

**Minutes of the Meeting of the  
International Ethics Standards Board for Accountants  
November 2-3, 2010  
Singapore, Singapore**

	<b>Members</b>	<b>Technical Advisors</b>
<i>Present:</i>	Ken Dakdduk	Lisa Snyder
	Nina Barakzai	Tony Bromell
	Robert Franchini	Sylvie Soulier
	James Gaa	Stephen Spector
	Peter Hughes	
	Wui San Kwok	Andrew Pinkney
	Alice McCleary	Tiina-Liisa Sexton
	Michael Niehues	Petra Gunia
	Marisa Orbea	
	Volker Röhricht	Tim Volkmann
	Robert Rutherford	
	Isabelle Sapet	Jean-Luc Doyle
	Aiko Sekine	Roman Adler
	Kate Spargo	
	Don Thomson	Kim Gibson
	Sandrine Van Bellinghen	Christine Cloquet
	Brian Walsh	[Tony Bromell]
<i>Regrets</i>	Caroline Gardner	
		Liesbet Haustermans
	<b>Non-Voting Observers</b>	
<i>Present:</i>	Richard Fleck	
	Koichiro Kuramochi	
<i>Regrets</i>	Juan Maria Arteagoitia	
	<b>PIOB</b>	
<i>Present</i>	Aulana Peters	

**IFAC Technical Staff**

*Present:* Jan Munro

**Guests**

Jason Evans (AICPA staff)

**1. Introduction and Administrative Matters**

Mr. Dakdduk opened the meeting and welcomed participants. He thanked the Institute of Certified Public Accountants of Singapore for hosting the meeting and Mr. Kwok for all of his assistance with the meeting arrangements.

Mr. Dakdduk welcomed Ms. Peters, observing the meeting on behalf of the Public Interest Oversight Board (PIOB).

Apologies were received from Ms. Gardner (proxy provided to Mr. Walsh) and from Mr. Arteagoitia.

Mr. Dakdduk reported that he was pleased the IFAC SMP Committee had decided that, where possible, it would send a representative to observe IESBA meetings. In this regard, he welcomed Mr. Thompson, SMP Committee Senior Technical Manager, who was observing the meeting.

Mr. Dakdduk also welcomed Mr. N.J. Singh, observing the meeting on behalf of the Institute of Chartered Accountants of India.

*Minutes of the Previous Meeting*

The minutes of the June 2010 IESBA meeting were presented for approval and, subject to some editorial changes, were approved as presented.

*Meetings with French Institutes and Regulators*

Mr. Dakdduk reported that after the June IESBA meeting, he, Ms. Sapet, Mr. Doyle and Ms. Munro had met with some representatives of the Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables. After that meeting, he, Ms. Sapet and Ms. Munro met with representatives of the Autorité des Marchés Financiers (AMF) and the Haut Conseil du Commissariat aux Comptes (H3C). He indicated that the meetings were a very useful start to what he hoped would be a continuing dialogue. He thanked Ms. Sapet and Mr. Doyle for arranging the meetings.

*Task Force Responding to Fraud and Illegal Acts*

This Task Force, chaired by Mr. Franchini, with Ms. Gardner, Ms. Sapet, Ms. Sekine, Ms. Spargo and Mr. Walsh as members, has met twice since the June IESBA meeting. The

topic had been discussed by the CAG at its meeting in September and would be addressed under Agenda Item 6.

*Conflicts of Interest*

This Task Force, chaired by Mr. Niehues, with Ms. Barakzai, Mr. Gaa, Mr. Hughes, Ms. Soulier, Mr. Rutherford and Ms. Van Bellinghen as members, has met once since the June meeting. The topic would be addressed under Agenda Item 4.

*Planning Committee*

The Planning Committee, chaired by Mr. Dakdduk, with Mr. Fleck, Mr. Franchini, Mr. Niehues, Ms. Sapet, Mr. Röhrich and Mr. Walsh as members, had two face-to-face meetings and three conference calls. The focus of the Planning Committee discussions had been to consider the comments received on the exposure of the Strategic Plan and to develop recommendations for the consideration of the IESBA. The topic would be addressed under Agenda Items 2 and 3. He noted that, where appropriate, the Planning Committee had been meeting in different locations so that it could conduct some additional outreach in those locations. In this regard, he thanked Ms. Van Bellinghen who had arranged a meeting with some members of the Belgian profession when the Planning Committee met in Brussels, Belgium.

*IESBA Consultative Advisory Group (CAG)*

The CAG met on September 13, 2011 in London, United Kingdom and the draft minutes from that meeting are presented in Agenda Paper 1-C. Mr. Dakdduk noted that he was pleased that many Board members had attended the meeting to either observe or present (Mr. Franchini, Mr. Gaa, Mr. Niehues, Ms. Sapet and Mr. Walsh). He encouraged all Board members to attend a CAG meeting. The next CAG meeting will be in New York, USA on March 7, 2012.

*National Standard Setter Meeting (IESBA-NSS)*

The second IESBA-NSS meeting was held on October 18, 2010 in Dublin, Ireland. The topics on the agenda included adoption and implementation, convergence and the IESBA's strategy and work plan. The next IESBA-NSS will be the day before the IAASB-NSS and will be on April 27, 2011, in Toronto, Canada.

*International Organization of Securities Commissions (IOSCO)*

Mr. Dakdduk reported that he, Mr. Schilder, IAASB Chair, and Mr. Sylph met with IOSCO Standing Committee No 1, on July 15 2010 in Luxemburg. He noted that IOSCO was a very important stakeholder of the IESBA and he was pleased that IOSCO had allocated time on their full agenda to the IESBA.

*International Forum of Independent Audit Regulators (IFIAR)*

Mr. Dakdduk reported that he, Mr. Schilder, IAASB Chair, and Mr. Sylph met with IFIAR on September 29, 2010, in Madrid, Spain. He noted that the meeting was the start of what he hoped would be a continuing dialogue with another important IESBA stakeholder. The topics addressed were the network firm definition and its interpretation, the robustness of the Code, and the level of prohibitions.

### *Other Outreach*

Mr. Dakdduk reported on the outreach activities conducted by Board members and staff since the June meeting. He indicated that he expected outreach activities to increase and that members may, therefore, receive a request to represent the Board and undertake specific outreach activities. Activities since the last June meeting included:

- NASBA US National Association of State Boards of Accountancy, September 2, 2010 Madrid, Spain, Mr. Dakdduk;
- CreCR 2010 Conference, the regional body of accountancy organizations in South America October 6, 2010, Panama City, Panama, Mr. Thomson;
- CCAB Ethics Group (UK and Ireland's Consultative Committee of Accountancy Bodies Ethics Group), October 21, 2010, London, United Kingdom, Mr. Dakdduk and Ms. Munro;
- Confederation of British Industry, October 22, 2010, London, United Kingdom, Mr. Dakdduk and Ms. Munro;
- Ordem dos Revisores Oficiais de Contas 10<sup>th</sup> Congress, October 22, 2010, Lisbon, Ms. Van Bellinghen and Ms. Munro; and
- Instituto de Censores Jurados de Cuentas de España 19th Congress (Spanish member body) –October 28, 2010 Madrid, Spain, Mr. Franchini.

He noted that outreach activities already planned before the end of the year included:

- Singapore Accountancy Association Convention – Mr. Walsh to be participating in a panel discussion;
- Accounting and Corporate Regulatory Authority Singapore – Mr. Dakdduk, Mr. Kwok and Ms. Munro;
- Confederation of Asia Pacific Accountants - Mr. Dakdduk;
- Crowe Horwarth International annual conference – Mr. Hughes;
- PKF annual conference – Mr. Niehues; and
- FEE Council meeting – Mr. Dakdduk.

In addition, many IESBA representatives would be attending the World Congress of Accountants, to be held in Kuala Lumpur. Mr. Dakdduk, Ms. McCleary, Mr. Niehues and Ms. Sekine would be presenting one of the concurrent sessions.

### *Future Meeting Dates*

The IESBA discussed the date of the February 2011 meeting and, in light of the timing of a conference to be held by the European Commission in Brussels on February 10, 2011 to discuss the EU Green Paper, agreed that the IESBA February 2011 meeting date would be changed to February 6-8, 2011.

