

**Draft Minutes**  
**International Ethics Standards Board for Accountants (IESBA)**  
**CONSULTATIVE ADVISORY GROUP (CAG)**  
**Held on September 9, 2009 in Washington, United States of America**

<i>Present</i> Richard Fleck (chair)	Financial Reporting Council
Conchita Manabat	Asian Financial Executives Institutes
Marc Pickeur	Basel Committee on Banking Supervision
Kristian Koktvedgaard	Business Europe
Matthew Waldron	CFA Institute
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Philip Johnson	Fédération des Experts Comptables Européens
Hilde Blomme	Fédération des Experts Comptables Européens
Koichiro Kuramochi	Japanese Financial Services Agency
Paul Koster	Gulf States Regulatory Authorities
Obaid Saif Hamad Ali	Gulf States Regulatory Authorities
Al Zaabi	
David Damant	IAASB Consultative Advisory Group and CFA Institute
Susan Lione	Institute of Internal Auditors
Susan Koski-Grafer	International Organization of Securities Commissions
Patricia Sucher	International Organization of Securities Commissions
Filip Cassel	International Organization of Supreme Audit Institutions
David Morris	North American Financial Executives Institutes
Greg Scates	Public Company Accounting Oversight Board
Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board
Simon Bradbury	World Bank
Linda de Beer	World Federation of Exchanges
Richard George	IESBA Chair
Ken Dakdduk	IESBA Member
Jan Munro	IESBA Senior Technical Manager
Michael Hafeman	PIOB
<i>Regrets</i> Gerald Edwards	Basel Committee on Banking Supervision
Georges Couvois	European Federation of Financial Executives' Institutes
Jean-Luc Peyret	European Federation of Financial Executives' Institutes

John Carchrae

World Bank

Jim Sylph

IFAC Executive Director, Professional Standards

### **A. Opening Remarks**

Mr. Fleck welcomed all participants to the CAG meeting. He welcomed Michael Hafeman from the PIOB and new members Dr. Manabat, Philip Johnson, Koichiro Kuramochi, Elena Lobanova, Paul Koster and Obaid Saif Hamad Ali Al Zaabi. He also welcomed Ajith S Ratnayake as an observer with speaking rights. He noted that apologies had been received from John Carchrae, Gerald Edwards, Georges Couvois, Jean-Luc Peyret and Jim Sylph.

The minutes of the Dubai March 2009 CAG meeting were approved as presented.

### **B. Report from IESBA Chair**

Mr. George reported that the IESBA had met once since the last CAG meeting. At that meeting, which was in April 2009, the IESBA approved the revised Code. He noted that changes had been made to address CAG members' comments in the areas of mergers and acquisitions, documentation, and the consultation clause. The Code was issued in early July, after PIOB consideration of due process.

He indicated that since the April meeting, the activities of the Board had been largely driven by the Board's Planning Committee, which developed the project proposal and the Strategic Survey that would be discussed at the meeting. In addition, implementation support materials had been issued to support adoption and implementation of the Code.

Mr. Fleck asked whether there were any questions arising out of the Dubai CAG meeting or the IESBA meeting in April. No CAG members raised any questions.

### **C. Conflicts of Interest**

Mr. George introduced the topic, noting that the IESBA has identified conflicts of interest as a high priority project. The CAG members confirmed the priority of this project at the CAG's March 2009 meeting. 92% of respondents to the strategic survey also expressed the view that this project was either very important or important. In light of the timing of the CAG and IESBA meetings, the IESBA has not yet discussed the Planning Committee's draft proposal. The IESBA will discuss the proposal at its October 2009 meeting. Mr. George noted that potential conflicts of interest have become more common as the number of large firms has declined, while the potential consequences of conflicts have become more significant. The proposed project would take existing guidance and link it more clearly to fundamental principles, such as integrity. It would provide more guidance on identifying and dealing with conflicts of interest, particularly the most

difficult situations. He noted that the project would not take as long as the independence project and had a time line of 2-2.5 years.

Ms. Koski-Grafer noted that the IOSCO Auditing Subcommittee was of the view that the project was an appropriate one and it was timely. The roles played by firms and the services provided continue to expand, thus creating interactions with other service providers and potential conflicts of interest. She also said that she hoped that this project could address the issue of avoiding mutuality of interests. In response to a question, she said that this referred to the need for the auditor to avoid becoming allied with an audited entity in a service or role that would involve advocacy of a client interest or otherwise create a common interest in a business matter.

