



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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**Agenda Item
D**

Board Ethics Consultative Advisory Group

Meeting Location: Brussels, Belgium

Meeting Date: December 11, 2007

Drafting Conventions

Objectives of Agenda Item

1. To discuss and provide input on developments in the Drafting Conventions project since the last CAG meeting.

Background

At its September meeting the CAG considered the implications on the Code of the IAASB clarity conventions project. The IESBA considered the project at its October 2007 meeting.

Discussion

Clearly Insignificant

As discussed at the September CAG meeting, the IESBA is proposing to eliminate the use of the term "clearly insignificant" and to clarify the documentation requirement, without reducing the accountant's thought process in addressing threats. With the elimination of the term "clearly insignificant" the professional accountant would be required to identify and evaluate the significance of threats and when necessary to apply safeguards to eliminate the threats or reduce them to an acceptable level. The CAG generally agreed that it was appropriate to amend the documentation requirement but noted that care should be taken to ensure that the documentation of significant judgments is retained. With respect to the description of an acceptable level, the CAG was split in its view as to whether acceptable level should be expressed in the negative (i.e., use of "not compromised") or whether the concept should be expressed in the positive. It was also noted that the concept of an "informed" reasonable party had been dropped.

The IESBA considered the matter at its October meeting. The IESBA concluded that with the deletion of the term "clearly insignificant" it was appropriate to provide guidance on what was intended by an "acceptable level". The IESBA is of the view that it would be appropriate for the Code to define this term and it has developed the following definition:

“An acceptable level is a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised.”

The IESBA agreed that the documentation requirement should re-enforce the requirement contained in ISA 220 to document conclusions regarding compliance with independence requirements and any relevant discussions that support those conclusions. In addition, when threats to independence are identified that require the application of safeguards, the documentation shall describe the nature of those threats and the safeguards applied to eliminate the threats or reduce them to an acceptable level.

The IESBA determined that the following documentation requirement was appropriate for the Code:

“While documentation is not, in itself, a determinant of whether a firm is independent international auditing standards do require documentation of (i) conclusions regarding compliance with independence requirements and (ii) any relevant discussions that support those conclusions. When threats to independence are identified that require the application of safeguards, the documentation shall describe the nature of those threats and the safeguards applied to eliminate the threats or reduce them to an acceptable level.”

Other

In reviewing the Code at its October meeting the following points were noted by the IESBA:

- The Code is not clear in how it describes threats. For example in some cases it states that a particular relationship *may* create a threat and then it states that *the* significance of the threat should be evaluated. It was noted that if a matter *may* create a threat it would be more logical to then require the significance of *any* threat to be evaluated;
- In some instances the Code states that a matter may create a threat but in the view of some IESBA members the matter does create a threat and the statement that a threat may be created weakens the Code. Other IESBA members were of the view that it was important to state that a threat may be created because this requires the professional accountant to think further and determine whether a threat is created. It was noted that the construction that a matter may create a threat had been raised by IOSCO in responses to exposure drafts.

The IESBA asked the Task Force to consider these matters and develop a proposal for discussion at the January IESBA meeting.

The IESBA concluded that it was important to expose the implications of the drafting conventions on the output of the independence exposure drafts. It was agreed, therefore, that the independence documents would be approved in “pre-drafting conventions” format. The revised Sections 290 and 291 would then be inserted into the Code, the drafting conventions applied and the document would then be exposed with a request to comment only on the application of the drafting conventions.

Material Presented

Agenda Paper D

This Agenda Paper

Action Requested

1. CAG members are asked to consider the direction of the IESBA.