

**Minutes of the Meeting of the
International Ethics Standards Board for Accountants
October 24-26, 2007
Toronto, Canada**

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

Regrets:

Akira Hattori
Luca Savino

Non-Voting Observers

<i>Present:</i>	Juan Maria Arteagoitia	
	Richard Fleck	
	Toshi Kurosawa	Tomokazu Sekiguchi

Bella Rivshin

PIOB

Present Michael Hafeman

IFAC Technical Staff

Present: Jan Munro
Jim Sylph

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. He thanked the Canadian Institute of Chartered Accountants for hosting the meeting.

Mr. George noted that apologies had been received from Mr. Hattori who had given his proxy to Ms Sekine and from Mr. Savino who had given his proxy to Mr. Niehues. He further noted that Mr. Winetroub had given his proxy to Mr. Hughes for the first day of the meeting, Lady Barbara Judge would be unable to attend days two and three and had given her proxy to Mr. Devlin for those days and Mr. Hopper and Mr. Devlin were unable to participate on the afternoon of the third day and would be giving their proxies to Ms. Soulier and Mr. Pinkney respectively. Mr. George noted that the quorum for the meeting was for 12 voting members to be present either in person or by telephone link. He stressed the importance of members arranging their travel so that they were able to attend all of the meeting as scheduled on the agenda. He further noted that if members were unable to attend for the whole meeting it was imperative that they let the secretariat know well in advance.

Minutes of the Previous Meeting

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

IESBA CAG Meeting

Mr. George reported that the CAG met in London on September 19, 2007. The CAG discussed the proposed IESBA Operational and Strategic Plan, Independence I and the Drafting Convention project. He noted that the relevant CAG comments would be discussed under each of the topics as part of the main agenda. He also indicated that the CAG minutes would be circulated to IESBA members when they were available. He indicated that another CAG meeting had been scheduled on December 11th, 2007 in Brussels. At this meeting the CAG would consider, among other matters, the changes to

Section 290 and 291 in response to the exposure draft comments. He encouraged any IESBA members who would be in Brussels on the day to attend the meeting as an observer.

PIOB Meeting

Mr. George reported that he had attended the PIOB meeting on September 24, 2007. He reported that he had provided the PIOB with an update of the status of the Strategic and Operational Plan and the IESBA work plan.

He also reported that the PIOB had been considering how it would confirm that due process had been followed during the development of a particular standard before the PIAC issues the standard. In the past the PIOB has reviewed the necessary document and provide the approval shortly after it had been forwarded from the PIAC. The PIOB has considered this matter and is of the view that in the future it will review and discuss the documentation at a physical meeting. Mr. George indicated that this may have implications on the timing of the PIOB approval that due process has been followed in the development of changes to the Code.

Planning Committee

Mr. George reported that the Planning Committee met on October 4, 2007 and notes from the meeting were contained in Agenda Paper 1-C. The majority of the discussion focused on discussion of the detailed comments received on the Strategic Plan and considering changes to plan in response to these comments and this matter would be addressed in more detail as part of Agenda Item 3.

He reported that the Planning Committee had a preliminary discussion on approaches to developing an impact assessment tool. The Planning Committee also discussed the project of the IFAC board addressing the public interest. The IFAC Board project is considering elements of a proposed public interest framework for IFAC. The elements are: definition, analysis, due process and evaluation and review. The IFAC Board project is also considering whether the use of a Regulatory Impact Assessment would assist IFAC to act, and be seen to act, in the public interest.

The Planning Committee also reviewed the second annual report issued by the PIOB in order to monitor their views to determine whether any changes were necessary to the IESBA's operating procedures. Mr. George noted that based on the report there were no changes necessary to the operating procedures.

Other

Mr. George noted that one of the proposals in the Strategic Plan was that the IESBA undertake more outreach. He reported that he would be participating on a panel discussion at the SMP Conference and that Mr. Attwood was speaking at a workshop on the adoption and implementation of international ethics standards which would take place in Lagos, Nigeria in late November. In addition, Mr. Attwood would be addressing

practitioners in a seminar to be held in Cyprus in late December. It was agreed that IESBA members and technical advisors would inform the IESBA secretariat of any such outreach activities so that they could be included in the external reporting.

2. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, reported that since the June IESBA meeting the Task Force had met once and held two conference calls to develop the proposed exposure draft and explanatory memorandum. He indicated that the Task Force had considered four main matters in developing the material:

- Implications of the IAASB Clarity project;
- The use of the term “clearly insignificant” and its implications on the Code;
- The use of the word “consider”; and
- Use of the words “examples” and “illustrates”.

IAASB Clarity Project

Mr. Dakdduk noted that the IAASB Clarity project has adopted four conventions:

- Each ISA will state the objective to be achieved in relation to the subject matter of the ISA;
- Each ISA will specify requirements designed to achieve the stated objective. The requirements are to be applied in all cases, where they are relevant to the circumstances of the engagement, and are identified by the word “shall”. In exceptional circumstances where the professional accountant judges it necessary to depart from a requirement in order to achieve the purpose of that requirement the accountant will be required to document how the alternative procedures performed achieve the purpose of the requirement, and, unless otherwise clear, the reasons for the departure;
- The present tense will no longer be used in ISAs to describe actions taken or procedures performed by the professional accountant;
- Each ISA will contain application material which provides further explanation and guidance supporting proper application of the standards. While the professional accountant has a responsibility to consider the entire text of a standard in carrying out an engagement the application material is not intended to impose a requirement for the professional accountant.

