

BRIEFING MEMO

IESBA meeting 18-20 March 2024

Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB/SAC meeting observation and to help maintain consistency and continuity of oversight.

This briefing memo contains the key issues that are expected to be discussed at the SSB meeting and an outline of the PIOB position on each issue, as agreed during the briefing session. The structure and contents of this memo follows the official agenda of the Board meeting which includes the following items:

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Main acronyms

PIOB	Public Interest Oversight Board
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
MG	Monitoring Group
ED	Exposure Draft
CL	Comment Letter
WG	Working Group
PI	Public Interest
PIF	Public Interest Framework
PIE	Public Interest Entity

CIV Collective Investment Vehicle

PA Professional Accountant

1. OPENING REMARKS

During the opening the public session minutes of the December 2023 IESBA meeting will be approved, the IESBA Chair will provide an update on recent developments pertaining to the Board or its activities, also noting the recent and upcoming IESBA outreach and related activities for 2024.

2. FIRM CULTURE AND GOVERNANCE

This is a new project stemming from the SWP 2024-27, to which it was added in the context of the Australian Inquiry and other concerns over ethical behavior within firms, and which the PIOB has already expressed support for. The project constitutes the most significant topic of the Board meeting, taking one full day with discussion of draft Terms of Reference and a number of presentations. IESBA plans to undertake research and extensive outreach with stakeholders and has defined the following objectives for the project:

- a) Gather an understanding of what factors contribute to breaches of ethics and independence requirements in accounting firms (“firms”) and, where applicable, their networks;
- b) Review the extant provisions on organizational and firm culture in Parts 1, 2, and 3 of the Code and consider whether the Code should be further strengthened to bring to the fore the importance of leadership and governance in reinforcing a robust culture of ethical behavior within firms.
- c) Consider whether to recommend that the IESBA commission non-authoritative materials (NAMs) to raise awareness of and emphasize key provisions of the Code;
- d) Raise awareness of the project objectives through outreach activities;
- e) Develop a report and recommendations to the IESBA.

PIOB position

The project appears to relate not only to audit but also to other services, eg. tax advisor and other consultants who are part of network firms, but greater precision of the project’s scope is crucial to the achievement of public interest enhancements of the Code in a timely way. Moreover, IESBA should be encouraged to articulate more precisely the intended outcome which the project intends to achieve through such enhancements.

It is noted that the IESBA intends to undertake fact finding and this undoubtedly has a major role to play. A balance needs to be struck between, on the one hand, being open-minded with regard to seeking inputs and avoiding over-stretch and distraction

into matters which lie outside the remit of IESBA and its longer-term ambition for the Code to be applicable for non-PAs.

It is also important that the fact-finds are undertaken with sufficient attention to diversity of market experiences across jurisdictions, thereby ensuring the global context for the operation of firms is considered. The project should not commence with a strong predetermined perspective shaped from a limited number of jurisdictions which could be constraining. It is IESBA's role to be informed of evolving practices across countries but not only consider Code enhancements to embed these practices with a view to "leveling-up" across the globe, but also to show leadership in provisions on ethical behavior which are capable of achieving global adoption given the potential to better meet Public Interest issues. Equally, it is important that there is sufficient focus in fact-finds on matters directly relevant to achieving behavioral change through ethics, which is the specific remit of IESBA. Balancing these two elements appears central to a successful outcome in a timely way.

In this context, it is important that there is a thorough reflection on the parameters of the project from the outset in relation to the terms "firm", "network" and "governance", as further specified below.

The reference to "firm" ought to be the market-facing reality of multi-service providers, including audit, rather than a narrow starting reference to audit firms which then gives rise to consideration of other service lines. In this context, the fact that audit continues to decline in relative terms to other service lines within the major firms is relevant. Furthermore, it is essential to consider "network" as integral to the discussion of "firm", and not only due to the international perspective. In reality, the major firms generally have a number of different legal entities within individual jurisdictions under the "network" arrangements.

As a point arising from the project's title, it will be helpful to understand IESBA's specific objective with respect to "governance". The topic is extremely broad and complex, particularly given the fact that it immediately calls into question matters regarding governance structures. On this basis, it will be important to encourage IESBA to clarify whether it aims to pursue through the Code:

- 1) changes to both the behavior of individuals - PAs and non-PAs within firms, in the context of the above point - and the governance structures that they work in, seeing the first as the driver to structural changes or
- 2) ethical governance within existing structures. The latter would appear to be more manageable in a reasonable timeframe and directly within the IESBA's remit.

