

MEMO# 11958

June 16, 2000

ISB TO DEFER EFFECTIVE DATE OF INDEPENDENCE STANDARD NO. 2

1 See Accounting/Treasurers Members No. 2-00 and SEC Rules Members No. 6-00 (January 11, 2000). [11958] June 16, 2000 TO: ACCOUNTING/TREASURERS COMMITTEE No. 25-00 SEC RULES COMMITTEE No. 87-00 RE: ISB TO DEFER EFFECTIVE DATE OF INDEPENDENCE STANDARD NO. 2

The Independence Standards Board recently issued Exposure Draft 00-1, Deferral of Effective Date of ISB No. 2, Certain Independence Implications of Audits of Mutual Funds and Related Entities. The Exposure Draft would defer the original June 15, 2000 effective date of ISB Standard No. 2 until sixty days after existing SEC rules are modified to remove conflicts with the Standard. ISB No. 2, adopted in December 1999, clarified the application of auditor independence rules to audits of mutual funds and related entities. Certain provisions of ISB No. 2 are less restrictive than existing SEC and AICPA independence rules, while others are more restrictive. For example, ISB No. 2 would permit spouses and dependents of firm partners not on the engagement team to invest in audit client funds through employer sponsored benefit plans. However, ISB No. 2 would prohibit investment in "sister" funds and all related non-fund entities in the mutual fund complex, by the audit engagement team and those in a position to influence the audit.¹ ISB No. 2 as adopted indicates that those provisions in the Standard that are more restrictive than SEC rules are effective with respect to audits of financial statements for periods beginning after June 15, 2000. However, as to those provisions that are less restrictive, the Standard indicates that auditors must continue to comply with the existing (more restrictive) SEC rules until the SEC modifies those rules. We understand that the SEC is currently reviewing its independence rules, but it has not yet issued any proposal. The Exposure Draft indicates that 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. Comments on the Exposure Draft must be filed with the ISB by July 5, 2000. If you have any comments that you would like the Institute to consider including in a possible comment letter, please provide them to me by phone (202/326-5851), fax (202/326-8314) or e-mail (smith@ici.org) no later than June 28. Gregory M. Smith Director – Operations/ Compliance & Fund Accounting Attachment