## **2. Strategy and Work Plan 2010-2012**

Mr. Dakdduk introduced the topic. An exposure draft of the IESBA's 2010-2012 Strategy and Work Plan was released in late March 2010 with a comment period ending on June 15, 2010. 37 responses to the exposure draft were received and the Planning Committee

held several face-to face meetings and conference calls to discuss the comments received and develop recommendations for addressing them. The CAG met on September 13, 2010 and discussed the comments received and provided feedback on the Planning Committee's recommendations to address the comments.

#### *Overview of Comments*

Ten respondents explicitly welcomed the IESBA'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. 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). 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.

#### *Specific Comments on Standard Setting Activities*

##### Fraud and Illegal Acts

Mr. Dakdduk reported that the majority of respondents were supportive of this project. Some respondents commented that while they supported the project, it should result in practical guidance and not produce any additional requirements. Two respondents 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. Mr. Dakdduk noted that the Fraud Task Force is considering the comments on this project.

##### Conflicts of Interest

Mr. Dakdduk reported that the majority of respondents were also supportive of this project. Some respondents commented that this project should also result only in practical guidance and not produce any additional requirements. Other comments received included:

- The view that business, commercial and legal conflicts differ from auditor independence;
- The need to consider conflicts with a professional accountant's public interest duty; and
- The need to consider the unique environment of SMPs.

Mr. Dakdduk noted that the Conflicts of Interest Task Force is considering the comments on this project.

With respect to the comments that both the Fraud and Conflicts projects should result in additional practical guidance and not produce any additional requirements, Mr. Dakdduk noted that it was too early to make that determination and the two Task Forces would consider what is appropriate as each develops proposed changes to the Code.

#### Collective Investment Vehicles

Mr. Dakdduk reported that the comments on the priority of this project were mixed. Some were supportive of the project, with two respondents indicating that the project should start sooner than proposed in the plan. Several respondents, however, 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. Mr. Dakdduk noted that in view of the mixed support for this project and the concerns expressed by respondents 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. The IESBA discussed the recommendation and the following points were noted:

- The broader issue was probably the application of “significant influence” as contained in the related entity definition;
- No respondents had provided any evidence that the existing guidance in the Code was not appropriate to deal with independence questions;
- The Code provides a principles-based approach to address how the related entity definition is applied in the audits of collective investment vehicles; and
- The project would require a significant investment of currently limited resources to understand the many differing structures for collective investment vehicles.

The IESBA considered whether additional research should be conducted before the project was removed from the work plan and concluded that the arguments for removing the project were compelling and it was not necessary to conduct any additional research. The IESBA agreed that the project be removed from the work plan.

#### *SME/SMP Matters*

Mr. Dakdduk noted that many respondents recommended that IESBA's activities give particular emphasis to 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. In considering this matter, 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 the IESBA can best facilitate the application of the Code by professional accountants in SMEs and professional accountants in public practice, including SMPs, who provide services to SMEs. Mr. Dakdduk noted that Mr. Thomson had agreed to chair this working group.

Mr. Thomson noted that small- and medium-sized entities (“SMEs”) are an important contributor to the world's economies. One of the objectives of IFAC's Small and Medium Practices (“SMP”) Committee is to directly work with IFAC standard-setting boards, and

other standard setting bodies, to ensure that they are aware of and give consideration to issues relevant to SMEs/SMPs. As such, the SMP Committee is available to help the Board gain insights into SMEs and accountants in public practice providing services to SMEs. The IESBA has obtained input from the SMP Committee in the past, and included a specific question to elicit feedback on issues of relevance to SMEs and SMPs in its Strategy and Work Plan 2010-2012 Exposure Draft. Respondents to the Exposure Draft highlighted the importance of the Board focusing on the needs of SMPs and SMEs. This is consistent with the views of respondents to the 2009 Global Leadership Survey, who identified addressing the needs of SMEs and SMPs as one of the most important issues facing the accounting profession.

Mr. Thomson presented a draft preliminary plan and terms of reference for the working group. He noted that the working group will consider the IESBA's input and a final Terms of Reference will be submitted to the Board for approval in February 2011. The working group will identify matters warranting attention based on each member's knowledge, relevant information available within IFAC, input from IFAC member organizations and others at an SMP Forum to be held in March 2011, and additional input as needed. There will be communication with representatives of both the SMP Committee and the Professional Accountants in Business Committee.

