

**Minutes of the Meeting of the
Ethics Committee of the International Federation of Accountants
Held on May 10-11, 2004
At PricewaterhouseCoopers, Vienna, Austria**

| | Members | Technical Advisors |
|----------------|----------------------------|---------------------------|
| <i>Present</i> | Marilyn Pendergast (Chair) | Lisa Snyder |
| | Christine Catasta | |
| | Mark Fong | |
| | David Devlin (May 10 only) | Andrew Pinkney |
| | Richard George | Heather Briers |
| | Akira Hattori | |
| | Thierry Karcher | Jean-Luc Doyle |
| | Neil Lerner (May 11 only) | Tony Bromell |
| | Pekka Luoma | Jouko Ilola |
| | Wim P Moleveld | |
| | Russell Philp | Tiina-Liisa Sexton |
| | Jean Rothbarth | |
| | Hubert Graf Von Treuberg | Tim Volkmann |
| | David Winetroub | |
| | Donald G Wray | John Babiak |

IFAC Technical Staff

Present: Jan Munro

Apologies

Frank Attwood

1. Introduction and Administrative Matters

The chair opened the meeting and welcomed all those attending. The Committee approved the minutes of the February 2004 meeting.

2. Section 8 – Conforming Amendments

The Committee considered a draft of Section 8 – Independence, revised to conform with the new assurance framework issued by the IAASB and to clarify partner rotation requirements.

The Committee agreed that, where possible, the revised Section 8 should refer to the assurance framework rather than repeat sections of the framework. It was agreed that practitioners need to read and comprehend all of the framework to determine whether the engagement is an assurance engagement and therefore independence is required.

The Committee expressed concern with the complexity of the re-drafted Section. In particular, the Committee was concerned with the way the document dealt with the party responsible for the subject matter, the party responsible for the subject matter information and the engaging party. The Committee requested that the Task Force re-consider the structure of the section and simplify the document.

The Committee discussed two proposals on partner rotation:

- Clarification of the intent of paragraph 8.151; and
- Requiring rotation of the engagement quality control reviewer.

The Committee noted that the respondents to the November 2003 exposure draft were generally supportive of the proposal to clarify the intent of paragraph 8.151 such that once the lead partner on the audit of a listed entity had served in that capacity for a pre-defined period, normally no more than seven years, that individual should not participate on the audit engagement until a further period of time, normally two years, has elapsed. The Committee unanimously approved a change to the paragraph to clarify the point.

The Committee discussed the proposal to require rotation of the engagement quality control reviewer in the same fashion as the lead partner. The Committee unanimously agreed with the proposal. The Committee agreed that this proposed change should be exposed concurrently with proposed changes to Section 8 to conform with the assurance framework.

The Committee further agreed that the flexibility contained in paragraph 8.154 (with respect to firms that have few audit partners) should be extended to engagement quality control reviewers.

3. Code Exposure Draft Responses

The Committee considered a draft of the Code of Ethics revised to reflect the comments received on exposure. The Committee noted the following major changes:

- Restructuring to remove repetition;
- Incorporation of Section 8;
- Renumbering of paragraphs; and
- Definitions moved to the back.

On balance the Committee agreed that the revised document was more succinct and user-friendly.

The Committee reviewed the draft in detail and provided the following comments for consideration by the Task Force:

- The Preface should be restructured to refer to the respective roles of IFAC and member bodies and the authority of the Code;
- The paragraphs dealing with the application of the Code should provide more explanation on the conceptual framework;
- The section dealing with integrity should state that professional accountants should disassociate themselves from information that is false and misleading;
- The section on confidentiality should be strengthened and should distinguish between situations where there is a duty to disclose, and situations where there is a professional right to disclose;
- The section dealing with independence should be carefully reviewed to ensure that all of the paragraphs that are proposed for deletion are adequately addressed elsewhere in the Code; and
- Section C applies to professional accountants in business but parts of it would also be applicable to professional accountants in their capacity of an employee of a firm. It would be useful to indicate that parts of Section C are also relevant to professional accountants in public practice;

The Committee agreed that a revised document should be presented for approval at the September meeting.

4. Network Firm

The Committee considered a revised definition of a network firm and related background material that had been prepared by a Task Force comprised of representatives from the Ethics Committee, IAASB and TAC.

The Committee noted that the criticisms that had been expressed regarding the existing definition namely:

- The definition focuses on common control or management and disregards how firms present themselves;
- Member firms of “network” are separate legal entities and are not under common control, ownership or management; and
- It is unclear how a reasonable observer would have *knowledge of all relevant information*.

The Committee noted that the proposed definition and background material did address these points.

The Committee discussed whether it was appropriate to have a short definition and more comprehensive background material. The Committee concluded that because of the wide variety of circumstances it was not helpful to have only a short definition and agreed that background material was appropriate.

The Committee noted concerns that had been raised from mid-tier firms about the proposed definition. In particular:

- Concern that the proposal does not appropriately reflect the realities of many mid-firm networks;
- The proposed definition will be subject to potential barrier to cross-border transfer of information and the application of existing privacy laws; and
- Concern that the proposal will discourage the formation of networks.

The Committee agreed that it a greater understanding of these concerns should be obtained through a discussion with representatives of such firms.

Additional suggestions were made for consideration:

- There should be a definition of a network and a separate definition of a network firm.
- It should be clear that a network relationship is not created merely through an alliance for quality control.

5. Other matters

The Committee received a report from the Planning Committee. The Planning Committee had discussed a draft terms of reference for the planning committee and had considered a list of possible future projects. The Planning Committee recommended that the following three projects to be commenced by the Committee when resources and agenda time permitted:

- Application of the Code for public accountants in the public sector;
- Guidance for accountants when encountering fraud and illegal acts;
- Section 8 implementation – obtaining an understanding of how Section 8 has been implemented, any issues associated with implementation that would indicate that some parts of Section 8 should be revisited.

It was agreed that draft project proposals for these three items and terms of reference for the Planning Committee would be presented for discussion and approval at the September meeting.

6. Closing

The chair thanked members, technical advisors and staff for their input and closed the meeting.

8. Future meeting dates

September 20-21 (Helsinki)