



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

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Deputy Director
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Re: Exposure Draft IESBA Strategy and Work Plan, 2010-2012

IOSCO Standing Committee No. 1 on Multinational Disclosure and Accounting ("SC 1") appreciates the opportunity to comment on the Exposure draft (ED) International Ethics Standards Board for Accountants ("IESBA" or "the Board") Strategy and Work Plan 2010-2012.

As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and other professional standards. Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting.

Our comments in this letter reflect a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

Overall Comments

We welcome the Board's dual strategy to focus both on the development of standards and on providing materials to support implementation of the standards. Consistent application of a set of standards intended for global use is an important part of achieving the potential benefits of such standards, and training and other support materials for implementation can help achieve greater consistency.

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Anticipated Projects

Overall, we welcome the matters that are described in the Board's Work Plan; however, we have some disappointment that evidently more attention is not planned to be given to the subject of non-audit/non-assurance services in audits of publicly listed companies. In many instances in recent years, IOSCO has raised concerns over various aspects in the Code where the public interest was insufficiently addressed. As noted in our comments below, we observe that many of these concerns are not sufficiently reflected in the current draft Work Plan. We urge the IESBA to reconsider the Work Plan in light of both our previous comments and the discussions in this comment letter, and develop a work plan that will be more robust in addressing public interest matters.

Where the development of standards and the IESBA Work Program is concerned, we believe it is very important for the Board to address the subject of the auditor's responses to suspected fraud and illegal acts. Auditors have both an opportunity and a public responsibility to contribute to the detection and deterrence of fraud. As we noted in our September 12, 2007, letter to the IESBA on the 2008-2009 Strategic and Operational Plan, the current technical provisions in the IFAC Ethics Code can sometimes place an impediment to whistle blowing by auditors when there is not a specific legal requirement to notify regulators of suspected wrongdoing. We understand that confidentiality of client information is a fundamental principle to be observed, but also observe that some provision must be made to serve the public interest when an auditor is confronted with suspected fraud or illegal behaviour on the part of an audit client. Today, in the circumstance where local laws and regulations neither require nor prohibit auditor whistle blowing or other disclosure, the wording of the Confidentiality provision in the Ethics Code would appear to prevent or discourage the auditor from informing others of the suspected fraud or illegal action. We hope some appropriate additional coverage of this important subject can be developed.

We support the undertaking of an IESBA project addressing the issues associated with conflicts of interest, on the part of both auditors and other professional accountants working in business and governmental capacities. We believe such a project should focus on the auditor's public interest duty and therefore might also address the need for auditors to avoid having a "mutuality of interest" with an audit client - for example, becoming a business partner with, or advocate for, an audit client, because this can create a conflict between the auditor's public interest duty to be independent and objective and an auditor's business development interest in promoting some activity of the client. We also support a future project to address independence requirements for audits of collective investment entities/vehicles, because such investment companies are widespread in the global capital markets and can present unique challenges on independence matters.

In regard to the IESBA plan to provide some period of stability in the Code in order to provide member bodies and firms an extended period of time to carry out implementation efforts, we do not object to a reasonable "quiet period" in which no new standards would become effective. However, during this quiet period, we believe the Board should continue to do work on projects to improve the Ethics Code, and in particular should address certain aspects of the Code that could not be fully resolved and improved during the work projects of the last few years. For example, IOSCO SC 1 has previously expressed concerns with the Code's current coverage of the subject of "inadvertent violations", and with the use of exceptions in the Code. We also encourage the Board to be observant and alert for indications

that the most recent edition of the Code may need further clarification and improvement as it is implemented and used.

Convergence

In regard to the discussion of Convergence on pages 11 and 12 of the ED, we are pleased to see recognition of the reality that adoption of the Code and convergence of independence requirements are two separate subjects and work streams that may intersect, but are not the same. We support the strategy to seek input on the types of improvements to the Code that standard setters and regulators believe should be made to increase its acceptance on a global basis over time. In regard to the issue of group audits and potential use of the Code as a cross-border standard for establishing independence of foreign auditors, many of our members believe that further improvements in the Code must precede such considerations.

As IOSCO SC 1 wrote to the IESBA in 2007, we would like to see more emphasis placed upon the matter of the IESBA providing leadership in working for progress toward global convergence in auditor independence and ethics standards in the Work Plan. We acknowledged that such work would be very challenging, but encouraged the IESBA to undertake projects in partnership with national standard setters and/or those with the local responsibility for audit oversight and regulation. We suggested that the Board could utilize the results of the IOSCO Survey on Non-Audit Services as a starting point to identify topics for which seeking progress toward convergence may be the most immediately practicable, and work with national standards setters to examine the nature of present practice differences and also consider effects on auditor behaviour and audit quality and investor perceptions. We noted that such work could facilitate informed dialogues with regulators. We continue to believe that it would be worthwhile for the Board to devote some portion of its efforts to carry out additional work in this subject area.

Input and Communications

Our September 12, 2007 letter also noted a number of issues relating to Board composition, process and outreach that we suggested the Board might find helpful to consider. We note that the Monitoring Group is also now considering matters related to Board composition, process and outreach as part of its review of the implementation of the 2003 IFAC Reforms. We continue to believe that in addressing these matters, expanded outreach and broader stakeholder involvement could be useful in the Board's work.

The IESBA's planned communications activities described in the Strategy and Work plan seem reasonable and useful and we would only suggest that it could be helpful to interested stakeholders if it were possible to receive more detailed and more timely public reports on the issues being discussed – or that have been discussed – in Board and CAG meetings, in addition to carrying out the outreach and stakeholder involvement matters noted above.

Other Comments

We note on page 4 of the ED, in the "Background Section", a statement that "The IESBA develops ethical standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IESBA, and the IESBA's Consultative Advisory Group (CAG), which provides public interest input into the IESBA's activities, in particular its development of the

Code of Ethics for Professional Accountants (the “Code”).” We are familiar with both the Public Interest Oversight Board and the CAG, and we have IOSCO SC 1 members on the CAG; however, as securities regulators we do not view our interest and participation in these private sector standard-setting activities as “a shared standard-setting process”, but instead as a process of “monitoring to encourage the development of high quality standards”. We also observe that the CAG is composed of a broad range of stakeholders, including many knowledgeable people who have specific business and professional interests as well as public interest considerations underlying their participation and contribution of inputs. We believe it would be more accurate to characterize the CAG as “providing technical advisory input to the IESBA from a wide range of stakeholders.

On page 8, under the heading “Convergence”, relating to the IESBA’s plan “to maintain regular contact with key stakeholders, including national standard setters and regulators”, we suggest that the list of key stakeholders be modified to read “with key stakeholders, including investors and other users of audited financial statements, national standards setters, auditor oversight bodies and regulators.”

This concludes our comments on the proposed Strategy and Work Plan for 2010-2012. If you have any questions about the comments that we have provided, please do not hesitate to contact me or Susan Koski-Grafer at 202-551-5300, or any member of IOSCO Standing Committee No. 1.

Sincerely,

Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1