

**Minutes of the Meeting of the
International Ethics Standards Board for Accountants
Held on December 18-19, 2006
London, United Kingdom**

	Members	Technical Advisors
<i>Present:</i>	Richard George (chair)	Heather Briers
	Christian Aubin	
	Frank Attwood	
	Ken Dakdduk	Lisa Snyder
	David Devlin	Andrew Pinkney
	Mark Fong	
	Akira Hattori	
		Sylvie Soulier
	Thierry Karcher	Jean-Luc Doyle
	Neil Lerner	Tony Bromell
		Jouko Ilola (Day 1 only)
	Michael Niehues	
	Russell Philp	Tiina-Liisa Sexton
	Jean Rothbarth	
	Volker Rohricht	
	Robert Rutherford	David Hastings
	David Winetroub (Day 1 only)	Peter Hughes
<i>Regrets:</i>	Geoffrey Hopper	Tim Volkmann
	Pekka Luoma	Patricia McBride
	Barbara Majoor	
	Non-Voting Observers	
<i>Present:</i>	Richard Fleck	
	IFAC Technical Staff	
<i>Present:</i>	Jan Munro	
	Jim Sylph	

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. He noted that apologies had been received from Ms Majoor who had given her proxy to Mr. Lerner, Mr. Hopper who had given his proxy to Ms Soulier and Mr. Luoma who had given his proxy to Mr. George. He further noted that Mr. Winetroub would be absent on day 2 when his proxy would be held by Mr. Hughes.

Minutes of the Previous Meeting

The minutes of the public session of the October 2006, IESBA meeting, subject to some minor editorial changes, were approved as presented.

Board activities after Sydney meeting

Mr. George reported that after the last Board meeting there had been three outreach activities in Sydney:

- Presentation on the Code and Independence Proposals – a presentation, arranged by the three Australian member bodies, had been made to approximately 60 interested parties. The presentation addressed the structure of the Code and the proposed independence changes;
- Representatives from the IESBA had met with members of the Accounting and Ethics Professional Standards Board; and
- There had been a presentation to approximately 70 participants at the Business and Professional Ethics Group at the University of Sydney

World Congress of Accountants

Mr. George reported that he, and several other Board member and technical advisors, had been involved in presentations and seminars at the World Congress of Accountants held in November in Istanbul, Turkey. He further noted that Marilyn Pendergast, former Chair of IESBA, had been awarded the Sempier Award for outstanding contributions to the international accountancy profession. The Board congratulated Ms Pendergast on this award.

Discussion with the European Commission

Mr. George reported that Board representatives had met with the head of the Auditing Department of the European Commission to discuss the new network firm standard and steps which could be taken to ensure consistent application of the definition. He thanked Hilde Blomme of the Fédération des Experts Comptables Européens for her assistance in facilitating the meeting.

Planning Committee

Mr. George reported that the Planning Committee had met on December 17, 2006. The Committee discussed the development of a draft IESBA Strategy and Work Plan for 2008-2009. He indicated that the Planning Committee would develop such a document to be presented for discussion at the March 2007 IESBA meeting.

2. Independence

Ms Rothbarth reported that the Independence Task Force had met once since the October Board meeting and had held two conference calls. She indicated that the Task Force had considered the input received at the October meeting on the proposed wording and was presenting a revised exposure draft for approval.

Ms. Rothbarth led the Board through a paragraph by paragraph read of the exposure draft summarizing the changes that had been made since the October meeting.

Language

Ms Rothbarth reported that as agreed the Task Force has used more direct language for restrictions. In addition, the document has been the subject of a plain language review.

Entities of Significant Public Interest

Ms Rothbarth reported that the Task Force had considered the drafting of the description of entities of significant public interest and, in particular, entities that are would normally be treated as such and entities that may be treated as such. On reflection, the Task force was of the view that in both cases the determination depended upon the facts and circumstances. Therefore the Task Force was recommending that the phrase “depending on the facts and circumstances” be moved to modify both situations.

The Board agreed with the proposal, noting that this better reflected the circumstances.

Cooling-off Period

Ms Rothbarth reported that the Task Force had revised the language in the employment section to reflect the decisions taken in Sydney that the mandatory cooling-off period should apply to key audit partners and to the firm’s chief executive, with other partners to be addressed on a threats and safeguards approach. She noted that in the case of the chief executive the Task Force was of the view that a period of twelve month cooling-off period was appropriate.

The Board discussed the proposal and it was noted that it was unclear whether the chief executive position could cover more than one individual. After discussion, it was agreed that the intent was to cover only the most senior individual and accordingly the wording was changed to refer to the individual who is the firm’s Senior or Managing Partner (Chief Executive or Equivalent).

Provision of Non-assurance Services

Ms Rothbarth noted that the Task Force had revised some of the paragraphs relating to the provision of non-assurance services to audit and review clients. Key changes included:

- Additional guidance, under the section on tax services, indicating that a threat may be created by acting for an audit client involving the resolution of a tax dispute once the tax authorities have made it known that they have rejected the audit client’s arguments on a particular issue and are referring the matter for determination in a formal proceeding, for example before a tribunal or court;

- Eliminating the duplication between the paragraphs on valuation services and litigation support services; and
- Reordering some of the paragraphs to improve the flow.

