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Organización Internacional de Comisiones de Valores  
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Organizaçào Internacional das Comissões de Valore

January 29, 2004

Ms. Jan Munro  
IFAC Ethics Committee  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Re: Proposed Revised Code of Ethics for Professional Accountants

Dear Ms. Munro:

IOSCO's Standing Committee No. 1 ("SC 1") is writing to provide comments regarding the Exposure Draft of a proposed change to Section 8 of the Code of Ethics for Professional Accountants ("the Code"), and to communicate additional concerns relating to the Code.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments reflect those matters on which we have reached a general consensus and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions in the future.

Events of recent years have underscored the importance of the auditor's role in providing assurance on the financial statements of listed companies in the global capital markets. In particular, these events have reinforced the importance of the auditor maintaining both the fact and the appearance of independence. Financial reporting and auditing failures around the world have focused regulators and legislators, the accounting profession, and the general public on the need for improvements in auditing and ethical standards for auditors and enhanced audit quality control and oversight arrangements.

While we welcome the proposed revision to Section 8 to clarify the lead engagement partner auditor rotation requirement, in our view, there is a need for a much more comprehensive review of Section 8 of the IFAC Ethical Code.

In our April 30, 2002 letter to IFAC, we urged the Ethics Committee to conduct an ongoing review of the Code in light of events and conditions then occurring, to ensure that the Code would remain consistent with current expectations. Since the Code was issued in 2001, there have been many developments in auditor oversight and independence matters in countries around the world. In particular, Canada, France, Japan, the United Kingdom, the United States and other countries have created new bodies for oversight of auditors and/or issued new auditing and independence standards or recommendations. The European Union is undertaking a comprehensive program to improve audit quality assurance and strengthen auditor independence. IOSCO has issued Statements of General

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Principles for Auditor Oversight and Auditor Independence for consideration in all member jurisdictions seeking to evaluate and improve their requirements for auditors of public companies.

The current content of Section 8 of the Code does not, in our view, adequately reflect current expectations for auditor independence. Even though the Code as revised in 2001 has only recently become effective for audits of public companies, it is already in urgent need of review in light of national and international developments during the last two-plus years.

The following are some examples of the need for timely revisions to the Code (other examples exist):

1.) Paragraphs 8.150 to 8.154 address the issue of long association of senior engagement personnel with audit clients, but the only specific rotation requirement described applies to the lead engagement partner. We believe it is now widely accepted that rotation requirements should apply to more than just the lead engagement partner. The European Union recommendations for auditor independence refer to rotation of all key audit partners. IOSCO'S General Principles for Auditor Independence refer to the need to ensure that "senior members of an engagement team do not remain in key decision-making positions for an extended period". U.S. rotation requirements address multiple members of the engagement team with different stipulations. Various other national standards and regulatory requirements have become more rigorous and more specific in recent years. Within IFAC itself, as part of developing improved quality control standards, the IAASB identified the need to address rotation of engagement quality control reviewers in its Quality Control EDs issued last year.

The Code needs to be revisited to address rotation of senior members of an engagement team in line with current expectations and best practices for the audits of listed companies.

2.) We do not believe it is appropriate to qualify the definition of a "network firm" by referring to "a reasonable and informed third party having knowledge of all relevant information" (emphasis added). By definition, when one is talking about the *appearance* of independence, most reasonable and informed third parties will not have knowledge of all relevant information dealing with the nature of the relationships that exist among national firms that operate as part of an international network. We understand that views of Board members expressed at the December IAASB meeting in Berlin indicated that the current definition would not encompass the larger firms that exist today. We would be very concerned if an Ethics Code definition as currently drafted would not necessarily capture all of the individual national firms that operate under a common internationally known name. We assume this was not the intention of the Committee in framing the definition. The definition is therefore in obvious need of revision to ensure that its use, in both the Ethics Code and the IAASB's standards, achieves the intended effect. In our view, when the use of a globally-recognized firm name creates the appearance to the general public of a firm network, that should be sufficient to establish a network relationship regardless of whether knowledge of all relevant information (for example, regarding the details of agreements among firms) might change that perception.

3) We were concerned to learn that the IAASB is proposing, in response to two comment letters from the Ethics Committee, to delete auditor independence material in the proposed quality control standards. In our view, the content involved represented an important and needed strengthening of current guidance. Some of this content (e.g., rotation of engagement quality control reviewers) addresses issues directly related to the requirements of the quality control standard, and covers matters that were not considered by the Ethics Committee in the last revision of the Ethical Code.

We recognize the need to have consistent guidance on independence and ethics matters, and note the Ethics Committee's valid concerns in this regard. These concerns make it even more important for the Ethics Committee to act promptly to address the matters brought to light by the work of the IAASB. We note that the Ethics Committee has indicated that it plans to discuss this topic in its upcoming February meeting. In addition, in the interests of transparency, we believe the Ethics Committee should ensure that both of its letters to the IAASB are posted on the IFAC website (we have been able to locate only the earliest letter on the site) and, to the extent it is not apparent from the letters, explain how it proposes to address, on a timely basis, the issues it has advised the IAASB fall within Ethics Committee responsibilities.

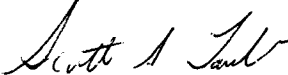
Consistent with the changes to the structure and processes of the Ethics Committee and IAASB that were set out in the IFAC reforms approved in November 2003, it is critical that the Ethics Committee and the IAASB have a close and cooperative working relationship designed to serve the public interest. We urge the Ethics Committee and the IAASB to work together to update the Ethics Code and to increase the coverage of independence and ethics matters in *all* relevant auditing standards, practice statements, and quality control guidance. For example, we believe the IAASB should be afforded a way to include all statements that it believes are needed regarding ethics and independence matters in the proposed quality control standards, as well as in audit planning and other standards, before these standards are finalized. It will be desirable for the IAASB to do this in consultation with the Ethics Committee.

In conclusion, we support the proposed clarification contained in the November 2003 Exposure Draft for Section 8 of the Code, and have no additional comments regarding this particular change. **We do, however, urge the Ethics Committee to undertake a comprehensive review of Section 8 as a matter of high priority and to work together with the IAASB to address auditor independence and ethics issues in the public interest.**

We are confident that the matters we have raised in this letter will be of interest to the Ethics Committee, the IAASB, and the IFAC leadership in your activities to serve the public interest. We look forward to your efforts to address these matters and will be happy to discuss these or any future changes that may be considered.

If you have any questions or need additional information regarding the comments in this letter, please do not hesitate to contact me at (202) 942-4400.

Sincerely,



Scott A. Taub

Chairman

IOSCO Standing Committee No. 1

CC: Chairman, IAASB  
Chairman, IFAC Ethics Committee  
Chairman, IFAC  
Technical Director, IAASB