

**Draft Minutes of the Meeting of the
International Ethics Standards Board for Accountants
February 23-25, 2009
San Francisco, United States**

	Members	Technical Advisors
<i>Present:</i>	Richard George (Chair) Frank Attwood Nina Barakzai Ken Dakdduk David Devlin Robert Franchini Kariem Hoosain Lady Barbara Thomas Judge (Day 2, and Day 3 in part) Alice McCleary Michael Niehues Carmen Rodriquez Volker Röhricht Jean Rothbarth Bob Rutherford Isabelle Sapet Aiko Sekine Sandrine Van Bellinghen David Winetroub	Tony Bromell Andrew Pinkney Sylvie Soulier (Day 1 and 2, and Day 3 in part) Tiina-Liisa Sexton Petra Gunia Ines Bruggeman Tim Volkmann Marisa Orbea Jean Luc Doyle Roman Adler David Szafran
<i>Regrets:</i>		Heather Briers Peter Hughes Lisa Snyder
	Non-Voting Observers	
<i>Present:</i>	Juan Maria Arteagoitia Richard Fleck Shuhei Noro	

Bella Rivshin

PIOB

Present Michael Hafeman

IFAC Technical Staff

Present: Jan Munro
Jessie Wong

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. He welcomed Mr. Hafeman from the PIOB and Mr. Noro from the Japanese Financial Services Agency.

Mr. George welcomed new members Ms. Barakzai, and her technical advisor Mr. Tony Bromell, and Ms. Sandrine Van Bellinghen, and her technical advisor Mr. Szafran. He also welcomed Ms. Orbea, technical adviser to Ms. Rothbarth.

Mr. George reported that apologies had been received from Lady Barbara Judge for Day 1 of the meeting. Apologies had also been received from technical advisors Ms. Briers, Mr. Hughes and Ms. Snyder.

Consultative Advisory Group (CAG)

Mr. George reported that the IESBA CAG will be meeting in Dubai on March 11, 2009. This meeting will be the last opportunity for the CAG members to provide input on the Drafting Conventions project before its scheduled approval in April 2009. Mr. George noted also that a seminar on new developments in international auditing and ethics standards, hosted jointly with the Dubai International Financial Centre and the IAASB CAG, will be held on March 12, 2009.

IESBA–National Standard Setters Meeting

Mr. George reported that the IESBA will hold its first National Standards Setters (NSS) meeting on 22 April, 2008 in Vancouver, Canada. He noted that the NSS will be consulted on the IESBA's future strategy.

Other IESBA Projects

Mr. George reported that the Planning Committee plans to meet after completion of the Drafting Conventions project to consider project proposals for the Conflicts of Interest and Fraud and Illegal Acts projects.

Other

Mr. George noted that if the IESBA meets its current target of approving Drafting Conventions at its April meeting, the scheduled June 2009 meeting would likely be cancelled.

Minutes of the Previous Meeting

The minutes of the December 2008 IESBA meeting were approved as presented.

2. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, reported on the activities of the Task Force since the last Board meeting in December 2008. The Task Force had two face-to-face meetings on January 14-16, 2009 and January 26-27, 2009, and one teleconference meeting on February 6, 2009.

Mr. Dakdduk reported that, in addition to the exception clause, the Task Force had, as agreed at the December IESBA meeting, reviewed the use of “shall.” The Task Force had also considered the effective date. With respect to its review of the comment letters, while the Task Force members have individually considered all the comments, the Task Force has not collectively discussed all the comments. The Task Force had discussed recurring issues raised in comment letters and also individual comments that, while only raised by one or two respondents, were possibly substantive in nature. The Task Force intends to collectively discuss all remaining comments at its meeting immediately following the Board meeting.

Introducing a Provision Permitting Exceptions to Compliance with Requirements

Mr. Dakdduk noted that at the December 2008 meeting, the Board considered the suggestion by members of the CAG to consider three categories of exemptions – namely catastrophic events, business combinations, and all other circumstances. The Board had agreed that independence issues for the firm may arise in the event of a client acquisition or merger and requested the Task Force to consider the matter and develop a recommendation for the Board’s consideration at this meeting.

