ACCOUNTANCY EUROPE.

Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants

Sent by email:
KenSiong@ethicsboard.org

Brussels, 21 April 2017

Subject: Accountancy Europe comments on the Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments

Dear Mr. Ken Siong,

Accountancy Europe is pleased to provide you with its comments on the IESBA Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* (the ED).

GENERAL COMMENTS

In our comments to the IESBA Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* dated 14 April 2016, we made the following remarks:

- *Adding further requirements, the Code becomes rules-based, leading invariably to a tick-box approach;*
- *The "reasonable and informed third party" is subjective and the reference to a "hypothetical person" only reinforces this approach without any benefit for the user;*
- *The proposed amendment introduces a different concept of "acceptable level", making it unnecessarily more stringent;*
- *Introducing the concept of effectiveness in the definition of safeguard is unnecessary as, by definition, the elimination of threats must always be effective;*
- *Overall, IESBA is proposing a very strict concept of safeguard, disregarding important practical implications.*

Firstly, we welcome that most of our comments regarding Phase 1 have been accommodated in the Basis for Agreement in Principle.

Nevertheless, we regret that IESBA has not taken into consideration our comment regarding the definition of "acceptable level". It introduces a different concept, making it unnecessarily more stringent. Although we understand the reasoning of shifting to an affirmative approach, this amendment does not bring added value as it is not very instructive on how professional accountants would achieve the intended result. The application of "acceptable level" by professional accountants is a well-established practice and therefore Accountancy Europe does not see a need for change. We fail to understand why this approach "more clearly and directly conveys the intended meaning" of the definition "acceptable", as it is stated in the Basis for Agreement in Principle.

We also regret the approach taken by IESBA regarding the revised description of safeguards. Introducing the concept of effectiveness in the definition of safeguard is unnecessary as, by definition, the elimination of threats must always be effective. In our view, the concept of effectiveness should not be directly related to addressing specific threats.

We have strong concerns in relation to the reclassification of certain conditions, policies, and procedures. This adds confusion to the process and makes it more difficult for small and medium practices (SMPs) to consider how to apply the safeguards approach. As it stands now in the Basis for Agreement in Principle, these conditions, policies and procedures might only impact on the level of threat to compliance with the fundamental principles. It de facto reduces the number of available safeguards for SMPs. Overall, we believe that IESBA is proposing a very strict concept of safeguards, disregarding important practical implications, especially for SMPs.

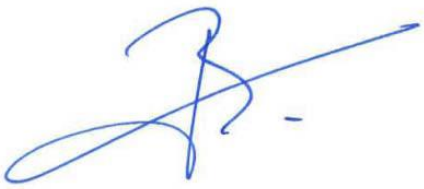
Regarding the provision of certain non-assurance services to related entities, it is stated in the Explanatory Memorandum that the changes to this requirement were limited to restructuring and are not intended to change the meaning of the requirement in the extant Code. Nevertheless, this restructuring emphasises more on the fact that the related entity cannot be an audit client and this could lead to unintended consequences, such as applying Public Interest Entity (PIE) provisions to non-PIEs. This was never the intention of the extant Code and therefore IESBA should make sure that the restructuring of this requirement will not lead to such interpretations.

We appreciate the opportunity to provide input and hope that IESBA finds our comments helpful when amending the Code.

For further information on this Accountancy Europe letter, please contact Noémi Robert on +32 2 893 33 80 or via email at noemi@accountancyeurope.eu or Tiago Mateus on +32 2 893 3376 or via email at tiago@accountancyeurope.eu.

Kind regards,

On behalf of Accountancy Europe,



Edelfried Schneider
President

Olivier Boutellis-Taft
Chief Executive

ANNEX – REQUEST FOR SPECIFIC COMMENTS

Section 600, Provision of Non-Assurance Services to an Audit Client

1. *Do respondents support the proposals in Section 600? If not, why not? Why or why not?*

   In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

Regarding the combined effect of threats (600.6 A1), although it is labelled as application material, it is phrased as a new requirement – "applying the conceptual framework requires the firm to consider any combined effect of threats" – or a simple thought process that has to be always present. The professional accountant has to identify, evaluate and address each threat. As it is currently drafted, the assessment of the combined effect of threats seems procedural and could lead to an additional administrative burden without benefit.

