

**Draft Minutes of the Teleconference Meeting of the
International Ethics Standards Board for Accountants
May 16, 2008**

	Members	Technical Advisors
<i>Present:</i>	Richard George (Chair) Frank Attwood Margaret Butler Ken Dakdduk David Devlin (in part) Robert Franchini Barbara Majoor Alice McCleary Jean Rothbarth Robert Rutherford Isabelle Sapet Aiko Sekine David Winetroub	Bill Cordes Lisa Snyder Andrew Pinkney Sylvie Soulier Bert Oosterloo Tiina-Liisa Sexton Ines Bruggeman Jean-Luc Doyle Roman Adler Tim Volkmann
<i>Regrets:</i>	Kariem Hoosain Lady Barbara Judge Michael Niehues Carmen Rodriguez Volker Röhricht	Rethabile Kikine Petra Gunia Heather Briers David Hastings Peter Hughes Neil Lerner
	Non-Voting Observers	

Present: Bella Rivshin Tomokazu Sekiguchi
Richard Fleck (in part)

Regrets Juan Maria Arteagoitia
Toshitake Kurosawa

PIOB

Present Aulana Peters

IFAC Technical Staff

Present: Jan Munro
Jessie Wong

1. Introduction and Administrative Matters

Mr. George started the meeting and thanked all present for making themselves available to participate on the call. He reported that apologies had been received from Mr. Hoosain, Lady Judge, Mr. Niehues, Ms. Rodriguez and Mr. Röhrich. Mr. George indicated that the purpose of the call was for the Board members to provide comment and questions to the Drafting Conventions Task Force. Due to the limitation on the time available for discussion at the teleconference, it would not be possible to get into debate on the issues, rather the Task Force would carefully consider all points raised and report back at the June meeting. He also noted that should members feel that they have other matters to bring to the attention of the Task Force, they are encouraged to forward those comments to Mr. Dakdduk or Ms. Munro for the Task Force's consideration.

2. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, reported on the activities of the Task Force since the April 2008 IESBA meeting. The Task Force held one face-to-face meeting on April 21, 2008. The Task Force considered comments from the IESBA received at the April meeting and amended proposals are presented for the IESBA's consideration. Mr. Dakdduk noted that Mr. Niehues had sent his comments on the proposals to Mr. Dakdduk, Mr. George, and Ms. Munro to be discussed at this Board meeting. He added that Mr. Niehues's comments will be considered during the course of this teleconference board meeting.

Description and use of "shall"

Mr. Dakdduk noted that at its April 2008 meeting, the IESBA recommended that the articulation of the meaning of "shall" be more consistent with the language in the preface. The Task Force considered that recommendation and proposes the following description,

consistent with the existing preface, and recommends that it be located in new paragraph 100.4 instead of in a footnote:

“In the context of this Code, “shall” specifies a requirement with which a professional accountant or firm has to comply unless compliance is prohibited by law or regulation or an exception is permitted by this Code.” ¶100.4

The IESBA considered the proposal and the following points were noted:

- The proposed location of the description of “shall” is desirable;
- The Task Force should consider whether strict compliance with a provision denoted by "shall" could have unintended consequences.

Mr. Dakdduk agreed that the Task Force would consider the last point above.

Conceptual framework

Mr. Dakdduk reported that at its April 2008 meeting, the IESBA discussed that the ordering of matters presented in certain paragraphs of the Code could be improved. Specifically, the conceptual framework underpins the Code and, as such, should be discussed before any reference to specific restrictions and prohibitions. The IESBA also discussed that while it was important to explain the benefits of a conceptual framework approach, the proposed statement that it “provides greater protection of the public interest than a Code that contains only detailed rules” seemed overly critical of rules-based standards. Further, the IESBA noted that while the Code contains a principles-based framework approach to achieving compliance with the fundamental principles, it does contain specific requirements or “rules.”

The Task Force proposed the following description to explain the conceptual framework approach:

“It is impossible to define every situation that creates threats and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and consequently different threats may be created, requiring the application of different safeguards. Therefore, this Code provides a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and, in some cases, it results in specific restrictions and prohibitions that promote compliance with the fundamental principles. Such an approach can also deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.” ¶100.6

The IESBA agreed with the Task Force's proposal, including the deletion of the statement that a conceptual framework provides greater protection of the public interest than a Code that contains only detailed rules.

