



**INTERNATIONAL FEDERATION
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Agenda Item

2

Committee International Ethics Standards Board for Accountants

Meeting Location: Mandarin Oriental, Singapore

Meeting Date: November 2-3, 2010

Strategy and Work Plan

2010-2012

Objective of Agenda Item

To discuss comments received on the exposure draft of the IESBA Strategy and Work Plan 2010-2012

Background

At its March 2010 meeting, the IESBA discussed and approved an exposure draft of the IESBA's 2010-2012 Strategy and Work Plan. The exposure draft was released in late March with a comment period that ended on June 15, 2010.

The Planning Committee has held several face-to face meetings and conference calls to discuss the comments received on the exposure draft and develop recommendations for addressing them.

The CAG met on September 13, 2010 and discussed the comments received on the exposure draft and provided feedback on the Planning Committee's recommendations to address the comments.

Discussion

The Plan proposed the following standard setting activities:

- Conflicts of interest
- Responding to fraud and illegal acts
- Application of the related entity definition in audits of collective investment vehicles

The Plan also included the rationale for why other projects that had been considered would not be started during the period covered by the plan.

The Plan stated that the IESBA would continue to assess what additional materials or activities would be useful to support those who are adopting or implementing the Code.

With respect to convergence, the plan indicated that the Board would be seeking input on: (a) use of the Code for foreign auditors in a group audit situation and (b) the types of improvements to the Code that standard setters and regulators believe should be made for the Code to gain acceptance and recognition in their jurisdictions.

Overview of Responses

37 comments have been received with a distribution as follows:

Respondent Category	Number
Regulators	2
Individuals and Others	3
IFAC Boards and Committee	1
Member Bodies of IFAC	20
Firms	8
Other Professional Organizations	3
Total	37

Period of Stability: 10 respondents explicitly welcomed the board's intent to provide a period of stability during which no new independence standards would be issued and take effect. Three respondents expressed the view that the period of stability should extend to all ethics projects as opposed to only independence.

Standard setting projects: Respondents were generally supportive of the projects addressing fraud and illegal acts and conflicts of interest. Respondents were mixed, however, on the independence project relating to the application of the related entity definition in the audit of collective investment vehicles. Some respondents indicated that the two projects the IESBA does not have on its work plan should have a higher priority (ethical guidance for accountants performing non-assurance services to non-assurance clients, and independence requirements for professional accountants who are not in public practice performing assurance services).

Convergence: Respondents were supportive of the emphasis on convergence with some commenting that they would like to see more specificity in the plan regarding the steps the Board plans to take to further convergence. In expressing their support for the Board's convergence activities, some respondents also explicitly supported the IESBA's plan to achieve greater application of the Code in group audit situations. One respondent (IOSCO comment 55) noted that many of its members believe that further improvements to the Code should be made first.

Communication: Respondents were generally supportive of the discussion contained in the plan. One respondent [IOSCO comment 63] suggested that it would be helpful to interested stakeholders to receive more timely and detailed reports about what the IESBA is discussing. The Planning Committee discussed this and recommends that, as an operating matter, the draft minutes of the IESBA meetings be completed promptly after each meeting and be made public. The Planning Committee also recommends that the

project summaries contained on the IFAC website be expanded and updated shortly after each IESBA meeting.

Specific Comments on Standard Setting Activities

Fraud and Illegal Acts

The majority of respondents were supportive of this project. Some respondents (for example, IBR-IRE comment 88) commented that while they supported the project, it should result in practical guidance and not produce any additional requirements. Two respondents (PwC comment 103 and DTT comment 104) expressed concern with the project, noting that local laws often control the accountant's behavior in this area and it may be difficult to develop additional meaningful global guidance. The Fraud Task Force is considering the comments on this project.

Conflicts of Interest

The majority of respondents were supportive of this project. Some respondents (for example, ACCA comment 80) commented that while they supported the project, it should result in practical guidance and not produce any additional requirements. The Conflicts Task Force is considering the comments on this project.

Collective Investment Vehicles

Eight respondents (for example, FEE comment 124) expressed concern with the priority of this project. Some noted that the way such vehicles are structured differs significantly between jurisdictions and, therefore, a global standard would be difficult to develop and complex to apply. Some respondents expressed support for the project, with two respondents (DTT comment 118 and JICPA comment 119) stating that it should start as soon as possible.

In view of the lack of support for this project and the concerns expressed by respondents (e.g., FEE comment 124 and IBR-IRE comment 126 state that this subject is too specialized for a global code and WpK comment 128 is convinced that a user of the Code could apply the principles in the Code to solve all questions about related entities of collective investment vehicles) and because any guidance would likely have to remain high level in nature, the Planning Committee recommends that this project be deleted from the IESBA's work plan. Over time the IESBA can research the types of investment vehicles that exist around the world and determine whether the extent of variations could be overcome to produce a different approach to identifying related entities of collective investment vehicles.

