



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

November 22, 2005

Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th 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 proposed revisions to Section 290 of the IFAC Code of Ethics for Professional Accountants ("the Code"), concerning a proposed new definition for the term "network firm". Our comments reflect those matters on which we have reached a general consensus among Standing Committee No. 1 members and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions. The focus of our comments is on independence standards provisions that should exist for audits of public listed companies.

SC 1 would like to express appreciation for the Ethics Committee's efforts to improve the definition of "network firm." We acknowledge this matter to be a difficult and challenging issue. We believe the definition in this ED is an improvement over the existing definition and have only a small number of changes to suggest for further improvement.

With respect to the use of the term "larger structure" in the definition, we believe further clarification is needed. It would be helpful to clarify that a larger structure would not have to be a legal entity or higher-level organizational structure, but could also be a contractual business arrangement or other operating affiliation that is created by management agreement of two or more firms. Such agreements could create a commonality of business interests without the firms being a part of a larger organization, e.g., a management agreement to share work in serving each other's clients in a "brother and sister" network without a parent or higher level "umbrella group". We suggest the Ethics Committee consider whether part A of the definition might be more readily applied if the term "larger structure" were amplified by additional wording indicating that the larger structure arises from a business arrangement creating a commonality of firm business interests.

We also think it would be helpful to state somewhere in Section 290 that the issue of identifying whether a group of firms constitutes a "network" for which *independence is required of every firm and its affiliates from all audit clients of all firms in the network* is a separate issue from the requirement that *all firms that participate in the audit of a particular group entity must be independent of that audited*

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group entity. (Firms participating in the same audit must all be independent of the audited entity regardless of whether they are part of a firm network.)

The use of the “network firm” definition in the Ethics Code is relevant when judging whether it should be necessary for all audit firms and affiliates (including non-audit firms) in a network to be *independent of all of each others’ audit clients*. This is a much broader and more complex question than the network firm issue in a single audit as it involves both multiple firms and multiple audits and can reach out to involve affiliates of an audit firm even if that firm does not participate in a particular audit.

In our discussions about the new definition, some members initially had a concern that the new definition might capture some firm networks where a closer examination identified that the network did not share client-related work and would not appear to have any effect on a firm’s objectivity or a public perception of independence. As we examined this issue further, we concluded that the definition in the ED was sound for use as a “presumptive definition,” particularly as it is further explained in paragraphs 290.14 to 290.19. We suggest that a way be found to link the discussion of network firms in paragraphs 290.14 to 290.19 more closely with the presentation of the definition in Section 290. We found the discussion in these paragraphs helpful in amplifying the intent of the definition.

In considering the proposed Code definition, we discussed examples of situations in which firms may be part of an association of firms that does not create a commonality of business interests among the participants but rather exists to promote adherence to high quality professional standards and to advertise this to the public. We understand that member firms which are part of such associations need not be required to maintain independence from all of each other’s audit clients solely because they belong to the same professional association. Paragraph 290.17 states that a firm that describes itself as a member of an association but “does not meet the criteria of a network firm” should clearly describe the nature of its membership of the association. The paragraph suggests as an example the descriptor “an independent firm associated with XYZ Association of Accounting Firms”. We believe the Ethics Committee’s intent was to illustrate the scoping out of “professional associations” that do not constitute networks. We are concerned, however, that the illustrative language chosen is similar to the language used today by some major global accounting firms that clearly have common business interests and should be considered network firms. We ask that this language be clarified to avoid any implication that major global accounting firm networks fall outside the network firm definition.

In our view, it would be helpful to emphasize the significance of a firm using the larger network name as part of its own firm name in signing its audit opinions – for example, to stipulate that if the firm includes all or part of the network name in its firm name, or adds a statement regarding its network membership to the firm name in signing its audit opinions, a network firm relationship should be judged to exist. (We recognize that the definition part (a) (i) mentions “uses a name in its firm name that is common to the larger structure” but believe this could be made even more explicit in the accompanying text in paragraph 290.16) Some members have also suggested that if any examples are used, there should be multiple examples illustrating cases of “what is” as well as “what is not” intended to be considered a network firm for independence purposes. We believe the Code should also emphasize that any examples are only selected illustrations are not all-inclusive and the specific facts and circumstances prevailing in any particular case must always be considered.

In paragraph 290.15, in the first sentence, we suggest that the phrase “is something to be judged in the circumstances” be revised to state “is a matter to be determined in light of the specific facts and circumstances” or otherwise convey the basis for the judgment. This would be consistent with the second sentence of that paragraph.

In paragraph 290.14, the term “correspondent firm” is introduced but is left undefined. It is not clear to us what is meant by “created only to facilitate referral of work”. Further, it is not clear to us what would be involved in such referral of work and whether the Ethics Committee believes that “correspondent firms” do or do not involve a commonality of business interests sufficient to create a network, or would it depend upon the terms on which the work is referred? In general, we believe any term used in the Code that is considered significant should be included in the definitions to avoid confusion about what is intended.

In conclusion, we note that several securities regulators and auditor oversight bodies have established requirements for auditor independence that may not be fully addressed by Section 290 of the Ethics Code, including the new Network Firms definition. We are pleased that the Ethics Committee is undertaking additional work to examine and improve the independence requirements in Section 290. As this work proceeds, we look forward to providing additional input.

If the Ethics Committee or staff would like to discuss any of these matters further with SC 1, they are invited to contact Susan Koski-Grafer at Koski-GraferS@sec.gov or any member of the SC 1 Auditing Subcommittee.

Cc:Edcomments@ifac.org

Sincerely,

A handwritten signature in cursive script that reads "Scott A. Taub".

Scott A. Taub
Chairman, IOSCO Standing Committee No. 1