

**Minutes of the Meeting of the
International Ethics Standards Board for Accountants
Held on June 25-27, 2007
Berlin, Germany**

	Members	Technical Advisors
<i>Present:</i>	Richard George (chair)	Heather Briers
	Frank Attwood	
	Margaret Butler	Bill Cordes
	Ken Dakdduk	Lisa Snyder
	David Devlin	Andrew Pinkney (Day 1,2 and Day 3 in part)
	Akira Hattori	Aiko Sekine
	Geoffrey Hopper	Sylvie Soulier
	Kariem Hoosain	Rethabile Kikine
	Lady Barbara Judge (Day 1 only)	
	Thierry Karcher	Jean-Luc Doyle
		Bert Oosterloo
	Michael Niehues	Petra Gunia
	Luca Savino (Day 1,2 and 3 in part)	
	Carmen Rodriguez	
	Jean Rothbarth	
	Volker Röhricht	Tim Volkmann
	Robert Rutherford	David Hastings
	David Winetroub	Peter Hughes
<i>Regrets:</i>	Barbara Majoor	Neil Lerner

Non-Voting Observers

<i>Present:</i>	Juan Maria Arteagoitia (Day 1, 2 and Day 3 in part)	
	Richard Fleck	
	Toshi Kurosawa	Tomokazu Sekiguchi

Bella Rivshin

PIOB

Present Donna Bovolaneas (day 3 only)

IFAC Technical Staff

Present: Jan Munro

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. He thanked Wirtschaftsprüferkammer (WPK) and the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW), for hosting the meeting. Dr. Röhricht made a few remarks and on behalf of Wpk and IdW welcomed all IESBA members and technical advisors to Berlin.

Mr. George noted that apologies had been received from Ms. Majoer who had given her proxy to Mr. Oosterloo and that Lady Barbara Judge would be unable to attend days two and three and had given her proxy to Mr. Fleck for those days.

Mr. George welcomed two new observers to the IESBA: Mr. Arteagoitia from the European Commission and Mr. Kurosawa from the Financial Services Authority in Japan. He also welcomed technical advisors: Mr. Oosterloo (for Ms. Majoer), Ms. Kikine (for Mr. Hoosain) and Mr. Sekiguchi (for Mr. Kurosawa). On the third day he welcomed Ms. Bovolaneas from the PIOB.

Minutes of the Previous Meeting

The minutes of the public session of the March 2007, IESBA meeting were approved as presented.

Future Meetings

Mr. George apologized for the need to move the October 2007 meeting from Buenos Aires to Toronto and thanked members for their flexibility in agreeing to move the dates from October 23-25, 2007 to October 24-26, 2007. He indicated that, in light of the importance of finalizing the changes to the independence requirements and the EU 8th directive implementation date it would be prudent to move the July 2008 meeting to June 2008. It was agreed that IESBA members would be circulated for availability.

Planning Committee

Mr. George reported that the Planning Committee met in late May 2007 to consider the results of the IESBA survey of stakeholders and to develop a draft strategic plan, which was presented in Agenda Item 5.

Accountants in Government

Mr. George reported that, after the March 2007 IESBA meeting, he, Mr. Attwood and Mr. Lerner (Accountants in Government Task Force Chair and Member respectively) and Ms. Munro discussed by conference call how to address the matters raised by the IESBA at the March meeting. He noted that the IESBA's priority was to finalize the revisions to independence requirements for professional accountants in public practice. At the March IESBA meeting, concern was expressed that it would be confusing to simultaneously develop additional guidance for professional accountants in government who perform assurance engagements. In light of this, he proposed that the appropriate course of action was not necessarily to embed the proposed changes directly in the Code but to consider developing an Interpretation to the Code. He also stated that it would be important to consult widely on the adequacy and completeness of proposed guidance. Therefore, it would be useful to involve the International Organization of Supreme Audit Institutions (INTOSAI) in the development of the document. He noted that the timeline for such an approach would be to bring the matter back to the IESBA for consideration in late 2008. The IESBA agreed with the proposed approach.

IESBA CAG Conference Call

Mr. George reported that the CAG met via conference call on June 20, 2007. The main purpose of the call was to provide input on the Independence II project, which was addressed as part of Agenda Item 2. Draft minutes of the conference call were circulated to IESBA members.

2. Independence II

Mr. Winetroub, Independence II Task Force Chair, reminded the IESBA that this project was to address three topics:

- Internal audit;
- Relative size of fees; and
- Contingent fees.

He indicated that the Task Force had met once since the last IESBA meeting in March, and once via conference call to develop the proposed positions.

Internal Audit

Mr. Winetroub reported that the Task Force had considered the direction provided by the IESBA at its March meeting and developed a proposed exposure draft that:

- States that internal audit services comprise a wide range of services and provides examples of the types of services and the various ways in which they might be conducted;
- States that depending upon the nature of the internal audit service a threat to independence may be created;
- States that a firm should not perform internal audit services that involve management functions and provides some examples of such services;

- Maintains the existing position that services involving the extension of procedures to conduct an audit in accordance with ISAs and operational internal audit services unrelated to the internal controls over financial reporting would not be considered to compromise independence;
- Permits the firm to provide assistance to an audit client's internal audit function only if specified conditions are satisfied and requires the firm to evaluate the significance of any remaining threat and if the threat is not clearly insignificant to apply safeguards to eliminate the threat or reduce it to an acceptable level;
- Emphasizes that before accepting an engagement to perform a significant part of the audit client's internal audit activities, the firm should be satisfied that the client has designated appropriate resources to meet the conditions necessary to perform those activities; and
- States that an internal audit service should not include any non-assurance service that would otherwise not be permitted under Section 290.

Mr. Winetroub reported that the proposal had been discussed with the CAG at its conference call on June 20, 2007 and the following points were noted by the CAG:

- Notwithstanding that the same procedures could be performed as internal audit procedures or external audit procedures, a self-review threat could be created when an external auditor performs internal audit activities;
- The position on management functions should be clarified;
- Those charged with governance should retain responsibility for ensuring the system of internal control and internal audit are adequate and operating effectively; and
- Some questioned whether there should be a more stringent position taken for audit clients that are entities of significant public interest.

Mr. Fleck noted that the CAG was of the view that a self-review threat was created by the provision of internal audit services. He noted that Mr. Winetroub had addressed many of the CAG's concerns in his summary of the proposed position, including stating that it would be unacceptable for the external auditor to undertake an internal audit engagement that would constitute the complete outsourcing of the internal audit function or that otherwise would entail the performance of management functions, or undertake activities that formed part of the entity's system of internal control. In addition, the firm must dedicate appropriate resources to the internal activity to take responsibility for the services including the scope, risk, and frequency of the work and evaluating and determining which recommendations should be implemented. Mr. Fleck noted that the proposed exposure draft was not as clear as it could be in explaining the proposed position.

