



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

C

Board Ethics Consultative Advisory Group

Meeting Location: Brussels, Belgium

Meeting Date: December 11, 2007

Independence II

Objectives of Agenda Item

1. To discuss and provide input on the proposed changes to response to comments received on the exposure draft issued December 2006.

Background

In December 2006, the IESBA issued an exposure draft (ED) proposing revisions to existing Section 290 and proposing a new Section 291. ED period ended on April 30, 2007.

Comments have been received from the following:

Member Bodies of IFAC	33
Firms	8
Regulators	4
Government Organizations	3
Other	28
Total Responses	76

All of the comment letters received have been posted on the IFAC website and may be downloaded at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0075>.

The CAG discussed comments received on major issues at its September 2007 meeting. The Task Force met after the CAG meeting to respond to comments received and at its October meeting the IESBA considered a first draft of the changes to the exposure draft to respond to comments received. This draft is posted on the IFAC website and may be downloaded at

<http://www.ifac.org/Ethics/Meeting-BGPapers.php?MID=0099&ViewCat=0855>. Agenda Paper C.1 contains a mark-up of the changes made since the October meeting.

This agenda paper highlights changes which have been made since the last CAG meeting either in response to comments received from the CAG in September or comments from the IESBA in October.

Discussion

Public Interest Entities

The IESBA is of the view 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 will contain an 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 (paragraph 290.25), thus subjecting their auditors to the more stringent independence requirements contained in Section 290. The paragraph contains guidance on the factors that would be considered in making this determination.

The IESBA is of the view that, in light of the narrower definition, the reference to “significant” can be dropped.

Partner Rotation

The IESBA is of the view that there should be some limited flexibility in the Code with respect to partner rotation. Accordingly the section will provide that if the independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain as a key audit partner for more than seven years provided that the independent regulator has specified alternative safeguards and these are applied.

The IESBA also asked the Task Force to provide additional guidance on the time-out period. The Task Force will propose the following to the IESBA:

“During that period, the individual should not participate in the audit of the entity or be in a position where they can directly influence the outcome of the engagement through providing quality control for the engagement or providing consultation regarding client technical or industry-specific issues, transactions or events.”

Non-Audit Services

At the October meeting, the IESBA discussed tax valuations. The IESBA concluded that tax valuations should be explicitly addressed in the Code under taxation services and asked the Task Force to develop such guidance. The Task Force has developed new guidance (paragraph 290.189 in Agenda Papers C.1 and C.2). This guidance indicates that where the result of the valuation will be directly incorporated in the financial statements, the valuation services provisions included in paragraphs 290.174 to 290.178 should be followed. Where the result of the valuation will not be directly incorporated in the financial statements (i.e. the financial statements are only affected through accounting entries related to tax) this would not generally threaten the firm’s independence if such effect on the financial statements is immaterial or if the valuation is subject to external review, for example by a tax authority. If the valuation is not subject to an external

review and the effect is not immaterial, the significance of the threat should be evaluated. If the threat created is not clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

Effective Date

The IESBA had a preliminary discussion of the effective date for the proposals at its meeting in October 2007. It concluded that, in light of the decision that the drafting conventions exposure draft would contain the output of the Independence I and II projects, it would be useful to expose the proposed effective date of the proposals. The proposed effective date will be discussed with the CAG at its meeting in March 2008.

Material Presented

Agenda Paper C	This Agenda Paper
Agenda Paper C.1	Revised Section 290 & 291 (mark-up)
Agenda Paper C.2	Revised Section 290 & 291 (clean)

Action Requested

1. CAG members are asked to consider the recommendations direction presented and provide input.