



Ms. Jan Munro
Deputy Director
International Ethics Standards Board for
Accountants (IESBA)
International Federation of Accountants
(IFAC)
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

21 May 2010

Ref.: ETH/HvD/HB/LA/SH

Dear Ms. Munro,

Re: Exposure Draft – Strategy and Work Plan, 2010-2012

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to comment on the International Ethics and Standards Board for Accountants (IESBA) Exposure Draft (ED) on the Strategy and Work Plan, 2010-2012 (Proposed Plan).

This letter includes a number of general comments on the ED and a number of specific comments on detailed aspects of the Proposed Plan.

1. Main Comments

1.1 Need for pause in ethics and independence standards setting

FEE supports that the Proposed Plan suggests under Strategy - Adoption and Implementation a period of stability (of at least two years) during which no new independence requirements will be developed and will take effect in order to allow member bodies and firms an appropriate period of time to implement the revisions. We understand this pause in independence standard setting to be both in revising independence standards (including requirements and guidance) and issuing new sections in the independence standards.

However, as consideration is usually given to the adoption and implementation of the completely Revised IESBA Code of Ethics for Professional Accountants of July 2009, it appears that a pause in *ethics* standard setting would be equally appropriate.

It should also be noted that the European Commission Decision of 29 July 2008 concerning a transitional period for audit activities of certain third country auditors and audit entities will expire on 31 July 2010. Although the European Commission January 2007 Consultation on implementation of Articles 45 – 47 of the Statutory Auditing Directive on “Cooperation with Non-EU jurisdictions on Auditor Oversight” considered using the independence requirements of the (then applicable) IFAC Code of Ethics as a benchmark for equivalence decisions under Article 45, provided that the revised Code is equivalent to the requirements of the Statutory Audit Directive, this proposal did not make it to the published Commission Decision of July 2008.

In order for the independence requirements of the Revised IESBA Code of Ethics for Professional Accountants of July 2009 to stand any chance to be reconsidered as a benchmark for equivalence decisions in a new European Commission Decision on a transitional period for audit activities of certain third country auditors and audit entities, such a stable platform of a set of up-to-date independence standards would also be beneficial. Additional communication between IESBA and the European Commission would obviously also be needed to convince the European Commission to go this way.

In general, any implementation of standards needs a time of calm in order to create the necessary confidence to be successful. FEE is therefore of the opinion that further relentless amendments to the IESBA Code of Ethics cannot be justified. This applies also to the collective investment vehicles projects commented on in further detail below.

1.2 Needs of professional accountants in SMP and SME environments

One particular item which FEE noted in similar application and implementation processes, for instance in relation to the clarified ISAs, is the special focus needed on the application and implementation by smaller practitioners in smaller entities and by smaller IFAC Member Bodies, commonly environments with limited human and financial resources. FEE would encourage the IESBA to particularly focus on the needs of those target groups for the implementation of Section 290 of the Code on Independence. FEE finds that the smaller practitioners are usually looking for material which, although technically and theoretically sound, is first and foremost practical, easily accessible and genuinely addresses the specific needs of smaller practitioners operating in smaller entities. The buy-in from especially smaller practitioners is crucial to make the roll-out of the Code, and especially Section 290 on independence, which is to be applied by all professional accountants, a success.

1.3 Professional ethics

Following the completion of the revision of the independence sections in the IESBA Code of Ethics for Professional Accountants, IESBA should refocus its attention away from independence standards and prioritise its activities to develop or improve ethical standards as explained in further detail below.

Recent debate, within and outside of FEE, has indeed indicated that there might be a renewed need to focus on ethical requirements and the fundamental principles of professional ethics rather than continue to concentrate on independence issues.

The fundamental principles of professional ethics including integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are gaining in importance in the current professional, regulatory and business environment as ethical values are not necessarily any longer instilled in general education and thus behaviour.

In September 2009, FEE issued a Discussion Paper on Integrity in Professional Ethics with a deadline for comments of 31 January 2010. Nearly 30 comment letters were received from a variety of stakeholders which are currently being analysed by FEE. A significant number of comments received will no doubt also be of great importance to the IESBA. As soon as our analysis of comments received forms a solid enough basis for discussion, FEE would like to involve the IESBA in its considerations of these comments. Our ultimate goal would be to hold a roundtable to discuss integrity as well as to issue a follow-up paper including an analysis of responses.

