

**PIOB Monitoring of Comment Letters submitted by MG/IFIAR/EAIG Members
to the ED of Safeguards (published in December 2015)**

As of July, 2016

| # | Respondent | Group | Issue | MAIN Issues/Recommendations Description |
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| 1 | IFIAR | MG Member | Reasonable and Informed Third Party | The proposals expand the description of the reasonable and informed third party but we have concerns with how the concept can be applied in practice. ... The proposed definition of "reasonable and informed third party", as currently drafted, appears to imply that such a third party could only be, de facto, another professional accountant. |
| 2 | IFIAR | MG Member | Identification of Threats and Link with Safeguards | As the threats and safeguards approach is dependent on a firm's self-analysis and self-review, there should be a stronger requirement for the firm to actively consider all the different types of threats that could arise. We believe that giving greater prominence to the types of threats that the audit firm is required to consider, by including them directly in the requirements, would encourage greater consistency in application. Additionally, the proposal does not sufficiently highlight the need for a strong correlation between threats and safeguards. We urge the Board to emphasize the importance of that correlation by expanding the requirements to that effect. |
| 3 | IFIAR | MG Member | Addressing Threats | The proposals indicate, in the application material and examples, that situations exist where the threat created would be so significant that no safeguards could reduce it to an acceptable level, and that the professional accountant would have no option but to decline or discontinue the engagement. We believe that more emphasis should be placed on those situations, and that those cases should be dealt with in the requirements of the Code: an obligation for action should be attached to those cases. |
| 4 | IFIAR | MG Member | Timing of Re-Evaluation of Threats and Overall Assessment | We do not believe that a re-evaluation of threats should be restricted to the emergence of new information, but rather as a constant state of awareness. The professional accountant should at least engage in periodic re-evaluation of threats on a timely basis to evaluate new information or potential changes in facts and circumstances. Similarly, it is unclear when the overall assessment should be performed. Provisions on timing should be added in this regard. |
| 5 | IFIAR | MG Member | Structure of the Code | We believe it is imperative that the requirements of the Code are sufficiently robust and lend themselves to being enforced. Furthermore, we stress the need to provide a more explicit linkage between the fundamental principles in the conceptual framework, and the requirements and the application material in the proposed revised Code to mitigate the risk that some material could be seen as a list of examples to be addressed rather than material to support the assessments made by the professional accountant. The proposed amendments suggest that definitions are categorised as application material. We urge the Board to revisit how definitions are dealt with in the Code. Consideration should be given to a glossary of terms or identifying definitions as such within the Code, given their importance in the understanding of the Code. |
| 6 | IAIS | MG Member | Compliance with fundamental principles | Regarding the paragraph 120.5.A4 and 120.6.A3, ideally compliance with the fundamental principles should be sought independently of the conditions, policies and procedures established by the profession, legislation, regulation or firms... It may be useful to link in a further discussion of the relationship between such conditions, policies and procedures and the assessment of compliance with the fundamental principles. |
| 7 | IAIS | MG Member | Familiarity threats | Regarding the paragraph R 120.7, it is probably very difficult to eliminate existing relationships so as to help ensure that their persistent negative impacts on independence of mind are reduced to an acceptable level... It may be useful to recognize the special challenges involved in eliminating the relationship circumstances that create familiarity threats. |
| 8 | IAIS | MG Member | Description of Safeguards | The application of the concept of "reducing a threat to an acceptable level" might be very challenging as materiality relates not only to quantitative measures but also to perception. There may be some instances where the perception of the lack of independence cannot be reduced to an acceptable level. |
| 9 | UK FRC | IFIAR Member | General | The proposed revisions to the Code should be improved and we suggest that IESBA consider: a) using terminology that requires the PA to meet the ethical outcomes required by the fundamental principles rather than focusing on "compliance"; b) making explicit cross reference between the conceptual framework and the requirements in the revised sections of the Code. |
| 10 | UK FRC | IFIAR Member | Reasonable and Informed Third Party | It is unhelpful that the concept of the "reasonable and informed third party" at 120.4.A1 now refers to a "hypothetical" person. We believe it may undermine, and does not appropriately clarify, the concept. It may lead to the concept of such a person being seen as an artificial construct rather than as a reasonable and informed party who has a legitimate interest in the PA meeting the ethical outcomes required by the fundamental principles. This weakness in the definition is further compounded by the requirement for the third party to "possess skills, knowledge and experience to objectively evaluate the appropriateness of the PA's judgments". We consider that this risks an overly narrow focus, whereby a PA might assess their judgments purely from the perspective of what another PA might consider reasonable, rather than considering the views of those whose interests may be harmed by a failure of the professional accountant to behave in accordance with the fundamental principles. It would be more helpful to explain that the third party in this concept is one who has a legitimate interest in the professional accountant to behave in accordance with the fundamental principles. We also suggest that the reference to the third party be extended to read "objective, reasonable and informed third party", which would reflect the importance of the objectivity... and would also align it with the term used in the 2014 EU Audit Regulation (EU 537/2014) and Directive (2014/43/EC). |
| 11 | UK FRC | IFIAR Member | Description of Safeguards | The description of safeguards should be expanded to make it explicit that: a) a safeguard to eliminate a threat to meeting the outcomes required by the fundamental principles might include removing a PA from any involvement in, or any position of influence over, an engagement, or withdrawing from the engagement; b) reducing a threat to a level where the fundamental principles would not be compromised would be a level where the third party test would be passed. |

