

**Draft Minutes of the Meeting of the
International Ethics Standards Board for Accountants
June 24-25, 2008
Brussels, Belgium**

	Members	Technical Advisors
<i>Present:</i>	Richard George (Chair) Frank Attwood Margaret Butler Ken Dakdduk David Devlin Robert Franchini Alice McCleary Barbara Majoor Michael Niehues Carmen Rodriguez Jean Rothbarth Volker Röhricht Robert Rutherford Isabelle Sapet Aiko Sekine Lady Barbara Judge (Day 1, Day 2 in part)	Lisa Snyder Sylvie Soulier Tiina-Liisa Sexton Bert Oosterloo Petra Gunia Ines Bruggeman Tim Volkmann David Hastings Jean-Luc Doyle Roman Adler Peter Hughes
<i>Regrets:</i>	Kariem Hoosain David Winetroub	Heather Briers Bill Cordes Rethabile Kikine Neil Lerner Andrew Pinkney

	Non-Voting Observers
<i>Present:</i>	Juan Maria Arteagoitia

Richard Fleck
Bella Rivshin

Tomokazu Sekiguchi

Regrets: Toshitake Kurosawa

PIOB

Present Kai Uwe Martin (Day 2 only)

Susana Novoa

IFAC Technical Staff

Present: Jan Munro

Jessie Wong

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. He thanked the Federation des Experts Comptables Europeens and the Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren for hosting the meeting. Mr. George welcomed Kai Uwe Martin and Susana Novoa from the PIOB and Ines Bruggeman, new technical adviser to Carmen Rodriguez. Mr. George reported that apologies had been received from Mr. Winetroub who had given his proxy to Mr. Hughes, from Mr. Hoosain who had given his proxy to Mr. Röhricht and from Mr. Kurosawa. In addition apologies had been received from technical advisors Ms, Briers, Mr. Cordes, Ms Kekine, Mr. Lerner and Mr. Pinkney.

Minutes of the IESBA April Meeting

Mr. George indicated that the minutes of the April 2008 IESBA meeting were presented for approval. Mr. Adler noted that at the April meeting, in relation to the discussion on “Fees – Relative Size” of Independence II, it was his recollection that the IESBA discussed that it would be useful to have some empirical evidence of the impact of amending the requirement for post-issuance engagement quality control review from once every three years to yearly. The IESBA agreed that this comment would be reflected in the minutes.

Subject to the above addition, the minutes of the public session of the April 2008, IESBA meeting were approved as presented.

Minutes of the IESBA May Teleconference Meeting

Mr. George presented the minutes of the May 2008 IESBA teleconference meeting for approval.

The minutes of the teleconference meeting were approved as presented.

Chair's Report

Planning Committee

Mr. George reported that the Planning Committee met in May 2008 to discuss convergence and to review the strategic and operational plan and the IESBA terms of reference.

BRIC Forum

Mr. George reported that he participated in the IFAC BRIC Forum held on May 19, 2008 in New York. The session was aimed at fostering collaboration with Brazil, Russia, India and China facilitating convergence to the standards issued by IFAC's independent standard-setting boards such as the IESBA. Mr. George noted that the BRIC country representatives also reported on their current work programs and strategies in the areas of auditing, ethics and public sector accounting standard setting.

IFAC Board Meeting

Mr. George reported that he attended the IFAC board meeting held on June 5-6, 2008 in Madrid, Spain. The IFAC Board expressed interest in the effective date of the revisions to the IESBA's *Code of Ethics for Professional Accountant* resulting from the IESBA's Independence I, Independence II and Drafting Conventions projects.

Impact Assessments

Mr. George further reported that the IFAC Board has initiated a project to consider a common framework by which IFAC's independent standard setting bodies can assess the impact of new international pronouncements. Mr. George reported that certain elements of recent independence revisions will be used in the pilot testing.

Terms of Reference

Mr. George reminded that the IESBA's Terms of Reference states that IFAC will review the effectiveness of IESBA's processes at least every three years. He reported that this is the third year and a revised Terms of Reference will be provided to the IESBA for consideration in due course.

IOSCO Standing Committee 1

Mr. George reported that Mr. Dakdduk, Ms. Munro and he attended a meeting of the IOSCO's Standing Committee 1 on Multinational Disclosure and Accounting at which updates on the drafting conventions and convergence projects were presented. He noted that the IOSCO comments would be addressed under each of the agenda items.

Other

Mr. George reported that he attended the Institute of Chartered Accountants of Scotland launch of – "What do you do now? Ethical Issues Encountered by Chartered Accountants". He indicated that this was an excellent document and encouraged IESBA members to read it.