Ms. Koski-Grafer said that the possible definition of a conflict of interest contained in the project proposal was a good start, but she wondered whether the definition should include a reference to the individual accountant's views, in addition to those of a reasonable and informed third party. The definition could perhaps address situations where the accountant has a concern that his or her judgment might be affected. She noted that this was probably already implicit in the Code, but it might be beneficial if the matter was explicit.

With respect to the linkage to fundamental principles, Ms. Koski-Grafer expressed the view that increased linkages are positive as they can strengthen understanding of the Code. She cautioned against too much sub-categorization and classification, though she recognized that an auditor might have different duties and responsibilities from, for example, a professional accountant in business, making some distinctions necessary.

Mr. Waldron stated that he thought it was a timely project and the project proposal was well thought out. With respect to the definition, he noted that it might be useful to address the issue of conflicts in fact and conflicts in appearance.

Ms. Blomme stated that the FEE Ethics Working Party had discussed the project proposal putting the consideration in a broader context and provided the following comments. Many members of the Working Party are now concerned with implementing the Code that was issued in July 2009. In many jurisdictions responsibility for independence requirements is not in the hands of the member body and, therefore, implementation will be time consuming. The IESBA has signalled its intention to pause in issuing further independence standards to allow people time to implement the revised Code. She noted that members would also like a pause with regard to any further revisions to other parts of the Code. The members, therefore, believe that any additional guidance on conflicts should be outside of the Code. Mr. George indicated that the IESBA would be sensitive to this, but that the commitment to a period of stability in the Code was limited to Independence and not to the Code as a whole. He emphasized that accountants in business have expressed the need for guidance. Mr. Dakdduk noted that the two or more years the project will take will provide a reasonable period of stability for the Code.

Mr. George responded that the intention of the project was to revise Sections 220 and 310 of the Code as the current Code contains limited guidance for professional accountants in business and the limited guidance is quite dated. In addition, it was too early to know whether the revisions would result in additional requirements or would be in the form of additional guidance.

Mr. Morris expressed his support for the project. He noted that he had been asked on behalf of IFAC to see how many FEI members were aware of Section 310. The results of his inquiries indicated that most people did not know of the existence of Section 310. In this regard, he questioned whether a preferred approach would be to split the project into two work streams with one work stream addressing professional accountants in practice and the other professional accountants in business.

Mr. George noted that some professional accountants in business had expressed the view that the IESBA has focused too much on professional accountants in public practice. There could be differences in conflicts faced by the two types of professional accountants; for example, professional accountants in business may have a stronger loyalty to the employer as opposed to those outside the company.

Mr. Koktvedgaard agreed that it was a timely project. He indicated that the IESBA would need to be clear as to whether the project was dealing with conflicts of interest or independence. With respect to the issues of separately addressing professional accountants in business, he agreed with Mr. Morris that this matter should be considered and further noted that it might be easier to revise Section 310 than Section 220.

Mr. Koster stated that it was good project proposal and agreed with Mr. Morris' comment that professional accountants in business do not know about the Code. He asked how professional accountants in business are overseen with respect to their compliance with the Code. Mr. George responded that the IESBA is not responsible for compliance. Member bodies are responsible for compliance and the IFAC Compliance Advisory Panel oversees member body compliance with the IFAC Statement of Membership Obligations.

Mr. Pickeur stated that while his view was that the project was not a top priority he supported the project. He asked whether the project would consider the conflict between confidentiality of client matters and the need to talk to regulators, noting that this had been problematic in the past (see IAPS 1004.51-53). Mr. George responded that this would more likely fall into the scope of the other project addressing the accountant's responsibility when responding to suspected fraud and illegal acts.

Mr. Cassel stated that he thought the project was both important and relevant. He noted that there is an intersection between the public and private sector and there are new developing structures that can create conflicts of interest. He felt that it was important that any output of the project have the same status as the remainder of the Code and, therefore, the output of the project should be amendments to the Code.

Ms. Koski-Grafer stated that it was important to consider all of the comments that had been made. Referring back to an earlier comment made in the IESBA Chair's introduction of this project as one that seemed relatively straightforward, she noted that the number and type of comments made seemed to indicate that the project might not be as straightforward as originally envisioned and that there was potential for "scope creep" in the project.

Ms. Koski-Grafer encouraged the IESBA to consider whether the project should also address mutuality of interests. She indicated that there are circumstances where an auditor might be advocating for a client such that there is a mutuality of interest creating a variation of a conflict of interest and raising an independence issue.

