



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344
Fax: +1 (212) 856-9420

**Agenda Item
3**

Board International Ethics Standards Board for Accountants

Meeting Location: CICA, Toronto, Canada

Meeting Date: October 24-26 2007

Strategic and Operational Plan

Objectives of Agenda Item

1. To discuss comments received on the Strategic Plan Exposure Draft and agree amendments to the Plan.

Background

At its June 2007 meeting the IESBA approved an exposure draft (ED) of a Strategic and Operational Plan for the period 2008-2009. The ED period ended on April 30, 2007.

Comments have been received from the following:

Member Bodies of IFAC	13
Firms	4
Regulators	2
Other	2
Total Responses	23

All of the comment letters received have been posted on the IFAC website and may be downloaded at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0084>.

The Strategic Plan, and an overview of the comments received, were discussed with the CAG at its September 19, 2007 meeting. The Planning Committee discussed the CAG input and the detailed comments received at its meeting on October 4, 2007, and developed the proposed changes for the consideration of the IESBA.

Issues

Principles Approach

Five respondents commented on the issue of a principles-based Code. These respondents expressed concern that the Code seems to be moving away from a principles-based approach towards a regime which is more rules-based.

This matter was also raised by respondents to the Independence Exposure Draft issued in December 2006. The matter was discussed by the IESBA at its meeting in June, with the CAG at its September meeting, and is discussed further in Agenda Paper 5 to this meeting. In summary:

“The IESBA is of the view that there is no conflict between a principles-based approach and absolute restrictions or prohibitions, provided that such restrictions or prohibitions flow directly from the application of the principles.”

As it completes existing projects and undertakes new projects, the IESBA will continue to ensure that additions to the Code are consistent with the principles based approach.

Period of Stability

Ten respondents commented on this matter. Eight respondents were of the view that there should be a period of stability for the whole Code and two respondents referred to the period of stability in terms of the independence provisions.

Respondents noted that after the Independence provisions (and changes resulting from the drafting conventions project) are issued in 2008 there should be a period of time to allow member bodies and firms to assimilate and implement the changes. Even though respondents expressed support for the new projects, or suggested other projects, there was a view that, absent any unforeseen circumstances requiring immediate change, IESBA should delay issuing new guidance to provide for a period of stability.

The Planning Committee has considered these comments and recommends that the Strategic Plan be amended to state that the IESBA will not issue any exposure drafts before mid 2010 – which would provide a period of stability of at least 24 months before another document is issued (assuming that the current independence proposals are issued in mid 2008). The period of stability before amendments to the Code are effective will be at least four years when the exposure period, consideration of comments and effective date are taken into account.

Communications

Eight respondents commented on the communications plans. The respondents were supportive of the proposal to hold four regional forums or roundtables to promote the revised Code and seek input on the steps which would be necessary to facilitate the convergence of international and national ethical standards and achieve greater global acceptance of the Code.

One respondent (IOSCO) expressed the view that the Board should consider holding a forum in February or March to finalize the Independence provisions. The Planning Committee considered this point and concluded that it would not be appropriate to hold a forum at that time. The purpose of the forum is to promote the new revised Code and seek input on convergence. The Brussels forum and the exposure processes have solicited input on the Independence proposals.

One respondent (AICPA) noted that the forums and roundtables could be used to provide advanced notice on the future projects of IESBA. The Planning Committee considered this point and was of the view that the forums/roundtables could also be used to seek input on the scope and direction of proposed future projects of the IESBA. The Planning Committee is, therefore, recommending a change to the Strategic Plan to address this issue.

There was a further comment from IOSCO 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”. This point was also raised by the CAG when the Plan was discussed at their September meeting. The Planning Committee agrees with this point and recommends that when selecting invitees to the forums/roundtables extra efforts are made to invite such individuals. The Planning Committee views this as an operational matter and is not, therefore, proposing a change to the Strategic Plan to address this point.

There was also a comment (CIMA) that IESBA should indicate who it communicates with. The Planning Committee discussed this point and is of the view that this is a matter which will be addressed in the Communications Plan which will be developed next year.

Convergence

Six respondents commented specifically on this area. Four respondents expressed strong support for any steps the IESBA could take to facilitate the convergence of international and national ethical standards. One respondent expressed the view that convergence should be a separate project. The Planning Committee is not recommending any change to address this issue. The matter was discussed at the June IESBA meeting and the Board concluded that it should not be a separate project because convergence is an overarching objective which touches every project.