Mr. George noted further that the International Auditing and Assurance Standards Board (IAASB) is presently redrafting ISA 620, “Using the Work of an Auditor’s Expert” as part of the IAASB’s clarity project. He noted that the IESBA would continue to liaise with the IAASB to ensure that common definitions are appropriately aligned.

Mr. George reported that the IESBA meetings in 2009 will be held on the following dates:

February 23-25, 2009 (North America)

April 27-29, 2009 (North America)

June 22-24, 2009 (Europe)

October 26-28, 2009 (Asia)

2. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, reported on the activities of the Task Force since the May teleconference meeting. The Task Force met on May 26, 2008 and held a conference call on May 30, 2008 to address the IESBA comments of the May 2008 teleconference meeting and presents amended proposals at this meeting.

Description and use of “shall”

Mr. Dakdduk reported that at the May teleconference meeting, the IESBA agreed to a description of “shall” proposed by the Task Force which is consistent with the existing Preface. The IESBA also agreed for the definition to be located in new paragraph 100.4 instead of in a footnote. The following description was discussed:

“In the context of this Code, “shall” specifies a requirement with which a professional accountant or firm has to comply unless compliance is prohibited by law or regulation or an exception is permitted by this Code.”

In addition to some editorial suggestions to this description, a question was raised as to whether the Code should provide that in exceptional circumstances it might be appropriate to depart from a requirement in the Code. The Task Force agreed that it would consider this matter.

The Task Force considered the appropriateness of having an absolute requirement in a principles-based Code. Mr. Dakdduk reported that the conclusions of the Task Force are mixed. The majority of the members of the Task Force are of the view that:

- It is not possible to anticipate all circumstances where changing “should” to “shall” could have unintended consequences;
- Depending on the facts and circumstances, a departure from a requirement may be in the public interest and, therefore, a provision for a departure that requires the accountant to exercise judgment is more consistent with a “principles-based” Code;
- Including a provision for a departure in the Code is consistent with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) which provides for a departure from a requirement denoted by “shall” in specific circumstances; and

- The Code should address and provide guidance for instances when a departure from a requirement can occur and the conditions that need to be met in such circumstances.

Mr. Dakdduk reported that a minority of the Task Force is of the view that:

- In some jurisdictions the term “should” has already been translated into “shall” and seems to be working; therefore, including departure guidance in the Code could weaken the position; and
- The IESBA's discussions to date on this project indicate that provisions denoted by a "should" in the current Code are intended to convey a requirement that the professional accountant is required to follow. An ability to depart from such a requirement, even if limited to exceptional circumstances, would weaken the current Code;
- Including guidance in the Code on when a departure could occur carries with it the risk that it could be interpreted in a way that encourages non-compliance; it could prove exceedingly difficult to write the guidance in a way that eliminates that risk; and
- A departure provision is not necessary because, when judging the severity of a departure, regulators and member bodies will take the specific facts and circumstances into account.

Mr. Dakdduk reported the majority of the Task Force are of the view that, weighing the advantages and disadvantages, it is appropriate for the Code to provide that in exceptional circumstances a departure from a requirement in the Code may better serve the public interest.

The Task Force considered various scenarios and proposes that in exceptional circumstances, a departure from the Code may better serve the public interest. The Task Force proposes that before such a departure can occur the professional accountant shall:

- Determine that the departure is expected to be non-recurring;
- Determine that the departure will not compromise compliance with fundamental principles;
- Discuss the matter, including any safeguards that will be applied, with those charged with governance, or with the relevant regulatory authority; and
- Document how, in the accountant's professional judgment, the public interest is better served by a departure from a requirement in the Code, any safeguards that will be applied, the nature of the discussions with those charged with governance or the relevant regulatory authority and the rationale for concluding that the accountant's compliance with the fundamental principles is not compromised.

In addition, in all cases if compliance can be subsequently achieved, accountant shall comply with the requirement as soon as possible.

Mr. Dakdduk noted that the Task Force also considered whether the following factors should be present before a departure could occur:

- The exceptional circumstance(s) triggering the departure should be outside the accountant's control;

- The approval of either those charged with governance or relevant regulatory authority should be required; and
- The approval of relevant regulatory authority should always be required.