Other Comments

Three respondents (for example, NZICA) expressed the view that the work plan should include the two projects that the board did not deem to be a top priority – namely (a) ethical guidance for professional accountants performing non-assurance services for non-assurance clients and (b) independence requirements for professional accountants who are not in public practice who perform assurance engagements. One respondent (CICA

comment 131) felt that the IESBA should commence a project to consider how the whole Code should apply to firms. One respondent (ACCA comment 129) felt the code should address requirements for compilation engagements. One respondent (CMA comment 139) felt that greater emphasis should be given to professional accountants in business.

The Planning Committee believes that with respect to non-assurance services provided to a non-assurance client, the question is whether the guidance that could be developed would be different from the guidance in Part A (the conceptual framework) and Part B (e.g., paragraphs 200 to 280 and analogies to the guidance in the independence sections) such that it would merit adding a project to the board's agenda. The Planning Committee recommends that additional consideration be given to this question. Accordingly, it will be considering the types of matters that might be addressed in a project providing ethical guidance for professional accountants providing non-assurance services to non-assurance clients, and how that guidance might differ from what is already available in the Code through application of the conceptual framework and analogy to Part B.

One respondent (IOSCO comment 142) suggested that the plan should give more attention to non-assurance services to audit clients that are listed entities. As part of its broader convergence efforts, and as discussed below, the IESBA has already begun to focus on the independence provisions of the Code that apply when a firm audits a public interest entity. Those provisions include situations when the firm renders a non-assurance service to the audit client. The IESBA will be benchmarking the provisions against the standards and rules of other jurisdictions and, if there are differences, determining what steps are appropriate.

Adoption and Implementation

Respondents were of the view that this should be an important priority of the IESBA, some stating that it should take first priority over everything else, and some suggesting additional activities the IESBA might undertake in this regard.

A staff letter to member bodies has been posted on the IFAC membership intranet. The letter reminds readers of the upcoming effective date of the Code and the adoption and implementation support material that is already available on the website. It also indicates that the Board will continue to assess what additional materials would be useful to support those who are adopting and implementing the Code.

Some staff questions and answers concerning various provisions in the Code are being developed and are near completion. The intent is that the questions and answers, which will not be authoritative and will not amend or override the Code, will be issued shortly and announced at the World Congress of Accountants.

Several board members and IESBA staff have also been engaged in outreach with various stakeholders to discuss the revised Code. This has occurred mainly through presentations at conferences and other meetings and is expected to continue into 2011.

Some respondents expressed the view that there should be a mechanism for member bodies to ask questions. This is a recommendation that deserves further consideration by the IESBA. In 2009 the board considered development of a rapid response mechanism and the Planning Committee will be asked to give further thought to this.

Convergence

Respondents expressed support for the IESBA's long-term objective of convergence between international and national ethics and independence standards. In response to the recommendation for more details on our convergence plan, the discussion of convergence contained in the Strategic Plan has been expanded.

The IESBA will continue to seek input on the types of improvements to the Code that national standard setters and regulators believe should be made in order for the Code to gain acceptance and recognition in their jurisdiction. In the meantime, the Planning Committee recommends that the IESBA consider matters that the board already has received input on. For example, the Planning Committee considered comments received from IOSCO in response to a previous board project and the proposed work plan regarding the provisions in the Code addressing an inadvertent violation. The Planning Committee recommends that the IESBA commence a project to reconsider those provisions. This matter is discussed in Agenda Item 3.

The IESBA's initiative to isolate the independence provisions in the Code that apply to the audit of a public interest entity and benchmark those provisions against the requirements of other key jurisdictions is addressed under Agenda Item 5. The discussion of this initiative has been expanded in the Strategy and Work Plan.

SME/SMP Matters

Many respondents recommended that the IESBA's activities give particular emphasis to the issues that are relevant to SMEs and SMPs. Those respondents stated that SMEs and SMPs face unique and challenging issues in complying with the Code. The Planning Committee recommends that an SME/SMP working group be formed to advise the IESBA on what those unique and challenging issues are and how it can best facilitate the application of the Code by professional accountants in SMEs and professional accountants in public practice, including SMPs, providing services to SMEs. Agenda Paper 2-C contains further information on this initiative, including draft terms of reference and a preliminary plan.

Material Presented

Agenda Paper 2	This Agenda Paper
Agenda Paper 2-A	Strategy and Work Plan 2010-2012 Exposure Draft Clean
Agenda Paper 2-B	Strategy and Work Plan 2010-2012 Exposure Draft Mark-Up
Agenda Paper 2-C	SME/SMP Initiative
Agenda Paper 2-D	IESBA Strategy and Work Plan, 2010-2012 Exposure Draft Comments

Action Requested

1. IESBA members are asked to consider the Planning Committee's recommendations to address comments received on the exposure of the Strategy and Work Plan.
2. IESBA members are asked for any specific comments on the Proposed Resolutions described in Agenda Paper 2-D.