



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

Via Email: EDComments@ifac.org

Mr Jim Sylph
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA

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Exposure Draft on the Proposed Revised Code of Ethics

Dear Mr Sylph,

The Basel Committee on Banking Supervision welcomes the opportunity to comment on your recent exposure draft 'Proposed Revised Code of Ethics for Professional Accountants'.

The Committee has a strong interest in promoting high quality international standards for ethical conduct by auditors and accountants, and believes that the exposure draft includes many useful proposals.

Please find our detailed comments in the attached note. The Committee's Accounting Task Force, chaired by Prof Arnold Schilder, Executive Director of De Nederlandsche Bank, has prepared the note. This note has been approved by the Basel Committee. The Basel 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), or Mr Hirotaka Hideshima at the Basel Committee Secretariat (+ 41 61 280 8060).

Yours sincerely,

Jaime Caruana



Appendix

Basel Committee Comments on IFAC Exposure Draft

Proposed Revised Code of Ethics for Professional Accountants

1. General comments

The Basel Committee on Banking Supervision¹ has a strong interest in high quality international ethical standards for the accounting profession and has carefully analysed the proposal.

After recent scandals, the issue of ethical conduct by accountants and auditors has attracted the public's attention. The Committee is pleased to note that the exposure draft may contribute to the restoration of public confidence in the auditing profession. We support the proposal to have a worldwide Code of Ethics for all professional accountants, including those who operate in public practice and in business.

In the remainder of the note, we identify areas where we have concerns or recommendations. Our main comments include the following:

- We believe the soundness of the proposed Code of Ethics could benefit from a rearrangement of the principles. We recommend that Part A (applicable to all professional accountants) should be followed by current Part C (applicable to professional accountants in business) and that the Code should be concluded with current Part B (applicable to professional accountants in public practice). We feel that the Code for professional accountants in public practice should be the most strict.
- To keep the Code of Ethics and the International Standards on Auditing (ISAs) separate, we recommend including in the Code a link to the relevant ISA, particularly the ISAs for Client Acceptance and Engagement Acceptance (paragraphs 2.3 to 2.8 and 2.11 to 2.14 in current Part B). This could be achieved by including in the Code a paragraph summarising the relevant principles and giving the reference to the specific ISA for further details.

¹ 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.

- Current Part B of the Code should explicitly state that the governing body (board of directors or corresponding body) of a firm should ultimately be responsible for the adherence to the Code of Ethics by its professional accountants.

2. Specific Comments and Recommendations

The structure of the Code of Ethics

The Code of Ethics is intended to serve as the basis for the ethical requirements for professional accountants who are registered with a member professional body. It seems to us that the expectations the public has for professional accountants in public practice in applying the Code of Ethics are more specific than for other professional accountants. One way to address this is to have a pyramid structure in the Code. Therefore we suggest that the Code should begin with the principles applicable to all professional accountants, followed by additional principles applicable to professional accountants in business and should conclude with additional principles especially for the professional accountants in public practice.

As a result of this rearrangement of the draft Code, for example, the recitations of the fundamental principles in paragraph 1.2 of both Parts B and C could be deleted and replaced with a cross-reference to the discussion of the fundamental principles in paragraph 1.14 of Part A.

Inter-relationship with ISAs

Paragraphs 2.3 to 2.8 and 2.11 to 2.14 of Part B discuss threats to compliance with the fundamental principles in the areas of Client Acceptance and Engagement Acceptance. Detailed guidance regarding these matters has also been included in ISAs. For practical reasons it may be better to exclude guidance regarding these issues from the Code of Ethics. Instead, the Code could contain a high level principle for each of these issues with a cross-reference to the relevant ISA.

Other drafting suggestions

Paragraph 1.12 of Part A

We believe there should be a general and permanent obligation for the professional accountant to identify and evaluate threats to compliance with the fundamental principles. The proposed text only requires the professional accountant to evaluate any threats when the accountant knows or could reasonably be expected to know of circumstances that might compromise compliance with the fundamental principles. We believe this to be too narrow.

Paragraph 1.17 of Part A

As to the last bullet on external review by a legally empowered third party, we are unsure whether this refers solely to so-called peer reviews or to reviews done by oversight boards, when applicable, or whether it also encompasses reviews of working papers and client communications by governmental authorities with access to these materials under national legislation.

Paragraph 5.6 of Part A

The text of paragraph 5.6(b)(ii) should be redrafted to include the disclosure obligation existing in many countries that professional accountants should report infringements of anti-money laundering laws to the competent authorities.

Paragraph 2.4 of Part B

We believe that the use of 'could' in this paragraph is an understatement. The examples of client issues cited in paragraph 2.4 of Part B represent significant threats to the professional accountant's compliance with the fundamental principles enumerated in paragraph 1.14 of Part A (and repeated in paragraph 1.2 of Part B). Paragraph 2.4 should be revised accordingly.

Paragraph 2.6 of Part B

In our opinion, a professional accountant should always obtain knowledge and understanding of its clients and the owners, managers and others responsible for its clients' governance and business activities. Therefore, we believe that this paragraph should be redrafted in such a way that it becomes a requirement to obtain such knowledge and understanding.

Section 4 of Part B

We support the requirement that a new accountant should ask the existing accountant to provide information on any facts or circumstances within their knowledge that, in their opinion, the proposed accountant should be aware of before deciding whether or not to accept the engagement. Paragraph 4.7 indicates that when the proposed accountant is unable to communicate with the existing accountant, the proposed accountant should attempt to use other means to obtain information. We believe that a client's refusal to allow the existing accountant to discuss the client's affairs with the proposed accountant represents a significant threat that cannot be eliminated or reduced by obtaining information by other means. Thus, when a client refuses to give permission, the proposed accountant should be required to decline the engagement. Accordingly, we recommend that Section 4 be revised to include such a requirement.

Paragraph 7.2(c) of Part B

We suggest adding to this sentence that the accountant should also account for the proceeds of the assets (e.g. dividends and interest).