Mr. Dakdduk reported that the Task Force had considered the matter and, in developing its proposals, had consulted with specialists who deal with independence issues that arise from a client acquisition or merger.

Mr. Dakdduk noted that the Code requires the firm and network firms to be independent of the audit client and, in the case of an audit client that is a listed entity, independent of the audit client's related entities (as defined). In the case of an audit client that is not a listed entity, independence from related entities that the client controls is required. Mr. Dakdduk indicated that in assessing the independence issues that may arise for the firm when faced with a client merger or acquisition, consideration is typically given to the matters noted below.

Interests and Relationships

Mr. Dakdduk reported that the Task Force considered the types of interests and relationships that can require attention in a client acquisition or merger situation and concluded that they can include any of the interests and relationships covered by the Code. Mr. Dakdduk noted that many of these interests and relationships can be safeguarded or terminated by the effective date without much difficulty. In some cases, however, this is not the case. For example, a firm may not be able to quickly terminate a software support services engagement because terminating the relationship before the entity has engaged a new support provider could adversely affect thousands of third-party users of the software.

Time to Address Independence Issue

Mr. Dakdduk reported that one of the most important factors affecting a firm's ability to become independent of a new related entity is the amount of time that is available to the firm to implement safeguards or terminate the interests or relationships it has with the entity. The amount of time available would be a function of the period of time before the effective date, the size and number of related entities and the types of interests and relationships in place.

Mr. Dakdduk reported that in a business environment more typical than recent times, especially with large acquisitions involving listed entities, firms generally have advance notice of a client's planned acquisition, although the extent of advance notice varies. This often enables the firm to terminate most interests and relationships before the effective date of the merger or acquisition. In other cases, however, the merger or acquisition may take place with little or no notice to the firm. In these cases, the firm may not have sufficient time to terminate interests and relationships or to apply appropriate safeguards before the effective date of the merger or acquisition.

Process of Attaining Independence

The Task Force also considered that in the process of attaining independence of a client involved with an acquisition or merger, the firm will have to:

- Identify the entities that will become related entities of the audit client in accordance with the definition of related entity in the Code. This process can be lengthy for both the client and the firm, particularly in the case of large companies. Whether an entity is a related entity can depend on the materiality of the entity and the process, therefore, would necessitate obtaining the appropriate information to make the materiality assessments;
- Identify the firm's and network firms' interests or relationships with the new related entities that create independence issues. and
- Terminate the interests or relationships that are not permitted under the Code and, when the interest or relationship is permitted with safeguards, apply safeguards to eliminate the threats or reduce them to an acceptable level.

Mr. Dakdduk reported that the Task Force considered the above matters and proposed the Code address the independence implications of a client merger or acquisition. He noted

this proposal is consistent with the views expressed by twelve respondents to the exposure draft. He also noted that the members of the CAG were also supportive of the approach.

The IESBA considered and agreed with the Task Force's proposal that the Code address mergers and acquisitions, noting the following points:

- The proposed change from “should” to “shall” to more clearly set out the requirements of the Code creates the need for guidance in merger or acquisition situations when it is not possible to terminate an interest or relationship by the effective date of the merger or acquisition.
- Recent events, including the speed at which some acquisitions have occurred, re-enforces the need for such guidance.
- It should be made clear that firms should always endeavor to apply the Code in its entirety before relying on any relief provided by a clause addressing mergers and acquisitions. Consideration could be given to setting this out more clearly at the beginning of the Code.
- It may be better to place the mergers and acquisition clause either earlier in the section 290, or in a section that has a heading at the same level as the section on “Related Entities” (as opposed to a sub-section of related entities).

A question was raised as to whether the guidance should also address independence issues arising from mergers of accounting firms. It was noted that such issues can be quite prevalent because small firms are being encouraged to merge in order, among other things, to meet the requirements of International Standard on Quality Control 1. Mr. Dakdduk responded that the Board had considered whether to also address this matter and had concluded that the pressing need was to address client mergers and acquisitions and, therefore, firm merger issues were not part of the current consideration.