Taking into account matters identified as warranting attention, the working group will consider how the Board may facilitate the application of the Code by professional accountants in SMEs and professional accountants in public practice providing services to SMEs. The working group will focus on practical recommendations that serve the public interest, reinforce the importance of high quality ethical standards, and address unique and challenging issues faced by SMPs and SMEs in complying with the Code. The recommendations may include:

- The development of non-authoritative guidance to assist professional accountants in public practice, including SMPs, with the consistent application of the Code when providing services to SME audit clients, for example:
  - Analysis of restrictions limiting non-assurance services;
  - Analysis of safeguards available to eliminate or reduce independence threats created by non-assurance services;
  - Case studies;
  - Training materials.
- Revisions to the Code, if warranted.

Mr. Thomson indicated that the working group would comprise 6-7 members in addition to the chair, including 2 IESBA technical advisors and 4 individuals from the SME/SMP community. A seventh additional member may be appointed from a developing nation. A first meeting of the working group is planned before the Board's next meeting in February.

The IESBA considered the preliminary plan and draft terms of reference and the following points were noted:

- The initiative was an important one and the composition of the working group would be important to obtain useful data;
- It was not possible to predict what form the recommendations might take and it was, therefore, important to be open to suggestions from the working group;
- While the Code defines a public interest entity, it does not define SMEs. However, it would be incorrect to refer to SMEs as “not public interest entities” because there is a public interest element to professional accountants, whether in business or public practice, providing services to SMEs;
- If there are unique and challenging issues, it could be that it relates to the size of the entity. There are some very large private entities;
- The last paragraph on the first page of the Agenda Paper 2-C would fit well into the description of the objective contained in the draft terms of reference; and
- It would be important to understand which issues were SMP issues and which were related to SMEs because many SMPs audit PIEs.

The Board agreed with the formation of the working group. Mr. Thomson thanked the IESBA for its input and indicated that there he would have a report for the Board at the February 2011 meeting.

#### *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. Mr. Dakdduk reported that the Planning Committee has proposed additional detail on the convergence activities that the IESBA would perform.

The IESBA discussed the proposed additional detail and expressed the view that directionally it was appropriate but too much detail had been provided. In particular it was noted that the seven bullet points on page nine might suggest that the IESBA had determined that these items were the matters, and possibly the only matters, that would be addressed. The message should be that the IESBA's convergence activities will be aimed at converging, to the extent feasible, the IESBA Code and the independence and ethics codes, standards, and regulations promulgated in other jurisdictions by national standard setters and regulators. It was also noted that the extent of detail conveyed the impression that the focus of the IESBA was independence. Since the Code is broader than independence, convergence activities would likely need to focus on broader issues as well as independence.

#### *ED Strategic Plan Comments*

Mr. Dakdduk lead the IESBA through the proposed disposition of the detailed comments received on exposure contained in Agenda Paper 2-D.

Mr. Dakdduk thanked IESBA members for their input and stated that their comments would be considered during the next revision of the document.



### 3. Inadvertent Violation

Mr. Dakdduk introduced the topic. The Code contains some paragraphs that address an inadvertent violation of the Code. These paragraphs were commented on in a response to the IESBA's Drafting Conventions Exposure Draft, issued in July 2008. The Planning Committee of the IESBA has considered these paragraphs and recommends the IESBA undertake a project to review them. The Planning Committee is of the view that the project scope should reconsider the provisions in the Code addressing an inadvertent violation of the Code, including whether the Code should contain such provisions and, if so, how the provisions can best serve to protect the public interest.

If the conclusion is that the Code should contain such provisions, the project should address the following matters:

- *Scope of Coverage* – whether the provisions should apply to all of the Code or only to the independence provisions of the Code.
- *“Inadvertent”* – whether “inadvertent” is the appropriate descriptor and, if so, whether guidance should be given on the meaning of inadvertent.
- *Consequences of a Violation* – whether there are some violations that are of such magnitude that, even if the action creating the violation was inadvertent and despite the safeguards that could be put into place, compliance with the fundamental principles would still be compromised.
- *Quality Control Policies and Procedures in Place* – the inadvertent violation provisions in the Code addressing independence require the firm to have appropriate quality control policies and procedures in place equivalent to that required by ISCQ. The project will consider whether this requirement continues to be appropriate or whether additional guidance is required.
- *Safeguards* – whether any additional guidance should be given, including, the types of safeguards that might be appropriate.
- *Discussion with Those Charged with Governance* – whether there should be a requirement to report.
- *Implications of an Inadvertent Violation* – the implications of a violation, for example, whether it would be deemed to not compromise compliance with the fundamental principles or whether the Code should indicate that, provided certain criteria are met, no enforcement action need to be taken or it would not impact the firm's ability to issue the audit opinion