Mr. Dakdduk indicated that the Task Force had adopted the position agreed by the IESBA at its previous meeting when the IESBA had concluded that the structure of the Code and the structure of the ISAs are very different. Therefore, separately presenting the objective to be achieved, the requirements designed to achieve that objective, and the application material, as in the ISAs, would not improve the clarity of the Code. As currently drafted, Part A of the Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Parts B and C of the Code illustrate how the conceptual framework is to be applied in specific situations. In all cases, the objective to be achieved, as outlined in the conceptual framework, is to identify threats to compliance with the fundamental

principles and apply safeguards to eliminate the threats or reduce them to an acceptable level. Mr. Dakdduk reported that this matter was discussed with the CAG and the CAG members agreed with the position proposed.

Mr. Dakdduk reported that the Task Force had adopted the principle of using the word “shall” to denote a requirement to comply with specific guidance (for example a fundamental principle) and also a clear prohibition. He indicated that the effect of this approach was the word “shall” frequently appears in the Code. He noted that while this might exacerbate the concerns of respondents to the December 2006 exposure draft who felt that the Code is moving closer to a rule-based approach, the Task Force was of the view that the changes were appropriate - not only would the changes improve the clarity of the Code they would bring the drafting in line with the ISAs.

The IESBA discussed the proposed changes from “should” to “shall” and were generally in agreement with the approach taken. The IESBA questioned the changes in some paragraphs (for example 100.4) where the Task Force had proposed a structure that minimized the use of the word “should” but the result seemed to be less clear using the word “should”. The Task Force agreed to reconsider these paragraphs.

Clearly insignificant

Mr. Dakdduk noted that the Code requires professional accountants to apply the conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than clearly insignificant to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised. “Clearly insignificant” is defined in the Code as “A matter that is deemed to be both trivial and inconsequential. This construction creates the question whether an “acceptable level” is the same as “clearly insignificant” and, if “clearly insignificant” is a lower level than “acceptable,” this would presumably mean that if a threat is not “clearly insignificant” but is at an “acceptable level” no safeguards need to be applied. The documentation requirement further complicates the matter and raises the additional question of what documentation would be required if a threat was not clearly insignificant but was acceptable such that no safeguards needed to be applied.

Mr. Dakdduk reported that the Task Force proposes modifying the guidance by eliminating the reference to “clearly insignificant” and providing guidance on what is intended by the term “acceptable level.” Under the proposal, an acceptable level is a level at which it is likely that a reasonable and informed third party would conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised. A professional accountant would be required to identify threats to compliance with the fundamental principles, evaluate the significance of the threats and, when necessary, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. This proposal emphasizes the importance of the accountant focusing his or her analysis on the threats that are not at an acceptable level because those are the

threats that would require the application of safeguards. The Task Force is of the view that this would be a more efficient and effective way of applying the threats and safeguards framework set out in the Code and would eliminate uncertainty about the interplay between the terms "clearly insignificant" and "acceptable level" in the existing guidance.

With respect to the documentation requirement, Mr. Dakdduk reported that the Task Force was of the view that the documentation requirement should be consistent with the clarification above by calling for documentation of threats in situations in which the application of safeguards are necessary to eliminate a threat or reduce it to an acceptable level. In addition, the documentation should describe the nature of the threats and the safeguards that were applied.

Mr. Dakdduk noted that the proposed approach had been discussed with the CAG at its meeting in September. CAG members agreed with the proposal but noted that there is a significant judgment to be made when the auditor concludes that the threats are at an acceptable level. The CAG asked the Task Force to consider expanding the documentation requirements to address this matter. Mr. Dakdduk reported that, in response to the CAG request, the Task Force considered proposed clarified ISA 220 *Quality Control for Audits of Historical Financial Information* which contains requirements regarding the partner's responsibility for concluding on independence. Given the documentation requirement for a conclusion on independence in the ISA and the position in the Code that documentation is not, in itself, a determinant of whether a firm is independent, the Task Force is of the view that the documentation requirement in the Code should re-enforce the requirement in the ISA.

The Board discussed the proposed paragraph 290.27 and the following points were noted:

- The construction seemed to be backward and it would be clearer if the paragraph first addressed the requirements to document threats that were not at or below an acceptable level, then addressed the requirement to document the safeguards applied to reduce or eliminate the threats and finally requirement to document the conclusion that the threats were at an acceptable level;
- There seemed to be a disconnect between the proposed first sentence (that standards on quality control and auditing require documentation) and the second sentence (that documentation is not in itself a determinant of whether a firm is independent);
- The threshold at which documentation was required was not sufficiently clear;
- It was important that the paragraph strike the appropriate balance between requiring sufficient documentation to demonstrate compliance with the Code without requiring documentation of trivial matters; and
- Auditing and quality control standards should drive the documentation requirements.

After discussion, 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.