There are different levels of potential consideration with respect to governance structures: specifically, whether the discussion relates to governance within existing models of firm organization permitted and shaped by national legislation and

regulation, or whether the intention is to look beyond existing models for more effective governance structures, and thereby consider the adequacy of current legislation and regulation.

There is, therefore, a risk of over-stretch on IESBA's part which could detract from achieving behavioral in specific areas through focused amendments of the Code. [Not for raising during the Observation: *The IESBA could benefit from a parallel workstream in this area, such as that currently under consideration by the PIOB Board to encourage national legislators and regulators to consider whether the models of firms currently operating in the market are fit for purpose going forward. This could complement IESBA's revision of the Code*].

With respect to the Working Group's pursuit of greater understanding of the "factors which contribute to breaches of ethics and independence", it seems important to differentiate between self-interest motivation for unethical behavioral and the broad categorization of "increasing pressures on PAs to act unethically", which is referenced in the Draft Terms of Reference on the basis of the Global Accounting Alliance's statement in August 2023.

3. TECHNOLOGY

One hour of presentation is dedicated to technology on the second day. Technology-related Revisions to the Code were certified by PIOB in April 2023, however the new workstream is distinct and it covers mostly the topic of artificial intelligence (AI). The IESBA Technology Working Group (WG) has been active and will provide an update on its activities including a presentation to provide an overview on global approaches to regulating AI will be delivered by Jason Bradley, Director of Standard Setting and Oversight at the Accounting and Financial Reporting Council (AFRC) in Hong Kong. The slides for the presentation by the WG and the guest are included as Agenda Item 3-A with the following topics:

- The use of Artificial intelligence (AI) tools,
- Generative AI / Foundational models / Large Language Models,
- Cybersecurity,
- Blockchain,
- Smart contracts,
- Contract readers and completeness of information,
- Client and engagement acceptance dilemmas.

A discussion is expected on the impact of these issues on ethics and independence.

[PIOB position](#)

The PIOB supports incorporation of the aspects of new technologies including the AI, into the standards. We will consider updating our current PI issues document for any relevant technology matters after this Board meeting.

4. CIVs

One hour of discussion about “Collective Investment Vehicles” (CIV) is dedicated on the second day. The CIVs is the first project where the “staff-led model” has been applied. We expect the discussion will be based on initial information gathering, which was motivated by the PIOB, and which started in Q4 2023. As noted during interim discussions with IESBA, a preliminary report is expected to be issued by the WG in Sep 2024 and the final proposal to the Board is expected for the Dec 2024 meeting. The papers contain a 15-page update report, which summarizes results of research performed by the WG. As far as we understand, there are two main issues within this topic.

1. How to incorporate CIVs and PFs into the definition of PIE.

The report states in par. 2: *“After reflecting on stakeholders’ feedback on the PIE ED regarding the wide diversity in structure, governance and size of such arrangements, the IESBA removed CIVs and PEBs from the mandatory PIE categories on the grounds that including them would impose a disproportionate burden on local regulators and national standard setters to refine those CIV and PEB categories. However, with the concurrence of the Public Interest Oversight Board (PIOB), the IESBA committed to undertaking a holistic review of CIVs, PEBs and investment company complexes (ICCs)¹ from an auditor independence perspective, given longstanding questions regarding the application of the “related entity” concept in the Code to such investment vehicles or structures.”*

2. Defining independence provisions for PAs in relation to CIVs and Pension Funds (PFs) or entities that provide post-employment benefits (PEBs).

The Terms of Reference set out the following objectives for the Project Team:

(a) Review CIVs and pension fund arrangements and their relationships with trustees, managers and advisors to gain a comprehensive understanding of these arrangements to ensure that the independence provisions and the application of the “related entity” definition in the International Independence Standards in Part 4A of the Code remain fit for purpose;

(b) Review investment company complexes and consider whether the Code should be enhanced to address these structures, such as establishing new terms and definitions, and clarifying which entities or arrangements within such a complex should be considered as related entities of an audit client; and

(c) Develop a report and recommendations to the IESBA.

Since December 2023, the Project Team has dedicated its efforts to examining CIVs and ICCs. Additional insights regarding pension funds will be presented at the IESBA's June 2024 meeting for consideration and discussion. To date, the Project Team has conducted desktop research predominantly on Australia, South Africa and the United States to better understand CIVs and their relationships with trustees, managers and advisors.