Mr. Dakdduk reported that a draft project proposal was presented to the CAG at its meeting on September 13, 2010. The CAG discussed the scope of the project and CAG members expressed support for the project, with some CAG members indicating that this is a project that should be addressed as a priority.

The IESBA discussed the draft project proposal and the following points were noted:

- With respect to independence, an objective of such a provision is to address a minor breach in a provision of the Code; however, it is important to recognize that

- any breach is still a breach regardless of size, though the actions that need to be taken may differ depending upon the severity of the breach;
- Both the SEC and the APB rules contain provisions to address breaches;
  - The inadvertent violation provisions were initially only in the independence section of the Code. The overall provision in the Code in 100.10, which applies to the whole Code, was introduced when the conceptual framework, which was previously only in the independence section, was applied to the whole Code.
  - The language “generally be deemed not to” can be seen as too permissive.

The IESBA approved the project proposal and agreed that it should be addressed on a priority basis.

Mr. Dakdduk reported that Ms. Spargo had agreed to chair the Task Force and Mr. Kwok, Ms. McCleary and Ms. Orbea had agreed to serve on the Task Force. The first meeting of the Task Force would be held in December 2010.

#### **4. Conflicts of Interest**

Mr. Niehues introduced the topic. He noted that at the June 2010 Board meeting, the Task Force discussed with the Board the following description of a conflict of interest.

“A conflict of interest arises if, when performing a professional service for a party, the professional accountant has an interest or relationship other than with that party that threatens the accountant’s ability to perform the service free of bias and undue restriction or influence.”

##### *Professional Services and Professional Activities*

At the June 2010 meeting, the Board expressed that the term “professional service” within the description of a COI may not resonate with professional accountants in business. To address this, Mr. Niehues explained that the Task Force suggests that new terms and definitions be introduced into the Code for clarification purposes:

*Professional Activities:* Activities requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting and financial management.

*Professional Services:* Professional activities performed for clients.

The Task Force proposed that parts A and B of the Code would use the term “professional activities” while part C would use the term “professional services,” in order to create language that is relatable to professional accountants in business. The Board agreed with the Task Force’s proposed wording and use of these terms.

##### *Linkage to the Fundamental Principles*

Mr. Niehues reported that the Task Force recommends the description of a COI (as presented at the June 2010 meeting) be linked to the fundamental principle of objectivity.

At that meeting, the Board expressed concern that the link should possibly include more than just a link to objectivity. Thus, the Task Force reconsidered the link and proposed to the Board that:

- The link to the fundamental principle of objectivity is the strongest, thus, the word “objectivity” should be specifically mentioned in the newly proposed description, and;
- A COI may create threats to the other fundamental principles, thus, this should be stated in the newly proposed description, creating a holistic approach to the possible identification of potential threats.

Based on this analysis the Board provided the following feedback:

- It was noted that there may be instances when a COI only deals with confidentiality and thus stressing the link to objectivity may not provide the best guidance to users of the Code;
- It was questioned how all of the other fundamental principles could be affected (i.e., other than objectivity) by a COI. Providing examples of how a COI may threaten the other fundamental principles may be beneficial to users of the Code; and
- It was noted that the link to integrity may in fact be the strongest. Members of the Task Force responded by stating that integrity is viewed as an overarching principle and thus in essence would cover all of the fundamental principles.

A straw poll showed that the majority of the Board agreed with the direction of the Task Force.

#### *Proposed Description of a COI*

Mr. Niehues presented the revised description of a COI to the Board as follows:

“A conflict of interest arises if, when undertaking a professional activity for a party, the professional accountant has an interest or relationship other than with that party that creates a threat to objectivity and may create a threat to compliance with the other fundamental principles.”

The Board agreed with the direction of the newly presented description with a minor change of deleting the word “the” in front of “other fundamental principles.”