The IESBA discussed the proposed draft and the following points were noted:

- The reference to procedures which were "an extension of the procedures required to conduct an audit in accordance with International Standards on Auditing" was not helpful because it implied that if the auditor extends the external audit this is internal audit – whereas the issue is that procedures performed as part of internal audit could be similar in nature to those performed as part of the external audit;

- The exposure draft should recognize that performing internal audit activities may create a threat in that the auditor might be placed in the position of reviewing his/her own work during the course of a subsequent audit;
- The proposed wording should clearly state that the auditor should not perform internal audit activities that would entail management functions and the auditor should not perform procedures that form part of the internal control of an entity;
- The proposed wording should clearly state that all the conditions in proposed paragraph 290.189 (Agenda Paper 2-A) are required in all cases when an auditor performs any internal audit activities – even if the activities are operational internal audit activities unrelated to internal controls over financial reporting; and
- It was also noted that the flow of the paragraphs could be improved.

Relative Size of Fees

Mr. Winetroub reported that the Task Force had considered the direction provided by the IESBA at its March meeting and had developed a draft exposure draft that:

- Contains a new requirement for audit clients that are entities of significant public interest that when for two or more consecutive years the total fees from the audit client and its related entities represent more than 15% of the total fees received by the firm, the threat would be too significant unless disclosure is made to those charged with governance and one of the following safeguards is applied either :
 - not less than once every three years a post-issuance review that is equivalent to an engagement quality control review performed by a professional accountant who is not a member of the firm signing the audit opinion; or
 - prior to the issuance of the audit opinion an EQCR is performed by a professional accountant who is not a member of the firm.
- States that the relative significance of the fee level should be considered in determining which of the two safeguards is appropriate to reduce the threat to an acceptable level and if the safeguard is a post issuance review the relative size of the fee should be considered in determining whether the review should be performed more frequently than every three years. The Task Force is of the view that flexibility is appropriate because depending upon the relative size of the fees it might not be necessary to have a pre-issuance review because the deterrent effect of a post issuance review would be appropriate to address the threat.

Mr. Winetroub reported that the proposal had been discussed with the CAG at its conference call on June 20, 2007 and the following points were noted by the CAG:

- It was recognized that while an argument could be made that the specific threshold of 15% was contrary to the more judgmental approach generally taken in the Code, the approach was a pragmatic one that would likely lead to more consistent application than more general guidance;
- It should be clear that the proposed required alternative safeguard of a pre-issuance engagement quality control review was not an additional engagement quality control review.

Mr. Fleck noted that the CAG had also questioned whether the guidance should address the significance of the client to the individual partner.

The IESBA discussed the proposed draft and the following points were noted:

- While the specific threshold might be considered contrary to the approach generally taken it was necessary for clear guidance and consistent application. It was agreed that the explanatory memo would ask respondents to comment on whether 15% is an appropriate threshold;
- The significance of the threat of relative fee size is also dependent on the significance of the client to the firm (qualitatively or quantitatively);
- The proposed wording needs to be clearer that when fees for an audit client that is an entity of significant public interest are greater than 15% of the total fees of the firm, either a post-issuance review or a pre-issuance engagement quality control review should be performed for the following year's audit (i.e., year 3) by a professional accountant who is not a member of the firm signing the opinion on the financial statements.

A question was raised as to whether the safeguards were sufficiently strong and whether disclosure should be made to the public if the fees were over a certain percentage. It was also suggested that there might be an absolute threshold – for example if the fees were over a certain percentage, the audit firm should not perform the audit. It was noted that disclosure to the public was not within the mandate of the IESBA. It was further noted that establishing an absolute threshold could be problematic in certain jurisdictions and might, in effect, render a particularly large entity in a jurisdiction “unauditable.”

A question was raised as to how the 15% would be calculated and whether it would be based on the audit firm's year or the audit client's year. It was agreed that the proposed exposure draft would not provide this level of detail but what was important was that the measure was applied consistently.

Concern was expressed by some members whether the two alternative mandatory safeguards would be available. It was agreed that the explanatory memorandum should specifically ask respondents whether they were of the view that the safeguards were practical.

Contingent Fees

Mr. Winetroub reported that the Task Force considered the direction provided by the IESBA at its March meeting and developed a proposed exposure draft that:

- States that a firm should not enter into a contingent fee arrangement for a non-assurance service for an audit client where the fee relates to a matter that is material to the financial statements or the fee is material to the firm signing the audit opinion;
- States that a network firm that participates in the audit should not enter into a contingent fee arrangement in respect of a non-assurance service provided to an

audit client where the fee relates to a matter that is material to the financial statements; and

- Amends the guidance regarding consideration of threats for other non-assurance engagements to refer to a contingent fee for an engagement performed by a network firm.

Mr. Winetroub reported that the proposal had been discussed with the CAG at its conference call on June 20, 2007 and the following points were noted by the CAG:

- Some CAG members were of the view that no contingent fees should be permitted in respect of a service provided to an audit client that is a listed entity; and
- Whether it would be useful to require discussion with those charged with governance if a contingent fee is charged to an assurance client.

The IESBA discussed the proposed draft and the following points were noted:

- There are many different types of contingent fees, therefore it is important to establish a clearly articulated principle;
- The restriction on a network firm that participates in the audit providing a contingent fee that relates to a matter that was material to the financial statements was too narrow. The restriction should address all network firms, irrespective of whether they participate in the audit. It was noted that certain corporate finance services might be provided by network firms that do not provide audit services;
- The restriction should be more clearly articulated. A threat to independence is created when a contingent fee is charged for a service and the results of that service will be subject to audit; and
- The significance of threats created by other contingent fee arrangements is dependent upon the range of possible fee amounts and the nature of the service.

On the third day of the meeting the IESBA reviewed revised draft wording presented by the Task Force which addressed the points noted above. The IESBA unanimously approved the revised document for release as an exposure draft. Mr. George thanked the Task Force and in particular the Chair Mr. Winetroub for the work in developing the Exposure Draft. It was agreed that the comment period for the Exposure Draft would be the standard three months.

3. Independence 1

Ms. Rothbarth, Independence Task Force 1 chair, noted that to date 73 comment letters had been received on the December 2006 Exposure Draft. She noted that the Task Force has met twice since the comment period ended on April 30, 2007 and has identified significant issues on which it would like the direction of the IESBA. The Task Force has received some preliminary input from IOSCO but the comment letter has not yet been received.