As general application material in section 600 of the Code, IESBA proposes a list of factors that are relevant in evaluating the level of any threat created by providing a non-assurance service to an audit client (600.4 A3). Additionally, IESBA proposes a list of factors for specific services, such as Information Technology Systems (606.4 A1) and Litigation Support (607.4 A1). In some cases, this overlaps with the list included in the general application material, without added-value.

Regarding the provision of certain non-assurance services to related entities, it is stated in the Explanatory Memorandum that the changes to this requirement were limited to restructuring and are not intended to change the meaning of the requirement in the extant Code. Nevertheless, this restructuring emphasises more on the fact that the related entity cannot be an audit client and this could lead to unintended consequences. For instance, in a group situation, this would mean that the auditor of a PIE should apply the same PIE rules to a sister company (because of the definition of PIE and related entity), although that sister company may not be a PIE, and hence non-PIE rules would be sufficient given that the sister's financial statements will never be included in the PIE Financial Statements. This was never the intention of the extant Code and therefore IESBA should make sure that the restructuring of this requirement cannot lead to such restrictive interpretations.

Lastly, the extension of the scope of the prohibition on recruiting services to all audit client entities falls outside the remit of this ED. Additionally, we fail to see the reasoning for addressing this service in particular, as well as the evidence that led to the conclusion that safeguards are not capable of reducing the threat to an acceptable level in this specific case.

Section 950, Provision of Non-Assurance Services to an Assurance Client

2. *Do respondents support the proposals in Section 950? If not, why not?*

Regarding the combined effect of threats (950.7 A1) and the list of factors that are relevant in evaluating the level of any threats (950.4 A3), please refer to our answer to the previous question.

Examples of Safeguards

3. *Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?*

As mentioned in our cover letter, IESBA is adopting a very strict definition of safeguards, disregarding important practical implications, especially regarding SMPs.

As described in the explanatory memorandum of the ED, the aim of this project is to improve the clarity, appropriateness and effectiveness of the safeguards. We would have preferred IESBA to have provided examples of safeguards that meet such criteria and not simply reduced the number of available safeguards for professional accountants.

Conforming Amendments Arising from the Safeguards Project

4. *Do respondents agree with proposed conforming amendments set out in:*

a) *Chapter 2 of this document.*

IESBA has replaced some of the extant safeguards by "factors that are relevant in evaluating the level of any threats" in proposed sections 310, 320, 321 and 330, adding some examples of "actions that might be safeguards".

IESBA should not follow the strict approach taken in the independence standards. The situations dealt with in these sections have a different nature and should not be treated equally.

Secondly, referring to "actions that *might* be safeguards" adds more uncertainty regarding the application of the safeguards, raising doubts about well-established practices.

b) *The gray text in Chapters 2–5 of Structure ED-2.*

Nothing to report.

5. *Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.*

We do not have any other comments.

REQUEST FOR GENERAL COMMENTS

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

a) *Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.*

In the Explanatory Memorandum of the Phase 1 ED, IESBA acknowledged that SMPs face unique challenges in employing safeguards due to their resources, including the number of partners, and committed to address them in Phase 2. In our view, taking into consideration the two phases of this project, these challenges are not adequately considered.

We reiterate our strong concerns in relation to the reclassification of certain conditions, policies, and procedures. This adds confusion to the process and makes it more difficult for SMPs to consider how to apply the safeguards approach. As it stands now in the Basis for Agreement in Principle, these conditions, policies and procedures might only impact on the level of threat to compliance with the fundamental principles therefore greatly reducing the number of available safeguards for SMPs.

We think that a cost-benefit analysis is required in this regard as IESBA should consider that reducing the availability of safeguards, sometimes limited to external review in the case of SMPs, could lead to increased costs in business without any benefit to SMP stakeholders.

b) *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*

Not applicable

c) *Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.*

Not applicable

d) *Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.*

We have nothing to report on specific potential translation issues noticed in reviewing the proposals.