Consider, evaluate and determine

Mr. Dakdduk stated that in reviewing the Code for Clarity, the Task Force was concerned that in many instances the term “consider” could be seen by some as being less robust than intended. For example, it could be seen as equivalent to “think about” as opposed to “determine whether it is necessary”. He indicated that The Task Force is proposing changes to the Code consistent with the following principles of drafting:

- “Consider” will be used where the accountant is required to think about several matters – for example ¶100.17 “When initiating either a formal or informal conflict resolution process, a professional accountant shall consider the following, either individually or together with others, as part of the resolution process”
- “Evaluate” will be used when the accountant has to assess and weigh up matters as in “the significance of the threat should be evaluated”
- “Determine” will be used when the accountant has to conclude and make a decision – for example ¶100.20 “The professional accountant shall determine whether to obtain legal advice to ascertain whether there is a requirement to report.”

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

- The elimination of “considered to be” in the paragraphs in Section 290.10-21 addressing whether a firm would be considered to be a network firm was not appropriate and should be re-instated; and
- While there was general agreement with the approach taken, the Task Force should review each instance of “consider”, “evaluate” and “determine” to ensure that there was consistent application through the Code.

Examples and illustrates

Mr. Dakdduk stated that in reviewing the Code for Clarity, the Task Force was concerned that the use of the term “examples” (as in paragraph 290.100 “the following examples describe...”) might convey the thought that the examples were not mandatory. The Task Force was, therefore, proposing changes to clarify that the examples are mandatory.

Threats “may” be created

While Mr. Dakdduk was leading the IESBA on a page by page review of the draft prepared by the Task Force, the following points were raised relating to the Code description of threats:

- 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.

It was agreed that the Task Force should consider this issue. On the last day of the meeting Mr. Dakdduk led the IESBA through proposed changes to address the issue. He noted that the Task Force had tried to clarify the drafting. The following points were noted:

- The Task Force was proposing to change paragraphs 200.4 to 200.8 to provide examples of circumstances that do create a threat. Mr. Dakdduk noted that the Task Force was of the view that as currently drafted these paragraphs were confusing because while the introduction to each of the paragraphs stated the what followed were examples of circumstances that may create a threat some of the examples were circumstances that did create a threat. For example, the Task Force was of the view that if a member of the assurance team had recently been a director of the client a threat would be created (paragraph 200.5);
- Some Board members expressed concern that the proposals altered the meaning of the Code. They noted that, in particular, it was important that paragraphs 200.4 to 200.8 provide examples of circumstances that may create a threat because this would require accountants to think about the situation – which was the strength of a framework approach; and
- Other questioned whether the proposed changes were beyond the mandate of the Drafting Conventions Task Force.

After discussion the IESBA agreed that the Task Force should reconsider this matter and develop a proposal for the Board at its next meeting.

Content of the Exposure Draft

Mr. Dakdduk indicated that, as agreed at the June 2007 IESBA meeting, the Task Force had applied the drafting conventions to the content of the existing Code, with existing Section 290 removed and replaced with the text of the two exposure drafts that the

IESBA had issued on independence. The IESBA discussed this approach and the following points were noted:

- It was important that respondents to the drafting conventions exposure draft did not comment on the technical content which had already been exposed in the previous two exposure drafts;
- The IAASB process is different in that it approves a document in the existing “pre-clarified” style and then changes it for the clarity conventions;
- A carefully worded explanatory memorandum could explain what was being exposed and direct respondents to comment only on the changes resulting from the application of the drafting conventions; and
- If the drafting convention exposure draft was issued after the changes from the two independence exposure drafts had been finalized it would not be possible to issue the revised Code by mid 2008.

After discussion, the IESBA agreed that it was important to expose the implications of the drafting conventions on the output of the independence exposure drafts. It was agreed 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.

3. Operating and Strategic Plan

Mr George presented the revised Operating and Strategic Plan. He noted that there had been 23 responses to the exposure draft. The Strategic Plan and an overview of the comments received were discussed with the CAG at its September 19, 2007 meeting. The Planning Committee discussed the CAG input and the detailed comments received at its meeting on October 4, 2007, and had developed the proposed changes to the plan that were contained in Agenda Paper 3-A.

Principles based approach

Mr. George reported that five respondents commented on the issue of a principles-based Code. These respondents expressed concern that the Code seems to be moving away from a principles-based approach towards a regime which is more rules-based. Mr. George reminded the IESBA that this matter was also raised by respondents to the Independence Exposure Draft issued in December 2006. At the June meeting, the IESBA concluded that there is no conflict between a principles-based approach and absolute restrictions or prohibitions, provided that such restrictions or prohibitions flow directly from the application of the principles.”

Period of stability

Mr George reported that ten respondents commented on this matter. Eight respondents were of the view that there should be a period of stability for the whole Code and two respondents referred to the period of stability in terms of the independence provisions. Respondents noted that after the independence provisions (and changes resulting from the

drafting conventions project) are issued in 2008 there should be a period of time to allow member bodies and firms to assimilate and implement the changes. Even though respondents expressed support for the new projects, or suggested other projects, there was a view that, absent any unforeseen circumstances requiring immediate change, IESBA should delay issuing new guidance to provide for a period of stability.