Principles/Rules

Ms. Rothbarth reported that 26 respondents had commented on the issue of a principles-based approach as opposed to a rules based approach in the Code. Respondents expressed

the view that while revised sections are based on a threats and safeguards approach, the sections nevertheless contain a large number of restrictions/prohibitions such that in practice they reflect a move towards a rules-based approach, in particular the proposals on valuations for SPIES, the cooling-off requirement and the requirements on taxation services.

She reported that the Task Force had considered the issue and had examined the number of additional requirements contained in the exposure draft. While the exposure draft does contain some additional requirements, four of the additions relate to expanding an existing requirement to cover an immediate family member and six of the new requirements relate only to audits of entities of significant public interest. The Task Force determined that the issue was best addressed when considering the comments on each specific topic to determine whether the proposals in the exposure draft do stem from the application of the principles-based approach.

The IESBA considered the issue and the following points were noted:

- There is concern that the Code is becoming more rules-based. It is particularly difficult for those jurisdictions that want to imbed the Code in regulation but can not do so because of the length of the Code;
- The issue is exacerbated because the principles on which the independence requirements are based are not in Sections 290 and 291 but are in Section 100;
- There is no conflict between absolute restrictions and a principles-based approach if the restrictions flow logically from the principles;
- It would be desirable at some time in the future to consider the structure of the Code but it is not the time to do this because it is important to get the independence revisions issued on a timely basis; and
- The consideration of the cost benefit of the proposals would be useful.

The IESBA agreed with the recommendation of the Task Force that this issue should be addressed as part of the consideration of each specific topic and agreed that for each of the successive papers and future proposed changes to respond to comments received on exposure, consideration would be given to whether the individual proposals are consistent with a principles-based approach.

Split of the Code

Ms. Rothbarth noted that the exposure draft had proposed splitting section 290 into two sections. Under the proposal, Section 290 would apply to audits and reviews of historical financial information and Section 291 would apply to all other assurance engagements.

Ms. Rothbarth noted that the majority of respondents who commented on this issue were in favor of splitting the Code. A few were against the split noting that the principles do not vary with the nature of the engagement and, for this reason, it is preferable that the guidance on independence is contained within one section of the Code of Ethics. In addition, a few respondents expressed concern about the level of repetition and length caused by the split.

The IESBA discussed the split of the section and the following point was noted:

- The IOSCO letter will express the view that there is not sufficient evidence for the need to split the section. Such a split might confuse investors and lead them to believe that independence requirements differ depending upon the nature of the assurance engagement.

Ms. Rothbarth noted that those who commented on how the section was split commented on the treatment of review engagements and the treatment of engagements related to one or more specific elements, accounts or items. of a financial statement.

Some respondents expressed concern that reviews were in Section 290 and not in Section 291. The concerns included:

- The split does not recognize the differing level of assurance provided, users do not derive the same level of assurance from review engagements and user expectations of independence are not the same – Section 290 should deal only with positive assurance reports;
- The level of public interest in review engagements is generally less than in audit engagements;
- The requirements may hinder the ability of small entities to obtain timely service or result in increased cost of reviews; and
- The reference to ISRE 2400 does not provide sufficient clarity as to which “review” engagements would be covered by Section 290.

She indicated that the Task Force had considered the issue and, given the level of direct and indirect support for the inclusion of reviews “*performed in accordance with International Standards on Review Engagements issued by the IAASB, or equivalent standards*” in Section 290, the Task Force was not persuaded by the arguments presented and recommends that such reviews are dealt with in Section 290. In particular, the Task Force was not persuaded by the argument that because the level of assurance was less than in an audit that the independence requirements should also be less rigorous.

She noted that in coming to this view, the Task Force had particular concerns that if reviews of financial statements were moved to Section 291, the important provisions in Section 290 relating to accounting and bookkeeping services might not be followed when the firm is conducting a review of financial statements. The Task Force believes that this is particularly important given the nature of the more limited procedures undertaken to form a review conclusion. The Task Force considers that the provisions relating to accounting and bookkeeping services should be complied with in the case of a review of financial statements. The Task Force is not persuaded that the threats and safeguards approach in Section 291 would be applied consistently and in such a way that it would always be sufficiently robust for reviews of financial statements.

The IESBA discussed the recommendation of the Task Force to leave reviews in Section 290 and the following points were noted:

- If there is confusion as to what is meant by a review engagement, the solution is to be clear on what engagements are captured rather than just change the split of the Code;
- If the issue is that the rigor of the bookkeeping sections should apply to reviews, these section could be replicated in Section 291;
- The United States and Canada have a mature market for review engagements and both these markets have adopted the same independence standards for review engagements as for audit engagements without, apparently, any confusion or difficulty with compliance; and
- The focus should be on the fact that assurance is provided on the financial statements.

The IESBA agreed that reviews of financial statements should be addressed in Section 290 and should not be moved to Section 291. In addition the IESBA asked the Task Force to consider clarifying the definition of a review engagement.

Ms. Rothbarth noted that a few respondents expressed concern about the inclusion of the audit and review of *“One or more specific elements, accounts or items of a financial statement”* in Section 290. These respondents were concerned this change would result in broader independence requirements than is considered appropriate for those services, in terms of application to the firm and network, partners of the firm, and members of firm management. Ms. Rothbarth noted that the Task Force had considered the matter and was of the view that the position taken in the exposure draft was, on balance, too stringent. It could, for example, require network firm independence in the case of audit reports on costs incurred for determination of various royalties that are payable under statute or an agreement. The Task Force, therefore, recommends that assurance related to one or more specific elements, accounts or items of a financial statement be addressed in Section 291. Ms. Rothbarth noted that the Task Force was of the view that such an approach would have the advantages of:

- Clarity and simplicity by focusing on the audit and review of “financial statements” in Section 290, as consistently defined with that of the IAASB;
- Recognizing that in some situations (e.g., an audit of royalties due) the application of the threats and safeguards approach in 291, based on the nature of subject matter information, will be appropriate; and
- Minimizing the relevance of the difficult concepts in 291 regarding the definition of an assurance engagement (e.g., where there are multiple parties or direct reporting engagements).

The IESBA agreed with the recommendation of the Task Force that such engagements should be addressed by Section 291.

Restricted Use Reports

Ms. Rothbarth noted that to the extent they commented thereon, respondents were generally supportive of the proposals regarding Restricted Use reports, although a number made suggestions to improve the clarity of the provisions. She noted that a

number of respondents expressed a view that where the criteria for restricted use are met and the provision of paragraphs 290.500-514 are applied, the fact that the firm has applied “modified” independence requirements to the engagement should be mentioned in the report.