The preliminary conclusions are as follows:

- o It is relevant to assess whether the relationships that CIVs have with third parties, such as trustees, managers and advisors, result in those third parties assuming responsibility for the underlying subject matter and/or the subject matter information. These individuals or entities may not be captured when applying the definitions of "audit client" and "related parties" in the Code.
- o The Project Team will continue to explore the concepts underlying the definition of "assurance client" to inform its recommendations to the Board related to all variations of investment schemes, i.e. CIVS, PFs, PEBs.
- o Consistent application of the Code's independence requirements is needed relating to management responsibility and self-review threats, to both the CIVs and traditional corporate structures. For example, if the firm or network firm that audits the CIV has close business relationships with or provides NAS to the mentioned third parties and does not regard such third parties as parties to which the Code applies, threats to auditor independence that might be created by those relationships or services might not be identified, evaluated and addressed.

The paper also provides a high-level overview of the characteristics of certain regulated CIVs in Australia, South Africa and the United States and relationships with parties such as trustees, managers and advisors, based on the Project Team's preliminary research to date.

In part IV the paper outlines next steps of this project:

- Although the Terms of Reference do not anticipate the Project Team revisiting the PIE definition, which includes the mandatory PIE categories, nevertheless, the Project Team will persist in collecting data from various jurisdictions to determine the conditions under which Investment Schemes might be classified as PIEs, aiming to pinpoint shared characteristics.
- The Project Team will continue to explore the "Three Party Relationship" in the International Framework for Assurance Engagements to determine whether conceptual elements may be included in the Code or relevant guidance materials.
- In Q2 of 2024, the Project Team plans to extend its desktop research to other jurisdictions and continue to engage with relevant stakeholders, the results of which will be presented at the June 2024 IESBA meeting.
- Additionally, the Project Team will organize online workshops with relevant stakeholders to explore matters such as regulation covering independence or

potential gaps in the independence standards and regulations unique to their jurisdictions. The Project Team will also discuss the project and seek feedback at the IESBA-National Standard Setters (NSS) meeting in New York in May 2024.

- The Project Team plans to present its recommendations for the Board's consideration during the second half of 2024.

PIOB position

The PIOB supports the activities around bringing the CIVs into the Code. The topic is clearly described in our current PI issues document: *'The revised definition of Public Interest Entities does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code includes a strong encouragement for local bodies to explicitly consider adding PFs and CIVs as categories of PIEs in their own jurisdictions. The PIOB acknowledges that further research and deeper understanding is needed in respect of PFs and CIVs, as well as their interaction with related entities, and the impact on the provisions of the Code. The PIOB welcomes the IESBA's commitment in its proposed Strategy and Work Plan for 2024-2027, to initiate an assessment of these entities, as well as of Investment Company Complexes.'*

The PIOB would be interested in the first experience with the "staff-led model" on this project, what are its pros and cons and what are the "modus operandi" plans of the IESBA for future.

5. TAX PLANNING

The new standard was approved by the IESBA in December 2023 and will be certified by PIOB at the April 2024 board meeting. So, only a short 20-minute session is planned on the second day, dedicated to a roll-out plan.

PIOB position

The certification of this standard will be on the agenda of the PIOB April 2024 board meeting. The key question during the roll-out and implementation of the new standard is whether it is achieving the intended change of behavior of PAs as envisaged at the outset of the project. A timely post-implementation review will be very important.

Although these changes to the Code are addressed only to PAs, they have been referred to as a benchmark for non-PAs: as part of the post-implementation review it will be relevant and in the Public Interest to understand whether there has been take-up or parallel initiatives among the non-PA members of the tax advisory community.

6. IAASB-IESBA COORDINATION

One hour and fifteen minutes is devoted to coordination with IAASB in the sustainability area on the third day. Claire Grayston, IAASB Principal, and Dan Montgomery, IAASB Consultant, will provide an update regarding the feedback received on ED-5000 as it relates to matters subject to IAASB-IESBA coordination, and the IAASB's tentative direction forward on these matters.

