

IESBA Technical Director
Mr. Ken Siong

By e-mail: kensiong@ethicsboard.org

16 March 2016

**Re: FSR – danske revisorer comments on the IESBA Proposed Revisions
Pertaining to Safeguards in the Code – Phase 1**

Dear Mr. Siong

The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code – Phase 1.

In our opinion, we would prefer a pause in both ethics and independence standard setting. This would have left time for IESBA to focus on adoption and implementation of the Code. Further relentless amendments to the Code cannot be justified. We regret that such views have not been followed.

Our responses to the questions set out in the ED can be found in the appendix to this letter. Our general comments are as follows:

- We have some concerns that the new structure could lead to a very comprehensive Code and many copy paste redundancies.
- We would like to express our strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it adds confusion to the process and make more difficult for SMPs to apply the safeguards approach. The confusion comes from the fact that another category has been implicitly created with the proposed amendments in conjunction with the safeguards, namely *other elements than can be considered, but that should not be considered as safeguards anymore*.
- Regarding SMPs, it would have been very useful to discuss these challenges in Phase 1 rather than leaving it for a second moment (Phase 2), as this matter should be assessed in conjunction with the proposed amendments.
- We would also call for your attention on the terminology harmonisation and the proposed removal of the reference to materiality and significance: some concepts are indeed directly linked to audit (e.g. materiality) and some are not (e.g. significance) and these two should not be mixed.

We refer to our specific comments below.

Kind regards
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SPECIFIC COMMENTS

Side 2

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.

If not, why not?

It might seem that the paragraphs under the headings on reevaluation of threats and the overall assessment only state what seems obvious and therefore do not qualify for separate headings. They may be substituted with specifics in the paragraphs under the headings on identifying, evaluating and addressing threats, or by adding a general reference in paragraph 120.3 that states that the process is iterative and holistic.

E.g. by adding "Identifying, evaluating and addressing threats is an iterative process, which requires awareness of new information or changes in circumstances that may lead to reevaluating identified threats and necessary safeguards, and which requires an overall assessment."

Further, the conceptual framework should only state the principles without requirements/application materials. Application materials and further requirements should be placed later in the Code by the specifics for professional accountants in practice and accountants in business.

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. If not, why not?

The hypothetical third party is supposed to be very competent and insightful. Therefore, the test is likely to result in acceptance in many practical cases where a less informed third party probably would draw a fail conclusion. We find it well advised to set such a high standard in principle, and thereby to leave the handling of the

"newspaper-test" up to professional accountants and audit firms and their risk appetites. Nonetheless, we would suggest some mentioning of this fact that may point to the possible business risks that ought to be considered in some cases in spite of an accepted third party test.

Side 3

On the other hand, what is deemed to be a "reasonable and informed third party" is subjective. Such subjective concepts cannot be properly addressed within a Code with an international remit. This could lead to inconsistent application and render the provisions in the Code unworkable. Subjectivity is always a factor in this assessment, and interpretation is likely to vary in different jurisdictions. Therefore, we see no need to clarify the concept of "reasonable and informed third party". Explained in such a detailed way, it contradicts the principles-based nature of the Code. In addition, the amendments introduced, and especially the reference to an "hypothetical person", reinforce the subjective approach to this test, making it more difficult to professional accountants to apply it.

Proposed Revised Description of Safeguards

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

We are of the view that the proposed description of safeguards has to be assessed in conjunction with the other amendments introduced in this regard. All aspects considered, we believe that IESBA is adopting a very strict concept of safeguards, disregarding important practical implications. As mentioned in our general remarks, we have strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it will add confusion to the process especially on the application by SMPs.

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?

(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?

As mentioned above, we have strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it will add confusion to the process and lead to a very narrow concept of safeguard.

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?

Side 4

In general, we support these revisions. It might seem, though, that the paragraphs under the headings on reevaluation of threats and the overall assessment may be substituted with specifics in the paragraphs under the headings on identifying, evaluating and addressing threats.

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

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

SMPs face unique challenges in employing safeguards due to their resources, including the number of partners. Therefore, it would have been very useful to discuss these challenges in Phase 1 rather than leaving it for Phase 2, as this matter should be assessed in conjunction with the proposed amendments. On top of that, we have strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it will be even more difficult for SMPs to apply the safeguards.

- (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 comments

- (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 would like to stress the need to allow adequate time for a due process to translate and

implement the new restructured Code. In our opinion, this process calls for at least one year.

Therefore an effective date before January 2018 would seem inappropriate.