Ms. Rothbarth noted that the content and form of assurance reports are the authority of the IAASB, which is in the process of finalizing ISA 800 on “special purpose” reports. The latest draft includes a requirement to disclose when the report is for restricted use (and distribution). It does not currently include any reference to the independence requirements. Ms. Rothbarth asked the IESBA to consider the views expressed by respondents and whether the comments should be passed on to the IAASB.

The IESBA discussed the issue and the following comments were noted:

- The restricted use modifications to independence requirements are only permitted if the intended users of the report are knowledgeable as to the purpose, subject matter information, and limitations of the report and explicitly agree to the application of the modified independence requirements; and
- Sections 290 and 291 contain independence requirements that are appropriate to the engagement and therefore a “health warning” in the auditor’s report would not be desirable because it could convey the message that the independence requirements for the restricted use reports were somehow deficient.

It was noted that some IESBA CAG members had expressed the view that it should be transparent which assurance standards were used to conduct the engagement and the independence framework that had been complied with.

It was agreed that the IESBA should encourage the IAASB to require disclosure in the assurance report of the independence framework (but not specific reference to the modified provisions adopted) that had been used. It was further agreed that IESBA should pass on to the IAASB the comments received on exposure related to the restricted use provisions with the statement that while the IESBA supported general disclosure of the independence framework used, for the reasons noted above, it did think that it was appropriate to disclose the fact that the restricted use modification had been applied.

Entities of Significant Public Interest

Ms. Rothbarth reported that 60 respondents commented specifically on the extension of the listed entity provisions to all entities of significant public interest (“ESPIs”). The majority either agreed with the proposal or agreed in large part with the proposal with some suggestions for clarification. Those who expressed support for the proposal stated that:

- By their very nature, entities of significant public interest share the characteristic of a wide range of financial stakeholders; and
- It would be inappropriate for IFAC to seek to promulgate a detailed international definition and that this should be done by national regulators or, in their absence,

member bodies: national differences will be too great for a detailed IFAC definition to apply sensibly.

Ms. Rothbarth noted that one respondent, the Basel Committee on Banking Supervision, disagreed with the view that it is impracticable to develop a single definition that would have global application and be suitable in all jurisdictions. The respondent pointed to the EU definition.

Ms. Rothbarth reported that several respondents disagreed with the proposal because it could lead to inconsistent application because of differing interpretation from jurisdiction to jurisdiction. In addition, three respondents expressed the view that in some jurisdictions there are many small listed entities and such smaller listed entities may not have a large number or wide range of stakeholders. In addition, it was noted that such entities may not have the level of sophistication that is necessary to comply with reporting requirements without assistance from their auditing firm.

Ms. Rothbarth further noted that some respondents stated that while the ED states that SPIEs are entities that “because of their size or number of employees, have a large number and wide range of stakeholders” the examples provided would not necessarily meet this overall characteristic. These respondents expressed concern that irrespective of this overall characteristic some may inappropriately interpret the proposal as meaning that the nature of the business itself would be sufficient to determine whether an entity should be considered a SPIE. These respondents suggested that greater emphasis be given to either the size of the entity or the fact that it has a wide range of stakeholders. In addition, some respondents expressed the view that additional guidance should be provided on the characteristics of SPIEs.

Ms. Rothbarth stated that the Task Force had considered various alternatives to address the comments received on exposure:

- *Emphasize size* – The Task Force concluded that, in light of the concern expressed, providing greater emphasis on the size of the entity would not address the concern that the examples provided could be viewed as tantamount to a rule. The Task Force also noted that, as discussed by the IESBA when developing the proposal, it was not possible to provide specific quantitative guidelines that would be appropriate for global application. The Task Force noted that during the development of the proposals the IESBA had reviewed requirements in European jurisdictions that had established a size test. That review revealed that there were significant differences in the sized tests used.
- *IAS Definition* – The Task Force considered whether adopting the IAS definition of an entity with public accountability would address concerns expressed. The Task Force was of the view that the second category (it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity) might not address the concern that the nature of the business itself, irrespective of size, would categorize an entity as an entity of significant public interest, but it does believe that it is a factor to consider.

- *Additional Guidance on Criteria* – The Task Force is of the view that the preferred approach is to provide additional guidance on the characteristics that would be considered in determining whether an entity (other than a listed entity or an entity that has been deemed to be of significant public interest by a regulator) is to be considered a SPIE for independence purposes.

Ms. Rothbarth reported that the Task Force did not have a recommendation in this area but had developed two alternative approaches for the consideration of the IESBA – a narrow definition, which would provide greater clarity as to what was and what was not an entity of significant public interest, and a broader definition, which would require judgment by the firm of which additional entities would be considered to be of significant public interest.

- Alternative 1
Under this approach entities of significant public interest would comprise:
 1. All listed entities; and
 2. Entities designated by a regulator to be subject to the same independence requirements as those applicable to a listed entity.

The Task Force is of the view that the advantage of this approach is that the line is clearly drawn. However, the Task Force recognizes that such a definition would leave the decision as to whether the more stringent listed entity requirements should apply to a non-listed entity to the individual regulators.

- Alternative 2
Under this approach entities of significant public interest would comprise:
 1. All listed entities;
 2. Entities designated by a regulator to be subject to the same independence requirements as those applicable to a listed entity; and
 3. Other entities, as determined by the firm, that have public accountability to a large number or wide range of stakeholders. Factors which the firm would consider in making the determination would include:
 - a. Size relative to the economy
 - b. Social significance in a particular jurisdiction
 - c. Whether the entity holds assets in a fiduciary capacity

The Task Force is of the view that if the second alternative is adopted the determination of which additional entities should be considered to be of significant public interest should be made by the firm as opposed to member bodies. This approach would be consistent with the approach taken in IAASB's International Standard on Quality Control 1 which requires the firm to establish criteria that it will consider when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review. The approach is also consistent with the overall framework approach regarding the assessment of threats to independence and application of appropriate safeguards to address the threats.

Under both alternatives the illustrative examples contained in the exposure draft (regulated financial institutions, such as banks and insurance companies, and may include pension funds, government-agencies, government-controlled entities and not-for-profit entities) would be deleted.

