

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

1 April 2016

Dear Mr. Siong:

Proposed Revisions Pertaining to Safeguards in the Code – Phase 1

We are pleased to comment on the Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*. We understand that during the Board's most recent consultation in developing its *Strategy and Work Plan 2014-2018*, the Board noted regulatory concerns that certain safeguards identified in the Code may be inappropriate or ineffective and that it was suggested that the Board should (a) bring clarity to safeguards that are not clear and eliminate those that are inappropriate, (b) better correlate a safeguard with the threat it is intended to address, and (c) make clear that not every threat can be addressed by a safeguard. We support the Board's efforts to respond to these concerns and to continuously challenge the robustness of the Code.

We believe improving the clarity, appropriateness and effectiveness of the provisions in the Code regarding safeguards are sound objectives and we are generally in agreement with the changes being proposed as part of Phase 1 of this project. However, we are concerned that with the other Board efforts currently underway, especially the Restructuring of the Code project, stakeholders may not be given the opportunity to adequately consider whether the changes being proposed achieve the intended objectives. We are concerned that stakeholders may not have appropriate time to consider the impact of the proposed changes under Phase 2 of this project, especially in light of the new drafting conventions that are being adopted as part of the Restructuring project.

Five specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

Request for specific comments

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;

Yes. We agree with the proposed revisions to the Code with respect to identifying threats, including the revised application material that describes the factors that may threaten compliance with the fundamental principles, and more clearly articulates that the identification of threats supports compliance with the fundamental principles.

(b) Evaluating threats;

Yes. We agree with the Board’s proposals to expand the application material in the extant Code to better describe the process by which professional accountants should evaluate threats.

(c) Addressing threats;

Yes. We agree with the Board’s assessment that there are inconsistencies in how the term “safeguards” is used in the extant Code and support the Board’s proposal to only use the term “safeguards” more narrowly to describe actions that the professional accountant undertakes to address threats to compliance with the fundamental principles and to discontinue using “safeguards” in the broader and more conceptual context.

However, we note that the wording in Section 120 regarding “Conditions policies and procedures” differs from the equivalent wording in Section 300. Paragraph 120.5 A4 states that such conditions, policies and procedures “can affect the likelihood of the accountant’s identification of threats...” whereas paragraph 300.2 A6 states that such matters may affect the “level of a threat”. We agree above all that such matters can affect the level of a threat and that this assertion should also be made in section 120.

(d) Re-evaluating threats; and

Yes. We agree with the Board’s proposals to require the professional accountant to re-evaluate threats and address threats when new information becomes available, or when there are changes in facts or circumstances. The wording would imply some degree of monitoring which we believe is appropriate.

(e) The overall assessment.

If not, why not?

The overall assessment

No. We believe the proposed requirement regarding an overall assessment and the step back approach is confusing and unnecessary (see Section R120.9). Firstly, we believe the word “overall” is redundant as the assessment involves only the following inputs: the facts regarding the service, the identified threats and the proposed safeguards.

Secondly, we believe that this paragraph should be positioned *before* the paragraphs relating to “re-evaluating threats”. Placing this paragraph after “re-evaluating threats” would suggest that the assessment takes place at the end of the process which would be incorrect as it would come too late. For example, in connection with the provision of a non-audit service, the correct sequence of steps when evaluating threats and safeguards would be to complete the assessment before initiating the service and then, while the service is being performed, monitoring that the facts and circumstances do not change such that a re-evaluation is necessary.

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 third party;” and**

Yes. We believe the proposed more fulsome description of “reasonable and informed third party” adds clarity to the concept and will support the professional accountants’ appropriate application of the conceptual framework (i.e., in identifying, evaluating and addressing threats). We also agree with the Board’s clarification that the reasonable and informed third party is a hypothetical person (rather than an actual person) who is competent and possesses sufficient skills to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions.

(b) “acceptable level” in the Code.

Yes. We concur with the Board’s view that the term “acceptable level” is critical to the proper understanding of the conceptual framework and the Code more broadly. Accordingly, we support the Board’s proposal to include the definition of “acceptable level” (currently in the Glossary of the extant Code) in the main body of the Code to give this important term appropriate prominence and to better explain, in an affirmative manner, what the term means.

If not, why not?

N/A

Proposed Revised Description of Safeguards

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

Yes. We agree with the Board’s proposed more robust description of safeguards in paragraph 120.7 A2 and with other proposed clarifications to the conceptual framework, we believe a stronger correlation between “threats and safeguards” and the fundamental principles is established in the Code.

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?

Yes. We acknowledge that there are conditions, policies and procedures that are established by the profession, legislation, regulation, the firm or employing organization that may impact the level of a threat to compliance with the fundamental principles. However, we agree that these conditions, policies and procedures do not meet the revised description of “safeguards” proposed by the Board.

(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?”

Yes. We agree that that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code 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.

However, as discussed above in our response to Question 1(c) we believe that section 120 and section 300 do not explain this concept in the same manner. More specifically paragraph 120.5 A4 should state that “conditions, policies and procedures” can impact the level of a threat as noted in paragraph 300.2 A6.

If not, why not?

N/A

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?

We are generally supportive of the proposed enhancements to Section 300 for professional accountants in public practice and have no further comments than those already discussed under the prior questions.

Request for general comments

(a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.

No comment.

(b) *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.

No comment.

(c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

We believe there will be challenges to timely translation as a result of so many projects in motion at one time, coupled by the fact that some content will be published under the existing structure and then will have to be translated again when published under the re-structured Code. We encourage the Board to consider some of practical consequences and the timing of feedback being requested and of finalization of substantial and pervasive changes to the Code.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 2014) or Susan Nee (+1-305-510-0172).

Yours sincerely,

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