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International Organization of Securities Commissions
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24 April 2012

Deputy Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Our Ref: 2012/JE/TCSC1/IESBA/29

Subject Line: IESBA's Exposure Draft, *Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest*

Dear Madam:

The International Organization of Securities Commissions Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the IESBA's Exposure Draft, *Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards, other pronouncements and statements.

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 those matters on which we have achieved 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.



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Purpose of the Project

We welcome the Board's efforts to reinforce the Code of Ethics by providing additional guidance addressing Conflicts of Interest. We observe that many parties have a legitimate interest in the work of auditors, and that conflicts between those interests may emerge. We concur with the general approach that is set out in the Paper of identifying, evaluating and managing conflicts of interest.

As securities regulators, one of our areas of focus is the quality of audits of listed entities. In that light, we have focused on the provisions in the proposed section 220 of the Code, as these are relevant to professional accountants in public practice, and thus may have a direct impact on the audit. We are not in a position to comment on the provisions in the proposed section 310 of the Code as these relate to accountants in business.

The importance of the Public Interest

The notion of a "conflict of interest" seems to implicitly suggest that there may be various identifiable interests at play during the performance of services by a professional accountant. In our view, the overarching and most important interest is the public interest. We are concerned that the proposed revisions and more broadly, the Code of Ethics, may not sufficiently and explicitly guide the accountant to use the public interest as a benchmark for his/her behavior.

We note many instances in the Code where reference is made to the professional accountant's general responsibility to use the public interest as a benchmark. We also noted, however, that the Fundamental Principles within paragraph 100.5 of the Code do not explicitly mention the accountant's responsibility to act in the public interest. We believe that acting in the public interest would entail that the auditor functions in a manner that is consistent with and/or contributes above all other interests to the efficient and effective functioning of the securities markets, including providing the relevant information to the users/investors on a timely basis. As we believe the public interest is the overarching and most important interest, we think it should be made clear within the Code that the interest of the profession or clients should never trump or come at the expense of the public interest. We believe this should be a principle explicitly set out in Paragraph 100.5 of the Code. A general principle of this nature could then be detailed in some further provisions. We would for instance suggest that the auditor be required to avoid creating new conflicts of interest, and also that he would be required, when dealing with conflicting interests, to give most weight to the public interest.

And although we realize this is beyond the scope of the current project, we also note the IFAC Policy Position Paper #4 of 2011, as well as our comment letter dated May 4, 2011 in response of that paper.



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Particularly on page 5 of our letter, we reflected upon the responsibilities of professional accountants. In relation to IFAC's efforts to define the public interest and the ongoing debate in many jurisdictions on the role of auditors, we urge the Board to reflect on the best possible way to reinforce the auditor's responsibility to act in the public interest.

Conflicts of Interest relating to the Public Interest

We note that the public interest may conflict with the interest of other parties. On the basis of the Exposure Draft, it is unclear whether the proposed changes to the Code of Ethics are also intended to deal with situations in which there is a conflict of the public interest with other interests. As we stated above, we believe that auditors are appointed to serve the public interest. There seems to be no guidance on how to deal with situations where the public interest conflicts with other interests. Given the likelihood of such conflicts to occur, we think it is important to provide guidance on how to deal with such conflicts. We therefore encourage the Board to clarify how public interest considerations should be dealt with when conflicts of interest emerge.

Relationship between Conflict of Interest and Auditor Independence

Objectivity is one of the (currently) five fundamental principles that should drive the professional accountant's behavior. Auditor independence from the (audit) client is a very important subset of objectivity, and clearly Conflicts of Interest may also threaten the auditor's objectivity. The Code (when the current proposals are finalized) recognizes this, and thus includes provisions on those two matters.

When accepting a new client or when delivering new services to an existing client, there is much focus on whether there are threats to objectivity and independence from the perspective of other services and relationships with that particular client. In our view, accepting new clients or performing new services for an existing client may, depending on the circumstances, also create other threats than threats to the auditor's independence in relation to that client. It might be the case that accepting a new client may directly give rise to conflicts of interests with existing clients. This may result in undesirable situations, depending on the severity of the threats.

A possible manner to prevent this would be to include in the Independence section of the Code some provisions stating that independence may also be impaired by services delivered to other clients, especially when such services create (or may create) conflicts of interest. Vice versa, we think that paragraph 220.5, which deals with the auditor's work when accepting a new relationship or engagement, should also refer to the Independence section of the Code, particularly as that section of



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the Code contains many provisions that the auditor should also take into account when deciding on accepting a new relationship or engagement. We would appreciate it if the Board would look more deeply into the relationship between Conflicts of Interest and auditor independence, but suggest including these high level references as a first step, since we think such more detailed deliberations may take some time.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss the matters noted in this letter, please contact either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
Standing Committee No. 1
International Organization of Securities Commissions