PIOB position

According to our PI issues document, both Boards have identified coordination as a critical matter and the approach, terminology, definitions, and the activities undertaken by the two Boards need to be consistent and aligned. Although the main theme for this session is coordination in the sustainability area, according to relating IAASB papers the topics of coordination in 2024 may include:

- terms and definitions,
- the application of ethical requirements that are “at least as demanding” as the IESBA Code,
- engagement teams and using the work of others, including another practitioner, external experts, information from the value chain and group engagements.
- communication between the practitioner and the financial statement auditor.

We have noted that the topic of technology is not on the IAASB list although both Boards have pending projects in this area. Also, it would be useful if representatives of both SSBs participated in mutual sessions with overlapping themes, which is limited given the timing of the March 2024 SSB meetings happening at the same time.

7. REVISION OF IES

Forty-five minutes is devoted on the third day to the International Educational Standards (IES) under the subheading ‘IFAC-IPAE Update’ (abbrev. IPAE stands for International Panel on Accountancy Education). According to the published papers, Ms. Anne-Marie Vitale, Chair of the IFAC’s International Panel on Accountancy Education (the Panel) will provide a presentation on the proposed revisions to the IESs, and in particular drawing out the ethical dimensions that were considered. The opportunity for future collaboration with IESBA will be discussed after the presentation, including potential case-studies that draw out the ethical dimensions in relation to the role of PAs in sustainability reporting and assurance competence. The IESBA members are going to be asked to consider the update and Ms. Vitale’s presentation and share their comments or questions.

PIOB position

PIOB does not oversee the IES, and no specific related PI issues have been noted in the papers.

8. PIE ROLLOUT

One hour is dedicated on the third day to the PIE roll-out topic with two specific topics which appeared during the roll-out of PIE Revisions. The session appears to be just an interaction of the WG with Board on specific Questions & Answers (Q&A) related to the PIE Revisions where the WG identified some unclarity. In both cases, the WG has concluded that no changes are necessary, neither to the Code nor to the Q&A document. The WG is seeking approval of its conclusions by the Board.

1. Whether further action is necessary for the operationalization of the transparency requirement set out in paragraph R400.20 of the Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA PIE Revisions) following the International Auditing and Assurance Standards Board's (IAASB) release of enhancements to ISA 700 (Revised) in October 2023 to reflect its determination that the auditor's report is an appropriate mechanism for such operationalization. In other words, the issue is whether the auditor's report is an appropriate universal mechanism for firms to ensure public disclosure of the application of the independence requirements for PIEs if they have applied such requirements. The current wording of par. R400.20 is: *"Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders."*

On this topic, the Working Group (WG) considers that the IESBA PIE Revisions are adequate considering the public interest and the principles-based nature of the Code. Therefore, the WG proposes no changes to the IESBA PIE Revisions and to update the answer to Q19 of the IESBA PIE Q&A, which currently still refers to the IAASB's consideration of proposed revisions to ISA 700 (Revised) to operationalize paragraph R400.20 of the IESBA PIE Revisions.

The paper covers a brief analysis of advantages and disadvantages of the following three options:

- A. Not making any changes to the IESBA PIE Revisions.
- B. Amend par. R400.20 with a specific reference to the auditor's report.
- C. Retain par. R400.20 and add new application material with examples of alternative disclosure mechanisms (the auditor's report; a firm's transparency

report; websites of the firm, the entity or local bodies; independence declarations provided to the directors of the entity).

As it was clarified during preliminary discussions, the IESBA position is that auditor's report is an appropriate mechanism for the PIE transparency disclosures even if the audit report is not available to the public or where it may have limited distribution. The reason is that those who do not have access to the auditor's report would not be relying on the additional independence requirements associated with the entity being treated as a PIE. Therefore, the WG has proposed to the Board the option A, i.e. not making any changes to the IESBA PIE Revisions.

2. Correctness of responses to two specific queries posed by stakeholders on Q14 and Q15 of the March 2023 IESBA Staff Questions & Answers – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA PIE Q&A) on the role of local bodies and firms in defining certain entities as PIEs.

On this topic, the WG considers that Q14 and Q15 of the IESBA PIE Q&A are correct and warrant no changes. However, the WG also considers that the queries posed might warrant a new question to be added to the IESBA PIE Q&A to ensure the conclusion in paragraph 27 below is communicated clearly to stakeholders.

PIOB position

Based on preliminary review of the papers, the conclusions suggested by the WG for the Board approval do not raise any concerns in relation to the PI issues, as they are stated in the PIOB PI Issues document. If necessary, however, the document will be updated after this Board meeting.