Ms. de Beer stated that it was a very important project, not only for the large accounting firms but also for the small firms. She stated that professional accountants in business do not know about the Code and expressed concern that if the project addressed both types of accountants simultaneously, the guidance for accountants in business might be delayed. She noted that the definition of a conflict of interest was of critical importance to the project. She agreed with those who had said that the output of the project should result in amendments to the Code.

Mr. Diomeda stated that it was important to take into account the SMP environment. He noted that sole practitioners do not have the luxury of having partners with whom to discuss a potential conflict – in this regard additional guidance was both necessary and welcome.

Mr. Johnson stated that he would not want the impression to be given that guidance for professional accountants in business was more urgent because their behavior is somehow different. He, therefore, felt that the two issues should be addressed at the same time.

Mr. Fleck remarked that a number of people had raised the issue of the profile of the Code with professional accountants in business. He noted that this is something the member bodies of IFAC need to consider.

Ms. Blomme stated that in the UK professional accountants in business are members of IFAC member bodies, but with many jurisdictions when an accountant leaves professional practice he or she is no longer a member of a member body of IFAC. In this regard, while a member body can promote the Code to such accountants, the body does not have jurisdiction over them.

Ms. Koski-Grafer noted that if professional accountants in business were less regulated and overseen than professional accountants in public practice, then the Code might not be able to address such individuals to the degree it addresses accountants in public practice. It might, however, be possible for the IESBA to raise the profile of the Code with such individuals, thus increasing their awareness of the Code.

Mr. Morris noted that the matter is complicated further because many CFOs do not have an accounting background.

Mr. Koktvedgaard stated that the Code only addresses members of member bodies of IFAC. He noted that the discussion contained in existing Section 310 was interesting as, for example, one of the bullets refers to violating laws – which is not the same as an ethical conflict.

Mr. Fleck noted that it was important to heighten people’s awareness of when conflicts arise. He noted that sensitivities to conflicts probably change as social changes occur. He expressed support for the project, noting that it was important to provide additional guidance for accountants on identification of conflicts and conflict management.

Mr. Damant expressed the view that oversight of professional accountants in business was an issue that was closely tied to corporate governance and that he was planning on the IAASB CAG discussing this matter more fully in Barcelona.

Mr. Fleck noted that it was important for the project proposal to carefully establish the scope of the project given the potential for “scope creep.”

Mr. George thanked CAG members for their support for the project and the specific comments.

#### **D. Strategic Plan**

Mr. George introduced the topic. He noted that in March 2008, the IESBA issued a Strategic and Operational Plan for 2008-2009. To date, for the period covered by the plan, the IESBA’s work effort has focused on the two independence projects and drafting conventions. He noted that with the approval of the revised Code in April 2009, the IESBA is now in a position to start new projects.

Consistent with the IESBA’s due process and operating procedures, the IESBA has surveyed key stakeholders to obtain their views on project priorities. The survey was widely released, including to all PIACs, PIAC CAGs, Forum of Firms members, IESBA-NSS Members, respondents to previous exposure drafts, and IFIAR. The survey was also placed on the IESBA website. The survey stated that the fraud and illegal acts and conflicts of interest projects were priorities of the Board and asked respondents to confirm the priority of these two projects. The survey also identified other possible projects (which had either been suggested by the National Standard Setters or by respondents to the IESBA’s strategic review in 2007) and requested input on the priority of these projects and contained some open-ended questions to allow respondents to identify other possible projects.

He noted that over 100 responses had been received and the Planning Committee has made an initial review of the comments received but, in light of the timing of the survey and the CAG meeting, has not yet had a chance to review the comments in detail. The IESBA will consider the comments at its October 2009 meeting.

Mr. George reported that the responses were strongly supportive of the two identified projects as priorities and also very supportive of an emphasis on convergence of international and national standards. He noted that some respondents expressed the view that there should be a period of stability in the Code to provide member bodies and firms with time to adopt and implement the changes.

Mr. Fleck asked CAG members if there were any questions with respect to the process the IESBA was following. No questions were raised.

Mr. Morris noted that there were a large number of respondents categorized as “other.” Ms. Munro said that respondents had indicated which category they felt most appropriately described them and many people had opted to use the “other category” without providing additional details.

Ms. Koski-Grafer indicated that while IOSCO had not responded to the survey due to somehow overlooking the email in which it had been sent, the views it would likely have expressed would have been similar in many regards to those provided by other respondents. In particular, the conflicts of interest and fraud projects were viewed as the priority projects. She also noted that since some other CAG members had responded, it might be appropriate to view the survey as providing useful background information as opposed to definitive views.

