

IFAC Issues Proposal to Revise Independence Standards

On December 29, 2006, the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), released an exposure draft containing significant revisions to the independence standards of the IFAC *Code of Ethics for Professional Accountants* (the IFAC Code).

As a member body of IFAC, the AICPA considers all proposed revisions to the IFAC Code and determines what revisions, if any, may be appropriate to the AICPA Code of Professional Conduct for the purpose of harmonizing to the international standards, as required by IFAC membership. A number of revisions being proposed to the IFAC Code are more restrictive than that of the AICPA and accordingly, may have a significant impact on AICPA members if adopted by the AICPA. The AICPA Professional Ethics Executive Committee (PEEC) is in the process of evaluating the proposal and will be providing its comments. Members are encouraged to comment on this important proposal or instead, may provide their comments to Lisa Snyder, Director – AICPA Professional Ethics Division at lsnyder@aicpa.org for consideration by the PEEC. Comments are due to IFAC by April 30, 2007.

Significant revisions to the IFAC Code include:

- Extending the more restrictive listed entity independence requirements to the audits of *entities of significant public interest*.
 - The proposal would extend the listed entity independence provisions (e.g., partner rotation, cooling-off period, non-audit services restrictions) to all entities of significant public interest. Such entities are described in the proposal 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. While the proposal allows some flexibility for each member body to determine which entities should be considered to be entities of significant public interest for purposes of their particular jurisdiction, there is a presumption that regulated financial institutions would be entities of significant public interest, and depending on the facts and circumstances, such entities may include pension funds, government-agencies, government-controlled entities and not-for-profit entities.
- Expanding the applicability of partner rotation requirements for listed entities and removal of the provision that allows flexibility for small firms to apply alternative safeguards.
 - Under the proposal, the partner rotation requirements would apply to all entities of significant public interest and be expanded to cover *all key audit partners* (defined in the exposure draft).
 - The revised standard would also remove the existing flexibility that permits firms with a limited number of partners to apply other safeguards, instead of partner rotation, to address the familiarity threat. The proposal is therefore more restrictive than the SEC partner rotation requirement that provides an exception for audit firms with fewer than five audit clients that are issuers and fewer than ten partners.
- Strengthening guidance related to the provision of non-assurance services, including new guidance on the provision of tax services to audit clients.
 - For example, the proposal states that performing certain tax services may create threats to independence and contains guidance on the following four broad

categories of taxation services: tax return preparation; preparation of tax calculations; tax planning and other tax advisory services; and assistance in the resolution of tax disputes.

The Exposure Draft can be obtained at the following link:

<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0075>