

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

TERMS OF REFERENCE

(Marked Showing Changes for PIOB Comments (April 2009))

1.0 Purpose

The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of international economies by establishing and promoting adherence to high-quality professional standards, furthering international convergence of such standards, and speaking out on public interest issues where the profession’s expertise is most relevant”. In pursuing this mission, the IFAC Board has established the International Ethics Standards Board for Accountants (IESBA) to function as an independent standard-setting body under the auspices of IFAC and subject to the oversight of the Public Interest Oversight Board (PIOB).

The IESBA develops and issues, in the public interest and under its own authority, high quality ethics standards and other pronouncements for professional accountants for use around the world. The IFAC Board has determined that designation of the IESBA as the responsible body, under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission.

2.0 Objective

The IESBA’s objective is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession.

3.0 Pronouncements

In fulfilling the above objective, the IESBA develops and issues the following:

- *The Code of Ethics for Professional Accountants* which establishes a principle based standard of professional ethics for public accountants and provides a conceptual framework for applying these principles. No member body of IFAC or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the Code. However, if a member body or firm is prohibited by law or regulation from complying with certain paragraphs of the Code they should comply with all other parts of the Code.
- *Code of Ethics Interpretations* which assist in the application of the Code. The Interpretations are authoritative.

The IESBA also publishes other pronouncements on ethics related matters, thereby advancing public understanding of the ethical requirements of professional accountants.

The official text of the Code and its Interpretations and other pronouncement is that published by the IESBA in the English language.

4.0 Membership

The members of the IESBA, including the Chair and Deputy Chair, are appointed by the IFAC Board on the recommendation of the Nominating Committee and with the approval of the PIOB. The appointment as Deputy Chair does not imply that the individual concerned is the Chair-elect.

The IESBA comprises ten members from IFAC member bodies, five representatives from the Forum of Firms and three public members. The three public members may be members of IFAC member bodies, but may not be members in public accounting practice or have a direct interest in the Code and Interpretations of the IESBA. One public member shall be a specialist in business ethics. The IESBA is composed of an equal number of practitioners and non-practitioners¹. For this purpose, the three public members are regarded as non-practitioners. A public member is an individual who satisfies the requirements of a non-practitioner and is also expected to reflect the wider public interest. Not all non-practitioners are therefore eligible to be public members.

The selection process is based on the principle of “the best person for the job;” the primary criterion being the individual qualities and abilities of the nominee in relation to the position for which they are being nominated. However, the selection process also seeks a balance between the personal and professional qualifications of a nominee and representational needs, including gender balance of the IESBA. Accordingly, consideration will be given to other factors including geographic representation, sector of the accountancy profession, size of organization, and level of economic development. Candidates for appointment as public members may be put forward by any individual or organization.

IESBA members serve for a term of up to three years, with approximately one third of the IESBA membership rotating each year. Continuous service on the IESBA is limited to a total of six years, unless that member is appointed to serve as Chair.

IESBA members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the IESBA member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in IESBA debates and attend IESBA meetings regularly to maintain an understanding of current issues relevant to their role.

The IESBA may also include up to three observers, appointed at the discretion of the IFAC Board, in consultation with the PIOB. Observers may attend IESBA meetings, have the privilege of the floor, and may participate in projects. Observers are expected to possess the technical skills to participate fully in IESBA debates and attend IESBA meetings regularly to maintain an understanding of current issues.

The Chair of the IESBA CAG is expected ~~entitled~~ to attend IESBA meetings ~~with privilege of the floor~~, or to ~~may~~ appoint a representative of a CAG member organization to attend ~~with the same~~

¹ A non-practitioner is a person who is not a member or employee of an audit practice firm and, in respect of individuals who have been members or employees of such firms, there shall normally be a cooling-off period of three years, but that such period may, on a comply or explain basis, be reduced, provided that such a reduction shall not result in a cooling-off period of less than one year. Where an individual is proposed for appointment with less than a three year cooling-off period IFAC shall provide to the PIOB the reasons for the proposed appointment, which the PIOB shall, in line with its authority to approve all appointments to the IESBA, have the authority to accept or decline.

privilege. The Chair of the IESBA CAG, or appointed representative, has the privilege of the floor at IESBA meetings.

IESBA members are required to sign an annual statement declaring they will act in the public interest and with integrity in discharging their roles within IFAC.

5.0 Meeting Procedures

Each IESBA meeting requires the presence, in person or by simultaneous telecommunications link, of at least twelve of the appointed members.

IESBA meetings shall be chaired by the Chair or, in his or her absence by the Deputy Chair. In the event of the absence of both, the members present shall select one of their number to take the chair for the duration of the meeting, or of the absence of the Chair and Deputy Chair.

Each member of the IESBA has one vote. The affirmative vote of at least twelve of those present at a meeting in person or by simultaneous telecommunications link or by proxy is required to approve changes to the Code, Interpretations and exposure drafts.

A member who is unable to attend an IESBA meeting may appoint a proxy to vote on his or her behalf, on written representation to the Chair that the proxy has been instructed on how to exercise the vote. When the proxy is uncertain of how the member would vote in the circumstances, the proxy abstains from voting. The appointment of a proxy is disclosed at, and recorded in the minutes of, the meeting.

IESBA meetings to discuss the development and to approve the issuance of, changes to the Code, Interpretations, exposure drafts and other pronouncements are open to the public. Matters of a general administrative nature or with privacy implications may be dealt with in closed sessions of the IESBA; no decisions that would affect the content of the Code, Interpretations, and other pronouncements issued by the IESBA are made in a closed session. Agenda papers for open sessions, including minutes of the meetings of the IESBA, are published on the IFAC website. The IESBA meetings and agenda papers are in English, which is the official working language of IFAC.

The PIOB has the right to attend, or be represented at, all meetings and closed sessions of the IESBA.

6.0 Due Process

In developing the Code and Interpretations, the IESBA is required to be transparent in its activities, and to adhere to due process as approved by the PIOB.

The PIOB is consulted to help establish the appropriateness of the IESBA's project priorities and any changes therein. In setting its strategy and work program, the IESBA obtains the PIOB's conclusion as to whether the due process used to develop the IESBA's strategy and work program has been followed effectively and with proper regard for the public interest. The IESBA also obtains the PIOB's opinion, as at the date of that opinion, on the appropriateness of the items on the work program, and its approval of the completeness of the strategy and work program from a public interest perspective on whether or not it wishes, from a public interest perspective, to have any further items added. The IESBA adds to its work program those items

that the PIOB resolves should, from a public interest perspective, form part of the IESBA's work program.

7.0 Consultative Advisory Group

The objective of the IESBA Consultative Advisory Group (CAG) is to provide input to and assist the IESBA through consultation with the CAG member organizations and their representatives at the CAG meetings, in order to obtain advice on the IESBA's agenda and project timetable (work program), including project priorities, technical advice on projects and advice on other matters of relevance to the activities of the IESBA.

8.0 The IESBA Chair

The standard term for the Chair of the IESBA is 3 years renewable, subject to the approval of the IFAC Board and the PIOB, for one further period of up to 3 years. The Chair of the IESBA can serve for a maximum of 6 years.

9.0 Other

The IESBA publishes an annual report, outlining its work program, activities and progress made in achieving its objectives during the year.

IFAC will review the effectiveness of the IESBA's processes at least every three years.