The IESBA considered the two alternative approaches presented by the Task Force and the following comments were noted:

- Whether under alternative 1 there were any examples outside of the United States of “entities which have been designated by a regulator to be subject to the same independence requirements as those applicable to a listed entity.” It was noted that France and Japan have examples of such entities;
- Alternative 1 would be consistent with the EU Recommendation;
- Some expressed concern that under Alternative 2 the firm would determine whether to treat certain entities as entities of significant public interest. This could lead to different definitions within the same jurisdiction and also there could be an element of self-interest when the firm makes the determination. This argument was countered with the comments that the approach was consistent with ISQC1 and would lead to consistent application through a particular network and therefore consistency for those entities audited by the network;
- Alternative 1 was less subjective than alternative 2;
- While there is more subjectivity in alternative 2 it is a broader definition than alternative 1;
- Few respondents to the exposure draft suggested that the designation be made by the firms, the majority of respondents supported the proposal that member bodies make the determination. However, this was possibly the case because the exposure draft did not propose determination by the firm as an alternative and no question on this point was raised;
- Whether firms should be required to establish a policy to determine which additional entities it would treat as an entity of significant public interest; and
- Under Alternative 1 if the regulator in that particular jurisdiction has not categorised certain categories of entities as entities of significant public interest, only listed entities would be entities of significant public interest in that jurisdiction.

The IESBA agreed that the definition of entities of significant public interest should be limited to listed entities and other entities that a regulator or legislation has designated to be an entity of significant public interest. In addition, Section 290 would contain a strong encouragement, towards the beginning of the section, for firms and member bodies to consider whether other types of entities should be treated as entities of significant public interest for independence purposes in that jurisdiction, thus subjecting their accountants to the more stringent independence requirements contained in Section 290.

Key Audit Partner and Partner Rotation

Ms. Rothbarth reported that many respondents commented specifically on the partner rotation proposals. A significant portion opposed the proposals directly or queried whether they were entirely in the public interest. She noted that the overwhelming reason

given for objecting to the proposals was the practical impact of removing the limited resource flexibility. She noted that objection was also made to the extension of the rotation requirements beyond the lead engagement partner and the individual responsible for the engagement quality control review to all key audit partners. Often the objection to this proposal was linked to concerns about the ability of smaller firms to undertake audits of unlisted entities of significant public interest, when taken together with the removal of the limited resource flexibility

A significant number of respondents also linked their concerns about the removal of the limited resource flexibility with the definition of entities of significant public interest. Indeed, the three elements of (1) extending partner rotation to key audit partners, (2) extension to entities of significant public interest, and (3) the removal of the limited resource flexibility, when taken together, were often seen as likely to result effectively in small firm rotation, severe resource constraints, particularly for audits of specialized industry companies and in certain territories, and a loss of expertise on audits impacted by the proposals leading to a reduction in audit quality.

The Task Force noted that most of the comments on the definition of key audit partner were made in the context of partner rotation. Although some respondents argued that the definition of key audit partner should be modified, the respondents did not suggest that the group of partners covered by the key audit partner definition differ depending on its application. The Task Force is of the view that conceptually, a partner should not be determined to be a key audit partner for one purpose but not another.

Ms. Rothbarth reported that many respondents were of the view that the definition of key audit partner should be clarified. Some respondents were of the view that key audit partners should only include those audit partners who are responsible for key decisions or judgments on significant matters *at the group level*. Others were of the view the definition should be conformed to the definition in the EC Statutory Audit Directive. Ms. Rothbarth noted that the Task Force was of the view that the language of the Exposure Draft failed to convey the concept of responsibility at the group level, i.e., at the level of the group financial statements, and may reflect a lack of understanding as to the meaning of the term “financial statements on which the firm will express an opinion.” In the context of the audit of an entity of significant public interest, the term was intended to mean the financial statements of the entity itself (which might be consolidated in the case of a group) and not all the individual financial statements of entities forming part of the entity’s group. The Task Force therefore recommends that the definition of key engagement partner be amended to:

“The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements of the entity of significant public interest. Depending on the circumstances, the structure of the group audit, and the role of the individuals on the group audit, this may include, for example, audit partners responsible for significant subsidiaries or divisions.”

The IESBA discussed the recommendation of the Task Force and the following points were noted:

- It was important that the definition not create two different answers depending solely upon the legal structure of the company (for example, a company has two operating divisions as opposed to two operating subsidiaries);
- The EU definition is very broad and it would capture every engagement partner who is a statutory auditor of a material subsidiary of the company;
- While the EU definition is broad it is important to carefully consider what is important in the EU context – which is the individual who is responsible for signing the report;
- This is a particularly problematic area because the wide variety of different definitions makes compliance in multiple jurisdictions particularly problematic;
- It was important that the definition not be too restrictive so that partners can “move up through the ranks.” Audit quality would be adversely affected if too many partners were limited to only seven years on the assignment;
- If the focus is on partners who “make key decisions or judgments on significant matters,” careful consideration needs to be given to who those partners are and when they are captured by the definition of key audit partner – for example, if due to a particular transaction at a subsidiary level the engagement partner for that subsidiary “makes a key decision” but in the following year the individual does not make a key decision would the individual still be considered to be a key audit partner?

The IESBA generally agreed that it was appropriate to clarify the definition and asked the Task Force to consider the points raised.

Ms. Rothbarth reported that the Task force had carefully considered the comments received on the elimination of some form of limited resource flexibility within the partner rotation section of the Code. She reported that while the Task Force did not have a specific recommendation for the IESBA, it was of the view that some flexibility might be appropriate. The Task Force had developed two alternatives for the consideration of the IESBA:

- Provide some form of flexibility with respect to entities of significant public interest other than listed entities. This might be applied as follows:
 - Broad relief to include safeguards, such as enhanced internal quality control review, or external review by a firm, member body, or independent regulator (“broad relief”);
 - Narrow relief, for example, requiring the audit firm to agree with its independent regulator that the audit files shall be subject to a quality assurance review by the regulator at least every three years (“narrow relief”). While this has the attraction of being similar to the relief permitted by the SEC (for firms with less than five SEC audit clients and less than ten audit partners), it is unclear that this would lead to consistent implementation worldwide as many

jurisdictions may not have a facility to offer independent review by a regulator, particularly for entities other than listed entities.

- Provide some form of flexibility for all entities of significant public interest, including listed entities. This might be applied as follows:
 - Broad relief for all entities;
 - Narrow relief for all entities;
 - Narrow relief for listed entities with broad relief for other entities of significant public interest.

On balance the Task Force would not recommend that any narrow relief be limited to firms of a certain size, because the relief should address situations where there is a legitimate scarcity of resources and not merely where a firm comprises a few partners only.