Mr. George indicated that the Planning Committee had considered these comments and recommends that the Strategic Plan be amended to state that the IESBA will not issue any exposure drafts before mid 2010 – which would provide a period of stability of at least 24 months before another document is issued (assuming that the current independence proposals are issued in mid 2008). When the exposure period, time to consider comments and time before the effective date are taken into account the period of stability will be at least four years.

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

- Standards overload is a common concern and frequent changes exacerbate this concern;
- The IOSCO comment letter indicated a desire to see more emphasis placed on the matter of IESBA providing leadership in working for progress toward global convergence in auditor independence and ethical standards. A period of stability would afford the IESBA the opportunity to dedicate time and resources to this objective;
- There is an opportunity which should be explored to take forward the discussion on a more formal basis with IOSCO;
- It was also important to consider the role of the Independent Forum of Independent Audit Regulators;
- While it was useful to have a period of stability for independence requirements did this mean that there should also be a period of stability for other parts of the Code – which have not changed in several years.

After discussion, the IESBA agreed that there should be a period of stability for independence requirements but this period of stability would not extend to other parts of the Code.

Convergence

Mr. George reported that six respondents commented specifically on this area. Four respondents expressed strong support for any steps the IESBA could take to facilitate the convergence of international and national ethical standards. One respondent expressed the view that convergence should be a separate project. The Planning Committee is not recommending any change to address this issue. The matter was discussed at the June IESBA meeting and the Board concluded that it should not be a separate project because convergence is an overarching objective that touches every project.

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

- The non-audit services survey issued by IOSCO was very detailed and could provide useful information for the IESBA. The survey indicated that many jurisdictions are using the IFAC Code but the responses to the survey are very different – which could mean that there are different interpretations of the Code. Another member noted that the differences could have resulted from people interpreting the survey questions in different ways;
- Whether convergence was given appropriate emphasis in the Strategic Plan.

After discussion, the IESBA agreed that while there would not be a separate project on convergence, the Strategic Plan should be revised to indicate that the IESBA will develop a program and course of action to promote recognition of the Code.

Communications

Mr George reported that eight respondents commented on the communications plan. The respondents were supportive of the proposal to hold four regional forums or roundtables to promote the revised Code and seek input on the steps which would be necessary to facilitate the convergence of international and national ethical standards and achieve greater global acceptance of the Code. He indicated that one respondent had expressed the view that the Board should consider holding a forum in February or March to finalize the Independence provisions. The Planning Committee considered this point and concluded that it would not be appropriate to hold a forum at that time. The purpose of the forum is to promote the new revised Code and seek input on convergence. The Brussels forum and the exposure processes have solicited input on the Independence proposals.

In response to a respondent the Planning Committee is recommending a change to the Strategic Plan to indicate that the forums/roundtables could also be used to seek input on the scope and direction of proposed future projects of the IESBA.

The IESBA agreed with the proposals of the Planning Committee.

Current Projects

Mr. George reported that eleven respondents commented on this matter. Five provided support for all of the existing projects with one respondent noting that it would be beneficial if the results of the two independence projects were issued simultaneously. The Planning Committee agrees that this would be beneficial and accordingly recommends that the work plan be amended to show simultaneous approval of the results of the two independence exposure drafts and the drafting conventions exposure draft.

The IESBA discussed the proposal and it was noted that in light of the decisions taken on the approach to the Drafting Conventions project, the proposed timetable should be amended.

Future Projects

Mr. George reported that all respondents had commented on this area with many stating that more information should be provided on each project. The Planning Committee, therefore, was proposing expanding the project descriptions in the Strategic Plan. In light of the recommendation for a period of stability, the Planning Committee was proposing deleting the proposed project on independence and instead stating that, absent any urgent emergency issues, the IESBA will not initiate any new independence projects during the period of the strategic plan.

The IESBA agreed with the proposals of the Planning Committee.

Other

Mr. George noted that two respondents had stated that the exposure comment period was too short. He indicated that due process required a 30 day comment period on the Strategic Plan and the IESBA had exposed the document for 45 days in light of the time of the year. He also reported that the respondents had also questioned why a detailed analysis of the survey responses had not been published. Mr. George indicated that, consistent with the surveys sent out by other PIACs, survey respondents were informed that the response to the survey would be confidential. He further indicated that an overview of the survey responses was contained in the June 2007 IESBA papers.

It was agreed that, in light of the importance of the Strategic Plan, the IESBA would schedule a conference call before the end of the year to approve the plan reflecting the changes noted above.

4. Independence II

The exposure comment period ended on October, 15, 2007. Due to the late receipt of many of the responses there was insufficient time before the meeting to prepare an appropriate analysis of the comments received. Therefore, no oral report was presented.

5. Independence I

Ms. Rothbarth, Independence Task Force 1 chair, reported that the Task Force has met three times since the June 2007 IESBA meeting and had one conference call. The CAG discussed the direction of the Board and the proposals of the Task Force at its meeting on September 19, 2007. The Task Force considered and responded to the input of the CAG at its Task Force meeting the following day and the proposals presented incorporated these comments. Ms Rothbarth noted that the Task Force intended to review all of the safeguards in the Section for consistency and appropriateness.