“Cannot Reasonably be Terminated”

Mr. Dakdduk reported that in connection with the mergers and acquisition clause, the Task Force proposal first reinforces the need for the firm to bring itself into compliance with the requirements of the Code and then addresses situations where the interests or relationships cannot reasonably be terminated by the required date. Mr. Dakdduk noted that a termination that is delayed merely because it would be inconvenient for the client or the firm to terminate the interest or relationship would not be an interest or relationship that “cannot reasonably be terminated.” The proposal states that interests or relationships shall be terminated as soon as reasonably possible, but in no event shall these continue beyond a period of six months after the effective date of the merger or acquisition. During this period, no individuals with such an interest or relationship shall be a member of the engagement team or a key audit partner and, if the interest or relationship relates to a non-assurance service, none of the members of the engagement team or key audit partners shall be involved with the non-assurance service. In addition, the firm shall determine the need for transitional measures to be put in place. Examples of such measures are:

- Review of the audit or non-assurance work by a professional accountant.
- A review equivalent to an engagement quality control review performed by a professional accountant not a member of the firm signing the opinion.
- An evaluation of the results of non-assurance service by another firm or another firm re-performs non-assurance service to extent necessary to take responsibility for service.

Mr. Dakdduk reported that the Task Force's proposals also addressed situations where the audit client is acquired by another entity, the firm will complete the current period's audit and be replaced as auditor. The Task Force is of the view that in such situations, provided certain conditions have been met, it is not necessary for the firm to terminate the interest or relationship with the new "upstream" related entity. The conditions that would need to be met are (a) the firm will remain as auditor only for a short period of time after the effective date and will be replaced as auditor after issuing the next audit report, (b) no individuals with such an interest or relationship are members of the engagement team or key audit partners and (c) if the interest or relationship relates to a non-assurance service, no members of the engagement team or key audit partner performs that non-assurance service. In addition, the firm would determine what transitional measures were necessary.

In connection with this proposal a question was raised as to whether, in the situation where the audit client is acquired by another entity, the firm would be allowed to audit the post-acquisition period. Mr. Dakdduk responded that under the proposal, the firm would be permitted to complete the audit (in the post-acquisition period) and would then resign as auditor.

The proposed guidance stated that individuals with interests or relationships could not be "a member of the audit engagement team or key audit partner" and it was noted that key audit partners are members of the audit team. Mr. Dakdduk responded that the guidance should refer to the "engagement team," which is a narrower definition than "audit team."

With respect to the requirement to terminate if reasonably possible by the effective date of the merger or acquisition, it was noted that in some cases, the effective date might not be known in advance – such might be the case when the merger is effective at the point in time at which a certain percentage of approval is reached. The IESBA agreed that it was, therefore, necessary to have some flexibility regarding the date by which interests or relationships had to be terminated.

It was also noted that, in the case of financial interests, insider trading regulations might prevent the disposal of an interest. While such restrictions could apply up to the effective date, it should be possible to dispose of the financial interest immediately after the effective date. Paragraph 290.116 deals with financial interests received as a result of a merger.

It was noted that a threat to independence may be created by a previous non-assurance service that had been provided to the new related entity. For example, if a firm had

designed and implemented the IT system for the related entity, this could create a threat to independence after the acquisition. The IESBA agreed that the guidance should indicate that there may be instances when the threats to independence created by non-assurance services are so great that the firm could not continue as auditor.

With respect to the period of time of six months, it was noted that unwinding a non-assurance service would most probably take less than six months but some business relationships would need six months to unwind. It was also noted that the overall requirement was to terminate the interest or relationship as soon as reasonably possible and, therefore, the six month period would only come into play when it was not reasonably possible to terminate. In the case of a hostile merger or acquisition, management's focus would be on preventing the transaction from taking place as opposed to assisting the auditor in unwinding interests or relationships that created independence issues.

With respect to the proposals related to situations when the firm will not continue as auditor, it was noted that there was a lot of duplication within the guidance for situations when the interest or relationship could not reasonably be terminated by the effective date. The IESBA suggested that the Task Force consider how the guidance could be streamlined.