The Board discussed the proposed changes. It was suggested and agreed that:

- The first two paragraphs in the section would be combined and reordered to improve flow and the reference to “combination of non-assurance services” be deleted;
- The discussion regarding assistance in the resolution of tax disputes should refer to representing an audit client in the resolution of a tax dispute; and
- The guidance related to recruiting services should be modified to make it clear which services were and were not permitted for an audit client that was an entity of significant public interest.

Restricted Use

Ms Rothbarth reported that the Task Force has drafted guidance on restricted use which notes that:

- The restricted use requirements could not be applied to (a) audits or reviews of complete set of general purpose financial statements whether prepared in accordance with a framework designed to achieve to achieve fair presentation or prepared in accordance with a framework designed for general purpose but not designed to achieve fair presentation, or (b) audit and review engagements required by statute or legislation; and
- Modifications to the independence requirements would be permitted only with the express agreement of the intended users.

Board members noted that:

- It was important that the section explain that the participation of intended users enhances the ability of the firm to communicate users about independence matters;
- The intended users should explicitly agree to the modifications to the independence requirements;
- The guidance should make it clear that the modifications are permitted but not required; and
- It should also be clear that if a firm performs an audit engagement for the same client for which modifications to independence requirements are not permitted the modifications do not change the independence provisions which apply to that audit engagement.

Definition of Engagement Team

Ms Rothbarth indicated that the Task Force had considered the definition of engagement team and the agenda papers proposed the following definition:

“All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.”

She indicated that, subsequent to the posting of the agenda papers, further input from the Experts Task Force of the International Auditing and Assurance Board (IAASB) had been received which expressed some concern that the definition was too broad because it would include all external experts if that expertise might otherwise be provided by a partner or staff of the firm – for example an external actuary. To address this concern she indicated that the Board may wish to consider a shorter definition which such as:

“All partners and staff performing the engagement.”

The Board discussed the issue and the revised proposal, it was noted that the legal relationship of an individual with the firm should not be the factor which determines whether or not that individual is subject to independence requirements. It was further noted that if an external actuary worked as part of the team performing the engagement that individual should be subject to the same independence requirements as an internal actuary. The Board concluded that the definition as presented in the agenda papers was appropriate. It was further agreed that the Explanatory Memorandum should outline the thinking on the Board on this issue.

Other Matters

The Board provided comment on other paragraphs of the exposure draft and agreed to wording changes.

Effective Date

Ms Rothbarth reported that the Task Force was recommending an effective date one year after the approval of the final document, subject to some transitional provisions for partner rotation, application to entities of significant public interest and new requirements relating to provision of non-assurance services. Ms Rothbarth noted that in considering an appropriate effective date, the Task Force had balanced the need for providing member bodies and firms with appropriate time to implement the new standards and effecting change as soon as possible.

The Board agreed with the proposed effective date noting that it would be included in the exposure draft which would provide respondents with the opportunity to comment.

Subject to the changes discussed, reviewed and agreed to at the meeting, the Board unanimously approved the document for release as an exposure draft. Mr. George thanked the Task Force and in particular the Chair Ms Rothbarth for all their work in developing the Exposure Draft.

Explanatory Memo

Ms Munro noted that each Exposure Draft is accompanied by an explanatory memorandum which provides background to, and an explanation of, the proposed changes. Given the importance of this particular explanatory memo it had been reviewed by the Task Force and was included in the Board papers to provide members with the opportunity to comment.

The Board provided the following comments:

- The document would benefit from an early section to discuss the scope of revisions in the Code. It was noted that the Board had agreed that certain areas of Section 290 would be considered in the next set of revisions of the Code and exposure draft respondents should be made aware of these topics. After discussion it was agreed that the Board would consider the following three topics:
 - Provision of internal audit services;
 - Additional guidance on economic dependence; and
 - Revising the existing guidance on contingent fees.
- The document should contain only a few questions focusing on key matters. After discussion it was agreed that the following matters should be highlighted:
 - The proposed extension of the listed entity provisions to all entities of significant public interest;
 - The proposed elimination of the flexibility for small firms to apply alternative safeguards to partner rotation;
 - The proposed revised guidance on the provision of non-assurance services; and
 - Whether the proposals are proportionate to the additional associated cost and therefore strike the appropriate balance between the differing perspectives of stakeholders.

It was agreed that the revised provisions on the restricted use requirements and the revised explanatory memorandum would be circulated to all Board members, with very short turn around for fatal flaw review.

3. Closing

Mr. George thanked the retiring members Christian Aubin, Mark Fong, Neil Lerner, Pekka Luoma and Russell Philp and their technical advisors Patricia McBride, Tony Bromell, Juoko Ilola and Tiina-Liisa Sexton for their service on the Board. He further thanked all attending for their participation in the meeting.

4. Future Meeting Dates

March 6-7, 2007 (New York)

June 25-26, 2007 (Berlin)

October 23-25, 2007 (TBD)