#### *Fraud and Illegal Acts*

Ms. Sucher noted that this would be a challenging project given the subject matter and the differing legislation in various jurisdictions. She also noted that it was important that any output of the project not conflict with the guidance in the ISAs.

Ms. Blomme stated that she did not have an issue with the project but without a detailed project proposal it was difficult to comment. She agreed with Ms. Sucher that in light of the differing legislation on the matter, the project would be complex. She also wondered whether the issue might be easier to address for professional accountants in business than for professional accountants in practice.

Mr. Fleck noted that the intention of the project was not to catalogue the existing legislation; rather it was to provide a framework for accountants to address the issue.

Mr. George stated that the Planning Committee recognized that it would be a challenging project. He also noted that, depending on the progress of the project, there might eventually be two work streams – one addressing public accountants in practice and the other addressing public accountants in business.

Mr. Koktvedgaard asked where the boundaries of this project would be and how it would link with the ISA on fraud. Mr. George responded that the IESBA project would address how a professional accountant responds to a suspected fraud or illegal act whereas the ISA addresses the auditor’s responsibility for detecting fraud.

Mr. Fleck noted that a project proposal addressing the subject would be discussed by the CAG at its March 2010 meeting.

*Independence Requirements for Accountants not in Public Practice who Perform Assurance Engagements*

Mr. George noted that while there was support for this project, respondents felt that the projects on conflicts of interest and fraud were of greater importance.

Ms. Koski-Grafer indicated that perhaps this was a project that could be undertaken at a slower pace. She also noted that it would be useful to consider whether this project would lead to increased convergence.

Mr. Cassel stated that it was important to provide guidance for professional accountants in government who perform assurance engagements, but it was not as high a priority as the other two projects.

Mr. Waldron agreed that it was an important project but not as high a priority as the other two projects identified. He wondered whether respondents had given it a lower priority because, for example, many of the accountants who work for governments are not members of member bodies of IFAC.

Mr. Koktvedgaard expressed the view that the independence considerations of auditors performing assurance engagements were important. He noted that he had seen an external assurance report that had been issued by the internal auditor of an entity. Ms Koski-Grafer agreed, noting that issues relating to internal auditors would be increasingly important. It would not, however, make the project a higher priority than the ones addressing conflicts and fraud. Ms. Lione noted that the report to which Mr. Koktvedgaard referred would not be in accordance with the standards of the Institute of Internal Auditors because the report was for external use. She reported that the Institute of Internal Auditors was working on gaining greater global acceptance and use of its standards.

Ms. Lione indicated that she felt that the project was very important and noted that internal auditors sometimes provide opinions that are published, for example, as part of financial statement footnotes.

Mr. Fleck noted that there was a great deal of interaction between internal audit and external financial statements and, as such, it was his instinct that perhaps this might be a project for the future.

Mr. Koster stated that he would see this project as a lower priority project than the one addressing professional accountants in public practice providing non-assurance services.

*Ethical Guidance for Professional Accountants in Public Practice Providing Non-Assurance Services*

Ms. Sucher expressed her personal view that she was surprised that, given the substantive role that firms have played at various stages of the recent financial crisis, respondents to the survey did not give this project a higher priority.

Mr. Fleck noted that it was a difficult matter – for example, in considering tax, it could be argued that people should be morally obligated to pay the tax that the government established as opposed to try and reduce the tax paid to the greatest possible extent. Ms. Sucher agreed with Mr. Fleck but indicated that as a grey area it was exactly where additional guidance was needed.

Mr. George noted that the boundary around the accountant's services is constantly changing and it would, therefore, be a difficult project to scope.

Mr. Johnson stated that irrespective of what service a professional accountant provides, he or she has to comply with the ethical requirements. In this regard, he had difficulty seeing this as a separate project. He noted that the danger is that many non-assurance services are provided by non-accountants who are not subject to the Code.

Mr. Koster stated that he could understand the expectation that the profession would follow the ethical principles. He also stated that the public would benefit from having some clearer guidance as to what was and what was not permitted. He noted that the business environment was getting more complex. He indicated that he would, therefore, give this project a high priority.

Ms. Koski-Grafer noted that the IOSCO survey on non-audit services indicated differing responses, even from those who said they had implemented the Code. She stated that she could see that there would be competing views, with some feeling that certain matters should be tightened up and others thinking that there should be more leeway.