The IESBA considered the alternative approaches presented by the Task Force and the following points were raised in discussion:

- While many respondents from the profession have expressed the view that some form of flexibility should be provided, some questioned how this would be viewed from a purely public interest perspective, for example, by the CAG. It was noted that should the IESBA be of the view that such flexibility was appropriate, it would be considered by the CAG at their September meeting;
- It is important to consider whether there were alternative safeguards that could address the familiarity threat created by long association of key audit partners;
- Removal of the limited resource flexibility could result in the alternative of firm rotation;
- Under the EU 8th directive there is no such flexibility – partner rotation is required, although it was noted that the directive permits member states to exempt auditors of certain public interest entities from the partner rotation (and other) requirements;
- Post-issuance review/inspection is viewed by some as an effective safeguard, for others it is not seen to be particularly robust because, notwithstanding the deterrent effect, it occurs after issuance of the audit report and may be several years after the event;
- The same safeguards used to address economic dependence could address the familiarity threat created by long association, as the threat to independence created by economic dependence was viewed to be at least as significant as a familiarity threat. Some were of the view, however, that such a safeguard did not appropriately address the need for a fresh look;
- Some expressed the view that if there is to be flexibility, it should not be only for firms with few partners; rather it should be for all firms with limited resources. Others felt that any flexibility should be restricted to only small firms because otherwise there would be too much flexibility;
- It is important to consider the cost-benefit of any proposal. However, if a particular safeguard would not be effective in mitigating a significant threat, flexibility on the

basis of cost is not appropriate. The IESBA needs to be satisfied that the threat is adequately addressed;

- In some jurisdictions an independent regulator has determined that partner rotation is not necessary if specific alternative safeguards are in place that the regulator believes adequately address the threat. The Code should recognize those situations; and
- If the IESBA is of the view that flexibility is appropriate if certain safeguards are in place it is important that such safeguards are available for use.

It was noted that while there had been discussion at IOSCO on this point, there was no consensus at IOSCO because of the different frameworks in place. It was further noted that while there was no consensus on rotation of key audit partner IOSCO was also concerned about the long association of staff other than key audit partners.

Some IESBA members questioned whether any safeguards other than partner rotation could adequately address the familiarity threat.

The IESBA agreed that the Task Force should develop a proposal to require partner rotation except when a firm has only a few people with the necessary knowledge and experience to serve as key audit partner and the independent regulator in that jurisdiction has provided an exemption from partner rotation for such firms if specified alternative safeguards are applied.

The IESBA also agreed that the Task Force should consider whether, in the absence of exemption by an independent regulator, flexibility can be provided in the Code because there are sufficiently robust alternative safeguards. IESBA members agree they would try to identify such safeguards and provide them to the Task Force for their consideration.

Engagement Team

Ms. Rothbarth reported that the majority of respondents who commented on the proposed revised definition of engagement team were of the view that the position of experts was not clear. Some respondents expressed the view that only experts who perform audit procedures should be considered to be part of the engagement team and therefore subject to the independence requirements in Section 290 and 291. Some respondents were of the view that no external experts should be on the engagement team. In their view such experts should not be subject to the independence requirements rather the objectivity of the expert would be assessed in determining whether reliance was warranted. Many respondents expressed the view that the definition used in the Code should be consistent with the definition used by the IAASB.

Ms. Rothbarth reminded the IESBA that there had been significant liaison with the IAASB Experts Task Force and the IAASB itself on this matter. In addition, a member of the IAASB Experts Task Force met with the Independence Task Force during its meeting in Toronto to explain the views of the IAASB TF and to provide an overview of the approach proposed in the IAASB ED. It was noted that the IAASB discussed this issue at its April 2007 meeting and shares the views expressed by some respondents to the

December Exposure Draft that an external expert should not be a member of the engagement team and thus subject to independence requirements, rather the auditor should make an assessment of the objectivity of the expert.

Ms. Rothbarth reported that the Task Force has developed two alternative definitions of engagement team:

- A narrower definition, which excludes all external experts but includes individuals who are not staff of the firm but are engaged by the firm to perform audit work (for example, many firms engage “audit professionals” at busy season to be a senior or manager on the job; and
- A definition that would include all experts that are working in effect as part of the team, irrespective of whether they are partners or staff of the firm.

Ms. Rothbarth noted that if the narrower definition were to be adopted, the Task Force is of the view that the guidance in ISA 620 on the assessment of objectivity would need to be sufficiently rigorous, in particular, with respect to those external experts who perform audit procedures.

The IESBA discussed the two alternatives developed by the Task Force and the following points were noted:

- Under the narrower definition, external experts who work very closely with the engagement team (such as those who are involved in the planning of the engagement and at all other key stages) would not be subject to the same independence requirements as partners and staff of the firm even though the external experts may be performing the same role;
- Under the narrower definition, an external tax expert contracted by the firm to assist with the audit of the tax provision would not be part of the engagement team;
- The response from the Basel Committee on Banking Supervision expressed the view that external actuaries performing significant services should be part of the team. It would be useful to discuss any proposed change in the definition with the Basel Committee;
- The phrase “perform audit procedures” is clearer than “provide services on the engagement.”

The IESBA agreed that the revised definition should be the narrower one, subject to the comments above, provided that the guidance on the assessment of the external expert’s objectivity was sufficiently robust in the revised ISA 620.

Taxation Services

Ms. Rothbarth reported that while not many respondents commented on this area, those that did comment made many different points and suggestions. She noted that the Task Force has not yet debated all the comments but did have two points on which it would like the direction of the IESBA.

Ms. Rothbarth reported that many of the respondents believe that taxation services should be analyzed using a threats-and-safeguards approach, the same as in the case of any other non-audit service. They are concerned about what appears to be a disproportionate amount of space devoted to services that are traditionally provided by accountants to their audit clients without restrictions. Although the Task Force appreciated that the discussion on tax services had been greatly expanded from what is currently in the Code, the Task Force is of the view that the guidance covering the four categories of tax services is helpful and should be retained. Moreover, the Task Force noted that given the differing conclusions on the independence consequences of certain services, it was necessary to discuss the categories of tax services separately. As a result, other than possibly streamlining the language where possible, the Task Force concluded that the paragraphs in the exposure draft covering the scope of tax services commonly provided by accountants were appropriate.

The IESBA considered the proposal of the Task Force and agreed that guidance should be provided on all four broad categories of service.

Ms. Rothbarth noted that the other issue on taxation services related to comments on preparation of tax calculations. Several respondents suggested that the preparation of tax calculations should only be restricted for entities of significant public interest if the amounts are material and there is a high degree of subjectivity. Others argued that safeguards should be able to be applied to minimize any threat resulting from preparing tax calculations. Several respondents noted that either determining the “primary” purpose of the calculations would be difficult or the purpose of the calculations is not what gives rise to the threat. Two respondents argued that the threat to independence depends on the timing of the calculations. Ms. Rothbarth indicated that the Task Force is of the view that the issue of subjectivity should be consistent with the position taken on valuation services and so will consider the matter when it reviews the comments on valuation services.