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| 12 | EAIG | Regulators | General | We are in favour of enhancements to the Code which leave less room for interpretation and facilitate its enforceability. We encourage the IESBA, as it progresses in the project as in other instances, to use terminology which reduces the room for interpretation. |
| 13 | EAIG | Regulators | Description of Safeguards | The notion of "safeguards" that protects auditors from threats to compliance with fundamental ethics principles, as used in the current Code, is not always applied in a consistent manner. We see an interest in clarifying the conditions in which a "safeguard" could be accepted by an auditor as a means to mitigate a threat. The notion of "safeguards" is also used in the EU regulation. There is an interest in ensuring that the notions used in the Code are consistent or at least compatible with those used in the European context. We suggest that the Code take into account the level of requirements set by the EU regulation. Indeed, a Code that is less stringent than the legal framework in force would impair its potential interest for the countries applying this framework. |
| 14 | EAIG | Regulators | Addressing Threats | The proposals point to certain situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. We encourage the IESBA to state clearly that there are situations in which no safeguards are possible and, rather than referring to examples, link those situations with the requirement to take action such as, depending on the circumstances, not accepting or resigning from an engagement. |
| 15 | EAIG | Regulators | General | We believe that the Code should emphasize that safeguards are intended to eliminate or to reduce specific threats. We encourage the Board to define how specific safeguards address specific risks of non-compliance and to clarify the necessity for each threat to be linked to a specific action by the PA. |
| 16 | EAIG | Regulators | Reasonable and Informed Third Party | The proposals as currently drafted would appear to drive the conclusion that only another accountant could be this "third party". We would not agree with that conclusion. A wider range of stakeholders should be captured by the "third party" test. We believe that one of the fundamental characteristics of the third party is the notion of an assessment by an independent individual who is unrelated to the audit and/or network firm and has the ability to weigh the specific facts and circumstances and conclude in a manner that is devoid of bias in both fact and appearance. We encourage IESBA to provide further clarity in this area. |
| 17 | EAIG | Regulators | Re-evaluation of Threats | A re-evaluation of threats should not be restricted to the emergence of new information or changes in facts and circumstances. The PA should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the relationship with the audited entity. |
| 18 | EAIG | Regulators | Overall Assessment of Threats | The proposals introduce a requirement to perform an overall assessment of judgements made and conclusions reached regarding threats to compliance with the fundamental principles but do not specify when such an overall assessment should occur. We invite IESBA to clarify that aspect of the requirement. |
| 19 | EAIG | Regulators | Structure of the Code | We stress the need to provide a more explicit linkage between the fundamental principles in the conceptual framework, and the requirements and application material in the proposed revised Code relating to safeguards. |
| 20 | IRBA | IFIAR Member | General | There are certain words or phrases in this exposure draft that are unclear and need to be reconsidered, e.g. "so significant", "deters", "encourages", "otherwise advise", "many variations" and "recently". The use of such words/phrases would make uniform application impossible, and create the likelihood of unsuccessful enforceability. |
| 21 | IRBA | IFIAR Member | Inconsistencies | The recent IESBA ED relating to NOCLAR mentions "safeguards". It appears that certain wording proposed previously will now be inconsistent with the definition proposed in the safeguards ED... ... "Safeguards" and wording similar to the extant IESBA Code are used and applied in various ISAs. We would like to bring to your attention examples from the ISAs which are inconsistent with these proposed amendments to the definition of Safeguards and will need to be reconsidered... |
| 22 | IRBA | IFIAR Member | Conceptual Framework | As the conceptual framework is the foundation for the use of the IESBA Code, we feel that the proposed amendments are insufficient to bring the required clarity and allow for enforceability in the future. The conceptual framework has not been given the prominence it deserves. ... The current proposed amendments do not make it clear that there is a rebuttable presumption that every engagement or situation will have some threat. |
| 23 | IRBA | IFIAR Member | Evaluating Threats | Requirement R120.6 is inconsistent with R120.7 as proposed under addressing threats. We would like to change the tone of this requirement and suggest that a professional accountant should try to address the specific threat rather than allow for a classification of such a threat as acceptable without any effort to eliminate it. |
| 24 | IRBA | IFIAR Member | Addressing Threats | The proposed amendment does not suggest how quickly a professional accountant would have to address the threat. We suggest that if a threat is not addressed in a timely manner, this may lead to a breach in the requirement of the Code. The Code should address this shortcoming with a requirement. |
| 25 | IRBA | IFIAR Member | Re-evaluating Threats | If there are threats at an engagement specific level, there should be a requirement to perform this step towards the end of the engagement, even if no new information has come to the professional accountant's attention. |
| 26 | IRBA | IFIAR Member | Reasonable and Informed Third Party | The reasonable and informed third party test is still a cause for confusion. The name is similar to the term "reasonable man test", which is used in the legal profession. These are considered different as the concept in the Code suggests that the person has a certain level of skills, knowledge and experience, which is different to the test used in the legal profession. Also, the definition in the Code is a self-imposing test, while tests similar in concept are performed by a third party. We suggest that a change in the phrase may help to make it clear that these two concepts are different. The definition of a reasonable and informed third party has certain commonality with the definition of professional judgement. Professional judgement, though used in the Code, is not defined. The ISAs, however, include a definition of professional judgement which can be considered. |
| 27 | IRBA | IFIAR Member | SMPs | The lack of clarity on some important concepts in the proposed amendments would make it especially difficult for SMPs as additional time and resources would be required for them to comply with the conceptual framework. |
| 28 | IOSCO | MG Member | Section 300 | We are unclear as to its proposed function because it does not establish any new requirements for PAPPs, rather it seems to provide illustrative information regarding threats that those accountants may encounter. The proposed amendments suggest that definitions are categorized as application material. We urge the Board to revisit this, given their importance in the understanding of the Code. |
| 29 | IOSCO | MG Member | Phase II of the Project | We believe that one of the outcomes of the current threats and safeguards approach has been a tendency for PA to rely on a safeguard when a violation of the Code has occurred rather than have a possible engagement termination-first mindset. ... The Paper does not articulate how specific safeguards address specific instances of non-compliance... We believe exceptions allowed by the Code should be limited, if not eliminated, so that PAs maintain the appropriate level of independence and objectivity that investors and users of such reports expect. |