#### *Section 310*

Mr. Niehues discussed the Task Force’s analysis of Section 310 of the Code by analyzing each paragraph and noting that the material was covered in other sections of the Code. Also, most of the material in the section dealt with undue influence as opposed to addressing conflicting and competing interests involving the professional accountant in business. Based on the analysis, the Task Force proposed deleting the language in Section 310 and replacing it with language addressing COI’s that are scoped within the proposed COI description noted above. While there was some question about whether professional accountants in business would find this approach useful, the Board was agreeable. Mr.

Niehues suggested that future deliberations would consider new guidance for users of the Code when facing COI and would include identification of a COI, evaluating a COI, reasonable third party consideration, managing a COI and examples of COI.

#### *Section 220*

Mr. Niehues explained that the Task Force recommends maintaining the current language of Section 220, but to add more guidance in terms of identifying, evaluating, and managing COI, considering the views of a reasonable third party when assessing a COI and providing examples of COI within the section. The Board did not object to this approach.

#### *Section 100.17 - .22*

The Board was advised that the Task Force questioned whether these sections needed more prominence and if it was within the Task Force's scope to review and make potential changes to these sections. The Board noted that the sections used to be included in Part C of the Code and were later abbreviated and moved to Part A of the Code. The Task Force requested the original language for consideration. The Board decided to delay the decision of whether the Task Force should deal with the section until more progress was made in Sections 220 and 310 of the Code.

#### *Examples of COI*

Mr. Niehues presented examples of COI for professional accountants in business. The Board agreed that all of the examples were within the scope of the description of a COI as proposed by the Task Force. There was a question as to whether an example of providing tax services would apply to professional accountants in business. It was noted that many professional accountants in business do provide tax services to individuals while being employed in business and that this would be further considered by the Task Force. Members of the Board were encouraged to provide additional examples of COI to the Task Force.

Mr. Niehues thanks IESBA members for their input and indicated that it would be carefully considered by the Task Force.

### **5. Convergence**

Mr. Dakdduk introduced the topic. He noted that convergence continued to be a high priority of the IESBA. The objective of the agenda item was to obtain input on the approach taken in drafting a document identifying the independence requirements related to public interest entities. The session would also discuss the use of the Code in a group audit situation and the authority of the Code and the requirements contained in Statement of Membership Obligation 4.

Mr. Pinkney introduced the topic of the stand alone document identifying the independence requirements related to public interest entities. At the June 2010 meeting, the IESBA discussed a first draft of a document that identified the provisions in the IESBA Code that apply to the audits of public interest entities. The document was

supported by a more detailed document containing the complete text of Section 290 and provided the “audit trail” back to the Code. The IESBA discussed the draft document, which was 30 pages long, and provided comment on the document. Some concern was expressed that the document was too detailed and a shorter document focusing on the prohibitions to demonstrate the strength of the Code would be useful. Mr. Pinkney led the IESBA through the changes that had been made to the longer document to develop the shorter document contained in Agenda Paper 5-A.

The IESBA discussed the longer and short documents and the following points were noted:

- The longer document would be useful for individuals who are interested in the detail of independence provisions;
- It might be useful to put the definitions in bold so that they can be readily accessed on line;
- It would be important to make it clear that neither document was a substitute for reading the Code. This is not the purpose of the document. The purpose of the shorter document is to demonstrate the robustness of the provisions in the Code;
- IESBA members provided some editorial suggestions;
- While the shorter document has been referred to as a “visual,” it is not really “visual” and thought should be given to making the document more visual – for example, every bullet on page 4 refers to either material or significant; if this was moved to the lead in, that would shorten the document and make it more visual; and
- The IESBA should see if the document could be further shortened so that it fits on one or two pages.

Mr. Pinkney thanked IESBA members for their input. He noted that the longer document would be used to benchmark the Code requirements against the recommendations of select jurisdictions. It is important to understand how all of the key independence provisions in the Code compare to the independence standards and regulations of other jurisdictions and how in totality the Code compares to those other standards and regulations. The Planning Committee has discussed how to move this forward and will be asking technical advisors to get involved in the benchmarking exercise. There will be a report back to the IESBA at its February 2011 meeting.

