

IESBA Meeting Highlights and Decisions

December 2016

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This summary of decisions of the International Ethics Standards Board for Accountants (IESBA) has been prepared for information purposes only. Except for approval of documents for public exposure and issuance of final pronouncements, decisions reported are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IESBA.

A [podcast](#) recording that provides a short audio summary of the main outcomes of the December 2016 IESBA meeting is also available on the IESBA website.

Long Association of Audit Firm Personnel with an Audit Client

The IESBA approved changes to the revised long association provisions it had agreed at its September 2016 meeting in response to comments from the Public Interest Oversight Board (PIOB). The changes are:

- The replacement of the “jurisdictional provision” (permitting a reduction in the cooling-off period for engagement partners (EPs) on audits of public interest entities (PIEs) where jurisdictions have established alternative requirements to address threats created by long association) with a revised formulation that retains the main objective of the original provision, i.e., where a jurisdiction has established a cooling-off period for an EP of less than five years, the higher of that period or three years may be substituted for the cooling-off period of five years provided that the applicable time-on period does not exceed seven years; and
- The withdrawal of the exception permitting, under certain strict conditions, an EP or an engagement quality control reviewer who has rotated off a PIE audit engagement to provide consultation to the engagement team on a technical or industry-specific issue after two years have elapsed during the cooling-off period.

Subject to the transitional provision below, the final long association provisions in extant Section 290, *Independence – Audit and Review Engagements*, will be effective for audits of financial statements for periods beginning on or after December 15, 2018. The final long association provisions in extant Section 291, *Independence – Other Assurance Engagements*, will be effective on December 15, 2018. Early adoption is permitted.

The revised jurisdictional provision will have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This transition is intended to facilitate an eventual changeover to the cooling-off period of five years in those jurisdictions that have established a cooling-off period of less than five years. However, the IESBA has committed

as part of its next strategy and work plan to review, during this transitional period, the long association sections in the Code to take account *inter alia* of relevant legislative and regulatory developments as well as experience of the application of the sections in practice.

Subject to the PIOB's approval, the final provisions, drafted under the extant structure and drafting conventions of the Code (the "close-off document"), will be made available on the IESBA website for information.

The IESBA also approved for exposure the restructured text of the close-off document under the new structure and drafting conventions of the Code. Subject to PIOB approval of the close-off document, the proposed restructured text will be included as part of the Exposure Draft (ED) of Phase 2 of the Structure of the Code project (Structure project).

At its March 2017 meeting, the IESBA will consider a revised draft of a proposed IESBA Staff Questions & Answers (Q&A) publication which will be issued with the final restructured pronouncement.

Structure of the Code

The IESBA agreed in principle the new structure and drafting conventions of the Code as well as the text of Phase 1 of the Structure project, taking into account comments from respondents on the ED, [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1](#) (ED-1). Subject to any matters of consistency arising from the exposure of the text of Phase 2 of the project, the IESBA anticipates approving the Phase 1 text with the final Phase 2 text by the end of 2017.

The IESBA also approved for exposure the text of Phase 2 of the project (Structure ED-2) incorporating restructured provisions for the remaining parts of extant Part B, *Professional Accountants in Public Practice*, not previously included in ED-1, including:

- The provisions addressing reports that include a restriction on use and distribution in extant Section 290; and
- Extant Section 291.

Structure ED-2 is expected to be released by the end of January 2017 with a 120-day comment period. As part of the release and to facilitate respondents' review of the ED, IESBA Staff will make available on the IESBA website a compilation of the complete proposed restructured Code as well as a Basis for Agreement in Principle on the Phase 1 Structure text, among other resources. The compilation of the complete proposed restructured Code will include the agreed-in-principle text of Phase 1 of each of the Structure and Safeguards projects, the proposed texts in Structure ED-2 and Phase 2 of the Safeguards project, and the proposed text in the Part C Applicability ED (see below).

The IESBA will consider an analysis of significant comments from respondents to Structure ED-2 at its September 2017 meeting.

Review of Safeguards in the Code

Phase 1

The IESBA agreed in principle the text of Phase 1 of its Safeguards project, comprising revisions to the provisions in the extant Code relating to the conceptual framework (restructured Section 120) and the application of the conceptual framework to professional accountants in public practice (PAPPs) (restructured Section 300). Key features of the agreed-in-principle text include an enhanced conceptual framework that requires professional accountants to identify, evaluate and address threats to compliance with the fundamental principles, a new definition of the term “safeguards,” and a more robust description of the reasonable and informed third party. The Phase 1 text has been drafted under the new structure and drafting conventions of the Code. Subject to any matters of consistency arising from the exposure of the text of Phase 2 of the project, the IESBA anticipates approving the Phase 1 text with the final Phase 2 text by the end of 2017.