Mr. Dakdduk reported that the proposal was discussed with IOSCO Standing Committee 1 and members of the Committee expressed a preference for not having a departure clause, noting that law does not generally contain a provisions related to breaking a provision of the law. Members of the Standing Committee indicated that if the IESBA concludes that such a clause is necessary, a regulator or other appropriate body should approve the departure so as to prevent accountant from acting out of self interest or the client's interest. In addition, members of the committee noted that transparency is maintained by disclosure of the departure in, for example, the auditor's report, the audit committee's report, or the annual report.

The IESBA considered these proposals and the following points were noted:

- Legal frameworks recognize that non-compliance with a law may be required in emergency situations although legislation does not specifically provide for such circumstances.
- The IESBA has considered the Code in its entirety and identified situations in which departures from requirements may be necessary. Accordingly, the need for an overarching departure provision may be questionable.
- Moving from "should" to "shall" may be perceived as being inconsistent with a principle-based Code. Not allowing for the possibility of a need for departure in exceptional circumstances may curtail the professional accountant's ability to exercise professional judgment.
- In some jurisdictions, regulator(s) may not have the authority to approve a departure from the requirements in the Code.
- If a departure provision is to be included in the Code it is important that the requirements are robust to prevent abuse.

After consideration, the IESBA concluded that a departure provision should be included in the Code. The IESBA concluded that the a departure would only be appropriate in exceptional and unforeseen circumstances that are outside the control of the accountant, the firm or employing organization and the client where the application of a specific requirement may result in an outcome that a reasonable and third party would not regard as being in the interest of the users of the output of the professional services. In such circumstances a temporary departure may be acceptable if all of the following conditions are met:

- The professional accountant discusses the matter with those charged with governance, the discussion includes the nature of the exceptional and unforeseen circumstance, the fact that the circumstance is outside of the control of the relevant parties, why in the professional accountant's judgment it is necessary to depart temporarily from a specific requirement in the Code, and any safeguards that will be applied;

- The professional accountant documents the matters discussed with those charged with governance;
- The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services; and
- The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.

In addition, the professional accountant may wish to discuss the matter with the relevant regulatory authority. If the accountant has such a discussion, the substance of that discussion shall be documented.

The IESBA agreed that the explanatory memorandum to the exposure draft of the Code will include specific questions on the appropriateness of the departure provision and conditions necessary for a departure to be acceptable.

Threats

Mr. Dakdduk reported that the Task Force proposed a revision to the description of a threat to address the issue of appearance.

“Threats may be created by a broad range of relationships and circumstances. While not all relationships and circumstances create a threat, when a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant’s compliance with the fundamental principles.” ¶100.12

The IESBA considered and agreed to the proposal subject to some editorial changes.

Conflict Resolution

Mr. Dakdduk reminded the Board that at the April 2008 meeting, it was noted that if a professional accountant can seek advice from a professional body on an anonymous basis, and some bodies are willing to provide advice on that basis, confidentiality is protected. The IESBA requested the Task Force to take such circumstances into account in the redrafting. Mr. Dakdduk reported that the Task Force has considered the matter and proposes the following:

“If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege.” ¶100.21

The IESBA considered and agreed with the Task Force’s proposal.

New Paragraph 110.4

Mr. Dakdduk reminded the Board that at the May teleconference meeting, it requested the Task Force to consider whether ¶110.3 should refer to modified assurance reports. Mr.

Dakdduk reported that the Task Force has considered the board's comment and proposes that the extant drafting referring to "reports" is appropriate because an accountant may issue a modified report that is not an assurance report. In addition, the Task Force noted that it is not clear in the Code what steps should be taken when the professional accountant becomes aware of becoming associated with reports described in paragraph 110.2. Accordingly, the Task Force proposes the following additional paragraph:

"When a professional accountant becomes aware that the accountant has been associated with reports, returns, communications or other information as described in paragraph 110.2 the accountant shall take steps to be disassociated with that information." ¶110.4

The IESBA considered the Task Force's proposal and agreed that the matter should be addressed by including the following additional sentence in paragraphs 110.2:

"When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information."

Changes in a Professional Appointment

Mr. Dakdduk reported that in reviewing the Code for clarity improvements, the Task Force concluded that selected provisions in Section 210 of the Code on "*Changes in a Professional Appointment*" should be reorganized to improve the flow of the Code (¶210.11 and ¶210.12).

Mr. Dakdduk further reported that the Task Force proposes the following to avoid the potential for ¶210.25 to be confused with ¶210.26:

"Section 290 contains additional provisions, to reflect the extent of public interest in certain entities when evaluating the significance of threats to independence and the safeguards necessary to eliminate them or reduce them to an acceptable level."
¶290.25

Mr. Dakdduk also reported that the Task Force had considered the definition of "acceptable level" and agreed that that it should be clarified by stating that it is based on information available to the professional accountant at that time. Accordingly, the Task Force proposes the following revised definition of "acceptable level":

"A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances that were available to the professional accountant at that time, that compliance with the fundamental principles is not compromised."