When discussing the Task Force's proposed wording, the need for proposed paragraph 290.28 was questioned. The paragraph stated:

“If, as a result of a merger or acquisition, an entity that is not an audit client becomes a related entity of an audit client, the firm shall identify and evaluate threats to independence created by any interests or relationships the firm, a partner or employee has with that related entity, as required by this section. If the threats identified are not at an acceptable level, the firm shall apply safeguards to eliminate the threats or reduce them to an acceptable level or terminate the interest or relationship by the effective date of the merger or acquisition.”

It was noted that the paragraph implies a threats and safeguards approach is taken with respect to related entities, and a question was raised as to whether that was appropriate in these situations. The requirement is compliance with the Code. The IESBA recognized that the intent of the paragraph was to introduce the topic but, on balance, it was perhaps superfluous.

Transitional Measures

Mr. Dakdduk reported that in determining whether transitional measures would be required, the Task Force proposed that the firm would consider the following factors:

- The nature and significance of the interest or relationship - for example, the greater the significance of the relationship, the greater the need for transitional measures;
- The nature and significance of the related entity relationship - for example, providing a restricted service to a related entity that is a subsidiary may require

- more extensive transitional measures than providing the same service to a related entity that is the parent;
- The length of time until interest or relationship can be terminated; and
- Whether the firm will continue as auditor.

In response to a question why the “transitional measures” were not called “safeguards,” Mr. Dakdduk stated that the Task Force had concluded that it was more appropriate to refer to “transitional measures” as opposed to “safeguards” because the term “safeguards” is used in the Code when a threat is eliminated or reduced to an acceptable level, thus permitting the interest or relationship to continue on an ongoing basis; that would not be the case with the “transitional measures” since the objective of the guidance is that the firm terminate the interest or relationship or resign as auditor shortly after the effective date of the merger or acquisition after issuing its final audit report. In addition, this term conveys the message that transitional measures might not be available.

Discussion with Those Charged with Governance

Mr. Dakdduk reported that the Task Force proposed that if an interest or relationship will not be terminated by the effective date, the matter should be discussed with those charged with governance. The discussion would include, in the case of situations where the interest or relationship could not reasonably be terminated by the effective date, the reasons why it could not be terminated. Mr. Dakdduk noted that an issue had been raised about confidentiality. He noted that while the Task Force did not have any evidence that this was a problem, it would do some further research to satisfy itself that it was not an issue. It was noted that the news of a merger or acquisition would generally be public information at the effective date and therefore, it is not envisaged that there would be confidentiality considerations when the firm discussed the matter with those charged with governance.

Documentation

Mr. Dakdduk reported that the Task Force was of the view that the documentation requirements would generally mirror the requirements set out under Those Charged with Governance.

Other issues

Mr. Dakdduk noted that the Task Force had considered whether there should be a requirement for the firm to discuss the matter with a regulator and had concluded that such a requirement would not be necessary if the conditions set out were met.

The IESBA discussed the structure of the guidance and it was proposed that the structure be re-ordered as follows:

- Introductory statement referring to mergers and acquisitions;
- Requirement to identify and evaluate previous and current relationships;
- Determination of whether such interests or relationships are so significant they would preclude the auditor from continuing;
- If not:

- Requirement for firm to terminate by the effective date;
- If the firm cannot reasonably terminate by the effective date, evaluation of significance of the threat, terminate the interest or relationship within six months of effective date and apply transitional measures and have a “clean” audit team;
- Discussion with those charged with governance; and
- Documentation.

The IESBA agreed with the proposed restructuring and asked the Task Force to consider the wording for consistency with the remainder of the Code.

