

March 21, 2016

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

Dear Mr. Siong:

Re: December 2015 Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (“the Exposure Draft”). CPA Canada together with its partners Chartered Professional Accountants of Bermuda and the Canadian provincial accounting bodies are currently working towards unification of the Canadian accounting profession under the designation “Chartered Professional Accountant”. The Canadian CPA profession represents a membership of more than 200,000 professional accountants in Canada and Bermuda.

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

Thank you for the opportunity to provide our comments on this Exposure Draft. Although we appreciate the workload involved in IESBA’s recently published timetable, we respectfully suggest our preference would be to consider the proposed multiple and extensive revisions to the Code planned for this year in their entirety as opposed to tranches and phases. We believe this would enhance the ability of accounting bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.

Generally, we support the recommendations made as explained by IESBA in the Explanatory Memorandum noting that the proposals are aimed at further promoting the use of the conceptual framework among all professional accountants to comply with the fundamental principles of the Code. Our responses to the matters for input from Respondents as requested in the Exposure Draft are as follows:

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

Generally, we support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to the above. We believe the Conceptual Framework will help to foster ethical behavior and judgment among professional accountants and provide a useful process for professional accountants to identify, evaluate and address threats. We agree with the merit and importance of re-evaluating threats and also with the requirement to perform an overall assessment.

Having said the above, some concern was expressed with the emphasis placed on the Conceptual Framework relative to the fundamental principles as proposed through the restructuring of the Code. Although the requirement to apply the Conceptual Framework was made clear through the restructuring, we did not find the linkage to the relevant fundamental principles to always be clearly laid out.

We also noted that there may be inherent problems in applying the Conceptual Framework in all circumstances as it may allow for a defence based on the application of safeguards thereby diluting the principles and requirements. Ultimately, this could bring enforceability into question and may reduce the adoptability of the Code where jurisdictions are concerned that the requirements, including the application of safeguards, may not be sufficiently clear to establish when fundamental principles of ethics have been violated.

In reviewing the clarity of the language used in Section 120, we noted that the description of Self-review threat in 120.5 A2 could be more clearly and concisely stated.

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 (b) “acceptable level” in the Code.*

Generally, the proposed revisions regarding a “reasonable and informed third party” were found to clarify the concept and the emphasis on a hypothetical person rather than an actual person in the descriptions was appropriate. Having said this, we noted that the actual use and practical application of this concept will prove critical.

It was observed by some that having only one concept of who a reasonable and informed third party is may not be appropriate for all situations. For example, there may be instances where the view of another normally prudent and diligent professional accountant placed in the same circumstances should be considered, and other situations where the conclusions should be that of a reasonably informed member of the general public.

We support the proposed revisions aimed at clarifying the concept of “acceptable level” in the Code.

Proposed Revised Description of Safeguards

3. *Do respondents support the proposed description of “safeguards?”*

We support the proposed description of “safeguards”. We found the description to be clear and agree that the proposed description establishes a stronger correlation between threats and safeguards and the fundamental principles of 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?

We agree with IESBA’s conclusions and note that other Sections of the Code such as 310.3 A3 in the restructuring project may require further review to ensure that the profession is not similarly described as a safeguard.

(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?”

We agree with IESBA’s conclusions. In reviewing Section 120, we identified that the language used in 120.5 A4 could be more positively stated with the following revision “Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can” enhance “the likelihood of the accountant’s identification of threats to compliance with the fundamental principles.”

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?*

Generally we agree that IESBA’s approach may be useful to professional accountants. However in reviewing Section 300, we noted that it may be difficult to identify those professional accountants to whom the Section applies without relevant terms concerning public practice being clearly defined.

We also noted that the requirements in R120.3 and R300.2 are very similar and that R300.2 may have been included for the purpose of providing the application guidance that follows. Some observed that repeating the Conceptual Framework with different content whether in a general section applicable to all professional accountants or in a more targeted section that contains its own threats and safeguards is a potential source of confusion. This may be overcome in a targeted context by adopting an approach that limits the particular Section only to the provision of specific applicable rules followed by relevant safeguards to ensure the rule is not breached without restating component parts of the Conceptual Framework.

General Comments

We do not have specific feedback available from Small and Medium Practices (SMPs).

We thank you for the opportunity to comment on the Exposure Draft and commend IESBA's objectives to improve the clarity, appropriateness and effectiveness of the safeguards in the Code and appreciate that further revisions may occur through the feedback provided by stakeholders as well as Phase II of the project.

Yours truly,

A handwritten signature in black ink, appearing to read 'B. Friedrich'.

Brian Friedrich, FCPA, FCGA
Chair, Exposure Draft Working Group – Public Trust Committee
CPA Canada