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## Exposure draft: deferral of effective date of ISB standard no. 2, certain independence implications of audits of mutual funds and related entities, June 2000; ED 00-1

Independence Standards Board

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# **Exposure Draft**

**Deferral of Effective Date  
of ISB Standard No. 2,  
Certain Independence Implications  
of Audits of Mutual Funds and  
Related Entities**

**June 2000**



**Independence  
Standards  
Board**



Independence  
Standards  
Board

**Exposure Draft  
(ED 00-1)**

**Deferral of Effective Date  
of ISB Standard No. 2,  
Certain Independence Implications  
of Audits of Mutual Funds and  
Related Entities**

**June 2000**

Comments should be received by July 5, 2000 and may be sent via:

Mail: Independence Standards Board, 6<sup>th</sup> Floor  
1211 Avenue of the Americas  
New York, New York 10036-8775  
Fax: (212) 596-6137  
e-mail: [isb@cpaindependence.org](mailto:isb@cpaindependence.org)

Please reference ED 00-1 in your correspondence.





**Independence  
Standards  
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Date: June 2000

To: Interested Parties

From: William T. Allen, Chairman

The purpose of this Exposure Draft (ED) is to defer the original June 15, 2000 effective date of ISB Standard No. 2, *Certain Independence Implications of Audits of Mutual Funds and Related Entities*, until 60 days after existing rules of the SEC are modified to remove conflicts with the Standard.

The operating policies of the ISB are designed to permit timely, thorough and open study of issues involving auditor independence, and to encourage broad public participation in the process of establishing and improving independence standards. All of the ISB's constituencies, including members of the public, are encouraged to express their views on matters under consideration in order to stimulate constructive public dialogue.

The ISB is seeking specific input on only one question—"Is it appropriate to defer the proposed effective date of ISB Standard No. 2 until 60 days after existing rules of the SEC are modified to remove conflicts with the Standard?"

Any individual or organization may obtain one copy of this Exposure Draft (ED 00-1), without charge, by contacting the ISB. The ED is also available on the ISB website at [www.cpaindependence.org](http://www.cpaindependence.org).

Your responses, which must be received by July 5, 2000, may be sent via:

1. mail Independence Standards Board  
6<sup>th</sup> Floor  
1211 Avenue of the Americas  
New York, NY 10036-8775
2. fax (212) 596-6137
3. e-mail [isb@cpaindependence.org](mailto:isb@cpaindependence.org)

Please reference ED 00-1 in your correspondence.

All responses will be available for public inspection and copying for one year at the offices of the Independence Standards Board and also at the library of the American Institute of Certified Public Accountants, Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey.

**Proposed Independence Standard**

**Deferral of Effective Date  
of ISB Standard No. 2,  
Certain Independence Implications  
of Audits of Mutual Funds and  
Related Entities**

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## **Proposed Independence Standard**

### **Deferral of Effective Date of ISB Standard No. 2, Certain Independence Implications of Audits of Mutual Funds and Related Entities**

**June 2000**

#### **Standard**

1. Paragraph 5 of ISB Standard No. 2, *Certain Independence Implications of Audits of Mutual Funds and Related Entities*, is deleted and replaced with the following language:

The above requirements are effective with respect to audits of financial statements for periods beginning 60 days after existing rules of the SEC are modified to remove conflicts with the Standard. The Board has been informed that the SEC is undertaking rulemaking with regard to its independence rules, and it is expected that it will include consideration of the provisions of this Standard. Notification of relevant changes by the SEC will be posted to the ISB's website at [www.cpaindependence.org](http://www.cpaindependence.org) when confirmation is received by the Board.

#### **Effective Date**

2. This Standard is effective on adoption.

## **BASIS FOR CONCLUSIONS**

### **Background**

3. ISB Standard No. 2 is an integrated set of provisions which the Board believes is appropriately restrictive to protect the public interest and be responsive to the threats envisioned, while not imposing restrictions on those other individuals where the Board believed the risks to be minimal. The Standard developed under this new approach included provisions both more and less restrictive than current SEC rules, principally because of its “on the engagement” focus and spousal benefit plan exemption.

4. The Board initially decided, when ISB No. 2 was issued in December, 1999, that the more restrictive provisions of the document should go into effect on the then-scheduled effective date of June 15, 2000, regardless of whether or not the SEC had amended its more restrictive rules by that time. The “effective date” language in the Standard presently reads as follows:

The above requirements are effective with respect to audits of financial statements for periods beginning after June 15, 2000, with earlier application encouraged. However, in certain respects, current rules of the SEC and, as to spousal employee benefit plan interests, of the AICPA, are more restrictive than the provisions of this Standard. Compliance with those existing more restrictive rules continues to be necessary unless and until both the SEC and the AICPA revise those rules. Notification that these changes have been made will be posted to the ISB’s website at [www.cpaindependence.org](http://www.cpaindependence.org) when confirmation is received by the Board. Where provisions of this Standard are more restrictive, those provisions are to be complied with as of the above effective date.

5. Subsequently, questions have been raised as to the appropriateness of a partially effective Independence Standard, on the basis that it would add unnecessarily to the existing complexity of regulations.

### **Summary**

6. Based upon its consideration of various factors, the Board determined that a deferral of the original June 15, 2000 effective date of ISB Standard No. 2 until 60 days after existing rules of the SEC are modified to remove conflicts with the Standard is in the best interests of its constituents and therefore appropriate.

7. In reaching this decision, the Board acknowledges the statutory oversight responsibility of the SEC for the activities of the Board. In light of that, it

concluded that it would not be desirable to impose a set of new independence restrictions while existing rules remain in effect until the SEC endorsed (or indicated it did not object to) such new rules by modifying its existing ones.

8. In May 2000 the AICPA's Professional Ethics Executive Committee adopted the following policy statement:

As to any pronouncement passed by the Independence Standards Board (ISB), the Professional Ethics Executive Committee (PEEC) will treat such a pronouncement as authoritative for any engagement requiring independence unless and until the PEEC announces that it will not view that pronouncement as authoritative. Accordingly, in situations where an AICPA standard is more restrictive, in total or in part, than an ISB pronouncement, the PEEC will not consider a member's independence to be impaired as a result of their non-compliance with respect to a more restrictive AICPA standard until members are given notice of the PEEC's rejection of the ISB's less restrictive pronouncement.

Consequently, the language regarding the AICPA's rules has been deleted from the original effective date paragraph cited above in paragraph 4.

**QUESTION FOR RESPONDENTS**

**Q1.** Is it appropriate to defer the proposed effective date of ISB Standard No.2 until 60 days after existing rules of the SEC are modified to remove conflicts with the Standard?