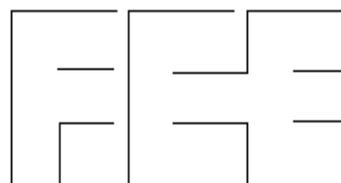


Date
4 October 2005

Le Président

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Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
USA - New York, New York 10017

Edcomments@ifac.org

Dear Ms. Munro,

Re: IFAC Exposure Draft – Proposed Revised Section 290 – Independence – Assurance Engagements – Network Firms Definition

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to have the opportunity to comment on the IFAC Exposure Draft – Proposed Revised Section 290 – Independence – Assurance Engagements – Network Firms Definition (hereinafter referred to as “the Proposed Revised Definition”).

Main observations

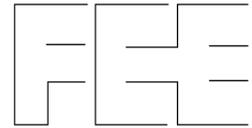
New EU Statutory Audit Directive

We welcome the Proposed Revised Definition as it is broadly in line with the definition for a network as included in the proposed European Union (EU) Statutory Audit Directive (see the Appendix for further details). However, as the text of this proposed Directive is not yet completed but is expected to be finalised before the end of the year 2005, we recommend the IFAC Ethics Committee to consider in their deliberations the final definition of networks which will be included in the EU Statutory Audit Directive and to align the Proposed Revised Definition to it. This will enable European audit firms to comply both with the mandatory obligations following from the EU Statutory Audit Directive once approved and with their IFAC Statements of Membership Obligations (SMOs) requiring the application of the IFAC Code of Ethics.

It should also be noted that in case the definition of a network for independence reasons, as stipulated by the IFAC Code of Ethics, would be different from the legal definition of a network, as stipulated by the EU Statutory Audit Directive, European Union audit firms could legally be precluded from exchanging information related to independence issues where the network definition of the IFAC Code of Ethics would require so. It is self-evident that such situations should be avoided.

Larger structure

We are of the opinion that it would be useful to include in the explanatory material further clarification of the meaning of a ‘larger structure’ as well as a number of examples of what would constitute (or not) a ‘larger structure’ in order to enhance the practical application of the Proposed Revised Definition.



It would be helpful to clarify whether or under which circumstances the following situations might possibly form a 'larger structure':

- Cooperation agreements or associations of audit firms or auditors with other professionals like lawyers, actuaries, valuation experts, etc;
- Sharing of resources and costs for technology and IT purposes without otherwise forming a larger structure.

Structure of the Proposed Revised Definition

The Proposed Revised Definition is currently subdivided in two subsection (a) and (b) of which we would recommend to reverse the order to first list (b) and then (a). We are of the opinion that the primary reason why an audit firm is to be considered a network firm is because it is an entity that controls, is controlled by, or is under common control with another firm through ownership, management or other means, currently subsection (b). Therefore, we believe that this condition sets the framework for any network and should be listed first.

Similarly, we propose to reverse the order of current (a) (ii) and (a) (iii) as sharing profits or costs with other firms within the larger structure appears to be more important than the sharing of significant professional resources with other firms in the larger structure.

Comments on specific paragraphs

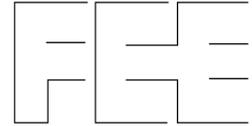
1. We are of the opinion that, in line with the language used in current (a) (ii) of the Proposed Revised Definition, it should be stipulated in the Proposed Revised Definition that the sharing of 'significant' costs could contribute to audit firms being considered as network firms. Sharing of costs, no matter how small, for instance on a one-off basis, does not appear in the Exposure Draft to form a basis for audit firms to be considered as network firms. We recommend the IFAC Ethics Committee to consider whether an appropriate reference should be introduced in this regard, for instance after paragraph 290.16.
2. Also, we recommend IFAC to clarify in the explanatory material that it should be understood under current (a) (iii), that sharing of profits also includes the sharing of losses.

We would be pleased to discuss any aspect of this letter with you and to answer any questions you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', written in a cursive style.

David Devlin
President



Appendix

The version of the proposed European Union Statutory Audit Directive of 21 June 2005 following the report of rapporteur Doorn after the vote in the Legal Affairs Committee of the European Parliament includes the following definition related to networks:

Article 2: Definitions

(5) "Network" means the larger structure:

- which is aimed at cooperation to which a statutory auditor or an audit firm belongs, and;
- which is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

The Draft Amendments Proposed by the European Council to the European Parliament on 7 September 2005 as per the UK Presidency of the EU are as follows:

Recital (explanatory material) 10: independence – network definition

In order to determine the independence of auditors, the concept of "network" in which auditors operate needs to be clear. In this regard, various circumstances have to be taken into account such as instances where a structure could be defined as a network because it is aimed at profit or cost sharing, which may also be demonstrated if statutory auditors and/or audit firms have common usual audit clients. The criteria for demonstrating that there is a network should be judged and weighed on the basis of all factual circumstances available, such as whether there are common usual clients.

This definition and the explanatory material have been accepted by the European Parliament in its plenary session of 28 September. The European Council of Ministers is expected to accept this definition and explanatory material during the course of October 2005.