#### *Statement of Membership Obligation 4*

Ms. Munro introduced the topic. Member bodies of IFAC are subject to membership obligations and report, on a self-assessment basis, their compliance with the SMOs. The SMOs are developed by the Compliance Advisory Panel and issued by the IFAC Board. The Compliance Advisory Panel will shortly commence a project to review and revise the SMOs.

All of the SMOs contain the following text:

“In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The

member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.”

SMO 4 addresses obligations with respect to the provisions of the Code of Ethics and 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 the other parts of the Code.

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.”

The language “no less stringent standards” was developed by the IESBA (then the Ethics Committee) in 2001 when the revised independence requirements contained in Section 8 of the Code were issued. When the 2005 Code was issued, the “no less stringent” was moved to the preface of the Code. Neither the Code, nor the SMO provide any guidance on the meaning of “no less stringent.” Ms. Munro noted that there are at least two ways to interpret this matter:

- On a provision by provision basis – each requirement in the IESBA Code should be picked up by the member body and the provision should be no less stringent, but could be more stringent; or
- On an overall basis – the judgment is made on an overall basis weighing the totality of the provisions in the Code and the totality of the provisions in the member body Code.

The matter was discussed with the IESBA-NSS at its meeting on October 18, 2010. The majority of IESBA-NSS members present expressed the view that the obligation should be viewed on an item by item basis. One member expressed the view that in that member's jurisdiction it had been considered on an overall basis.

The IESBA discussed the two alternative interpretations and agreed that the appropriate interpretation was on a provision by provision basis. It was also agreed that if the requirement were to be maintained when the SMOs were revised, it should be made clear that the requirement is met on a provision by provision basis.

Ms. Munro noted that unlike SMO 3, which addresses the obligations with respect to documents issued by the IAASB, SMO 4 does not include an obligation with respect to convergence. SMO 3, paragraph 4 states:

“...member bodies should, in implementing their obligations of membership, have as a central objective the convergence of national standards or related other pronouncements with International Standards issued by the IAASB.”

The IESBA discussed the matter and agreed that when the SMOs were revised, it would be useful for SMO 4 to be consistent with SMO 3 and require the member body to have a central convergence objective.

#### *Use of the Code in a Group Audit Situation*

Ms. Munro noted that many respondents to the Strategic Plan were supportive of the IESBA's stated convergence initiatives with several expressing support for using the Code in a group audit situation. One respondent, IOSCO, stated that many of its members believed that further improvements in the Code must precede such consideration.

The issue can be split into two separate questions: (a) whether there is support for the concept of using the Code in group audit situations and (b) if there is support, what improvements to the Code, if any, are necessary before a jurisdiction would accept use of the Code in group audit situations.

The IESBA discussed the issue and felt that it was important to balance the support expressed against the IOSCO comment that improvements to the Code would be necessary before this approach could be taken. It was agreed that the Planning Committee would consider the issue and develop a proposal for consideration by the IESBA.

## **6. Responding to a Suspected Fraud or Illegal Act**

Mr. Franchini introduced the topic. He noted that at the IESBA's October 2009 meeting, it discussed a draft project proposal addressing how a professional accountant should respond when encountering a suspected fraud or illegal act. At its March 2010 meeting, the CAG discussed the draft project proposal. CAG members expressed strong support for the IESBA commencing such a project and provided input on the scope of the project. The Task Force met in early July, considered the input from CAG members, and revised the draft project proposal in response to the input received. The CAG discussed the revised proposal at its September 2010 meeting, and the Task Force met again in October 2010 to consider the CAG members' comments.

Mr. Franchini noted that the project will consider the following matters:

- *Legislative Environment* – the extent to which the professional accountant's response to a suspected fraud or illegal act may differ depending on the extent to which “whistleblowers” are afforded protection under the law. Many jurisdictions have “whistle blowing” legislation, some of which is quite extensive.
- *Role of the Professional Accountant* – how the role of the professional accountant affects the nature of the response, the threshold for taking action, and the process for responding.
- *Nature of Items to be Addressed* – the nature of the items to be addressed.
- *Threshold for Taking Action* – what guidance can be provided to a professional

accountant regarding the threshold for taking action. In this regard the project should consider the “probability” that a fraud or illegal act has occurred, the “effect” of such an act, and who committed the act.