Inadvertent violations

Mr. Dakdduk reported that while the provisions addressing inadvertent violations had not been changed as part of the Drafting Conventions project, the Task Force had considered the matter based on the comments received from IOSCO. The respondent expressed concern that the clause could encourage abuse and, thus, noncompliance with the Code. The respondent also stated that, if the clause were to be retained, the Code should provide guidance on the meaning of “inadvertent” and should also include a materiality threshold. Mr. Dakdduk noted that the Task Force was of the view that the term “inadvertent” is consistent with general English usage and did not therefore need to be defined. The IESBA agreed, noting that if the Code attempted to define “inadvertent,” it would likely decrease rather than increase clarity. Mr. Dakdduk noted that assessing the materiality of violations is likely to form part of the firm’s determination of the appropriate safeguards to apply. He reported that the Task Force had discussed whether the clarity of the inadvertent violation clause would be enhanced by some discussion of the role of management. The IESBA expressed the view that this addition would be outside of the scope of the drafting Conventions project.

Mr. Dakdduk reported that the Task Force recommends that a reference to International Standards on Quality Control be added to the inadvertent violation provision to amplify the reference to “quality control policies and procedures.” The IESBA agreed the reference should be added.

Documentation

At its December 2008 meeting, the IESBA discussed proposals to strengthen the documentation requirements in the Code to address threats that were “at the margin.” The IESBA had agreed with the direction of the Task Force but had felt that the proposed language was too broad and could be interpreted as requiring documentation of more threats than the Board intends. The Task Force revised the wording and the IESBA considered the Task Force’s revised wording. The IESBA agreed that the documentation should also include the rationale for the conclusion in situations where the threat was such that the accountant considered whether safeguards were necessary and concluded that they were not because the threat was already at an acceptable level.

Effective Date

The ED proposed a point in time effective date of December 15, 2010 (based on a proposed June 2009 release of the revised Code), subject to transitional provisions, with earlier adoption to be encouraged. Mr. Dakdduk reported that the majority of respondents supported the proposed point in time effective date, noting that this would enhance firms' ability to have consistent cut-off for the application of the new requirements. A minority of respondents commented that the effective date should be linked to the client's fiscal period. In addition, one respondent expressed a preference for an earlier effective date so that the changes arising from the Independence I and II projects would have an earlier effective date. Another respondent recommended that an effective date of January 1, 2011 would be easier to implement.

Mr. Dakdduk reported that the Task Force considered respondents' comments and proposed that a point in time effective date is appropriate for the Code and agreed that moving the effective date from December 15, 2010 to January 1, 2011 would be simpler for users of the Code. The IESBA agreed with the Task Force's proposal.

Transitional Provisions

Mr. Dakdduk reported that one respondent expressed concern with the transitional provisions and seeming differing effective dates. He stated that the Task Force had considered the matter and was of the view that the transitional provisions were necessary to provide firms with sufficient time to implement the new provisions. The IESBA agreed with the Task Force.

Partner Rotation

Mr. Dakdduk reminded the Board that where, as a result of the changes to the Code, additional individuals are required to rotate, the ED provided an extra year before the requirement became effective for those individuals (i.e., December 15, 2011). He reported that one respondent to the ED commented that it was not clear how the point in time effective date would apply in the case of partner rotation. The respondent questioned whether (a) the individuals would be required to rotate on December 15, 2011; (b) whether the individual could complete the 2011 audit in 2012 and rotate off the team thereafter; or (c) whether the 2010 audit would be the last before the individual is required to rotate. In addition, some respondents commented that a transitional provision for partner rotation was not necessary.

Mr. Dakdduk reported that the Task Force considered respondents' comments and proposed that, in light of the confusion, it would be clearer if the effective date for partner rotation was linked to the client's fiscal year instead of a point in time. The Task Force, therefore, proposed that, to provide for the additional year proposed in the ED, individuals now subject to the rotation requirements be required to rotate for fiscal periods beginning on or after December 15, 2011 if they had served as a key audit partner for seven or more years. He noted that the Task Force had selected December 15th to provide for year-ends just before December 31st, such as in the case of retail companies that have a 53 week year. The IESBA considered and agreed with the Task Force's proposal.

Public Interest Entities

Mr. Dakdduk reminded the Board that the revised Code will extend the independence requirements that apply with respect to the audits of listed entities to all other public interest entities, as defined. The ED proposed transitional provisions that would provide affected entities an additional year after the effective date before the requirements are effective (i.e., December 15, 2011).

