



Certified General  
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*From the Office of the President & CEO*

June 15, 2010

Via electronic mail: [independenceed@cica.ca](mailto:independenceed@cica.ca)

Independence Task Force  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2

Re: Consultation Paper Comment:  
**Independence Requirements under Review**

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the consultation paper related to the independence requirements under review as prepared by the CICA Independence Task Force (ITF).

**General Comments:**

CGA-Canada is a member of the International Federation of Accountants (IFAC), fully supporting the convergence of national and international standards. To that end, CGA-Canada, after a two-year project, adopted the independence requirements (Sections 290 and 291 of the *Code of Ethics for Professional Accountants*), approved by our National Professional Standards Committee in May 2009, and ratified by our Affiliation Council in October 2009. These newest provisions will come into force for our membership on December 15, 2010. Over the course of this project, it was the view of CGA-Canada's working group that there were relatively few Canadian market circumstances that would command a departure from the provisions developed by the International Ethics Standards Board for Accountants (IESBA).

CGA-Canada has dealt with the harmonization of the national requirements demanded of our membership with those of the international standards by maintaining our own *CGA Code of Ethical Principles and Rules of Conduct* (CEPROC), together with a the evolution of a revised *CGA Independence Standard* (IS). Each of these is linked and referenced to the other, thus permitting the greatest degree of conformance to the IESBA requirements.

## Specific Comments:

### *1) The appropriateness of identified Canadian proposals relating to students, mutual funds and social clubs.*

CGA-Canada supports the ITF's view that application of the IFAC *Code of Ethics for Professional Accountants* ethical requirements provides grounds to amend provisions that address CA students, in those provinces where the Rules of Professional Conduct cover students. CGA-Canada likewise requires that all of ethical obligations extend to students in the CGA program of professional studies.

The CGA IS similarly covers the matter of mutual funds that are reporting issuers. In the most recent version (version 2.0), these requirements are articulated at paragraphs 4.51 (c).

It is not the view of CGA-Canada that the ITF need consider maintaining the existing rules as they relate to social clubs, co-operatives or similar organizations. Paragraphs 290.102 to 290.126 of the Code contain guidance related to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account. The CGA IS contains identical provisions at paragraphs 4.2 to 4.17.

It would seem likely in the instances cited within the consultation paper that the majority of the occasions encountered by your membership would not only be immaterial, but would also represent an indirect interest, thus not representing an independence threat or issue to acceptance of the engagement. Accordingly we would encourage the ITF to adopt the provisions as developed by the IESBA.

### *2) The implications on the threshold exemption of moving to the Code requirements, including:*

#### *a. Whether the Canadian market circumstances are such that it is in the public interest to have a threshold exemption for some reporting issuers and why or why not?*

The Code, as promulgated by the IESBA does not permit threshold exemptions. That said, CGA-Canada does appreciate the rationale for permitting such exemption, and the CGA IS definition of reporting issuers likewise contains such an exemption. For the newest provisions which come into force on December 15, 2010 for our own membership we have elected to maintain this threshold exemption. While we acknowledge this departure from the Code, we are cognizant that providing such exemptions is permitted with the justification that it is well suited to client and jurisdictional needs, but need all be nevertheless aware that such statements may be viewed as the profession's rationalization for self-interest.

#### *b. If a threshold should be maintained, whether it should be based on size, exchange or other and:*

##### *i. If based on size, whether it is appropriate to increase the threshold from the current \$10 million. If so, what should the threshold be?*

Not recommended - See comments at 2 a. above.

- ii. *If based on exchange, whether the more restrictive requirements should apply only to the audits of entities on the TSE and to audits of mutual funds? If not, what other entities should be addressed?*

See comments at 2 a. above.

- iii. *If based on exchange, whether there should also be a size threshold. If so what that threshold should be?*

See comments at 2 a. above.

- c. *If a threshold should be maintained, whether it should be a transitional threshold and be maintained for only a specified period of time? If so, what should that period be?*

Should the ITF consider revising the threshold requirements for CAs (particularly in the case of reducing the cap), it would seem reasonable to sanction a transitional period in order to permit firms to provide their clients with a reasonable period of time in which to make alternate arrangements.

- d. *If a threshold should be maintained, whether audit committee pre-approval should be required if a firm complies only with the independence requirements applicable to entities subject to a threshold?*

CGA-Canada supports the use of applicable safeguards to threats to independence that are identified during the course of the engagement. Audit committee pre-approval in this instance would serve as one of the appropriate safeguards that could be applied.

- e. *If audit committee pre-approval is to be required whether the firm should be required to disclose those services provided that would not be permitted under the non-threshold independence requirements?*

CGA-Canada agrees that those services that would not be permitted under the non-threshold independence requirements should be disclosed. These could be communicated in the independence communication issued as a part of the engagement procedures.

- 3) *Whether, in addition to the matters addressed in questions 1 and 2 above, the Canadian market circumstances are such that it is in the public interest to adopt a position that is different from that contained in the Code? If so which requirements should be different and why?*

CGA-Canada is of the view that departures from the IESBA Code provisions should be kept to a minimum. This will not only harmonize the ethical provisions between accounting bodies domestically to the greatest extent possible, but will likewise bring the Institute closer to the convergence sought between your member body and international ethical standards. To that end, we would encourage the ITF to also extend the provisions considered above from those of reporting issuers exclusively to the (broader) public interest entity concept.

**Other Comments:**

We have reviewed the ITF's proposal for other differences very carefully, noting much unity between the requirements expected by the Institute and those of the Association. By and large, the greatest differences between the ITF's proposal and the revised CGA IS are contained to the requirements we demand of CGAs vis-à-vis the application of the public interest entity<sup>1</sup> concept. This definition broadens the application of the prohibitions from reporting issuers to all public interest entities, including reporting issuers.

**Closing Comments:**

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, you are invited to contact Rock Lefebvre, MBA, CFE, FCIS, FCGA, Vice-President, Research & Standards at rlefevre@cga-canada.org or Dawn McGeachy, BAccS, FCUIC, ACUIC, FCGA, Director, Public Practice at dmcgeachy@cga-canada.org.

Sincerely,

[Original signed by:]

Anthony Ariganello, CPA (Delaware), FCGA  
President and Chief Executive Officer  
CGA-Canada

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<sup>1</sup> Public interest entities are defined to include:

- a) All reporting issuers; and
- b) Entities that, due to the large number and wide range of stakeholders, size and number of employees, and nature or fiduciary capacity, reflect a broad extent of public interest (for example, private for-profit enterprises, co-operative business enterprises, not-for-profit organizations, and governments and other entities in the public sector).