FEE invites the IESBA to closely follow this and other debates on ethical values and to consider its implications for its Proposed Plan.

2. Comments on Specific Aspects

Appendix I of the Proposed Plan considers whether to supplement ethics and independence guidance contained in the IESBA Code of Ethics for Professional Accountants on a number of matters.

FEE is committed to the principles-based approach as being the most robust one because, inter alia, by focusing on the underlying aim rather than on detailed restrictions and prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach. This has been recognised in Europe by the European Commission Recommendation on Independence, which follows this approach, and the 2006 Statutory Audit Directive (2006/43/EC), which specifically endorses this approach in Article 22. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that some requirements or rules as well as some guidance or examples of how these should be applied are necessary.

We however believe that there is a risk that requirements and guidance move too close to a rules-based approach which can encourage a tick-box compliance with the form of the requirement rather than the spirit.

FEE has the following specific comments on the consideration of these matters:

2.1 Development of Standards: Conflicts of Interest and Responding to Fraud and Illegal Acts

FEE is generally supportive of the projects to provide additional *guidance* for professional accountants when dealing with conflicts of interest and responding to fraud and illegal acts. We would like to emphasise that we believe that the requirements in respect of these subject matters as currently included in the IESBA Code of Ethics for Professional Accountants appear acceptable and complete to us and that therefore, we are supportive

of adding (practical) guidance for professional accountants when dealing with conflicts of interest and responding to fraud and illegal acts but *not additional requirements*.

2.2 Development of standards: Independence - Application of related entity concept in audits of collective investment vehicles

It is not clear why the IESBA would like to consider the application of the related entity concept in audits of collective investment vehicles. In many jurisdictions, including in the European Union, collective investment vehicles (as well as mutual funds) are covered in the definition of public interest entities (defined by the IESBA as entities of significant public interest), or - if not defined by law and regulation - are treated by the profession as significant public interest entities where they are open to investments by the general public. Therefore, the independence rules applicable for auditors or audit firms auditing public interest entities are also applicable for auditors and audit firms auditing collective investments vehicles (as well as mutual funds).

Additionally, the way in which collective investment vehicles are structured might differ significantly between different jurisdictions. The development of globally applicable guidance for the application of the related entity concept in audits of collective investment vehicles therefore appears particularly complex and difficult.

Finally, given the level of legislation and complexity related to collective investment vehicles, it appears that it is too specialist an area to be dealt with by a global code as only a small minority of professional accountants appears to be commonly confronted with independence issues related to collective investment vehicles.

2.3 Adoption and implementation guidance

FEE invites the IESBA to consider our comments made under Section 1.2 on the needs of professional accountants in SMP and SME environments, and is generally supportive of the other work planned to be performed by the IESBA in respect of adoption and implementation guidance.

As far as the IFAC Compliance Advisory Panel's work on compliance by member bodies and barriers to convergence are concerned, we make reference to our comments in Section 2.4 hereafter.

It should also be noted that the IFAC Compliance Advisory Panel's work with member bodies is often spread out over time, making it hard to measure adoption and implementation at a certain point in time. For instance, comparing the results of FEE's stocktaking exercise on the advancement of the adoption of ISAs in Europe with the results of the IFAC Compliance Program's work related to the adoption of ISAs in European countries has indicated a considerable amount of differences, in both directions of further and less advancement.

2.4 Convergence

FEE is generally supportive of the work planned to be performed by the IESBA in relation to convergence. In this respect, reference is made to our comments on communication with the European Commission in Section 1.1 of this letter. We believe that especially legislators and regulators are to be approached as they have become the primary standard setters for ethics and independence.

2.5 Communication

FEE is generally supportive of the work planned to be performed by the IESBA in relation to communication. In this respect, reference is made to our comments on communication with the European Commission in Section 1.1 of this letter.

For further information on this letter, please contact Mrs. Hilde Blomme from the FEE Secretariat at +32 2 285 40 77 or via email at hilde.blomme@fee.be.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President