



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

24 March 2016

Ken Siong
Technical Director, IESBA
529 Fifth Avenue
6th Floor
New York NY 10017

By email: Ken.Siong@ethicsboard.org

Dear Ken

**Submission on the International Ethical Standards Board for Accountant's ("IESBA")
Exposure Draft: Proposed Revisions Pertaining to Safeguards in the Code – Phase 1**

We are pleased to provide our response to your Exposure Draft entitled "Proposed Revisions Pertaining to Safeguards in the Code – Phase 1" (the "ED"). As a professional body representing over 100,000 members we are supportive of any steps IESBA takes to improve the useability of the Code of Ethics for Professional Accountants (the "Code") by our members. Appendix A contains more information about Chartered Accountants Australia and New Zealand ("CA ANZ").

We have provided our responses to the specific questions in the ED below. In Appendix B we have provided a number of other observations regarding the ED for IESBA's consideration.

Our response to the Exposure Draft

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:

- **Identifying threats;**
- **Evaluating threats;**
- **Addressing threats;**
- **Re-evaluating threats; and**
- **The overall assessment**

We note a disconnect between the introduction to the conceptual framework in 120.2 and the requirements stated in the remainder of section 120. The introduction states three components of the conceptual framework (identify, evaluate and address). Section 120.8 appears to introduce a new component of the framework in re-evaluating threats, and section 120.9 another component in making an overall assessment. We believe these two additional requirements should be referred to in 120.2 and 120.3 or included within 120.6 as steps required as part of evaluating threats.

Chartered Accountants Australia and New Zealand

33 Erskine Street, Sydney NSW 2000,
GPO Box 9985, Sydney NSW 2001, Australia
T +61 2 9290 1344 F +61 2 9262 4841

charteredaccountantsanz.com

We believe greater guidance is required in regards to re-evaluating threats and conducting the overall assessment. The following are some areas where we can see our members seeking greater clarity:

- When must the overall assessment be completed? For example, if a professional accountant issues a draft valuation report, are they required to make an overall assessment at the time of sending the draft report and then again when the final report is issued to the client, or just at the time of issuing the final report?
- What is the level of documentation required for an overall assessment or a re-evaluation?
- What is the level of documentation required to establish that a professional accountant re-evaluated threats, particularly if none were identified?
- Is the “reasonable and informed third party” test applicable when a professional accountant is re-evaluating threats (120.8) and making an overall assessment (120.9)?

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?

It is important that definitions be consistent between the Code and the Glossary. We note that there are the following differences in wording between 120.4 A1 and the Glossary definition of “Reasonable and Informed Third Party”,

- One refers to “accountant” and the other to “professional accountant”
- One refers to a concept involving a test and the other refers to a concept

We support the definition of Reasonable and Informed Third Party included in the Glossary. We support the definition of “acceptable level”.

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

The positive definition of safeguards at 120.4 whereby a “reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles” is stronger than the extant negative definition (para 100.2) whereby “compliance with the fundamental principles is not compromised”.

The difference is that the new definition requires positive action by the professional accountant, whereas the extant definition is more focused on the professional accountant not doing actions (i.e. actions which would compromise compliance with fundamental principles). We believe that the standard imposed by the new Code is thus more burdensome, which we do not believe was the intention. As a result, we do not support the definition.

If the definition is retained, we would encourage IESBA to provide more guidance to professional accountants in regards to what actions are necessary for the professional accountant to take (and document) in order to comply with this requirement.

6. 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:
- Do not meet the proposed description of safeguards in this ED?
 - 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?

We agree with IESBA's conclusion. However, we believe that the safeguards included in the extant code (200.12-200.15) and not retained in the ED provide the professional accountant with useful guidance on applicable safeguards and IESBA should consider expanding 300.2.A9 to include some of them.

Furthermore, the ED (120.7.A2) says "Safeguards are actions...that effectively eliminate threats to compliance...or reduce them to an acceptable level", the Code does not appear to contemplate the very real situation where a professional accountant may reasonably believe that a safeguard will eliminate threats to compliance but in actual fact the safeguard doesn't. The extant standard 100.13 does not contain this expectation of the safeguard being effective. This is increasing the professional accountant's responsibility to assess the effectiveness of safeguards. We recommend the IESBA consider including some form of moderator to this paragraph.

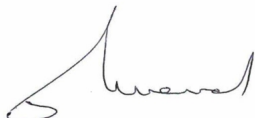
7. Do respondents agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?

We agree with the approach to the revisions in Section 300. We note that any changes to Section 120 resulting from the comments in Question 1 above would need to flow through to Section 300 as well.

We feel that some repetition of Section 120's requirements, together with appropriate cross-referencing would help our members in using the Code. As the proposed Code stands, it requires navigating between sections 120 and 300 for a full understanding.

If you have any questions regarding this submission, please contact Kristen Wydell (General Manager, Professional Standards, Quality & Liability Capping) via email Kristen.Wydell@charteredaccountantsanz.com.

Yours sincerely



Rob Ward FCA AM
Head of Leadership and Advocacy

Cc via email:

Channa Wijesinghe,
Technical Director, Accounting Professional & Ethical Standards Board Limited:
channa.wijesinghe@apesb.org.au

About us

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand are known for professional integrity, principled judgement and financial discipline, and a forward-looking approach to business. We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

Other Observations Regarding the Exposure Draft

Ref	Comment
	We would like to see further cross-referencing between safeguards and the fundamental principles.
120.5.A3 120.6	The term “threat” is used repeatedly in the Code. By this, we mean “threat to compliance with the fundamental principles”. It would be helpful to make this clear either by a hyperlink to a glossary definition, or by using the full term of “threat to compliance with the fundamental principles” in the first occurrence of “threat” in each subsection.
120.5 A4	<p>The list provided in this section has omitted some helpful examples included in the extant Code (100.14) for example Professional Standards. In addition including Peer review/Quality review would also be a helpful addition to the examples listed.</p> <p>This list refers to “corporate governance requirements”, the extant Code refers to “corporate governance regulations”. We believe that regulations is a superior descriptor as users of the Code have greater clarity as to what is included.</p> <p>The list includes “effective complaint system”. This could be misunderstood by users. It is common to refer to an entity having an “effective compliance system” and a “complaints handling policy” or “complaints handling procedures” rather than complaint system.</p>
R120.7(c)	A professional accountant who is employed should also consider resigning their employment as a response to a threat.
R300.2	This paragraph should distinguish that the fundamental principles are set out in section 100 and the framework is in section 120. The current reading suggests both are dealt with in section 120.
300.2.A1(a)	This would benefit from the inclusion of the further example (from the extant code): “a member of the audit team entering into employment negotiations with the audit client”.
300.2.A1(b)	This would benefit from the inclusion of the further example (from the extant code): “the firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement”.
300.2.A1(b)	This would benefit by extending the first point, “a professional accountant issuing an assurance report on the effectiveness of the operation of financial systems...”, to include where an assurance report is issued on financial statements.
300.2.A1(c)	2 nd bullet point - we do not see the advocacy threat as limited to “audit” clients.
300.2 A3 300.2 A5	This relates to the client and its operating environment. We should remove the reference to “the types of client or professional service that is provided” as this is dealt with under 300.2 A5 which relates to the professional services being provided.
300.2 A6	This refers to “methods and processes”. Previously we have referred to policies and procedures which seems more appropriate.
300.2 A8	This is a requirement (from its wording) and so should be renumbered as a requirement rather than as application material.