The agreed-in-principle Phase 1 text, accompanied by a Staff-prepared Basis for Agreement in Principle to explain the rationale for the IESBA’s conclusions, will be made available on the IESBA website by the end of January 2017.

Phase 2

The IESBA approved for exposure Phase 2 of its Safeguards project, which includes proposed revisions to the non-assurance services sections of the extant Code (i.e., proposed restructured Section 600, *Provision of Non-assurance Services to an Audit Client* and restructured Section 950, *Provision of Non-assurance Services to an Assurance Client*). The IESBA also approved proposed conforming amendments to other areas of the Code arising from the Safeguards project.

The ED of Phase 2 of the project is expected to be released by the end of January 2017, with a 90-day comment period.

The IESBA will consider significant comments from respondents to the ED at its June 2017 meeting.

Review of Part C of the Code

The IESBA approved for exposure as part of Structure ED-2 the restructured text of the [close-off document](#) relating to extant Part C, *Professional Accountants in Business*, and a revised glossary description for the term “professional accountant in business” (PAIB). The IESBA also approved for exposure revised provisions clarifying how extant Part C applies to PAPPs (Applicability ED). The Applicability ED is expected to be released separately from Structure ED-2 by the end of January 2017, with a 90-day comment period.

The IESBA also considered a first-read draft of revisions to extant Section 350, *Inducements* and initial Task Force proposals regarding conforming amendments to extant Section 260, *Gifts and Hospitality*.

At its March 2017 meeting, the IESBA will consider with a view to approval for exposure the proposed revisions to extant Section 350 and related conforming amendments to extant Section 260.

Responding to Non-Compliance with Laws and Regulations (NOCLAR)

The IESBA approved for exposure as part of Structure ED-2 the restructured provisions addressing NOCLAR in both extant Parts B and C of the Code.

The IESBA also provided input for purposes of finalizing proposed IESBA Staff Questions & Answers (Q&A) publications on NOCLAR for both PAPPs and PAIBs. The Q&A publications are expected to be issued by the end of January 2017.

Professional Skepticism

The IESBA considered a proposal for a short-term project to develop enhancements to the Code to respond to stakeholder calls for greater emphasis on professional skepticism in the Code. The IESBA also discussed the proposed enhancements, including a new requirement for professional accountants to apply a critical mindset when applying the conceptual framework to assist them in complying with the fundamental principles; and new application material to explain the linkage between professional skepticism as defined in the standards of the International Auditing and Assurance Standards Board (IAASB), and the fundamental principles and independence.

The IESBA also received an update on the recent activities of the tripartite Professional Skepticism Working Group (PSWG) comprising representatives of the IAASB, IESBA and International Accounting Education Standards Board (IAESB).

The IESBA will consider a revised project proposal and revised proposals in relation to the short-term project at its March 2017 meeting.

Fees Initiative

As part of its fact finding activities regarding its initiative to better understand the issues concerning certain fee-related matters, the IESBA received a final report from [Prof. David Hay](#), the academic it has engaged to review relevant academic and other literature on the topic. Among other matters, Prof. Hay outlined the findings from his review pertaining to the fee-related matters under consideration, i.e., the level of audit fees for individual audit engagements; the relative size of fees and dependence on particular clients; the ratio of non-audit to audit fees; and audit services by firms that have significant non-audit service businesses.

The IESBA also received an interim report from its Fees Working Group relating to a review of laws and regulations that address fee-related issues in certain G20 jurisdictions. The Working Group plans to reach out to stakeholders, including investors, those charged with governance, firms, and the regulatory community, to further understand their perspectives on those fee-related matters.

The IESBA will receive an update on proposed next steps from the Working Group at its March 2017 meeting.

Strategy Survey

The IESBA discussed the approach to, and possible content of, the survey of stakeholders for purposes of developing its Strategy and Work Plan 2019-2023.

The IESBA will consider the proposed survey with a view to approval at its March 2017 meeting.

[Next Meeting](#)

The next meeting of the IESBA will be held in New York, USA on March 13-15, 2017.