Ms Rothbarth reported that the Task Force had carefully considered all the comments received on exposure. She noted that Agenda Paper 5-G contained a detailed cut and paste of each comment, together with a disposition of each comment.

Principles vs Rules

Ms Rothbarth reminded the IESBA that 34 respondents commented on the issue of a principles-based approach as opposed to a rules based approach. The respondents expressed concern that the exposure draft seems to be moving away from a principles based approach. The IESBA considered this matter at its June meeting and was of the view that there is no conflict between a principles-based approach and absolute restrictions or prohibitions, provided that such restrictions or prohibitions flow directly from the application of the principles. The IESBA concluded that the matter will be considered on an item by item basis as the IESBA discusses proposed changes to respond to comments received on exposure – consideration will be given to whether the individual proposals are consistent with the principles-based approach.

Ms Rothbarth noted that the matter was discussed with the CAG who also noted that there is no contradiction between a principles-based approach and specific restrictions. It was further noted that many of the additional public interest entity provisions relate to matters with which the CAG has previously expressed specific support.

Split of Section 290

Ms Rothbarth reminded the IESBA that at the June 2007 meeting the IESBA had determined that the position taken in the exposure draft relating to one or more specific elements, accounts or items of a financial statement 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. Therefore, the IESBA concluded 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 above split was discussed with the CAG who noted that the proposal seemed logical.

Entities of Significant Public Interest

Ms Rothbarth indicated that the exposure draft proposed extending the listed entity independence provisions to all entities of significant public interest. Such entities are described in proposed revised Section 290 as listed entities and certain other entities which, because of their business, size or number of employees have a large number and wide range of stakeholders. She noted that at the June meeting, the IESBA concluded that despite the large number of respondents who expressed explicit support for these proposals, in light of the large volume of comments expressing concern with the proposals, or concern with how the proposals could be interpreted, it is appropriate to modify the proposals. The IESBA concluded 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 should contain a strong encouragement 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 auditors to the more stringent independence requirements contained in Section 290.

Ms Rothbarth reported that the matter was discussed with the CAG. The CAG noted that it was an extremely difficult area and recognized the logic of the proposals. There was support for an encouragement for firms to consider whether the requirements should be applied more broadly. Several CAG members were also of the view that it was important that there be disclosure in the auditor's report of whether the PIE independence provisions had been applied or the non PIE provisions. It was recognized, however, that disclosure in the auditor's report was a matter for the IAASB and not the IESBA.

Ms Rothbarth reported that the Task Force is of the view that, given the proposal to narrow the definition somewhat it is appropriate to refer to these entities as "Public Interest Entities" as opposed to "Entities of Significant Public Interest".

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

- It could be argued that all audits are in the public interest and therefore it was important to retain the word "significant"; and
- Under the proposal if a regulator in a particular jurisdiction had not designated any entities as public interest entities the more stringent independence requirements in that jurisdiction would apply only to listed entities. It was noted though that the Code now contained an encouragement for firms and member bodies to determine whether other entities should be considered to the public interest entities.

After discussion, the IESBA agreed that the term "significant" should be dropped. It also asked the Task Force to consider including additional guidance (in paragraph 290.25) on the types of factors which would be considered. The Task Force was also asked to consider paragraph 290.24 and the definition of public interest entity because it is the audit that is subject to independence requirements as opposed to the entity.

Partner Rotation

Ms Rothbarth reminded the IESBA that the exposure draft had proposed eliminating the flexibility for partner rotation for firms with limited resources. At its June 2007 meeting, the IESBA considered the comments received on exposure. It was noted that there do not appear to be any arguments emerging from the responses that the IESBA did not consider in the course of developing its proposals. The IESBA was, however, of the view that, in light of the strength of the opposition to the proposals, careful reconsideration was warranted, particularly given that the opposition is coming not just from small firms, but also from some larger firms and also from a very significant number of IFAC member bodies. The IESBA concluded that retention of some flexibility with respect to partner rotation was appropriate. The IESBA, therefore, asked the Task Force to 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 asked the Task Force to 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.

Ms Rothbarth reported that the Task Force has considered the direction of the IESBA. With respect to the definition of key audit partner the Task Force has developed the following paragraph relating to the flexibility

“When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

The Task Force was also proposing the following definition of key audit partner:

“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 on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, other “audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions...”

With respect to “financial statements on which the firm will express an opinion” the Task Force has added a definition of this term to state that when an entity issues consolidated financial statements, these statements are the relevant financial statements for this purpose. The proposals contain the following new definition:

“In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.”

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

- The proposed definition was different from that included in the EU 8th directive;
- It was appropriate that an independent regulator provided the exemption. A member body could not make such an exemption, unless it had been given the power to do so under legislation;
- Whether the Code should provide guidance on what was meant by an independent regulator;
- Something had been lost by the removal of the sentence stating that in the time-out period the individual should not participate in the audit; and
- The definition of financial statements on which the firm will express an opinion was not as helpful as it could be.

After discussion, the IESBA agreed that the Task Force should reconsider the definition of financial statements on which the firm will express an opinion and reconsider the deleted sentence regarding the time-out period. It was agreed that the Code should not contain a definition or description of an independent regulator as it would vary from jurisdiction to jurisdiction.