Mr. Fleck indicated that the Planning Committee would consider the comments but there seemed to be an indication that this was a project that perhaps should be addressed in a future Strategic Plan. He also noted that if the Planning Committee wanted more input on this matter, it might be useful to prepare more detailed questions for discussion and consideration. He noted that he was struck by the amount of discussion on the topic and the fact that some of the comments seemed to touch on the reputation of the accountant and the profession. In this regard, he noted, it might be a fruitful topic for further discussion.

Ms. Blomme noted that the FEE paper on integrity might be useful in this regard.

#### *Independence – Collective Investment Vehicles Including Mutual Funds*

Mr. George noted that respondents had indicated that this was a lower priority.

#### *Other Projects for Part B of the Code*

Mr. George noted that while several respondents suggested additional topics for Part B, there was no consensus on which topics should be addressed. In addition, many

respondents expressed the view that there should be a period of stability before any further independence standards were issued to allow time for adoption and implementation. He noted that some had expressed the view that the IESBA should consider the topic of integrity.

Mr. Fleck indicated that this was linked to the previous discussion of the CAG. While the Code establishes standards for adoption by individual accountants, it does not always address the firms. Given that firms are also staffed by individuals who are not professional accountants, there is probably room for a wider debate. For example, the behavior of those who are not professional accountants within a firm will have an effect on the reputation of that firm and, therefore, on the reputation of the profession.

Mr. Koktvedgaard concurred that it was an important point. He noted that the subject would also apply to network firms (which might not be firms of professional accountants).

Mr. Pickeur stated that integrity was important because it was the overarching issue and underpinned ethics. He stated that, in his view, the priorities for the IESBA should be dissemination and adoption of the Code, conflicts, fraud, and integrity.

Mr. Johnson stated that integrity is the cornerstone of professional life and it was important that this concept be instilled into all professional accountants and all those within firms.

Mr. Fleck stated that the discussion had indicated that this was a matter that should be considered further by the CAG.

#### *Other Matters*

Mr. George indicated that several respondents stated that the IESBA should focus on promoting the Code and furthering the IESBA's objective of international convergence. He noted that some implementation support materials had been developed and posted on the IESBA website.

Ms. Koski-Grafer said that one could see that there were two broad methods or approaches to convergence. One method is a "bottom-up" approach, whereby one or two specific areas could be selected and studied to try and ascertain why there were differences between jurisdictions. This discussion might indicate that there was a middle ground or another way that would further convergence on the particular topic. This approach has been referred to in some past IOSCO comment letters, noting that the IOSCO survey on non-assurance services could provide a good starting point for such work. The other method might be described as a "top-down" approach. She noted that both fundamental principles and independence requirements in most jurisdictions address the same issues and, therefore, another approach would be to first try to line-up and compare the principles that underpin the requirements, and work toward an agreed-upon set of global principles. With an agreement on the principles, it might be possible, in a future iteration or two of the Code to use the global principles as the base against which

to consider and debate specific requirements in an effort to work toward convergence. She expressed the view that achieving true convergence was probably only possible through the top-down approach and that, given embedded practices and regulations in different countries, it would take considerable time and effort to make progress in this area. She noted that such work might necessitate a further iteration, or two, of the Code.

Mr. George stated that it was important that IFAC member bodies adopt and implement the Code in the most effective manner. He also noted that members of the forum of firms have a commitment to do so with respect to transnational audits. He stated that further convergence was challenging. Ms. Koski-Grafer agreed, noting that perhaps this was more of a topic for the 2013-2015 Strategic Plan.

Ms. Blomme noted that adoption and implementation of the recently issued revised Code would be challenging for member bodies. In particular, she noted that there would be challenges for SMPs.

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

Mr. Fleck invited Mr. Hafeman, representing the Public Interest Oversight Board (PIOB), to make some comments.

Mr. Hafeman noted that it had been a short but productive CAG meeting. He felt that there had been a robust discussion, which would provide useful input for the Planning Committee in developing the strategic plan.

He stated that the discussion on firm reputation risk had been an interesting one and was a good area for further discussion. The independence section in the Code addressed individuals and firms and, as such, it was sometimes difficult to untangle exactly who was responsible for what. He noted that the Drafting Conventions project had helped to clarify the issue but the Code could go further. On behalf of the PIOB he thanked all CAG members for their input and contribution.

Mr. Fleck thanked Mr. Hafeman for his comments, noting that the IESBA had already acknowledged that responsibility is an issue that might be addressed in the future.

#### **G. Closing**

Mr. Fleck thanked all CAG members for their contribution and closed the meeting.

#### **H. Future Meeting Dates**

March 3, 2010 (Barcelona, Spain)  
(September 15, 2010 (London, UK)