On respondent (IOSCO) recommended that more emphasis be placed on the use of the IOSCO Non-audit services survey to initiate global convergence. The Planning Committee discussed this comment and is of the view that the survey can be used in discussion at the four regional forums/roundtables and also at the National Standard Setters meeting.

Existing Projects

Eleven respondents commented on this matter. Five provided support for all of the existing projects with one respondent noting that it would be beneficial if the results of the two independence projects were issued simultaneously. The Planning Committee agrees that this would be beneficial and accordingly recommends that the work plan be amended to show simultaneous approval of the results of the two independence exposure drafts and the drafting conventions exposure draft.

Seven respondents commented on the implications of the IAASB clarity project on the Code (the Drafting Conventions Task Force). Some respondents expressed concern that

this may exacerbate the perceived move from a principles based approach to a rules based approach. The matter will be exposed for comment and there is, therefore, no need for any amendment in the Strategic Plan to address these comments.

One respondent (IOSCO) questioned whether the timetable was realistic. The matter was discussed at the CAG meeting and it was noted that the undertaking by the IESBA was significantly more limited than that undertaken by the IAASB. The CAG expressed support for the position taken. The matter is discussed in more detail in Agenda Paper 2 addressing Drafting Conventions. The Planning Committee is not recommending any change to the Strategic Plan to address this point.

Proposed Projects

All respondents commented on this area – either indirectly by expressing overall support for the content of the exposure draft or by providing explicit comment on the proposed projects. Unless explicitly noted below respondents expressed support for the projects and their relative priority.

Fraud and Illegal Acts – Four respondents commented specifically on this project. One respondent (NIVRA) felt the matter was already addressed in the ISAs. The comments of the other three respondents indicated that it would be helpful if the project description was expanded. The Planning Committee recommends expanding the project description in the Strategic Plan.

Conflicts of Interest – Three respondents commented specifically on this project. The comments indicated that it would be helpful if the project description was expanded. The Planning Committee recommends expanding the project description in the Strategic Plan.

Independence – Eight respondents commented specifically on this project. Seven of the respondents indicated that legal protection clauses was either a matter that too specific to the legal framework to be addressed in a global Code, was not an independence issue or was otherwise not of a high priority. Two respondents felt that mutual funds and other collective investment vehicles were adequately addressed in the Code, and two respondents were of the view that of the independence topics presented these were of the highest priority because it is a complex area and subject to differing interpretation. Three respondents felt that communications with those charged with governance was not a priority issue. Two respondents were of the view that trustee holdings should be a priority issue, one respondent was of the view it was relevant in only a very limited number of jurisdictions and should, therefore be addressed at the national level. Three respondents were of the view that the independence implications of the provision of actuarial services were not a priority issue because the matter was adequately addressed under valuation services.

The Planning Committee has considered the comments received. The Planning Committee noted that the exposure draft indicated that the IESBA would consider whether to supplement the independence guidance on matters such as those that were noted. Given the diverse views expressed by respondents on the priority of the matters

noted and the expressed need for a period of stability the Planning Committee recommends that the Strategic Plan be modified to state that, absent any urgent emergency issues, the IESBA will not initiate any new independence projects during the period of the strategic plan. In addition, the IESBA will consult at the regional forums/roundtable and national standard setters meeting to obtain input on the priorities of possible future independence projects.

Implementation Support

Five respondents commented on this project. All were supportive. One respondent expressed the view that the implementation support should be broader than Independence and should address accountants in business. The Planning Committee is of the view that the most pressing need for support is in the area of independence and as such that should be the priority. Another respondent stated that the recently issued Code was effective from June 2006 and therefore implementation support should be commenced earlier than proposed in the work plan. The Planning Committee is of the view that the IESBA should focus on issuing the proposed revisions and then address implementation support. It is not, therefore, recommending any changes to this area.

Other

There were certain comments which relate to either the operations of the CAG or the membership of the IESBA. These matters are not within the remit of the IESBA and will, therefore, be referred to the IESBA CAG and the Nominating Committee.

Material Presented

Agenda Paper 3	This Agenda Paper
Agenda Paper 3-A	Proposed Revised Strategic and Operational Plan (clean)
Agenda Paper 3-B	Proposed Revised Strategic and Operational Plan (mark-up)
Agenda Paper 3-C	Strategic Plan – Detailed Comments by Topic
Agenda Paper 3-D	Strategic Plan – Basis for Conclusions
Agenda Paper 3-E	Strategic Plan – Due Process Checklist

Action Requested

1. IESBA members are asked to consider the recommendations of the Planning Committee and approve the revised Strategic Plan. The affirmative vote of 12 members of the IESBA is needed for approval.