Cooling-off Period

Ms Rothbarth reminded the IESBA that the exposure draft proposed that if a key audit partner or the individual who is the firm's Senior or Managing Partner joined an audit client that is an entity of significant public interest before a specific period of time (a "cooling-off period") had elapsed, independence would be compromised if the position with the client is:

- One that enables the individual to exert significant influence over the preparation of the entity's accounting records or its financial statements; or
- A director or an officer of the entity.

Ms Rothbarth reported that the responses in this area were varied and included:

- The application to non-listed entities of significant public interest is too broad – restricting the ability of these entities to hire the most qualified person for the job could reduce the quality of financial reporting;
- The Code should adopt a safeguards approach with respect to non-listed entities of significant public interest such as requiring the individual to disassociate themselves from the firm and reviewing the audit plan;
- The period of cooling off is too complex should be a flat two years for both the CEO and key audit partners; and
- The requirement should apply only to the positions at the group level.

Ms Rothbarth noted that the Task Force has considered the comments received. The Task Force considered whether any change to the period of the cooling-off period was appropriate. The Task Force noted that in many circumstances the period would be longer than one year – as noted in the Explanatory Memorandum to the Exposure Draft the period could sometimes be almost two years. The Task Force is of the view that the period of time is appropriate and focuses on the threat to independence. The Task Force is not, therefore, recommending any changes in this area.

The IESBA agreed with the proposals of the Task Force.

Engagement Team

Ms Rothbarth reminded the IESBA that at the June 2007 meeting the IESBA agreed that the Code and the ISAs should have the same definition of an engagement team. The IESBA agreed that the definition would exclude all external experts but include individuals who are not staff of the firm but are engaged by the firm to perform audit work. The IESBA was of the view that if the narrower definition were to be adopted, 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.

Ms Rothbarth reported that the Task Force has continued to liaise with the IAASB in the development of ISA 620. In August, the IAASB's Experts Task Force shared with the Task Force a draft of proposed changes to the ISA that were thought to be responsive to the views of the IESBA. The Task Force considered whether the guidance on the external expert's objectivity was strong enough and suggested some further revisions. The Task Force has reviewed the latest draft and is of the view that the standard is now sufficiently robust to support excluding auditor's external experts from the definition of engagement team. The requirements in the standard provide that, in the case of an auditor's external expert, the auditor is required to evaluate the objectivity by inquiring about interests and relationships that may create a threat to independence. Ms Rothbarth reported that the Task Force was recommending the following definition for an engagement team:

“All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes auditor's external experts engaged by the firm or a network firm.”

The IESBA agreed with the proposals of the Task Force.

Management Functions

Ms Rothbarth reported that 12 respondents commented on this area. Seven expressed support, some providing suggestions to clarify the language. Three respondents expressed the view that the proposals did not go far enough, for example the proposals permit the execution of an insignificant transaction. One respondent expressed the view that there should be an additional category of threat – a management threat. And one respondent expressed the view that a threats and safeguards principles based approach would be appropriate.

Ms Rothbarth reported that the Task Force has considered the comments received and other than some changes to improve clarity, for example by referring to performing management activities and assuming management responsibilities, the Task Force is not recommending any changes in this area.

The IESBA agreed with the proposals of the Task Force.

Preparing Accounting Records and Financial Statements

Ms Rothbarth reported that there were few comments received in this area. Other than a few changes to improve clarity, the Task Force is not recommending any changes in this area.

The IESBA noted that the title of the section had been changed and expressed the view that it should not be changed.

Valuation Services

Ms Rothbarth reminded the IESBA that the exposure draft proposed strengthening the existing provisions in two areas:

- For audit clients that are entities of significant public interest, the IESBA was of the view that a firm should not provide a valuation service if it would have a material effect on the financial statements. This enhanced safeguard is necessary to address the significant public interest in such entities. Accordingly, under the proposal a material valuation for an audit client that is an entity of significant public interest would compromise independence irrespective of the subjectivity associated with the valuation.
- To ensure consistent application of the Code, the IESBA proposed additional guidance on the meaning of significant subjectivity. Proposed revised Section 290 states that certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are determined by law or regulation or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or are prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Ms Rothbarth reported that of the 15 respondents who commented on the proposal that a firm should not perform a valuation service if it would have a material effect on the financial statements of an audit client that is an entity of significant public interest, four expressed explicit support for the proposal and 11 stated that they disagreed with the proposal because if there was no significant subjectivity involved in the valuation service there would not be an acceptable self-review threat. She indicated that the Task Force has considered the comments received on this area and is of the view that no change is necessary. The Task Force is of the view that because of the public interest associated with financial statements of public interest entities the threat the threat to independence would be too great if an audit firm performed a material valuation for such an audit client.

Ms Rothbarth stated that three respondents stated that tax-only valuations do not give rise to the same threats to independence as financial valuations. The Task Force has considered this issue and is of the view that no change is necessary as there is adequate guidance in the Code.

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

- It is not clear if the guidance under valuations should be followed or the guidance under tax services if a firm perform a tax valuation;
- It could be argued that all taxation services have at least an indirect effect on the financial statements;
- A valuation service is either primarily a valuation service or a taxation service and the facts of the service need to be examined to determine which section of the Code applies to the particular fact pattern;

- Some valuations may be directly incorporated into the financial statements while others might have only a direct effect on the financial statements; and
- It is important that any additional guidance on tax valuations is consistent with the threats created by such services.

