

MEMO# 11363

October 29, 1999

ICI COMMENT LETTER ON ISB AUDITOR INDEPENDENCE PROPOSAL

1 See Memorandum to Accounting/Treasurers Committee No. 30-99, SEC Rules Committee No. 71-99, dated September 23, 1999. [11363] October 29, 1999 TO: ACCOUNTING/TREASURERS COMMITTEE No. 40-99 SEC RULES COMMITTEE No. 85-99 RE: ICI COMMENT LETTER ON ISB AUDITOR INDEPENDENCE PROPOSAL

As we previously informed you, the Independence Standards Board issued a proposal on the application of auditor independence rules to audits of mutual funds.¹ The proposal would require a specified set of persons in the audit firm to be independent of non-audit client "sister" funds when auditing a mutual fund. In particular, the accounting firm itself, and its retirement plans (other than self-directed defined contribution employee benefit plans), the audit engagement team, and its chain of command, and the partners and managerial employees in offices participating in a significant portion of the audit must be independent of non-audit client sister funds when auditing a mutual fund. In addition, the proposal would permit spouses of certain partners to invest in audit client funds through an employer sponsored benefit plan. In the attached comment letter the Institute supports the proposed approach barring "on the engagement" investment in non-client sister funds. The letter recommends that independence rules applicable to fund audits should incorporate grace periods and materiality thresholds so that temporary or de minimis violations will not disqualify auditors or call into question the validity of previously issued audit opinions. The Institute's letter supports the provision of the proposal that would permit spouses of partners who are not on the engagement and not in the engagement office to invest in audit client funds through employer sponsored benefit plans. The letter argues that these spouses should be permitted to invest directly in audit client funds (i.e., in addition to investments through employer sponsored benefit plans). Further, the letter recommends that spouses of partners who participate in the engagement be permitted to invest in audit client funds, so long as the investment is made through an employer sponsored benefit plan. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment