

ASSIREVI  
*Associazione Italiana Revisori Contabili*

*Al Presidente*

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

4 April 2016

**Exposure Draft: Proposed Revisions Pertaining to Safeguards in the Code-Phase 1**

Dear Sirs,

Assirevi is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

Assirevi is pleased to submit its comments on the Exposure Draft "*Proposed Revisions Pertaining to Safeguards in the Code-Phase 1*" issued by IESBA in December 2015.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella  
*Chairman of Assirevi*

COMMENTS ON THE IESBA CONSULTATION PAPER

*Proposed revisions pertaining to Safeguards in the Code - Phase 1*

(December 2015)

ASSIREVI is pleased to be involved in the consultation and to contribute its considerations on the proposed revisions.

ASSIREVI supports the aim to improve the “*correlation between threats safeguards and the fundamental principles*” of the Code. While it agrees with the consultation’s intentions, ASSIREVI would like to emphasise the importance that the “*principle-based approach*”, the main pillar of the Code of Ethics, be maintained. Any revisions of the Code, especially as regards the “*fundamental principles*”, should not affect this approach. As such, we believe there is a risk that an undue emphasis on “*requirements*” may involve a transition in the Code’s structure towards a “*rule-based approach*”, which we do not feel is appropriate. Accordingly, we trust that that the Board considers this risk when reviewing the proposals set out in the Exposure Draft.

We set out below a brief summary of some of our observations about the specific issues set out in the Consultation Paper.

***Proposed Revisions to the Conceptual Framework***

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:
  - (a) Identifying threats
  - (b) Evaluating threats
  - (c) Addressing threats; and
  - (d) Re-evaluating threats; and
  - (e) The overall assessment.

If not, why not?

The proposed revisions to the identification of threats (letter a) seem to be more than a mere re-elaboration of the wording.

The current framework (paragraph 100.8) states that: “*A professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles*”. Whereas paragraph R.120.5 of the Exposure Draft appears to change the current approach significantly, providing that “*the professional accountant shall identify threats to compliance with fundamental principles*”. This would seem to imply that the facts and circumstances known or knowable would no longer be important for the professional accountant. As such, the new wording would imply that professional accountant would have to activate all possible measures to identify threats to compliance with the fundamental principles.

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The difference compared to the current framework is significant; it does not merely involve the restatement of the existing requirements but is actually a new requirement which ASSIREVI would have concerns about.

With respect to the *overall assessment* (letter e), the term “overall” does not seem to be clear in its meaning. We wonder if just the word “assessment” should be used, without additional explanations. The addition of the word “overall” could create uncertainties in interpretation.

We also believe it may be appropriate to specify whether this activity is requested as part of a preliminary overall assessment of a threat to independence or, as suggested by paragraphs R.120.9 and 300.2 A12, should it be performed ex post if new information is obtained or the facts and circumstances change. ASSIREVI feels that the “assessment” should be performed during a preliminary phase, to be followed by regular monitoring of the independence threats over the engagement term to identify any changes in the circumstances originally considered during the assessment phase. If any changes do take place, the initial assessment would be updated.

In addition, more information could be provided about the methods to be used, the timing and any documentation requirements of this “*overall assessment*”, including through the provision of guidance and examples.

### ***Proposed Revised Descriptions of “Reasonable and Informed Third Party and “Acceptable Level”***

2. Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed party”; and (b) “acceptable level” in the Code. If not, why not?

With respect to the proposed revision to the concept of a “*reasonable and informed third party*”, we note that paragraph 120.4 A1 refers to the “*relevant facts and circumstances that the accountant knows or could reasonably be expected to know at the time that the evaluation is made*” while the Code’s focus in its current framework is on “*all the specific facts and circumstances available to the professional accountants at the time*”.

This is quite a significant change which we do not support, especially as regards the ex-post evaluation of the accountant’s conduct. In fact, the test of the “*reasonable and informed third party*” is designed to ascertain that the accountant’s conclusions about the return of the threat to an acceptable level are correct. It follows that the test should be based on the facts and circumstances known to the accountant when they perform their evaluations and, hence, should not be based on facts and circumstances that may only theoretically be known by the accountant.

### ***Proposed revised Description of Safeguards***

3. Do respondents support the proposed description of “safeguards”? If not, why not?

ASSIREVI agrees with the proposed revisions.

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

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- (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?

ASSIREVI agrees with the proposal made in the Exposure Draft to identify the safeguards as “*actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with fundamental principles or reduce them to an acceptable level*”, which differ from the “*conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization*”.

However, the extant paragraph 100.13 qualifies the two categories of “*safeguards created by the profession, legislation or regulation*” and “*safeguards in the work environment*” as measures “*that may eliminate threats or reduce them to an acceptable level*”. We believe that this principle should be not eliminated in the proposed new provisions. The Code should clarify that, while the above-mentioned “*conditions, policies and procedures*” are not “*safeguards*” under the new definition”, they are, in combination therewith, the set of actions and conditions that the accountant may consider in their overall assessment of the situation and the level of threats to independence.

Based also on the provisions of paragraphs 300.2 A2 and 300-2 A6, the “*conditions, policies and procedures*” should consist of the tools used not only to identify possible threats to the accountant’s independence (as provided for in paragraph 120.5 A4) but also to assess the level of threats to independence and their reduction to an acceptable threshold.

### ***Proposal 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 examples of the threats to independence have been revised in the new section 300.2 A1 compared to that set out in paragraphs 200.4 and following paragraphs.

We understand the reason behind the revision to be to clarify the circumstances, joining some and eliminating others. The example of the threats of self-interest and self-review threats include the proposal to replace the references to a “*member of the assurance team*” with a “*professional accountant*”. For example, paragraph 200.4 “*A member of the assurance team having a direct financial interest in the assurance client*” has been changed by paragraph 300.2 A1 to “*a professional accountant having a direct financial interest in a client*”. If applied to an audit firm, this revision may be significant as it would seem to move the Code’s focus to the possibility that a professional accountant may have financial interests in a client, regardless of whether the accountant is involved in the assurance service provided to that client.

This appears to be an unintended consequence of the change which we hope the Board will remove.

Milan, 4 April 2016