some instances, where the SEC/ PCAOB rules include an explicit prohibition and the IIS do not, the proper application of the Code’s provisions relating to addressing threats in the conceptual framework would result in a conclusion to eliminate the specific factor creating the threats to independence, or to withdraw from the engagement. Therefore, the WG believes it is necessary that its analysis explains how the conceptual framework would apply in specific circumstances to achieve “equivalence in effect.”

Draft Timeline for IESBA's Benchmarking Project

Topics of International Independence Standards / Meeting Dates		Indicative Timing
Determining methodology and terminology used for the mapping tables		January/February
Determining structure and outlines for the final reports		
March 10, 2021 IESBA CAG		March
March 15-17, 23 and 31 IESBA meeting		
Comparison of Overarching Principles/ Approach (Section 120)		
Comparison of Key Definitions		
Section 400*	Applying the Conceptual Framework to Independence for Audits and Reviews	
Section 510	Financial Interests	
Section 511	Loans and Guarantees	
Section 520	Business Relationships	April
Section 521	Family and Personal Relationships	
Section 522	Recent Service with an Audit Client	
Section 523	Serving as a Director or Officer of an Audit Client	
Section 524	Employment with an Audit Client	
Section 525	Temporary Personnel Assignments*	
Section 540	Long Association of Personnel (Including Partner Rotation) with an Audit Client	
Section 410	Fees (Revised)	
Section 411	Compensation and Evaluation Policies	
Section 420	Gifts and Hospitality	
Section 430	Actual or Threatened Litigation	
Section 600	Provision of Non-assurance Services to an Audit Client (Revised)	June
June 9-11, 2021 IESBA meeting		July
Section 600	Provision of Non-assurance Services to an Audit Client (Revised)	
Section 800	Reports on Special Purposes Financial Statements that Include a Restriction on Use of Distribution (Audit and Review Engagements)	
All	Completed drafts of the detailed comparisons	August
All	Completed drafts of final reports	

* Some paragraphs in the Section reflect conforming changes arising from the NAS project..

Benchmarking Cover Note
IESBA Meeting (March 2021)

September 7-9 CAG September 13-16, IESBA meeting	September
Final Reports	October/November

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