

DATE: June 12, 2007
TO: Ethics CAG
FROM: Richard George, Chair IESBA
SUBJECT: Report from the IESBA

Introduction

This report summarizes the activities of the IESBA since the last Ethics CAG meeting in September 2006. The report provides an update on each of the working projects of IESBA and an overview of the expected activities before the next CAG meeting in September 2007. The Board has met twice since September 2006, in December 2006 in London and in March 2007 in New York. Minutes for the December meeting and draft minutes for the March meeting are contained in Agenda Papers B.2 and B.3 respectively.

Independence Part I

At the December 2006 meeting, the IESBA issued an exposure draft proposing revisions to existing Section 290 and proposing a new Section 291. The exposure period was four months, one month longer than the three month period required by IESBA due process, due to the length of the document.

To date, 74 comment letters have been received with the following distribution:

Member Bodies of IFAC	33
Firms	8
Regulators	3
Government Organizations	3
Other	27
Total Responses	74

The Independence Task Force has met twice to discuss the comments received on exposure. The Task Force will present comments received on overall key strategic issues at the June 25-27, 2007 IESBA meeting.

The issues to be discussed include:

- Principles/Rules – some respondents have commented that the ED seems to be moving towards a more rules-based approach;
- Application to entities of significant public interest – some respondents, while expressing agreement with the extension of the listed entity requirements to all entities of significant public interest, were of the view that there needed to be greater

clarity regarding the description of such entities. Some respondents were of the view that the description of entities of significant public interest was too broad and would inappropriately capture too many entities;

- Split of Section 290 – while respondents are generally supportive splitting section 290 there has been comment on the nature of the split;
- Partner rotation and definition of key audit partner – comment has been received on the proposed elimination of the flexibility for firms with limited resources to apply alternative safeguards to partner rotation to address the familiarity threats. Comment has also been received on the extension of the key audit partner definition; and
- Application in small and medium practices and small and medium entities – comment has been received the application of the proposals in the case of small and medium sized entities and small and medium sized practices.

Issues papers on each of the above topics will be discussed at the June IESBA meeting.

Independence Part II

Independence Part II was considered by the Board at its March meeting and the Board plans to approve an exposure draft on this topic at its next meeting. Further information on this topic is contained in Agenda Item C.

Operating and Strategic Plan

At the March 2007 meeting, the IESBA discussed the agreed IFAC process for the development of strategic plans for the Public Interest Activity Committees of IFAC. It also discussed and approved the content of a survey of stakeholders designed to seek the views of interested parties on matters which should be considered by the IESBA during the strategic review. The survey was posted on the website, referenced in the IFAC news and sent directly to interested parties.

The IESBA received 127 responses to the questionnaire. Many respondents stressed the importance of having a period of stability of the Code after the completion of the existing work program. These respondents were of the view that a period of stability would provide time for implementation of the revised Code. In addition many respondents were of the view that the IESBA should put more emphasis on outreach and communications.

Respondents to the survey were asked to provide input on future projects which should be addressed in the next 3-4 years. A list of possible projects was presented and respondents were asked whether they believed any of these projects should be addressed in the time frame noted. They were also asked to suggest other projects which should be addressed. An analysis of the projects indicates that respondents were of the view that the top five projects to be addressed are:

Project	Ranking
Fraud and illegal Acts	1
Conflicts of interest	2
Independence – legal protection clauses	3
Independence – Compilation and agreed upon procedures	4
Independence – Mutual funds and other similar collective investment vehicles	5

The Planning Committee of the IESBA has reviewed the responses and developed a draft operating and strategic plan which will be presented for approval as an exposure draft at the June 25-27, 2007 meeting.

Implications of Clarity Project

At the March 2007 meeting, the Board discussed the implications of the IAASB Clarity project on the Code. The Board noted that the structure of the Code was very different from the structure of the ISAs. The drafting convention of separating the requirements and application guidance, therefore, was not particularly helpful for the Code. The Board was however of the view that the use of the word “shall” to denote a requirement was something which should be considered by the IESBA. Therefore a Task Force was formed to consider the issue. The Board will consider this matter at its June 25-27, 2007 meeting.

Accountants on Government

This project was discussed by the Board at its March 2007 meeting. The IESBA is of the view that priority needs to be given to Independence I and II. The Board also concluded that it would be confusing to address the independence requirements for accountants in government as part of the Independence II exposure draft.

Other Matters

The next IESBA meetings are:

- June 25-27, 2006 – Berlin, Germany
- October 23-25, 2007 – Toronto, Canada

Richard George
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