Ms. Rothbarth stated the Task Force considered whether the proposed restriction on preparing tax calculations for entities of significant public interest was appropriate. It noted that for such entities, bookkeeping services were prohibited, without regard to materiality. Thus, a restriction against on the auditor calculating the tax liability for use by the client in preparing its accounting entries was not unreasonable. Accordingly, the Task Force is not recommending a change in this area.

Ms. Rothbarth stated the Task Force had discussed whether the restriction should depend on the timing of the preparation of the tax calculations, recognizing that in some instances the calculations are performed before the audit is complete, whereas in other cases the calculations are performed after the audit. The Task Force was of the view that the critical issue, regardless of timing, is whether the client makes a good faith effort at calculating its current and deferred tax liabilities and preparing its accounting entries. She further reported that the Task Force agreed with the respondents who questioned the inclusion of “primary” in the restriction, noting that not only is it difficult to assess the primary purpose of the calculations, but the self-review threat is not diminished if a secondary purpose is to provide the audit client with the amounts to enable the client to

prepare its accounting entries. As a result, the Task Force recommendation is that the reference to “primary” be deleted.

The IESBA discussed the recommendation of the Task Force and the following points were noted:

- The accountant does not have control over the client and therefore it is not possible to prevent the client from using the calculation for the purposing of preparing the accounting entries;
- There is a difference between an accountant doing a calculation for the purpose of performing tax calculations in preparing a tax return and doing complex tax accounting calculations to comply with financial accounting and reporting standards. The former should be acceptable and the latter would not be acceptable;
- There is a wide range of tax practices throughout the world and very few jurisdictions where the auditor is not allowed to prepare tax returns;
- In some jurisdictions the tax regime is relatively simple and there are few differences between book and taxable income; and
- Some could see the inclusion of the word “primary” as a loophole. This view was countered by the argument that the term “primary” is needed to permit situations where the accountant is calculating the difference between book income and taxable income for tax return purposes where the client has not closed the books.

The IESBA agreed that the use of the word “primary” could convey the wrong meaning and asked the Task Force to clarify the position on tax calculations.

4. Operating and Strategic Plan

Mr. George presented the draft IESBA Operating and Strategic Plan.

He noted that the Planning Committee had met in late May 2007, had considered the results of the IESBA survey to stakeholders, and had developed a draft Operating and Strategic Plan for the period 2008-2009. He reported that there were 127 responses to the questionnaire. Respondents were asked to provide input on which projects should be addressed by the IESBA in the future. An analysis of the projects indicates that respondents were of the view that the following five projects should be the next priority of the IESBA:

- Fraud and illegal acts
- Conflicts of interest
- Independence – legal protection clauses
- Independence – compilation and agreed upon procedures
- Independence – mutual funds and other similar collective investment vehicles.

He noted that several respondents had indicated that after the completion of the existing independence project there should be a period of stability for the Code to allow for implementation of the changes to the Code.

He noted that respondents were also asked to suggest one or more specific initiatives to be undertaken by the IESBA to facilitate convergence and to facilitate the IESBA's objective regarding communications. He reported that the following points were raised by respondents:

- Increased dialogue with other standard setters and regulators;
- Holding forums to discuss issues;
- Promotion of a principles-based approach;
- Benchmarking to a broader range of existing codes or rules in other jurisdictions and publishing these comparisons;
- Implementation support to facilitate adoption of the Code.
- Increased outreach including, for example, meeting with regional accountants

The IESBA discussed the draft Operating and Strategic Plan and the following points were noted:

- The draft mentions holding public forums in three regions: the Americas, Europe, and Asia Pacific; the fourth region of Africa should be added to the list;
- The description of the future independence project should be broader and indicate that there are several matters that the IESBA may address and the determination of which of the specific topics will be addressed will depend on the priorities at that time;
- It would be useful if the plan explicitly mentioned the need to interact with other IFAC bodies, such as the IAASB;
- While it was appropriate not to identify convergence as a specific project, it would be useful to expand the text under the heading "communications" to specifically mention the IESBA's on-going work with respect to facilitating convergence;

It was also noted that some had commented that the Code was somewhat unbalanced with so much detailed guidance on independence. It was noted that a possible future longer term project would be to consider restructuring the Code so that there was a short Code of principles with the more detailed guidance flowing from the short Code. It was agreed that while this could be a useful project, it was a much longer-term project and therefore did not belong in a plan covering the period 2008-2009.

Subject to changes to respond to the comments noted above, the IESBA unanimously approved the Operating and Strategic Plan for issuance as an exposure draft. It was noted that while due process required an exposure period of one month, in light of the time of year a longer period would be provided and comments would be requested by August 31, 2007.

5. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, reported that the Task Force had considered the instructions of the IESBA at its March 2007 meeting to determine the implications on the Code of the IAASB clarity convention of using the word "shall" to indicate a requirement.

He indicated that each Task Force member had reviewed the Code to identify provisions that appear to reflect requirements. Task Force members considered whether the requirement, or potential requirement, was best denoted by the use of the term “shall” or “should” or some other term. In doing so, Task Force members considered an extract of the drafting directions prepared by IAASB staff as general instructions to national standard setters to assist in the re-drafting of ISAs under the Clarity project. While the IAASB approach might not be completely transferable to the Code, the document was reviewed to assist Task Force members in forming their thinking of what changes would be appropriate for the Code.

The Task Force noted that there were several types of requirement or potential requirements in the Code:

- The accountant should not do something – for example “a professional accountant should not be associated with reports, returns, communications or other information where they believe that the information contains a materially false or misleading statement” ¶110.2
- The accountant should consider doing something – for example “a professional accountant should also consider the need to maintain confidentiality of information within the firm or employing organization.” ¶140.4 and “In deciding whether to disclose confidential information, professional accountants should consider the following points...”
- The accountant is required to do something – for example “it is in the public interest and, therefore, required by this Code of Ethics, that members of audit teams, firms and network firms be independent of audit clients” ¶290.3
- The accountant is obliged to do something – for example “a professional accountant has an obligation to evaluate any threats” ¶100.6
- The accountant can only do something if certain safeguards are put in place – for example, under employment with an audit client “In all cases the following safeguards are necessary to ensure that no significant connection remains between the firm and the individual: the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be material to the firm.” ¶290.132
- A statement of an expectation of a professional accountants – for example “A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.” ¶300.5

Mr. Dakdduk noted that when reviewing a composite draft of the Code identifying all the changes proposed by individual Task Force members there were a number of similar recommended changes. The Task Force identified a common guiding principle, which it felt was appropriate to be followed in determining the changes that were appropriate:

- The term “shall” to be used to denote:
 - A requirement to comply with specific guidance (e.g. a fundamental principle); and

- A clear prohibition
- The term “should” may be appropriate where a judgment is to be made by the accountant – for example ¶290.196 “consideration [of] ... whether non-assurance services should be provided only by personnel who are not members of the audit team.”