- *Process for Responding* – guidance on the thought process the professional accountant would use in determining how to respond to a suspected fraud or illegal act.
- *Timing of Disclosure* – what guidance is necessary regarding the timing of disclosure in situations when the matter cannot be resolved and the professional accountant determines that disclosure is necessary, taking into consideration the Section 100 guidance on ethical conflict resolution.
- *Documentation* – what guidance should be given regarding the matters that should be documented by the professional accountant.

The IESBA discussed the project proposal and the following matters:

- The expectation of the CAG might be that an accountant would report a matter unless such disclosure was prohibited by legislation;
- While many jurisdictions have whistle blowing legislation, the actual level of protection might differ significantly.

The IESBA provided some editorial comments and the project was approved.

## **7. EU Green Paper**

Ms. Sapet introduced the topic. She noted that on October 13, 2010, the European Commission issued a green paper entitled “Audit Policy: Lessons from the Crisis.” The paper notes that the Commission would like to open a debate on the role of the auditor, the governance and independence of audit firms, the supervision of auditors, the configuration of the audit market, the creation of a single market for the provision of audit services, the simplification of rules for Small and Medium Sized Enterprises (SMEs) and Practitioners (SMPs) and the international co-operation for the supervision of global audit networks. The Green Paper is open for public comment until December 8, 2010. The EU has announced a high level conference to be held in February 2011 to discuss comments received.

The paper also notes that the Commission will launch an external study to assess the implications and impact of current rules as well as to gather further data on the structure of the audit market. The results of the study will be available in 2011.

Ms. Sapet noted that the following topics are raised for discussion in the consultation paper:

- Role of the auditor – the paper asks questions about the level of assurance given, whether professional skepticism should be enhanced, the communication to stakeholders, and enhancement of audit value;
- Governance and independence of audit firms – the paper asks questions about the appointment of auditors, the length of the audit engagement, independence issues



- associated with the provision of non-audit service, the maximum level of fees, and steps to increase the transparency of audit firms;
- Supervision of auditors – the paper asks questions about European supervision and communication with securities regulators;
- Configuration of the audit market – the paper asks questions about systemic risk, joint audit, and mandatory firm rotation and tendering;
- Creation of a European passport – the paper asks questions about cross border mobility and European passport; and
- Simplifications for SMEs/SMPs – the paper asks questions about limited audit, safe harbor provision for non-audit services, and level of quality control and oversight for SMPs.

Ms. Sapet led a discussion on the approach the IESBA could take if it chose to respond to the green paper. The IESBA could be part of the overall IFAC response by providing technical input on questions that are relevant to the IESBA mandate. Alternatively, the IESBA could develop its own response, which would be consistent with the IESBA's role as an independent standard setter. In developing such a response, it would be important to convey the notion that IESBA is open to discussion and not be seen as an advocate for the profession.

The IESBA discussed the matter and agreed that it should develop its own response to the green paper. The IESBA agreed that the Planning Committee would develop a draft response which would then be sent to the IESBA for comment.

## **8. Comments from the Public Interest Oversight Board**

Mr. Dakdduk invited Ms. Peters to make some comments. Ms. Peters stated that as a member of the PIOB she was very pleased to hear the substantial report on the extent of outreach that has been conducted. She noted that the PIOB is of the view that outreach was very important to increase the adoption and understanding of the Code. She also noted that it was good to see outreach performed by individuals other than the Chair and Deputy-Chair.

Ms. Peters said that the topics on the agenda were important ones and she was pleased to see that the time line has been moved up on some projects. The projects on conflicts of interest and responding to fraud and illegal acts were very important.

She noted that she was pleased to see the IESBA's focus on SME/SMP issues and felt that establishing a working group to consider the unique and challenging issues facing this constituency and developing recommendations for the IESBA was the appropriate starting point.

Mr. Dakdduk thanked Ms. Peters for her remarks.

## **9. Closing Remarks and Future Meeting Dates**

Mr. Dakdduk thanked outgoing Board members Ms. Sekine and Mr. Röehricht for their service on the Board. Ms. Sekine and Mr. Röehricht addressed the Board.

Mr. Dakdduk closed the meeting.

Future meetings of IESBA  
February 6-8, 2011, New Delhi, India  
June 15-17, 2011, Warsaw, Poland  
October 17-19, 2011, New York, USA