



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

VIA e-mail: [EDComments@ifac.org](mailto:EDComments@ifac.org)

Ms Jan Munro  
Ethics Committee  
International Federation of Accountants  
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**Exposure draft on the Proposed Revised Section 290 *Independence – Assurance Engagements***

Dear Ms Munro

The Basel Committee on Banking Supervision welcomes the opportunity to comment on your recent exposure draft on the Proposed Revised Section 290 *Independence – Assurance Engagements*.

The Committee has a strong interest in promoting a high quality international Code of Ethics for accounting firms and auditors, and believes that this exposure draft includes many useful proposals.

Please find our detailed comments in the appendix attached. These comments have been prepared by the Committee's Accounting Task Force, chaired by Prof Arnold Schilder, Executive Director of De Nederlandsche Bank, and approved by the Basel Committee. The Committee trusts that you will find its comments useful and constructive.

If you have any questions regarding our comments, please feel free to contact Prof Schilder (+31 20 524 3360), Mr. Marc Pickeur who chairs the Audit Subgroup of the Accounting Task Force (+32 2 220 5253) or Mr Hiroaki Kuwahara at the Basel Committee Secretariat (+41 61 280 9278).

Yours sincerely,

Jaime Caruana

## Appendix One

### **Basel Committee comments on the Ethics Committee of the International Federation of Accountants Exposure Draft: *Proposed Revised Section 290, Independence-Assurance Engagements***

#### **1. Introduction**

The Basel Committee on Banking Supervision<sup>1</sup> has a strong interest in high quality and independent audits of banks and has carefully analysed the proposals of the Ethics Committee pertaining to the proposed new definition of a network firm in the Code of Ethics for Professional Accountants and the related proposed revised Section 290, Independence-Assurance Engagements of the Code of Ethics.

The Committee is pleased to note that the Ethics Committee initiated a project to review the definition of a network firm and welcomes the initiative to provide guidance on this important subject in Section 290 of the Code of Ethics.

#### **2. The definition of a network firm**

The definition of a network firm commences with the statement that “(a) a firm is part of a larger structure...”. The term “larger structure” is rather general and it could be clarified by adding a relevant, linked objective to the definition. This could be achieved by inserting the words “aimed at co-operation,” after “larger structure”. The definition would then commence as follows: “(a) a firm that is part of a larger structure aimed at co-operation, ...”.

According to the Exposure Draft, a firm also would be a network firm if it “is part of a larger structure” and it “(iii) shares profits or costs with other firms within the larger structure”. “Sharing costs” with other firms may be too broad a criterion because the only costs that are shared might be the administrative costs of being part of a large structure. That may be the case with an association of firms, which is addressed in paragraph 290.17. However, to be a firm in an association of firms, the firm must not meet the criteria of a network firm, but the criteria for being a network firm includes sharing costs. Therefore, the definition of a network firm should include further guidance on the meaning of “costs”.

#### **3. Revised Section 290 of the Code of Ethics**

Paragraph 290.15 provides useful guidance about “[w]hether the degree of association is sufficient to create a network that would require firms in the network to be independent of

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<sup>1</sup> The Basel Committee on Banking Supervision is a committee of banking supervisory authorities, which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

each other's financial statement audit clients". It would helpful to add to Section 290 of the Code of Ethics an example of where the "factual circumstances available" referred to in paragraph 290.15 would indicate that associated firms are part of a network, even if such a conclusion may not be obvious to the firms themselves.

Paragraph 290.16 could be made more precise by adding the word "normally" to the last part of the first sentence. This part of the sentence would then read as follows: "it would normally be considered to belong to a network".

Paragraph 290.17 requires an independent firm that does not meet the criteria of a network firm, but is a member of an association of firms to "clearly describe the nature of its membership of the association" for example on its stationery or promotional material. However, the disclosure example at the end of the paragraph is ambiguous when it states that the firm is "an independent firm associated with XYZ Association of Accounting Firms". As explained in paragraph 290.9, the use of the word "independence" on its own may create misunderstandings. Therefore it is suggested that this paragraph elaborate on the context in which the term "independent" is used and provide additional guidance on other acceptable terminology for clearly describing the nature of a firm's association membership.

Paragraph 290.18 gives examples of professional resources that firms may share. The first example is "Common systems that share information such as client data, billing and time recording". It is not clear how to interpret "share information" in this example. Does it mean that one firm would have access to client data, billing, and time records for a client of another firm? If so, this would be a shared professional resource that should be considered in determining whether the shared resources are significant. However, if the common systems simply compile client data, billing, and time records, but a firm only has access to the information relating to its own clients and not to other firms' clients, then it would not be appropriate to consider the common systems to be a shared professional resource. The second sentence of paragraph 290.19 mentions the exchange of client information in the context of determining whether shared resources would be considered significant. Thus, the first example in paragraph 290.18 would be clearer if it were revised to read "Common systems that enable firms to exchange information such as client data, billing and time recording."

In general the terminology used in the examples of paragraph 290.18 is not clear in all respects as the preceding comment illustrates. For example, the exact meaning of the term "technical departments" should be explained as it is not defined elsewhere in the Code of Ethics.

The third sentence of paragraph 290.19 states that "[t]here is little difference in practice between a group of firms combining to develop methodologies, and a number of firms independently purchasing proprietary audit methodology from a commercial developer and supplier". When firms independently purchase proprietary audit methodology, none of the firms had a role in developing the methodology. In contrast, when a group of firms combines to develop methodologies, each is providing input to the development process. We believe there is a significant difference between these two situations and therefore recommend that the third sentence be deleted from the paragraph. The fourth sentence of the paragraph ("The same may well apply to common training endeavour".) would then also need to be deleted.

Although the guidance offered in Section 290.19 is helpful in concluding whether the professional resources shared are significant, it is not always clear how the guidance should be applied in some of the other examples mentioned in paragraph 290.18. Therefore, expanding the guidance on evaluating the significance of shared professional resources would be helpful.