General Description of Threats

Mr. Dakdduk noted that at its April 2008 meeting, the IESBA discussed that more than one threat may be created as a result of a circumstance or a relationship. Mr. Dakdduk reported that the Task Force considered the IESBA's comments and proposes the following description of a threat:

“Threats may be created by a broad range of relationships or other facts and circumstances that could compromise a professional accountant's compliance with the fundamental principles of this Code. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.” ¶100.12

The IESBA considered the proposal and a question was raised as to whether the concept of appearance should be included in the description of a threat. Mr. Dakdduk noted that that concept is embedded in the definition of "acceptable level" but agreed that the Task Force should consider whether an appearance test should also be conveyed in 100.12.

Description of each category of threat

Self-interest threat

At its April 2008 meeting, the IESBA discussed whether the self-interest threat should specifically refer to the interests of family members and firms. It was noted at the April 2008 meeting that Part A applies to all professional accountants and, therefore, the description should not be narrowed to cover only the financial or other interests of certain individuals or the firm. In light of those comments, the Task Force proposed the following description of a self-interest threat:

“The threat that a financial or other interest will inappropriately influence the professional accountant's professional judgment or behavior.” ¶100.12(a)

The IESBA discussed whether the reference to financial or other interest should be clarified to refer to the professional accountant's interest. It was agreed that the firm's interests may also influence the professional accountant's judgment or behavior and that amending the description to refer to the professional accountant's interest would unnecessarily restrict the paragraph.

Self-review threat

At its April 2008 meeting, the IESBA noted that the term “re-evaluate” could imply that the professional accountant has already evaluated the matter. Additionally, in 200.5, the IESBA agreed that it would be clearer if the example of preparing the original data used to generate records that were the subject matter of the engagement referred to the assurance engagement.

In light of those comments, the Task Force proposed the following description of a self-review threat:

“The threat that a professional accountant will not appropriately evaluate a previous judgment or service because the professional accountant, or another individual within the professional accountant’s firm or employing organization, was responsible for the judgment or service.” ¶100.12(b)

Mr. Dakdduk also presented an alternative description:

“The threat that a professional accountant will not properly evaluate the results of a previous service performed by the professional accountant, or another individual in the accountant’s firm or employing organization, that the accountant will rely on in forming a judgment as part of providing a current service.”

The IESBA considered the proposals and noted that a review by another accountant is a safeguard in the Code. The first proposed description, however, would seem to indicate that when this safeguard is applied it will create a self-review threat. It was agreed that the second description was preferable.

Advocacy threat

At its April 2008 meeting, the IESBA noted that it was the act of promoting that created the threat, not simply promoting to the point at which the accountant's objectivity is compromised.

In light of those comments, the Task Force proposed the following description of an advocacy threat:

“The threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised.” ¶100.12(c)

The IESBA considered the proposal and considered the need for the definition to address the issue of appearance. It was agreed that the Task Force would consider this matter as discussed above.

Familiarity threat

At the April 2008 IESBA meeting, it was noted that based on the proposed definition of a “familiarity threat,” it seemed that no safeguards could reduce the threat because it stated that the accountant is too sympathetic or too accepting. The threat should, therefore, refer to the fact that the professional accountant will be too sympathetic or accepting.

In light of those comments, the Task Force proposed the following description of a familiarity threat:

“The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.” ¶100.12(d)

The IESBA agreed with the Task Force’s proposal.

Intimidation threat

At its April 2008 meeting, the IESBA noted that it was unclear how the reputation of a client, employer, or others would create a threat. It was suggested that the notion of reputation be deleted from 100.12(e) and an example be included in 200.8 to clarify this.

In light of those comments, the Task Force proposed the following description of a familiarity threat:

“The threat that a professional accountant will be deterred from acting objectively by actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.” ¶100.12(e)

The IESBA agreed it would be clearer if it stated “from acting objectively because of actual or perceived pressures.” The Task Force agreed to make that change.