The IESBA considered and agreed with the Task Force's proposals.

Effective Date

Mr. Dakdduk reported that in determining the appropriate effective date for the Code, the Task Force considered matters including the following:

- Length of time before effective date;
- Effective at a point in time or for fiscal periods; and

- Transitional provisions.

Length of time

Mr. Dakdduk noted that at the January 2008 meeting, the IESBA was of the view that changes to the Code resulting from the drafting conventions project should be effective 18 months from the issuance of the revised Code. The IESBA was of the view that this would strike the right balance between promoting timely adoption of the Code and providing sufficient time for adoption and implementation of the changes.

Point in time vs. Fiscal period

Mr. Dakdduk noted that extant Section 290 is effective for assurance reports dated on or after June 30, 2006 while the provisions relating to network firm apply to assurance reports dated on or after December 31, 2008. The remainder of Code is effective on June 30, 2006. He reported that the Task Force considered the following two scenarios with respect to the effective date (or dates) for the changes to the Code:

- *Option 1:* All of Code to be effective at a point in time. An option that is simple to implement and creates a level playing field because the independence provisions do not depend on fiscal year or date of auditor's report. Mr. Dakdduk noted that the Task Force further considered whether requirements relating to partner rotation should be tied to the fiscal year for if not, a partner might be required to rotate before the completion of an audit.
- *Option 2:* Sections 290/291 tied to fiscal period. An option that is consistent with the ISAs and where a fiscal period would be subject to the same independence provisions

Transitional Provisions

Mr. Dakdduk reported that the Task Force also considered the following with respect to transitional provisions:

- Newly prohibited non-assurance services should not be contracted for after the effective date of the Code (i.e. December 15, 2010). Any newly prohibited ongoing non-assurance services should be completed within six months after the effective date (i.e. June 15, 2011).
- Entities that are presently public interest entities (PIESs) would be allowed an additional year before the changes to the Code are effective (i.e. December 15, 2011).
- Provide an additional year before the additional rotation requirements are effective.

The IESBA discussed the proposals and the following points were noted:

- The content of the proposed change to the Code have been in the public arena for sometime, thus providing people with the opportunity to plan for the impact of the changes.
- The IAASB's clarified ISAs are effective for financial periods commencing on or after December 15, 2009.
- Consideration should be given to encouraging early adoption.
- The explanatory memorandum should include a question on the proposed effective date and ask whether respondents believe that it provides sufficient time for adoption.

After consideration of the above points, the IESBA agreed with the Task Force's proposal of an effective date of December 15, 2010 for changes to the Code with transitional provisions for partner rotation, PIEs and provision of newly prohibited non-assurance services.

Other Comments

Mr. Dakdduk led the IESBA through a paragraph by paragraph review of the document and the following matters were discussed:

- ¶130.6 seemed to read differently from the extant paragraph and that it would be more consistent if there was greater focus on the need for the exercise of professional judgment;
- ¶150.1 – It be hard to judge what the professional accountant should or should not have known may discredit the profession;
- ¶290.10 – Deleting the words “during the course of the engagement” may have resulted in changing the meaning of the extant paragraph;
- ¶290.506 – Identification of threats to be addressed in the paragraph in addition to evaluating threats;
- ¶291.28 and Interpretation 2005-01 – References to threats not at an acceptable level to be amended to threats that is not trivial and inconsequential;
- ¶291.157 – The word “additional” should be deleted;
- ¶300.5 – The word “often” to be changed to “may”; and
- The IESBA requested the Task Force to review all references to the safeguard which involves having a professional accountant perform an engagement quality review to ensure it is clear in the requirements that the professional accountant should not be connected to the engagement.

Subject to the changes discussed, reviewed and agreed to at the meeting, the IESBA unanimously approved exposing the proposed changes to the Code for comment.

Mr. George thanked the Drafting Conventions Task Force and in particular Mr. Dakdduk, Task Force Chair, for all their hard work.

3. Convergence

Mr. Devlin presented a draft of a Convergence Plan that had been prepared by the IESBA Planning Committee. He introduced the topic by reminding the IESBA that the objective of the board is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards and thereby enhancing the quality and consistency of services provided by professional accountants.

He indicated that globalization requires companies to comply with multiple sets of regulations and while substantial progress has been made in the convergence of accounting and auditing standards convergence of independence standards is less advanced.

