

30 April 2007

Jan Munro
Senior Technical Manager
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Edcomments@ifac.org

Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom

t + 44 (0) 20 7382 1770
f + 44 (0) 20 7382 1771

www.c-eps.org

Dear Ms Munro

Proposed Revised Section 290 of the Code of Ethics for Professional Accountants, Independence - Audit and Review Engagements, and Proposed Section 291, Independence - Other Assurance Engagements

The Committee of European Banking Supervisors (CEBS) welcomes the opportunity to comment on the *Proposed Revised Section 290 of the Code of Ethics for Professional Accountants, Independence - Audit and Review Engagements, and Proposed Section 291, Independence - Other Assurance Engagements*.

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

In general, we welcome the changes to the Code which we regard as an improvement and strengthening of the Code, particularly in the area of threats posed by the provision of certain non-audit services.

However, we believe that some further changes are necessary in order to ensure the Code is capable of being adopted more widely and in order to make it more robust.

In particular, we believe the definitions used in the Code for such aspects as 'public interest entity' and 'key audit partner' should be harmonized with those used in the 8th Directive on Statutory Audits (Directive 2006/43/EC).

In the attached appendix we provide answers to the specific questions raised in the guide for respondents. We have not made comments on those areas where, as stated in the Explanatory Memorandum, the Board will be undertaking further work e.g. internal audit.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the

chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely

A handwritten signature in black ink, appearing to be 'DN' or similar initials, written in a cursive style.

Danièle Nouy
Chair

Appendix 1 – Comments on Section 290 of the Code of Ethics. Independence – Audit and Review Engagements

1. Is it appropriate to extend all of the listed entity provisions to entities of significant public interest?

We believe that public interest entities should always include credit institutions, even when some of these 'credit institutions would not have a large and a wide range of stakeholders'. The fact that a credit institution accepts money from the public and has a pivotal role in the economy (e.g. payments services - loans) justifies that it should be considered as being an entity of public interest. We strongly recommend the Board to take the same approach as the European Union has taken.

We also note that the definition of 'entities of significant public interest' in the Code is not the same as that covered in the 8th Directive. We would encourage the Board to harmonise the Code's definition with that in the 8th Directive to maximise the possibility of the Code's acceptance in the EU.

2. Is it appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation?

From the perspective of banking regulators, the threat to auditor independence from a very long term relationship between auditor and client is such that, when auditing public interest entities, it should be mandatory to have rotation of audit partners.

3. Is the revised guidance related to the provision of non-audit services appropriate?

See comments in response to Q5, the 'other comments' section. Though we welcome the strengthening of the Code, we still have some concerns.

4. Are the benefits of the revised proposals proportionate to the costs?

No comment.

5. Other comments

Definitions

Engagement team

We are not sure with the new definition that the boundaries between who is and who is not in the engagement team are clear and that the implications of this, and how it relates to the proposed exposure draft, ISA 620, Use of Experts, have been fully considered. For example, it is not clear whether an expert providing actuarial services to the engagement team would be considered as part of the engagement team: is this professional considered an expert about a particular matter or is this person providing a service that might otherwise be provided by a partner or staff of the firm?

It could also be clarified how the auditor should deal with the independence of external consultants working for the audit team, when they are not considered to be part of the engagement team.

Definition of Key Audit Partner

We note the definition of 'key audit partner' within the Code is not precisely the same as that used in the 8th Directive. To encourage greater convergence in this area, we would suggest the Code should use the same definition as that in the 8th Directive

Compensation and Evaluation Policies

Section 290.221 states that compensating and evaluating other members of the audit team for selling non-assurance services to an audit client may create a self-interest threat. We are not convinced that such a threat could be eliminated by the safeguards mentioned in the section (having an additional professional accountant who was not a member of the audit team review the work or removing such members from the team). We believe that no distinction should be made between the key audit partner and other members of the audit team.

Control of the administration of the Code

It would be helpful to have more guidance on how to apply the code regarding communication on who is part of the network and the information that partners and other members of staff need to provide to the network firms such that the code can be applied consistently at all levels of the network.

Tone of the Code

The language used in the Code is rather ambivalent and it is not always clear whether there is or is not an obligation on the accountant, or there is or is not a threat. The overall tone of the Code is not direct and active e.g. it is often stated that " 'X' may create a threat...". To strengthen and clarify the code, the tone could be made more direct. In most cases the situation provided will be perceived to create a threat. The issue is then whether safeguards can be applied to reduce the threat to an acceptable level such that the auditor's objectivity is not perceived to be compromised. Therefore more direct language could be used. E.g. " 'X' creates a threat". Adopting some of the conventions of the clarity project, as applied in the clarified ISAs, could also help in this respect.

In addition, there should be a greater emphasis of those situations which are prohibited. As currently worded, some of the prohibitions are a little unclear e.g. 290.182.

Split of the Code

It would be helpful to have more guidance on when to use section 291 for public reporting engagements.

Specific comments on particular aspects of the Code

In section 290.4, it should state more clearly that in some situations there are no safeguards and the auditor cannot undertake the audit.

290.26 – We believe it should be required that the auditors inform those charged with governance regarding any relationships or other matters that might, in the audit firm's opinion, bear on independence. This would encourage a dialogue and an appreciation of the issues involved. This would also be in line with the requirements of article 42 1.c) of the 8th Directive on Statutory Audits.

290.135 – We are not entirely sure how this definition of the cooling off period would work. We believe it would be simpler to apply this section if the cooling off period was two years from the date of the appointment of the key audit partner to the client. This would also be in line with the EU Directive 2006/43/EC, article 42.

290.164 – We are concerned with this paragraph that many of the items which are suggested as 'a normal part of the audit process' would seem to pose a strong self-review threat to the auditor's independence and are more in the nature of accounting services. For example, the suggestion that drafting disclosure items is a 'normal part of the audit process' seems a little excessive when considering the requirements of IFRS 7, Financial Instruments: Disclosures. We believe this paragraph needs to be revisited and more thought given to what is appropriate given the self-review threat.