Threats and Safeguards

Mr. Dakdduk noted that at the IESBA's April 2008 meeting, it was agreed that paragraph 200.3 should be redrafted. The Task Force considered the matter and proposed re-positioning paragraph 200.9 to paragraph 200.3, re-drafted as follows:

“A professional accountant in public practice shall address these threats by applying the conceptual framework approach described in Section 100. A professional accountant in public practice may find that specific circumstances or relationships create other threats to compliance with one or more of the fundamental principles. In either professional or business relationships, a professional accountant in public practice shall be alert for such circumstances and relationships.” ¶200.3

The IESBA considered the proposal and the following points were noted for the Task Force to consider

- Whether the words “shall be alert” created a requirement that was unattainable and whether it would be better to say “shall have regard for” or something similar. The IESBA agreed, however, that the requirements of the Code should not be watered down.
- Whether “other” threats that are referred to in 200.9 should be deleted since the Code does not identify such other threats. It was noted that some other ethical codes recognize threats in addition to those included in the Code. It also was noted that it is impossible to anticipate every possible type of threat.

Circumstances that create threats

Mr. Dakdduk reported that at its April 2008 meeting, the IESBA requested the Task Force to improve the drafting of paragraphs 200.4 – 200.8 to improve the clarity of the examples described as well as make editorial amendments where appropriate. The Task Force considered those paragraphs and proposed some amendments.

The IESBA considered and agreed with the proposal.

Referral fees and commissions

Mr. Dakdduk noted that paragraphs 240.5 and 240.6 states that a professional accountant in public practice *may* receive a referral fee for referring a client or pay a referral fee for obtaining a client. However, paragraph 240.7 states that, “[a] professional accountant in public practice shall not pay or receive a referral fee or commission, unless the accountant has established safeguards to eliminate *the* threat ...” The paragraphs were therefore inconsistent.

The IESBA considered the proposal and it was agreed that the Task Force will amend the paragraphs so that they are consistent and discuss this with the IESBA at the next meeting.

Engagement period (¶290.30)

Mr. Dakdduk reported that the Task Force proposes the relocation of the following sentence in paragraph 290.10 to paragraph 290.30.

“During the engagement whenever relevant information comes to the attention of the firm, the firm shall evaluate the significance of any threats to independence”
¶290.30

In addition, he noted that the sentence should be amended to make it clear that the requirement is to consider the new information as opposed to a requirement for the firm to continually re-evaluate the significance of all threats to independence.

The IESBA considered the proposal and felt that the sentence may be better positioned elsewhere in the Code. It was agreed that the Task Force will reconsider the location and drafting of the sentence for consideration by the IESBA at the next meeting.

Other Comments

Mr. Dakdduk asked the IESBA for other comments on the redrafted Code and the following matters were raised for consideration by the Task Force:

- ¶100.2 – seems incomplete without a discussion of the term “acceptable level”;
- ¶100.21 – whether a professional accountant should be required to obtain external professional advice in the event a significant conflict cannot be resolved as opposed to the present requirement for the professional accountant to consider obtaining external professional advice.

- ¶110.3 – whether this should refer to modified assurance reports.
- ¶110.3 – whether usage of the word “deemed” was appropriate and whether it raised the question of “who deems?”
- ¶140.3 – if a professional accountant can seek advice from a professional body on an anonymous basis, and some bodies are willing to provide advice on that basis, confidentiality is protected.
- ¶200.2 – the requirement that a professional accountant in public practice *shall* not engage in any business, occupation or activity that impairs the good reputation of the profession might be an unattainable requirement because the facts and circumstances may change such that the reputation is later impaired.
- ¶200.12 – the example of safeguards that involve an additional review by a professional accountant should be consistent with the changes to the description of a self-review threat
- ¶290.3 – the paragraph should be clarified to reflect that references to “audit” include “review.”
- ¶290.25 – the use of “shall” in the first sentence may be confusing as it could be read to imply that this paragraph imposes a requirement on the auditor to take into account the public interest. This paragraph is only intended to convey a requirement, but is intended to enhance a reader's understanding of what a public interest entity is and how that has been taken into account in developing the provisions of the Code.
- ¶290.103 – usage of the phrase “deemed to be” seems to be inappropriate as direct financial interest is a defined term.
- Part C needs to be more consistent with the changes made in Part B.

Mr. Dakdduk thanked the board members and technical advisers for their comments. He requested members to forward any further comments to himself or Ms. Munro in advance of the next Task Force meeting in two weeks time.

3. Closing

Mr. George thanked the Task Force for their hard work, and all board members and technical advisers for their participation. Mr. George closed the meeting.

4. Future Meeting Dates

June 24-25, 2008 (Brussels, Belgium)
December 10-12, 2008 (London, UK)