

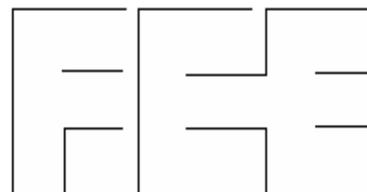
Date  
6 September 2007

Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

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Ms. Jan Munro  
Senior Technical Manager  
International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants (IFAC)  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA



[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Ms. Munro,

**Re: Exposure Draft – Strategic and Operational Plan, 2008- 2009**

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 44 professional institutes of accountants from 32 countries. FEE Member Bodies are present in all 27 Member States of the European Union and they represent more than 500,000 accountants in Europe.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

FEE is pleased to comment on the International Ethics and Standards Board for Accountants (IESBA) Exposure Draft (ED) on the Strategic and Operational Plan, 2008-2009 (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 independence standards setting

FEE noted that the Proposed Plan suggests in Appendix I including the IESBA Draft Work Program for 2007-2009 to consider whether to supplement independence guidance contained in the International Federation of Accountants (IFAC) Code of Ethics with further considerations on a list of detailed items, as commented on in our comments on specific aspects hereafter.

FEE would like to draw the attention of IESBA to the Summary Report on the Consultation on Implementation of Articles 45 to 47 of the European Union Directive on Statutory Audit<sup>1</sup> on Cooperation with Non-EU Jurisdictions on Auditor Oversight as issued on 12 July 2007<sup>2</sup>.

The objective of this consultation paper of the European Commission was to encourage the development of regulation and public oversight for the audit profession in third countries whilst minimising disruption on European markets. On the issue of independence standards, the great majority of respondents supported the suggestion of the European Commission that third country audit entities be permitted to use the IFAC Code of Ethics if deemed equivalent to the requirements set out in the Directive of Statutory Audit. Such an approach would not only be pragmatic and entail lower costs than assessing the equivalence of individual third countries' independence standards. More importantly, it would create a consistent understanding of auditor independence and be supported by the EU Recommendation on Independence of 2002<sup>3</sup>.

Upon completion of the so-called Independence I and II projects of the Independence Sections in the IFAC Code of Ethics, 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.

Subsequently, FEE calls for a pause in independence standard setting, both in revising independence standards and issuing new sections in the independence standards. It is important to create a stable platform of a set of up-to-date independence standards which would greatly benefit their adoption by the European Commission for application and implementation as third country independence standards in a consistent way. Such implementation 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 Independence Sections of the IFAC Code of Ethics cannot be justified.

In this respect we also recognised that one of IESBA's current projects is to consider the implications on the IFAC Code of Ethics of the new drafting conventions adopted by the International Auditing and Assurance Standards Board (IAASB) Clarity Project. We noted that according to the minutes of its past two meetings, IESBA concluded that the project is intended to improve the clarity of the IFAC Code of Ethics without changing its meaning, and is primarily focused on the use of "should" instead of "shall". FEE supports the Board's conclusions as to the scope of the project and agrees that the drafting conventions used by the IAASB are not appropriate for the IFAC Code of Ethics.

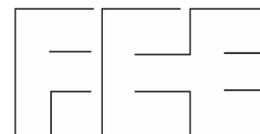
### 1.2 Professional ethics

Recent debate, within and outside of FEE, has 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.

<sup>1</sup> Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts

<sup>2</sup> [http://ec.europa.eu/internal\\_market/auditing/relations/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/relations/index_en.htm)

<sup>3</sup> European Commission Recommendation on Statutory Auditor's Independence in the EU: A set of Fundamental Principles, May 2002



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 world as ethical values are not necessarily any longer instilled in general education and thus behaviour.

FEE recommends IESBA to closely follow the debate on ethical values and to consider its implications for its Proposed Plan.

### **1.3 Analysis of responses**

Ahead of the deadline in May 2007, FEE submitted its responses to the IESBA Strategic Review Survey. Many other organisations with an interest in the development of ethical and independence standard setting also submitted their observations.

As is common due process within other IFAC Boards, a comprehensive analysis of responses received to the IESBA Strategic Review Survey was expected to be published with the Proposed Plan. Such analysis would allow commentators to the Proposed Plan to obtain an insight in the IESBA priorities suggested by the various stakeholder groups.

