



**Ethics Committee**  
**Meeting Summary – February 2005**

The Ethics Committee (Committee) met on 4 February 2005.

Members of the Committee present were: Mark Fong (Chairman), Doug Oxley (Deputy Chairman), Charles Grieve, Kenneth Lam, Quinn Law, Lucia Li, Sheila Pattle, Keith Pogson and Christopher To.

Secretariat staff present were: Stephen Chan (Executive Director) and Elaine Chan (Assistant Director, Standard Setting).

The Committee discussed the following agenda items of IFAC Ethics Committee Meeting – 14 & 15 February 2005:

- a. IFAC Code Exposure Draft
- b. Independence
- c. International Convergence
- d. Definition of “network firm”

**IFAC Ethics Committee Meeting – 14 & 15 February 2005**

**a. IFAC Code Exposure Draft (ED)**

The Committee discussed the following:

i. Direct reporting engagement

The Committee discussed whether the ED had clearly explained the nature of a direct reporting engagement under the new IAASB Framework and considered that it would need to be supplemented by explanatory notes.

The Committee agreed that it would be helpful to clarify that the ED seeks to address two types of direct reporting engagements, i.e.

- where the professional accountant directly performs the evaluation or measurement of the subject matter; and
- where the professional accountant obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users.

ii. Additional explanatory notes

The Committee generally considered that additional explanatory notes on the IAASB Framework would be helpful.

iii. Review engagements

A member considered that the independence requirements for review engagements should not be lower than those for audit engagements.

iv. Effective date

The Committee considered that the meaning of “an effective date of 31 December 2005” was not clear and that it would be necessary to clarify whether the proposed effective date is intended to apply to engagements where the assurance report is dated on or after the effective date of 31 December 2005.

v. Transitional rule for audit partner rotation

It was considered that the transitional rule for audit partner rotation should be included in the body of the IFAC Code.

**b. Independence**

The Committee welcomed the IFAC Ethics Committee’s initiative to review the approach and structure adopted to describe prohibitions and the use of the term “safeguards”.

**c. International Convergence**

i. Scope of convergence

The Committee agreed that the IFAC Ethics Committee should have an explicit convergence strategy.

The Committee also agreed on a number of matters that were raised in the IFAC Ethics Committee meeting paper regarding which parts of the IFAC Code should be included in national standards in order that they would be considered to be “equivalent standards” as the IFAC Code.

ii. Authority of different parts of the IFAC Code

In respect of the question raised in the IFAC Ethics Committee meeting paper as to whether two standards would be considered as “equivalent standards” if they were drafted in a different convention from the IFAC Code, the Committee considered that any modifications to the IFAC Code should be allowed to the extent that it is an “IFAC Code-plus”.

The Committee also considered that it would be necessary for the IFAC Ethics Committee to review the section on independence to differentiate between rules and examples.

iii. Timing of adoption

The Committee considered whether member bodies should be required to adopt the same effective date as that of the IFAC Code. It was agreed that a time lag of at least 1 calendar year for compliance should be allowed to cater for the needs of different member bodies, such as the time required for translation.

**d. Definition of “network firm”**

The Committee raised two concerns on the proposed revised definition of “network firm”:

- i. whether the proposed revised definition is intended to capture firms which claim or represent themselves to be a member of a network but not necessarily have a common brand name; and
- ii. whether, besides the Big Four accounting firms, firms would have adequate resources to allow them to ascertain whether a particular assurance or audit client is independent of the entire network.

The Chairman agreed to raise the Committee’s above views when he attended the IFAC Ethics Committee meeting in the following week.

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