



20 March 2012

International Ethics Standards Board for
Accountants (IESBA)
Jan Munro
Deputy Director

Email: janmunro@ifac.org

Ref.: ETH/PRJ/HBL/LFU/PCO

Dear Ms. Munro,

Re: FEE comments on IESBA Exposure Draft on Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the IESBA Exposure Draft on Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest (“the ED”).
- (2) Subject to the detailed comments in our responses to the specific questions in the ED that we set out below, we welcome the IESBA’s ED as a means to enhancing the guidance for professional accountants in applying the conceptual framework when identifying, evaluating and managing conflicts of interest and to provide more specific requirements.

Responses to specific questions

Question 1: Do respondents find the description and examples of conflicts of interest helpful?

- (3) We believe that the inclusion in paragraph 220.2 of the ED of clear examples of situations in which conflicts of interest may arise is helpful.
- (4) Regarding the two examples starting with “representing” two clients (4th and 5th examples listed in paragraph 220.2 of the ED):

- We think that it would be clearer for these examples to read in a manner that a conflict of interest may arise when “representing and/or advising two clients at the same time”. Serving two clients at different times might not create a conflict of interest but would still require careful management in order to preserve confidentiality. It would be appropriate for the wording in these examples to be replaced in this way (including “the same time” and “advising” also in the wording) to reflect this clarification.

Matters specific to professional accountants in public practice (Section 220 of the Code)

Question 2: Do respondents find the reasonable and informed third party test appropriate?

- (5) The conceptual framework in the Code already gives consideration to the reasonable and informed third party test (paragraphs 100.7 and 100.2 of the current Code). We find the reasonable and informed third party test appropriate.
- (6) In this context, we find that the wording of the third party test should be aligned to the wording in paragraph 100.7 of the current Code to make it clear that it is a thought process when exercising professional judgement. This consideration is a comment which we have also noted in our response to the IESBA on the exposure draft related to provisions addressing a breach of a requirement of the Code.

Question 3: Do respondents find the “reason to believe” threshold for network firms in evaluating conflicts of interest appropriate?

- (7) We strongly support the proposed “reason to believe” test with respect to potential conflicts of interest in the case of a firm that is a member of a network. In particular, we welcome that it requires professional accountants to consider the facts available to them at that time, recognising that the extent of client information exchange will vary between different networks and will also depend on legal and contractual constraints. As noted in the explanatory memorandum of the ED, we agree that it would therefore be disproportionate to require a firm before accepting a new engagement to undertake a systematic search across the network.

Question 4: Do respondents find the guidance concerning safeguards to manage conflicts of interest and obtaining and documenting consent, as set out in paragraph 220.7, appropriate?

- (8) In our view, the wording of paragraph 220.7 of the ED as drafted does not make it sufficiently clear that a letter of engagement including a non-exclusivity engagement clause shall be seen as a means to “obtain written consent from the client to perform the professional service”. Our understanding is that having such a letter of engagement in place would cover the written consent referred to in paragraph 220.7

of the ED, both for any existing conflicts of interest at the time of signing the letter of engagement and any potential conflicts of interest that may materialised after the letter of engagement has been signed. It would be helpful for the wording in paragraph 220.7 of the ED to be amended in order to reflect this clarification.

- (9) Furthermore, we note that the difference between the distinct actions that a professional accountant shall take with regard to potential conflicts of interests and in situations where such conflicts exist might not be clear in the current text of the ED. The fact that the professional accountant shall take reasonable steps to identify circumstances that might create conflicts of interest, evaluate their significance and apply safeguards to eliminate them or reduce them to an acceptable level, are the actions needed to “identify a potential conflict of interest” and to avoid that it becomes a real one. Actions such as the disclosure of the nature of the conflict to the client/all relevant parties and obtaining written consent from them, relate to potential conflicts of interest and existing ones. It would be helpful to amend the text in of the ED as necessary to make this differentiation clearer.
- (10) In addition, we believe it would be useful to split paragraph 220.7 of the ED into three distinct parts:
- the first part would comprise the first two sentences (including the provision to obtain written consent);
 - the second part including the third and four sentences (referring to the certain circumstances where consent obtained may be implied by the party’s conduct or obtained verbally); and
 - the last part to cover the examples of other safeguards.

Question 5: Do respondents concur with the three conditions set out in paragraph 220.8 required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality? Are the examples within paragraph 220.8 helpful?

- (11) We concur with the three conditions required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality (set out in paragraph 220.8 of the ED). We believe that the examples provided are helpful.

- (12) Paragraph 220.7 of the ED recommends documentation where consent is obtained verbally or implied by the party's conduct. As obtaining no consent at all could be considered a greater potential issue, it would be sensible for paragraph 220.8 of the ED to make a similar recommendation where consent is not sought for reason of breach of confidentiality.

Matters specific to professional accountants in business (Section 310, 320 and 340 of the Code)

Question 6: Do respondents agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code?

- (13) We agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code.

Question 7: Do respondents find the reasonable and informed third party test appropriate?

- (14) In line with our comments regarding the matters specific to professional accountants in public practice (Section 220 of the Code), we find the reasonable and informed third party test appropriate. We refer to paragraphs 5 and 6 of this letter.

Question 8: Do respondents find the conforming changes proposed for Sections 320 and 340 useful? Are they appropriate and adequate?

- (15) Subject to our specific comment in paragraph 16 below, we find the conforming changes proposed for Sections 320 and 340 useful, appropriate and adequate.
- (16) When referring to factors on which the significance of threats to compliance with the fundamental principles will depend, we note that the "degree to which the information is, or may be misleading" has been deleted from paragraph 320.5 of the ED as a specific factor. In our view, such information continues to be relevant to exercising professional judgement and balancing the consequences of potential different types of action.

Other

Question 9: Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?

- (17) As a general remark, we suggest enhancing the impact analysis by making it more succinct and shorten it into a single page thereby making it easier to read.

For further information on this FEE¹ letter, please contact Hilde Blomme on +32 2 285 40 77 or via email at hilde.blomme@fee.be or Leyre Fuertes on +32 2 285 40 76 or via email at leyre.fuertes@fee.be from the FEE Secretariat.

Yours sincerely,



Philip Johnson
FEE President

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

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.

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986