Mr. Dakdduk reported that the majority of respondents to the ED were supportive of the proposal. Accordingly, with the exception of the change from December 15th to January 1st, the Task Force is not proposing a change to the position adopted by the Board in the ED. The IESBA considered and agreed with the Task Force's proposal.

Provision of Non-Assurance Services

The revised Code will expand some of the restrictions on providing certain non-assurance services to audit and review clients. The ED proposes that firms be allowed an extra six months to complete newly prohibited non-assurance services that were contracted for before the effective date (i.e., the services would need to be completed by June 15, 2011).

Mr. Dakdduk reported that the majority of respondents to the ED were supportive of the proposal with a minority commenting that a transitional provision was not necessary and one respondent stating that in exceptional circumstances firms should be permitted 12 months to complete the non-assurance service. Mr. Dakdduk reported that the Task Force considered the comments and was of the view that, with the exception of the change from December 15th to January 1st, the position adopted in the ED is appropriate and therefore is not proposing a change. The IESBA considered and agreed with the Task Force's proposal.

Fees Exceeding 15%

Mr. Dakdduk noted that one respondent to the ED commented that a "fresh-start" approach should be adopted for the requirements related to the relative size of fees. The Task Force considered this comment and concluded that this is appropriate because without specifying such a fresh-start, the change would be applied retrospectively. The IESBA considered and agreed with the Task Force's proposal.

Early Adoption

The ED proposed that early adoption be encouraged. In connection with this, some respondents commented that the proposed effective date was ambitious as some member bodies and firms may need the full 18 months to effectively implement the changes. Mr. Dakdduk reported that the Task Force considered respondents' comments and proposes that the provision be worded in a more neutral manner by stating that early adoption is permitted. The Task Force was of the view that this approach would remove any perceived implicit message that early adoption was required. The IESBA considered and agreed with the Task Force's proposal.

Principles/Rules and Use of “Shall”

The Board, at its December 2008 meeting, requested the Task Force to review the proposed use of “shall” to determine whether each usage is appropriate. Mr. Dakdduk reported that the Task Force reviewed the usage of “shall” in the Code and proposed some changes to ensure that “shall” is used solely to convey a requirement.

The IESBA considered and agreed with the Task Force’s proposals. It also requested that the Task Force review the appropriateness of using “shall” in ¶210.5 and ¶220.4, and whether “shall” should be used in ¶290.100 and ¶290.223.

Exception Clause for All Other Circumstances

Mr. Dakdduk reminded the Board that at the December 2008 meeting it discussed the suggestion by members of CAG for an exception clause to address circumstance other than catastrophic events and business combinations. He indicated further that while the majority of the Board did not support such a clause, the Task Force felt that it may be useful to encourage firms to consult with the relevant regulator when such circumstances arise. The Board discussed this matter and the following points were noted:

- The guidance should not impose an obligation on regulators to consult;
- It would be useful to have guidance in the Code that would facilitate a discussion with regulators; and
- A professional accountant may also find it useful to discuss a matter with a professional body.

Mr. Dakdduk reported that the Task Force has considered the Board’s comments and proposed the following:

“When a professional accountant encounters circumstances that are so unusual that the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, the professional accountant is recommended to consult with a member body or the relevant regulator.”

The IESBA considered and accepted the Task Force’s proposal noting the following points:

- The clause is not an exception clause, rather it is an enabling clause to trigger a discussion with a member body or regulator.
- When faced with the circumstances, professional accountants would be able to identify situations in which if the Code was followed it would lead to disproportionate outcomes. A definition of the term “disproportionate outcome” is not required.
- The reference to the relevant regulator should come after the reference to the member body to signal that professional accountants would first consult with a member body.

- The clause may be better placed after ¶100.1 which addresses circumstances in which professional accountants are prohibited from applying certain parts of the Code by law or regulation.

