



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçào Internacional das Comissões de Valore

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Ms. Jan Munro  
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International Ethics Standards Board for Accountants  
International Federation of Accountants  
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Email address: Edcomments@ifac.org

Dear Ms. Munro:

Re: IESBA Strategic and Operational Plan, 2008-2009

IOSCO Standing Committee No. 1 on Multinational Disclosure and Accounting ("SC 1") appreciates the opportunity to comment on the International Ethics Standards Board for Accountants ("IESBA" or "the Board") Strategic and Operational Plan 2008-2009.

As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting.

Our comments in this letter reflect a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

***Operational Plan and Work Program – Fraud and illegal acts***

We welcome the Board's initiative to embark on the project regarding frauds and illegal acts, as auditors' appropriate responses to fraud risks and suspected frauds are critical in ensuring high quality audits. We, however, are still unclear whether the Board intends to include whistle-blowing professional requirements and other guidance for auditors as well as for accountants in business, when suspected fraud or misuse of assets is encountered. As noted in past IOSCO letters to the IESBA, the effect of the current technical provisions in the IFAC Ethics Code is to place an impediment to whistle-blowing by auditors when there is not a specific legal requirement to notify regulators of suspected wrongdoing. It would be helpful to clarify what actions auditors may ethically take in the absence of a specific legal and/or regulatory requirement, and to promote visibility of the Board's work in this area to all parties that are potentially affected. In addition, it may be helpful for the Board to have substantive

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discussions with regulators on this topic, as whistle-blowing requirements have already been put in place in many jurisdictions, but such requirements vary.

### ***Drafting Conventions and the Clarity Project***

We welcome the Board's initiative to reconsider the drafting conventions of the Code. Having full clarity in language used in the Code is of prominent importance from the viewpoint of regulators being responsible for enforcement of the Code as well as providing guidance to auditors. However, it appears in the draft work program (Appendix-1) of the paper that the Board is going to spend very little time for the discussion and revision effort as compared to what was required to carry this work out in the IAASB Clarity Project. We are not sure how reasonable and realistic the present IESBA plan is. In any case, we strongly suggest that the Board allow sufficient time to have thorough deliberations, to ensure that appropriate redrafted wording is developed and used consistently throughout the Code.

We also note that we have provided some comments regarding the clarity of language used in the Ethics Code in our recent letter on the Independence-1 Exposure Draft. Following are excerpts from our comment letter to the ED of Independence-1, which suggest more clarity of the language in the Code.

*"The proposed Independence Code is long and sometimes difficult to read. The language used is sometimes indirect, and ambivalent or weak. Threats to independence are not always clearly stated. In general, our view is that the Code is less clear and less enforceable than the ISAs, both in structure and in language, and that the Code would benefit from significant work to improve its overall clarity."*

We believe that attention should be given to overall tone and language in the Code as part of the Board's efforts to redraft standards using the Clarity project provisions.

### ***Use of IOSCO NAS Survey Results and initiating the work toward global convergence***

We would like to see much more emphasis placed upon the matter of the IESBA providing leadership in working for progress toward global convergence in auditor independence and ethics standards. IOSCO carried out a significant study on regulation of non-audit services in 2006 and 2007, and we believe that the Board should make great use of this study as well as other studies made in various jurisdictions, to analyze and identify which non-audit services are prohibited in practice and why. We would like to emphasize that in making this statement, we make no presumptions about what kinds of changes might need to be proposed and adopted to move toward greater convergence, specifically whether a requirement on a given matter should be made more or less stringent in the Ethics Code. Rather, we would like to see the Board examine the nature of each present practice that differs among jurisdictions, its actual and potential effects on auditor behaviour and audit quality and on investor perceptions, and the costs and benefits involved, and consider all factors objectively in an effort to work for progress toward global convergence in independence requirements around the world.

We understand that the Board is trying to promote the global use of the IFAC Ethics Code in countries whose capital markets are in different stages of development, and in which legal frameworks vary widely. We recognize that working to reduce differences and especially conflicts in independence requirements is very challenging. But if such work is never begun, progress will never take place. We think the IESBA would be ideally positioned to undertake such projects in partnership with national standards setters in the context of working for convergence in professional standards and those projects such as this would also facilitate informed dialogues with regulators.

### ***IESBA consultation process and Board composition***

We agree with the Board's statement on page 9 of the proposed Operational Plan that communications with regulators, standards setter, leaders of the accountancy organizations, members of the profession, and others are essential in fulfilling the Board's objectives. We would only add that it is very important that the Board should endeavour to reach out more actively for participation in standards setting from persons who are users of financial statements and/or beneficiaries of audits, as the majority of Exposure Draft comments and discussions in Board deliberations now seem to come from audit firms and others in the audit industry.

To address the importance of user and other stakeholder involvement in IESBA work, we suggest that the Board might find it helpful to initiate actions in the following areas:

#### ***1. Greater use of the IESBA Consultative Advisory Group (CAG)***

Since this body consists of a wide-range of stakeholders, we suggest that all future meetings of the CAG should be held as face-to-face meetings, and also that CAG meetings could periodically include a joint meeting between the full Board and the CAG. Face-to-face meetings would help to ensure that Board members are fully aware of various stakeholders' views, and would also provide the benefit of exchanges among the various CAG members and the Board. We understand that the idea of a possible meeting of the full Board and the CAG was raised at the last IESBA Board meeting and we think this is an excellent idea.

#### ***2. Enhancement of the current process in the IESBA CAG***

Through our experience of involvement in the IAASB CAG, we believe the IESBA Board and CAG processes would be enhanced by instituting a CAG member comment feed-back process similar to that used by the IAASB. We believe it is critical for standard setters to maintain an appropriate due-process to obtain and fully consider inputs from a wide-range of stakeholders and to respond to those stakeholders with explanations on why the final Board decisions are made. It is also important from a public interest perspective to explain the reasons for not taking up requests and suggestions from regulators and other entities representing the public interest, if this should occur. Feedback on how inputs received were considered and on why Board decisions were made will contribute to transparency in standards setting.

#### ***3. Outreach to external user groups***

It is important for IESBA to publicize its work effort on revising the IFAC Ethics Code and to emphasize how the Code will have an impact in auditing and financial reporting, especially to users of financial statements and audit opinions. Increased visibility into the Board's work may lead to more thoughtful public comments on proposed standards and enhance the standard setting process in other ways.

#### ***4. Comment period for Exposure Drafts***

Comment letters sent in response to the Board's Exposure Drafts and other consultation papers are probably the most comprehensive sources of stakeholder input to the Board. We acknowledge a number of improvements that have been made by the Board during the last few years, including specifying a standard comments period in its due-process document. However, we think readers of Ethics Code EDs would benefit from longer comment periods to enable external parties to understand the contents and analyze the potential impacts, because virtually all changes in the Ethics Code have substance and significant implications. We therefore recommend that the Board extend its standard 90-day comment period for

IESBA EDs to 120 days. This would be particularly helpful at the moment, as many audit-related pronouncements are being published simultaneously by the IESBA and the IAASB.

#### ***5. Use of public forums and hearings***

We believe that having one or more Forums or other public hearing events would be very useful to promote two-way communications between the Board and the various stakeholders.

Occasions such as this can enable more frank and straightforward communication and interaction among stakeholders as well as between stakeholders and the Board. Forum and hearing events also generate publicity and greater recognition of the Board's work. We think a Forum is particularly useful when the project or subject issue is complicated or controversial and would have wide-ranging impacts. We note that on a global scale, many persons may have difficulty in developing or giving a full understanding from only written communication, and a Forum or hearing can enhance understanding either way.

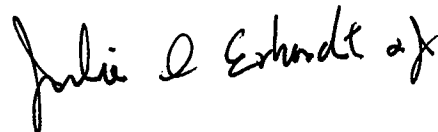
Acknowledging such strong potential benefits, and in view of the significance of the changes being contemplated in the Independence-1 and Independence-2 projects, we encourage the Board to consider holding its proposed Forum in February or March of 2008, rather than waiting until the third quarter of 2008. We think a Forum in early 2008 could be very helpful to the Board in its efforts to finalize the Independence Code. This might be an ideal time to combine a CAG meeting with a full Board meeting and that perhaps at least one Forum could be held in connection with such an event.

#### ***6. IESBA Board composition***

We note that the IESBA operational and strategic plan does not make mention of studying and considering the issue of whether and how the Board might broaden its membership over time to include additional public interest members, including users and others who have never been auditors and who could therefore bring different independent perspectives into independence standards setting. We understand that the Board's development of the operational and strategic plan may have focused on standards projects to be undertaken by the Board, and that the issue of Board composition is one to be addressed by the PIOB and IFAC Nominating Committee rather than by the Board itself, but we think some mention of this issue in the IESBA strategic plan would be of value.

We appreciate the Board's thoughtful consideration of the points raised in this letter. If you have any questions or need additional information about the comments that we have provided, please do not hesitate to contact me at 202-551-5300 or contact any member of the SC 1 Auditing Subcommittee.

Sincerely,



Julie A. Erhardt  
Chair  
IOSCO Standing Committee No. 1