



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

150 York Street, Suite 200, Box 90, Toronto, Ontario M5H 3S5
Tel 416.913.8260 Fax 416.850.9235 www.cpab-ccrc.ca

June 15, 2010

Mr. Gary Hannaford, FCA
Chair
Independence Task Force
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Hannaford:

**Re: Exposure Draft: Independence Standards- Partner Rotation
Consultation Paper: Independence Requirements under Review**

The Canadian Public Accountability Board (“CPAB”) is pleased to comment on the Independence Standards- Partner Rotation Exposure Draft and the Independence Requirements under Review Consultation Paper.

Proposal to adopt the International Code of Ethics for Professional Accountants

The Consultation Paper states that the Independence Task Force (“ITF”) has concluded that it is appropriate to adopt the Code of Ethics for Professional Accountants (the “Code”) issued by the International Ethics Standards Board for Accountants, amended only as appropriate for Canadian specific circumstances. CPAB believes that adoption of the Code in Canada will lead to a significant weakening of independence requirements, which is not in the public interest and may have an adverse impact on audit quality.

Specifically, we note the Code is weaker than the existing Rules of Professional Conduct (“RoPC”) in several areas, including partner rotation, financial interests, loans, financial relationships and certain non-audit services (e.g. accounting and bookkeeping services). In addition the Code, unlike the RoPC, does not require audit committee pre-approval of services. Furthermore, the Code favours a threats and safeguards approach to analyse specific prohibitions which will make it more difficult to apply and enforce than the RoPC. Overall, we believe that the RoPC are a more robust and higher quality set of independence requirements than the Code.

There are certain areas, although relatively few, where the Code is more stringent than the RoPC, such as in areas related to provision of tax services and reporting issuer fees. We encourage the ITF to incorporate these stronger requirements into the existing RoPC.

It is important to note that both the Securities and Exchange Commission (“SEC”) in the United States and the Auditing Practices Board (“APB”) in the United Kingdom also have independence requirements that are more stringent than the Code. These bodies oversee reporting issuers in major capital markets and many Canadian reporting issuers are interlisted in these markets and have to comply with the more stringent requirements. It would have been helpful if the Consultation Paper had further explored the reasons why the SEC and APB have not adopted the Code and why the ITF considered these reasons inappropriate for the Canadian market.

Canadian Specific Modifications

Given the large number of small reporting issuers in Canada, we believe it is appropriate to maintain a threshold below which such entities are not subject to the partner rotation requirements and which allows them to obtain greater assistance from their auditor. In our view the \$10 million threshold remains appropriate and should not be increased.

Partner Rotation

We have concerns with respect to a weakening of the partner rotation requirements by changing them from a five/five cycle to a seven/two cycle. In our view a five/five rotation cycle strikes the right balance between auditor objectivity and relevant knowledge and experience. Under the RoPC public companies that qualify for the \$10 million threshold exemption are not subject to the partner rotation provisions. We see little merit in further relaxing the partner rotation requirements in Canada.

CPAB appreciates the opportunity to provide input on the Exposure Draft and Consultation Paper.

We would be pleased to discuss any of the above comments with you, should you require any further clarification.

Yours very truly,

A handwritten signature in black ink, appearing to read "Brian Hunt". The signature is fluid and cursive, with the first name "Brian" and last name "Hunt" clearly distinguishable.

Brian Hunt, FCA
Chief Executive Officer

cc: Kam Grewal, Vice-President Standards
Canadian Public Accountability Board





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July 13, 2010

Mr. Gary Hannaford, FCA
Chair
Independence Task Force
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Hannaford:

Re: Supplemental Letter
Exposure Draft: Independence Standards- Partner Rotation
Consultation Paper: Independence Requirements under Review

The Canadian Public Accountability Board (“CPAB”) commented previously on the Independence Standards- Partner Rotation Exposure Draft and the Independence Requirements under Review Consultation Paper in its letter to you dated June 15, 2010. Subsequent to sending this letter we have become aware of additional information with respect to a lack of international acceptance of the Code of Ethics for Professional Accountants (“the Code” or “IFAC Code”) issued by the International Ethics Standards Board for Accountants (“IESBA”) and are therefore sending this supplemental letter for your consideration.

Based on research we have performed and through our participation with the International Forum of Independent Audit Regulators (“IFIAR”) Standards working group we have learned that many countries believe the Code is not robust enough to serve the public interest and have therefore made modifications to make the Code more rigorous. For example, we understand the independence requirements in the UK, US, France, Japan, South Africa and Switzerland are more rigorous than the Code.

Australia has also exposed proposals to adopt the Code. We believe the following quotations from a letter by the Australian Securities & Investments Commission (“ASIC”) to the Australian Accounting Professional and Ethics Standards Board (“APESB”) dated March 14, 2010 with respect to proposals to adopt the Code in Australia are on point and consistent with CPAB’s concerns in Canada:

“The revised IFAC Code appears to reflect a number of compromises to address perceived practical issues in some, particularly smaller, jurisdictions. In a larger developed country such as Australia, the

revised APESB Code should have regard to the higher expectations of users of financial reports and users of accounting/audit services. A number of exceptions are inappropriate in Australia and should not appear in the revised APESB Code.”

“We are not currently aware of any jurisdictions that have adopted the existing IFAC Code without changes or that intend to adopt the revised IFAC Code without changes. While we recognise that there may be pressure to adopt reduced requirements in some smaller jurisdictions, we believe that it is important to pursue international convergence of high quality auditor independence requirements in the interests of auditors, users of financial reports and users of accounting/audit services.”

The International Organization of Securities Commissions (“IOSCO”) also made a number of significant recommendations for improvements to the auditor independence requirements in a comment letter to the IESBA dated November 20, 2008 that were not addressed in the Code.

To date the Code has been accepted to a far lesser degree than International Financial Reporting Standards and International Auditing Standards. The more developed countries appear to have a view that the Code is not robust enough to serve the public interest. CPAB believes it is important to pursue international convergence of high quality standards. In our view significant improvements need to be made to the Code to make it more rigorous before adoption in Canada. If the Code is adopted in Canada without modification this will lead to a significant weakening of independence requirements, which is not in the public interest and may have an adverse impact on audit quality.

We urge the Independence Task Force to further explore the reasons why so many countries have supplemented the Code with more rigorous requirements and make further improvements to the Code before adoption in Canada.

In our view the current Rules of Professional Conduct should be retained in Canada and supplemented by sections of the Code that are more robust such as those dealing with tax services and reporting issuer fees.

CPAB appreciates the opportunity to provide input on the Exposure Draft and Consultation Paper.

We would be pleased to discuss any of the above comments with you, should you require any further clarification.

Yours very truly,



Brian Hunt, FCA
Chief Executive Officer

cc: Kam Grewal, Vice-President Standards
Canadian Public Accountability Board