Other Comments

Mr. Dakdduk led the IESBA through a paragraph by paragraph review of the document and the following matters were discussed (paragraph references are to Agenda Paper 2-A):

- Whether the preface should refer to “applying all other parts of the Code” or “complying with all other parts”.
- ¶100.1 – Appears to say that law or regulation may prohibit compliance with the Code which is not the intention of the sentence.
- ¶100.1 – Consider a better placement for the requirement for the professional accountant to use professional judgment.
- ¶100.2 – Whether the last sentence should contain a bridge to the consultation clause.
- ¶100.11 – This paragraph refers to “circumstances and relationships” and the new consultation clause refers only to “circumstances”.
- ¶100.18 – The factors in (a)-(c) will always be relevant to the resolution process.
- ¶140.3 and ¶140.4 – The word “confidential” before “information” should be deleted.
- ¶200.3 – The reference to “many” threats should be deleted because this implies that there could be other categories of threats.
- ¶200.4 – Whether the second bullet should refer to undue dependence on fees from an *audit* client.
- ¶210.5 – Consider whether the use of “shall” in this paragraph was appropriate.
- ¶220.4 – Consider whether the use of “shall” in this paragraph was appropriate.
- Section 290 – Consider whether the section should include an overarching statement that members of audit teams, firms and network firms shall be independent.
- ¶290.39 – Consider the appropriateness of using the words “generally will” and consider whether it would be clearer to state that when an inadvertent violation occurs “independence shall be deemed not to be compromised”.
- Heading before ¶290.39 – Consider replacing with “inadvertent violation”.
- ¶290.100 – consider whether this should say “...member of the audit team shall” as opposed to “will be required to”
- ¶290.106 – Add the words “entity having a controlling interest in the audit client” to maintain consistency with the remainder of the Code.
- ¶290.114 – consider construction of the lead-in before (a), (b) etc
- ¶290.124 – Delete (b) to maintain consistency with the remainder of the Code.
- ¶290.131 – Consider whether the proposed change has altered the meaning of the requirement.

- ¶290.160 – Consider including an entity, which is not an audit client, with a direct financial interest in the client if such entity has significant influence over the client and the interest in the client is material to the entity.
- ¶290.184 – Whether there should be an additional heading before this paragraph that says “Audit Clients that are not Public Interest Entities”.
- ¶290.223 – Consider usage of “is expected to”.
- ¶290.223 – Whether this should refer to the “firm to be re-appointed *or continue as auditor*”.
- ¶290.1 29 – Consider need to revised to reduce duplication.
- ¶300.15 – Consider the appropriateness of using the word “may”.
- ¶320.6 – Consider whether the language should be more consistent with ¶110.2

Re-exposure

Mr. Dakdduk reported that the Task Force had some preliminary discussion regarding the need for re-exposure. He noted that the IESBA plans to approve the changes to the Code at its April meeting and due process requires consideration of the need for re-exposure after a document has been approved. The CAG, however, will consider the document at its meeting in March. Therefore, if the IESBA is to obtain the views of CAG members, it will be necessary for the IESBA to consider the need for re-exposure before the April meeting.

Ms. Munro reminded the Board that IESBA’s Terms of Reference require that, after approving the revised content of an exposure draft, the IESBA assesses whether there has been substantive change to the exposed document that may warrant re-exposure. Situations that constitute potential grounds for a decision to re-expose may include, for example, substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IESBA before it reaches a final conclusion, substantial changes arising from matters not previously deliberated by the IESBA, or substantial change to the substance of a proposed pronouncement.

The IESBA considered the matter noting the following points:

- The exposure draft requested views on whether there were any other circumstances where a departure from a requirement in the Code was acceptable. Many respondents expressed the view that the Code should address independence issues created by client mergers and acquisitions.
- The new mergers and acquisitions clause amounts to a narrowing of the scope of the exception clause and has been produced in response to the comments received on exposure.
- The purpose of the Code is to sustain confidence in the ethical requirements of the profession and the independence of assurance providers. The current financial crisis is serious and it is in the public interest to issue the revised Code as soon as possible; re-exposure will result in a delay in issuing the Code.
- The majority of companies have a December 31st year end and a delay in the effective date could result in the Code applying one year later.