Mr. Dakdduk noted that the effect of using the proposed principle would be that the word ‘shall’ would be used quite frequently in the Code. He noted that respondents to the December 2006 Independence ED who expressed concern that the Code was moving closer to a rules-based approach might feel that the use of the word “shall” exacerbated the issue. Mr. Dakdduk lead the IESBA through several examples of the application of the proposed principle.

The IESBA discussed the proposal of the Task Force and the following points were noted:

- It was critical to have consistency with the drafting conventions used by the IAASB. Users of the Code who perform assurance engagements will be knowledgeable of the ISAs and using different terms to denote a requirement would be confusing;
- As the clarity of the Code is improved the probability of adoption is increased;
- The term “should” is confusing and can lead to translation difficulties;
- The goal of the project should not be to change the meaning of the Code – rather to clarify what was intended.

The IESBA discussed the documentation requirement contained in ¶290.27 which states that the documentation should describe the threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level. Concern was expressed that the use of the term “shall” would increase the documentation requirements because of the need to document every threat identified even if the threat was clearly insignificant. The IESBA agreed that the Task Force should consider what changes were necessary to ¶290.27 to ensure the documentation requirement was appropriate.

The IESBA discussed whether continued use of the term “should” in Code would be confusing. It was noted that in the EU 8th directive the term “should” is used in the recital and the term “shall” is used in the article. It was agreed that the Task Force should eliminate the term “should” when it has been used to convey an imperative or requirement and use the word “shall” in those instances.

A question was raised as to whether the Task Force should also consider ways of highlighting the requirements in the Code so that readers can find the requirements more easily. Concern was expressed that such an approach would devalue the other paragraphs. It was also noted that such an approach might exacerbate concern regarding the move towards a rules-based approach. It was acknowledged that the Task Force’s priority was to address the “should/shall” issue and significant expansion of the mandate might jeopardize the project’s timetable.

Mr. Dakdduk reported that the Task Force had considered one further issue – the use of the term “clearly insignificant” and the requirement to apply safeguards to eliminate a threat or reduce it to an acceptable level. He noted that this issue had arisen during the Task Force’s review of the Code but it had also been raised in the comments to the December 2006 Exposure Draft. The Code requires identification of threats to compliance with the fundamental principles, evaluation of the significance of a threat and, if such threat is not clearly insignificant, the application of safeguards to eliminate the threat or reduce it to an acceptable level. The Task Force considered whether “clearly insignificant” is the same as “an acceptable level” and concluded that it was not. “Clearly insignificant” is defined in the Code as “A matter that is deemed to be both trivial and inconsequential.” There is no description in the Code of the meaning of “acceptable level” though the matter is addressed in other jurisdictions:

- Not reasonable to expect that the threat will compromise independence (AICPA); and
- It is not probable that a reasonable and informed third party would conclude that the auditor’s objectivity is (or is likely to be) impaired (APB).

He reported that the Task Force had considered the EU Recommendation and the APB requirement. The EU Recommendation does not use the term “clearly insignificant.” Under the EU Recommendation, the auditor is required to:

- Identify threats to independence;
- Evaluate their significance; and
- Where threats exist, consider and document whether safeguards are appropriately applied to negate or reduce the significance of the threat to acceptable levels.

The APB does use the term “clearly insignificant” but not in exactly the same way as the Code. Under the APB Ethical Standard 1 (ES 1), auditors:

- Identify and assess the circumstances which could adversely affect the auditor’s objectivity (“threats”); and
- Apply procedures (“safeguards”) which will either eliminate the threat or reduce the threat to an acceptable level.

ES 1 further states that the nature and extent of safeguards to be applied depend on the significance of the threats and that where a threat is clearly insignificant no safeguards are needed.

He reported that the Task Force recommendation was to amend the requirement as follows:

“Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance, and to apply safeguards to eliminate the threats or reduce them to an acceptable level such that compliance with the fundamental principles would not be compromised.”

The IESBA discussed the proposal and the following points were noted:

- It would be useful to reword the requirement such that the professional accountant did not have to deal with and document matters that were clearly trivial. It is not proportionate to cost;
- Care should be taken to ensure that any change does not inappropriately bring the bar too low and weaken the Code. The current construction requires the professional accountant to consider all threats that are not clearly insignificant but only to apply safeguards to the extent necessary to eliminate the threats or reduce them to an acceptable level;
- Professional judgment is required to determine what is an acceptable level; the current starting point of considering all matters that are not both trivial and inconsequential may be too low a threshold;
- It is important that any change maintains the onus on the professional accountant to demonstrate that threats have been adequately considered; and
- The rationale for any change needs to be clearly articulated in the explanatory memorandum.

The IESBA agreed that the Task Force should consider how to eliminate use of the term "clearly insignificant" and to clarify the documentation requirement, but without reducing the accountant's thought process in addressing threats.

Mr. Dakdduk noted that the Task Force had identified other clarity matters during the review of the Code including:

- The use of the word "consider" versus "evaluate" versus "determine";
- The use of the word "may," "may wish to," and "will ordinarily need to"
- The use of the word "must" versus "shall"

The IESBA agreed that the Task Force should consider these other clarity matters but cautioned that any proposed changes should be limited to those considered essential for clarity. It also cautioned the Task Force not to inadvertently change the meaning of the Code.

6. Comments from the PIOB

Ms. Bovolaneas, PIOB Secretary General, addressed the IESBA. She commented that she was pleased to join the IESBA again for the third day of the meeting. She noted that during the finalization of the exposure draft wording for Independence 2 she was pleased to see that there had been significant discussion among the IESBA as to how certain matters should be phrased so that they were as clear as possible. She complemented the IESBA on the discussion regarding Independence 1 to seek to find workable answers to sensitive issues facing the IESBA. She also noted that she was pleased that the IESBA had given such careful thought to how the definition of engagement team should be amended to provide an answer which was workable for both the IESBA and the IAASB.

She encouraged all IESBA members to review the second public report of the PIOB which was available on the website and would shortly be available in hard copy.

7. Closing

Mr. George thanked Wpk and IdW for hosting the meeting and all members and technical advisors for their participation and closed the meeting.

8. Future Meeting Dates

October 23-25, 2007 (Toronto, Canada)

January 21-23, 2008 (TBD)

April 15-17, 2008 (New York, USA)

Late June 2008 (TBD)

October 21-23, 2008 (TBD)