After discussion, the IESBA concluded that tax valuations should be explicitly addressed in the Code under the taxation section. The IESBA asked the Task Force to develop such guidance for consideration at the next IESBA meeting.

Taxation Services

Ms Rothbarth reminded the IESBA that at its June meeting the IESBA had concluded that given the differing conclusions on the independence consequences of differing taxation services, it was necessary to discuss the categories of tax services separately. As a result, other than streamlining the language where possible, the IESBA concluded that the categories of taxation services addressed in the ED were appropriate.

Ms Rothbarth reported that the other main 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. In considering this issue at the June meeting the IESBA noted that for entities of significant public interest bookkeeping services were prohibited, without regard to materiality. Thus, restricting auditors from calculating the tax liability for use by the client in preparing its accounting entries was not unreasonable. The IESBA also 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 IESBA was of the view that the critical issue, regardless of timing, was whether the client makes a good faith effort at calculating its current and deferred tax liabilities and preparing its accounting entries. The IESBA was of the view that the use of the term “primary” could convey the wrong meaning and asked the Task Force to consider this term. The Task Force has considered the term and is of the view the term should be deleted.

Ms Rothbarth also reported that the Task Force is also of the view that an exception should be provided for emergency situations – which will bring align the position to that taken in bookkeeping.

The IESBA agreed with the proposals of the Task Force.

IT Systems Services

Ms Rothbarth reminded that IESBA that exposure draft proposed strengthening the guidance in this area by restricting the design *or* the implementation of financial information technology system for non public interest entities and the design *and* implementation for public interest entities.

Ms Rothbarth reported that of the 14 respondents who commented on this proposal three were supportive of the strengthening of the requirements for entities of significant public interest, nine stated that the strengthening was not necessary, several stating that there was no evidence that the existing approach of mandatory safeguards had failed. One respondent expressed the view that the proposal for entities of significant public interest should be applied to all entities. One respondent stated that it was not possible to conclude whether the proposed amendment was appropriate or not. Ms Rothbarth reported that the Task Force has considered the comments received. The Task Force is of the view that a firm should not provide design or implementation services to an audit client that is an entity of significant public interest because the threats to independence would be so significant safeguards could not address the threat. Other than a few changes to improve clarity, the Task Force is not recommending any changes in this area

The IESBA agreed with the proposals of the Task Force.

Restricted Use Reports

Ms Rothbarth reported that several respondents had commented that the linkage between the Code and the ISA was not as clear as it could be. It was also noted consideration should be given to *ISA 800 Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. Ms Rothbarth reported that the Task Force had reviewed ISA 800 and is of the view that paragraphs 290.500 onwards (and the corresponding paragraphs in 291) be amended to refer to special purpose reports that include a restriction on use and distribution. The Task Force is of the view that this appropriately aligns the Code to the ISAs.

The IESBA discussed the proposal and it was agreed that it should be clear from the proposed changes that it was not possible to use the modified independence requirements in an audit that is required by legislation or regulation.

Effective Date

Ms Rothbarth reminded the IESBA that the exposure draft proposed that the new provisions would become effective one year after approval of the final standard with transitional provisions in the three areas of provision of non-assurance services, partner rotation and entities of public interest.

Ms Rothbarth reported that two respondents were of the view that revisions should be effective for audit or assurance engagements commencing after a defined period of time rather than the requirements being effective at a particular date. These respondents were concerned that the change could be confusing because differing independence requirements might be in place for differing parts of the engagement. The Task Force

considered this point and is of the view that it is appropriate for the requirements to become effective as at a point in time.

Ms Rothbarth reported that six respondents expressed an overall concern that the period of time for implementation was too short. Such respondents noted the need for translation, implementation and education. The Task Force considered this matter and is of the view that no change is appropriate.

With respect to non-assurance services, Ms Rothbarth reported that twelve respondents expressed concern that the transition period of six months was too short if firms were to complete ongoing services. The majority of those who commented in this area were of the view a twelve month period should be provided to allow firms to complete ongoing services (two respondents were of the view that a period of three years should be provided and one respondent was of the view that there should be no prescribed completion date where the project is long term in nature and where early termination would have a significant effect on the client.) The Task Force discussed these comments and noted that while the transition period is six months to complete ongoing projects, the effective date is one year after the approval of the proposals. Firms, therefore, have 18 months to wind down ongoing activities. The Task Force, therefore, does not recommend any change to this element of the transitional provisions.

Ms Rothbarth reported that three respondents commented on the issue of partner rotation. Two were of the view that an additional two years should be provided and one was of the view an additional three years should be provided. The Task Force discussed these responses and also considered whether “time on the clock” should count or whether there should be a “fresh start” when the rotation requirements become effective. For example if a key audit partner, who is now subject to rotation requirements, has been a key audit partner on the client for 10 years, could that individual remain on the client for a further five years? The Task Force concluded that “time on the clock” should count. In forming this conclusion the Task Force was mindful that the additional rotation requirements related mainly to “other” key audit partners because rotation was already required for the engagement partner and the individual responsible for the engagement quality control review. The Task Force was also of the view that a one additional year after the effective date was appropriate. Again the Task Force was mindful that new provisions will not be effective until one year after the approval date.

