

Meeting: IESBA
Meeting Location: Virtual
Meeting Date: September 13-17, 27 2021

Agenda Item 4

Benchmarking Independence Provisions for Audits of Public Interest Entities

Phase 1 –Comparison of IESBA and US SEC/PCAOB Frameworks

Objective

1. The objective is to obtain IESBA input on a working draft of the report on the outcome of Phase 1 of the benchmarking initiative (the “report”).

Activities since June 2021 Meeting

2. The Working Group¹ (WG) has met four times via videoconference to progress the benchmarking exercise.

Recap of June 2021 IESBA Board Discussions

3. At its June 2021 meeting, the IESBA considered the WG’s recommendation regarding the focus areas and topics to be covered in Phase 1. Board members generally agreed that the report should focus only on topics that are of greatest interest to stakeholders. Following consultation with the IESBA, the WG identified the following focus areas and topics:
 - Overarching Principles and Approach (including non-compliance with laws and regulations)
 - Key Definitions
 - Fee-related Provisions
 - Permissibility of NAS to Audit Clients, Including Prohibited Services
 - Auditors’ Communication with Those Charged With Governance (TCWG) about Independence Matters (Including Pre-approval of NAS and Disclosures about Fees)
 - Financial Relationships
 - Business Relationships
 - Gifts and Hospitality

¹ The Working Group members are:

- Laura Friedrich, IESBA Technical Advisor Working Group Chair
- Richard Fleck, NAS Task Force Chair
- Richard Huesken, IESBA Member
- Peter Oastler, Independence Expert
- Kristen Wydell, IESBA Technical Advisor

4. The IESBA also supported the WG's intention to:
 - Highlight the similarities and differences between the different independence rules and regulations without making judgments as to the relative merits of the different approaches, rules or regulations.
 - Focus on whether the provisions/rules address the same issues and achieve the same substantive outcomes, noting that the provisions of the Code and the SEC/PCAOB rules are not directly comparable because they have different jurisdictional bases and so adopt different conceptual approaches.

Matters for Consideration

Structure and Granularity of the Report

5. Reflecting on the input from IESBA members, the WG agreed that it will be important to have a report that is easy to navigate and digest. For the IESBA's consideration, **Agenda Item 4-A** includes the proposed draft report of optimal length not to overburden readers or create a barrier for them. Agenda Item 4-A only includes a discussion of the focus areas and topics that the WG has considered to date, namely:
 - Introduction,
 - Overarching principles,
 - Key definitions,
 - Permissibility of NAS to Audit Clients, Including Prohibited Services.
6. The report provides the appropriate level of detail regarding certain Code provisions and the relevant SEC/PCAOB rules and commentary so that users can make an informed judgment about the similarities and the differences.
7. The report does not provide interpretations of the Code or the SEC/PCAOB rules. The WG believes that this approach addresses the concerns expressed that the report might be viewed as interpretative in nature or "rule-making" outside of the Code.

Presentation of Main Similarities and Differences

8. Under the "Commentary" sections at the end of each topic, the report provides a brief summary of the WG's conclusions reached regarding the similarities and differences with respect to the approach taken by the two frameworks.
9. The final report will include a summary of the conclusions reached, e.g., as an executive summary; or as a separate document that is published at the same time as the final report.

Next Steps

10. At the September 2021 IESBA Consultative Advisory Group (CAG) meeting, the WG will obtain CAG Representatives' input on the draft Phase 1 report. Specifically, CAG representatives will be asked for views about the proposed structure and granularity of the document and will be presented with the preliminary observations and conclusions reached by the WG. The WG will consider the CAG input during its Q4 meetings. Significant CAG comments will be summarized as part of further IESBA meeting materials.

11. The WG will obtain input on the draft report from the IESBA's National Standard Setters Liaison Group (NSS). In particular, NSS Representatives will be asked for views about the proposed focus areas and topics addressed, and the structure and granularity of the report, and will be presented with the WG's preliminary conclusions.
12. In addition, the WG sees merit in obtaining input from targeted stakeholder outreach, for example, interested parties representing regulators, audit oversight authorities, firms, or professional accountancy organizations, especially those in G-20 jurisdictions. Discussions with such stakeholders will help the WG's understanding of the focus areas and topics that are of greatest interest to stakeholders.
13. At its December 2021 meeting, the IESBA will receive an update on the final report and the WG's conclusions as stated therein.

Actions Requested

14. During the session, IESBA members will be asked to note the WG Chair's presentation and provide views and input on:
 - The proposed structure for the report.
 - The granularity of information to be presented in the report.
 - The next steps and the planned outreach until the finalization of the report.

The WG does not propose that the draft interpretations and the wording of the conclusions be subject to the IESBA's discussion during the September 2021 meeting. The WG welcomes IESBA members' queries and comments via email any time prior or after the September 2021 meeting. Please send them to Szilvia Sramko at szilviasramko@ethicsboard.org.

Before finalizing a draft of the report for the December 2021 IESBA meeting, the WG plans to obtain input on an updated draft via email.

Materials Presented

Agenda Item 4-A

Benchmarking – Working Draft of Phase I Report as of September 3, 2021