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Our ref SS/288  
Contact Sylvia Smith

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Dear Mr Siong

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

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's intent to provide clarity to safeguards that are not clear and eliminate those that are inappropriate. However, we have the following concerns with the current proposals:

- Overall assessment

120.9 requires the public accountant to review judgements made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level and that no further action is needed. While we do not disagree with this as an overall objective, we believe the intent of the requirement is already covered by the overall requirement in the conceptual framework and by the specific requirements in the proposals relating to:

- identifying, evaluating and addressing threats by eliminating them or applying safeguards; and
- re-evaluating threats when new information comes to light.

It is difficult to see what more one would have to do to meet the requirement in 120.9, especially because there is no discussion of when this overall assessment should be carried out.

Rather than make 120.9 a separate requirement, we recommend that the importance of standing back and assessing the appropriateness of judgements made and conclusions reached be included as application material supporting the requirements to address (120.7) and re-evaluate (120.8) threats.

- Proposed Revised Description of Safeguards

Paragraph 120.7A2 describes safeguards as “actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level”.

Use of the word “effectively” in the definition is ambiguous. It is not clear whether it is intended to describe the quality of the action, i.e. an action that addresses the threat well, or the extent to which an action eliminates the threat, i.e. an action that essentially or for all practical purposes eliminates the threat. We believe it must be the latter because describing the quality of the action is, in our view, redundant. We recommend that this be clarified by replacing the word “effectively” with “essentially”.

Additionally, we believe there is some inconsistency in the way the term safeguard is now being used in 120.7A1 vis-à-vis the description in 120.7A2. 120.7A1 suggests that a threat could be so significant that no safeguards could reduce it to an acceptable level. This is not in line with 120.7A2 which suggests safeguards are actions taken to achieve a desired outcome. This inconsistency could be addressed if 120.7A1 were revised to state that “...no safeguards could be applied to reduce the threat to an acceptable level”.

Please contact Sylvia Smith at +44 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

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