- The proposed mergers and acquisition clause can be viewed as a variation to the general exception clause in the ED, amended to respond to comments received from respondents.
- The Board's understanding is that in the majority of cases interests and relationships can be terminated by the effective date of the merger or acquisition. The mergers and acquisition clause will, therefore, not be applicable in the majority of situations.
- The mergers and acquisitions clause contains pragmatic guidance for situations faced by firms and, in many cases, codifies existing best practice.

The IESBA's preliminary thinking was that re-exposure was likely not necessary. It agreed that the views of the members of the CAG should be sought and these views would be carefully considered at the April IESBA meeting.

Mr. George thanked the Drafting Conventions Task Force, staff and in particular Mr. Dakdduk, Task Force Chair, for all the work and effort to date.

3. Responding to Emerging and Urgent Issues

Mr. George reported that IFAC is exploring a structure for Public Interest Activity Committees to react to emerging or urgent matters by quickly issuing non-authoritative or authoritative documents. Mr. George noted that in the case of the IESBA, it has issued interpretations in the past to provide guidance on the application of the Code. These, however, cannot change the essentials of the Code.

The Board considered the matters and agreed it is important for appropriate mechanisms to be put in place to enable the IESBA to response to emerging and urgent issues in a timely manner. In relation to non-authoritative documents, it noted that it would be undesirable if bodies that adopt the Code issue interpretations as this may lead to a lack of convergence.

In relation to authoritative responses, the IESBA noted that there may be risks if the normal due process is not followed in their issuance. It further noted that while there may be more of a need for such responses in the case of other standard-setting bodies, in the context of the Code, the Board does not envisage that authoritative rapid responses would regularly be required. Notwithstanding this, the IESBA agreed that it would be desirable to establish such a mechanism to enable the Board to react if necessary. The following points were also noted:

- Authoritative responses should address technical matters rather than matters relating to the policies of the Board.
- Consideration may be given to allocating a validity period to authoritative responses, where appropriate, as the decisions made by the Board should be incorporated in the Code in subsequent revisions.
- In the comments received on the proposed IESBA Strategic and Operational Plan 2008-2009, some respondents suggested that guidance on the application of certain aspects of the Code could be usefully provided.

The IESBA intends to give further consideration to these matters at its future meetings.

4. Comments from the PIOB

Mr. Hafeman, representing the PIOB, addressed the IESBA stating that he was pleased to attend the meeting.

Mr. Hafeman stated that he had been pleased to observe that the majority of the board contributed to the discussions and indicated that contribution from each member present at the meeting is important in order to produce well-debated and balanced outcomes. He commended the Drafting Conventions Task Force and staff for their hard work on the project and expressed the view that the clarity of the Code will be much improved. Mr. Hafeman observed that, where possible, technical issues and matters of substance should be discussed before specific drafting matters as this would lead to a greater efficiency. He indicated that had the Board spent more time up front to discuss the issues to be addressed in the mergers and acquisitions clause it might have reached an accepted position more quickly.

In relation to the guidance on mergers and acquisitions, Mr. Hafeman noted that including such guidance for firms better served the public interest than not having such guidance. On the matter of re-exposure he noted that the important test was to consider whether respondents would offer any comments that had not been given on the initial exposure.

On the matter of responding to emerging and urgent issues, Mr. Hafeman stated that his personal view was that that he agreed that there needed to be some mechanism in place to issue a rapid response. It was, however, essential that the integrity of the standard setting process be maintained. He noted that when stakeholders consider whether a standard is acceptable they consider not only the content of the standard but also the due process under which it was developed. In this regard it was essential that any rapid response mechanism did not circumvent proper due process.

Mr. George acknowledged and thanked Mr. Hafeman for his comments.

5. Closing

Mr. George thanked all board members and technical advisers for their participation and contribution. In addition, he thanked participants for agreeing to adjourn the meeting on the afternoon of the second day to provide the Drafting Conventions Task Force with time to consider and develop a response to Board comments which were then presented to the Board and discussed on the third day. He closed the meeting.

6. Future Meeting Dates

April 27 - 28, 2009 (New York, USA) Please note changed to a 2 day meeting

June 22-24, 2009 (TBD) Tentative meeting date

October 19-21, 2009 (Tokyo, Japan)