



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

21 March 2016

Ref: 16/14

Mr. Stavros Thomadakis, Chair  
The International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017  
USA

Dear Mr Thomadakis,

**RE: The Exposure Draft (ED) *Proposed Revisions Pertaining to Safeguards in the Code - Phase 1***

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the IESBA Exposure Draft: *Proposed Revisions Pertaining to Safeguards in the Code - Phase 1* (the exposure draft).

In general, the IAIS believes the proposed revisions to the IESBA Code pertaining to safeguards should assist professional accountants in fulfilling their responsibility to act in the public interest and contribute to supporting audit quality.

The appendix to this letter provides more detailed responses to the questions set out in the exposure draft. This appendix was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG's membership represents a subset of all IAIS members.

If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: [mark.causevic@bis.org](mailto:mark.causevic@bis.org)) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: [markus.grund@bafin.de](mailto:markus.grund@bafin.de)).

Yours sincerely,

Victoria Saporta  
Chair, Executive Committee

Michael McRaith  
Chair, Financial Stability and  
Technical Committee

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**Appendix: IAIS Responses to Questions set out in the IESBA ED *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1***

<b><i>Proposed Revisions to the Conceptual Framework</i></b>
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| <p>1. Do respondents support the Board’s proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to: [see below]. If not, why not?</p> <ul style="list-style-type: none"><li>(a) Identifying threats</li><li>(b) Evaluating threats</li><li>(c) Addressing threats</li><li>(d) Re-evaluating threats</li><li>(e) The overall assessment</li></ul> |
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IAIS believes that the proposed revisions to the conceptual framework of the Code regarding the definition and the treatment of threats to compliance with the fundamental principles provide a better articulation of principles and more robust application material.

However, the IAIS has the following comments:

- Regarding the paragraph 120.5.A4 and 120.6 A3, ideally compliance with the fundamental principles should be sought independently of the conditions, policies and procedures established by the profession, legislation, regulation or firms – although it is recognised that practically this could be difficult. Consequently, it may be useful to link in a further discussion of the relationship between such conditions, policies and procedures and the assessment of compliance with the fundamental principles; and
- Regarding the paragraph R 120.7, it is probably very difficult to eliminate existing relationships so as to help ensure that their persistent negative impacts on independence of mind are reduced to an acceptable level. Whilst concrete interests (for example, conflicts arising from a specific piece of work) might be eliminated, it is not clear that, for example, a long-standing client relationship is capable of elimination in the same way. Consequently, it may be useful to recognise the special challenges involved in eliminating the relationship circumstances that create familiarity threats.

<b><i>Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable Level”</i></b>
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| <p>2. Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party”; and (b) “acceptable level” in the Code. If not, why not?</p> |
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The IAIS supports the enhanced description of what a “reasonable and informed third party” is, the introduction of the corresponding application material, as well as the revised definition of the term “acceptable level”.

<b><i>Proposed Revised Descriptions of Safeguards</i></b>
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| <p>3. Do respondents support the proposed description of “safeguards”? If not, why not?</p> |
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The IAIS believes the description is clear and understandable.

However, the IAIS believes that the application of the concept of “reducing a threat to an acceptable level” might be very challenging as materiality relates not only to quantitative measures but also to perception. There may be some instances where the perception of the lack of independence cannot be reduced to an acceptable level.

4. Do respondents agree with the IESBA's conclusions that "safeguards created by the profession or legislation", "safeguards in the work environment", and "safeguards implemented by the entity" in the extant Code:

- (a) Do not meet the proposed description of safeguards in this ED?
- (b) Are better characterized as "conditions, policies and procedures that affect the professional accountant's identification and potentially the evaluation of threats as discussed in paragraphs 26-28 of this Explanatory Memorandum"?

If not, why not?

The IAIS agrees that "safeguards created by the profession or legislation", "safeguards in the work environment" and "safeguards implemented by the entity" in the extant Code do not meet the revised definition of safeguards as they are not expressly designed and implemented to address the threats that the professional accountant has identified.

#### ***Proposals for Professional Accountants in Public Practice***

5. Do respondents agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?

The IAIS believes that it is helpful for section 300 to follow the same format and to be built on the content of Section 120, with more specific requirements and guidance for professional accountants in public practice. The IAIS is also of the view that doing so will clarify the linkage between both sections, thereby strengthening the foundational requirements and principles related to compliance with the fundamental principles of the Code.

However, the IAIS has the following comments:

- Regarding the paragraph 300.2.A2 to .A5, the IAIS has the same concern as raised in regards to paragraph 120.5.A4;
- Regarding the paragraph 300.2 A7 and A8, the IAIS has the same concern as raised in regards to paragraphs R 120.7 and R 120.7 A1;
- Regarding the paragraph 300.2.A11, whether an entity is listed or not should generally not be considered as a potential effect to the manner in which a professional accountant should consider his or her compliance with the fundamental principles, but we agree that such a change may in a number of cases lead to a need to re-evaluate threats and the effectiveness of existing safeguards. In the context of public practice, there may be additional threats from such a change that mean the principles are applied differently in practice;
- About paragraph 300.2.A9, when considering whether a review carried out by another professional accountant can address a threat of self-review one should carefully consider the independence of the professional accountant;
- In regards to the same paragraph, considered in isolation, requesting another partner to carry out non-assurance services is likely not sufficiently effective for reducing the threat of self-review or familiarity at the firm level to an appropriate level.

***Requests for General Comments:***

- (a) Small and Medium Practices
- (b) Developing Nations
- (c) Translations

The IAIS is of the view that the conceptual framework of the Code should be applied with equal rigor whatever the size of the practice.