With respect to public interest entities, Ms Rothbarth reported that the Task Force considered whether the proposed transitional provision continued to be appropriate for such entities. The Task Force considered the impact of the IESBA’s decision to change narrow the definition of public interest entity from that contained in the Exposure Draft. In light of this proposed change the Task Force is of the view that no additional transitional provision is necessary for public interest entities. If considered appropriate, the regulator in a particular jurisdiction is able to provide a transitional provision.

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

- The effective date would need to be reconsidered in light of the revised timing of the projects because of the decision to include the output of the two independence projects in the drafting conventions exposure draft;
- Concern was expressed that there might not be sufficient time for firms to plan for the additional partner rotation that would be required;
- Respondents to the exposure draft might have assumed that “time on the clock” did not count; and
- The effective date should provide sufficient time for member bodies to follow their own due process for implementation.

The IESBA agreed that it would be useful if the drafting conventions exposure draft contained the proposed effective date and transitional provisions to provide individuals with the opportunity to comment.

Other

Ms Rothbarth led the IESBA through the revised draft and the following detailed comments were made:

- Paragraph 181 – whether a tax regime is “applied”

6. Comments from the PIOB

Mr. Hafeman reported that he was pleased to be present to observe the meeting. He noted that it was obvious the Task Forces were working very hard to achieve the IESBA objectives and completed Mr. George and Mr. Fleck in their chairing of the IESBA and CAG in providing an opportunity for all members to contribute.

Mr. Hafeman reported that he was pleased to hear that the Planning Committee had carefully reviewed the second annual PIOB report. He indicated that the report contained a section on the public interest. The PIOB was considering this area to develop a clearer understanding of the broader context in which it operates which will enable the PIOB to do the best job of monitoring the PIACs. He noted that the PIOB had the following views with respect to the public interest:

- The standard setting activities should be focused on the needs of the users of the financial statements rather than the needs of the users of the standards;
- The standards must be comprehensive and applied properly which means that they the standards must be clearly written for ease of understanding and application. The standards should be operable in the context of local environments that may vary widely in terms of level of development;
- For the standards to have credibility the process under which they are developed must be credible and adherence to a strict due process is critical;
- Those involved in the standard setting process also need to be credible by possessing the appropriate knowledge, experience and commitment to the public interest. In selecting appropriate individuals it was important to consider not only individual qualities but also the composition of the PIACs to ensure that people

came from diverse backgrounds, represented a broad geographical spectrum and came from jurisdictions at differing stages of development.

He noted that the usefulness of the revised Code would be enhanced by the IESBA making it as clear as possible why certain positions had been chosen over other positions. He encouraged the IESBA to reconsider the position it had taken on tax valuations noting that if there were differing views at the Board as to whether the issue would fall under the valuations section or the tax section, there would be similar differing views from the users of the Code.

Mr. Hafeman reported that good progress had been made in addressing diversity of membership of the IESBA. He noted, however, that it was not enough to have a diverse membership and when observing PIAC meetings, PIOB members were conscious of who participated in the meeting. He noted that some had been quite active in the meeting whereas other had said very little. He recognized that English was not the first language for many Board members but he encouraged all members to participate fully in the meetings. He noted that it was his perception that the Chair (and Task Force Chairs) had provided the appropriate opportunity to allow for participant by all. With respect to Technical Advisors, Mr. Hafeman noted that while technical advisors did have the privilege of the floor, if there was too much input from technical advisors this would have the effect of distorting the Boards deliberations. For this reason the extent of participation by technical advisors was another matter which the PIOB carefully observed during PIAC meetings.

Mr. Hafeman reported that the PIOB is of the view that it is important for them to have sufficient time to consider whether due process had been followed in the development of a particular PIAC standard. He noted that the PIOB was considering whether some form of quarterly reporting on due process would be an appropriate mechanism to ensure that there were no last minute surprises.

Mr. Hafeman reported that he was pleased with the IESBA discussion of the Strategic Plan and noted the following points:

- He was please with the emphasis which had been placed on convergence and communication;
- With respect to implementation support he noted that it was important that the role of the IESBA in this area be carefully considered to ensure that the IESBA does not take on so much that it would compromise the Board's ability to set standards;
- On the new projects it would be helpful if the IESBA mentioned the need to gather information on what other jurisdictions are doing as this might be helpful not only to IESBA but also to other jurisdictions as part of a benchmarking process.

He reported that he was pleased with the IESBA decision that the drafting conventions exposure draft would include the implications of the conventions on the output of the two independence projects.

7. Closing

Mr. George thanked the CICA for hosting the meeting and all members and technical advisors for their participation. He thanked retiring members Mr. Hattori, Mr. Hopper, Mr. Karcher and Mr. Savino and closed the meeting.

8. Future Meeting Dates

January 21-23, 2008 (Amsterdam, Netherlands)
April 15-17, 2008 (New York, USA)
June 24-26, 2008 (Europe, TBD)
October 21-23, 2008 (TBD)