Such analysis of responses is not provided with the Proposed Plan. It can only be indirectly accessed via the background papers for agenda Item 4 of the IESBA meeting in Berlin on 25 to 27 June 2007.

Transparency, appearance of due process and user friendliness would have been enhanced with publishing the results of the survey with the Proposed Plan. We leave it to the Public Interest Oversight Board (PIOB) of IFAC and IESBA to evaluate whether due process was followed as intended.

### **1.4 Consultation period**

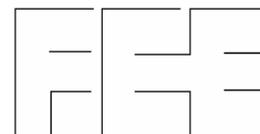
The Proposed Plan was issued on 14 July 2007 with a comment period ending 31 August 2007. This leaves commentators with just 48 calendar days to comment over the summer holidays.

FEE, as many other organisations, is an association which operates based on extensive consultation with the members of our technical working groups and based on an extensive due process with our 44 Member Bodies. This allows FEE to truly represent the unanimous views of the European accountancy profession. Such short consultation period, over the summer holidays, hinders the workings of such consultation and due process. We leave it to the PIOB of IFAC and IESBA to evaluate whether due process was followed as intended as far as the consultation period is concerned.

## **2. Comments on Specific Aspects**

Appendix I of the Proposed Plan considers whether to supplement independence guidance contained in the IFAC Code of Ethics on a number of matters.

FEE is committed to the principles-based approach as being the most robust because, inter alia, by focusing on the underlying aim rather than 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 recently revised Statutory Audit Directive, 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, particularly for the audits of entities of significant public interest, 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 Independence implications of legal protection clauses such as auditor indemnification and limitations on auditor liability**

We question the need for IESBA to consider the independence implications of legal protection clauses such as auditor indemnification and limitations on auditor liability as there is no clear link or relationship between independence standards or rules and legal protection clauses.

In this respect, reference is to the Study on the Economic Impact of Auditors' Liability Regimes (MARKT/2005/24/F) - Final Report to EC-DG Internal Market and Services - By London Economics in association with Professor Ralf Ewert, Goethe University, Frankfurt am Main, Germany - September 2006<sup>4</sup>. This study did not demonstrate any relationship between independence rules and auditor's liability.

## **2.2 Application of the independence requirements to audit clients that are mutual funds or other collective investment vehicles**

It is not clear why IESBA would like to consider the application of the independence requirements to audit clients that are mutual funds or other collective investment vehicles. In many jurisdictions, including in the European Union, mutual funds and other collective investment vehicles are covered in the definition of public interest entities (defined as entities of significant public interest by IESBA), or - if not so 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 mutual funds and other collective investments vehicles.

## **2.3 Additional guidance on the communication of independence matters to those charged with governance**

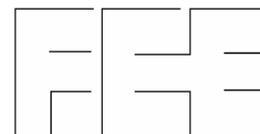
We are of the opinion that the *communication* with those charged with governance, also in relation to independence matters, is adequately covered in the requirements and application and other explanatory material of the International Auditing and Assurance Standards Board (IAASB) Proposed Redrafted International Standard on Auditing (ISA) 260 (Revised) on Communication with Those Charged with Governance.

## **2.4 Independence considerations related to providing actuarial services to an audit client**

FEE does not believe that there is any evidence to support a need for further guidance on independence considerations related to providing actuarial services to an audit client. Accordingly, we do not support IESBA to consider the need for such further guidance, except in the case of the provision of valuation services where a self-review threat could arise. The self-review threat arises as a result of the auditor having to audit his or her own work but, if there is no significant element of judgement included in that work, the degree of threat is very much reduced.

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<sup>4</sup> [http://ec.europa.eu/internal\\_market/auditing/liability/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/liability/index_en.htm)



## **2.5 Independence considerations of trustee holdings of financial interests in an audit client by the firm or members of the firm**

FEE is not convinced that IESBA should consider the independence considerations of trustee holdings of financial interests in an audit client. This issue is only relevant in a very limited number of jurisdictions but not in many others. It would therefore appear that such considerations are to be addressed on a national level rather than by a global standard setters like IESBA.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jacques Potdevin', written over a horizontal line.

Jacques Potdevin  
President