Mr. Devlin noted that there are differing meanings of “convergence” which have been considered by the Planning Committee including:

- Standards are fully converged and are identical to the IESBA’s pronouncements.
- Standards are “harmonized” with the IESBA’s pronouncements (i.e. the same approach but using a different language).
- Standards achieve the same result as those intended by the IESBA’s pronouncements (equivalence in substance but not identical in words).

Mr. Devlin reported that the Planning Committee proposes that the IESBA consider convergence from the perspective of a process of moving towards the same point.

Mr. Devlin reported that there are several opportunities for convergence. Member bodies have obligations under the Statement of Membership Obligations 4 which states:

- “Member bodies should not apply less stringent standards than those stated in the IFAC Code of Ethics. If a member body is prohibited from complying with certain parts of the Code by law or regulation, it should comply with all other parts of the Code.” and
- “Where responsibility for the development of national codes of ethics lies with third parties, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of the national code with the IFAC Code. Member bodies should use their best endeavors to persuade those responsible for developing those national codes to incorporate the IFAC Code.”

He noted that the IFAC’s Compliance Advisory Panel (“CAP”) is responsible for overseeing the IFAC member body compliance program which evaluates the quality of members’ and associates’ endeavors to meet IFAC membership requirements. He noted that while some member bodies have indicated they are in compliance with Code it is with an old version of the Code. He reported that the Planning Committee would be meeting with a representative from the CAP following the meeting. While it is the CAP’s responsibility to monitor compliance, the Planning Committee would be considering ways that would encourage further compliance.

Mr. Devlin noted that another opportunity for convergence is with regulators. There are obvious challenges here because changes in national requirements of law and regulation are time consuming and difficult. In the short term it might be feasible for regulators to take the IFAC Code into account when considering independence matters and in the short to medium-term a possible use of the independence provisions in the Code would be for use in assessing the independence regimes in foreign jurisdictions. He noted that the European Commission has raised this issue in a consultation paper.

Action Plan

Mr. Devlin presented a draft action plan outlining proposed steps to be taken in the short and longer term to facilitate increased IFAC member body convergence and increased convergence by regulators and other standard setters. Mr. Devlin noted that the plan

would be revised to be more specific after there had been some dialogue with stakeholders. The action plan includes:

- Toolkit and resources: Preparation of materials for independence convergence discussions with relevant parties;
- Comparison analysis: Comparison of draft IESBA independence code with a sample of regulatory requirements with a view to identifying significant remaining differences and scope for possible acceptance of the Code by regulators.
- Liaison activities: On-going liaison with the European Commission, IFAC's Compliance Advisory Panel, IOSCO and others.
- National standard setters meeting: Annual meeting with national ethics standards setters to discuss differences between the national standards and the Code as well as to seek input on steps that would necessary to facilitate the convergence of international and national ethical standards.
- Promotion of IESBA code to IFAC member bodies.
- Regional forums: Four regional forums (Americas, Asia/Pacific, Europe, Africa) to promote global acceptance of the Code and consider steps necessary to facilitate convergence.

The IESBA considered these proposals and the following points were noted:

- Some jurisdictions are in the process of adopting/revising their national code of ethics. The IESBA should take the opportunity to promote convergence with the IESBA's Code.
- The IAASB has held national standard setters meetings for a period of time. The meetings have been proven to be worthwhile for all parties.
- Convergence activities should be targeted at promoting convergence with the whole Code as opposed to focusing on the independence provisions.
- Selected jurisdictions may have undertaken a comparison of their ethical requirements with the IESBA's Code. Gaining access to these comparisons may be helpful to the comparative analysis which the IESBA will be undertaking.
- The IESBA's progress in achieving international convergence with IESBA's pronouncements is less advanced than that of the IAASB's.
- Activities to promote convergence will be more effective upon issuance of a revised Code as is currently underway with the drafting conventions project.

Mr. George thanked Mr. Devlin for presenting the plan and for his work in leading its development.

4. Comments from the PIOB

Mr. Kai Uwe, representing the PIOB, addressed the IESBA. He noted he was pleased to observe the debate during the meeting and commended the IESBA on what was a very open and constructive atmosphere.

Mr. George acknowledged and thanked Mr. Kai Uwe for his comments.

5. Closing

Mr. George thanked the Federation des Experts Comptables Europeens and the Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren for hosting the meeting and all board members and technical advisers for their participation and contribution.

6. Future Meeting Date

December 10 - 12, 2008 (London, UK)