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| 30 | IOSCO | MG Member | Reasonable and Informed Third Party | <p>We believe the proposed definition appears to concentrate on the "informed" part of the concept, that is, a person who possesses "skills, knowledge and experience". However, the Board should provide additional clarity on the characteristics this person possesses. For example, the Board may wish to indicate that this person is expected to have a reasonable knowledge of business and economic activities, has a general understanding about auditing and is expected to be diligent in their review and analysis of the relevant information.</p> <p>... An independent third party is not just another professional accountant but someone who is unrelated to the audit and/or network firm or the audited entity in fact and appearance, who considers the specific facts and circumstances and concludes in a manner that is devoid of bias.</p> |
| 31 | IOSCO | MG Member | Addressing Threats | <p>We believe that non-compliance with the fundamental principles should be regarded with the utmost severity such that the PA's first inclination is to discontinue the service/relationship or resign, as appropriate... The Board should encourage PAs to have a mindset that does not view safeguards as the primary approach.</p> |
| 32 | IOSCO | MG Member | Definition of Safeguards | <p>We believe the definition should emphasize the actions are intended to eliminate "specific threats" to compliance with the fundamental principles or reduce them to an acceptable level.</p> |
| 33 | IOSCO | MG Member | Re-evaluating Threats | <p>We do not believe that a re-evaluation of threats should be undertaken only if new information emerges or if there has been any change in the facts and circumstances. The Paper should require the PA to engage in periodic re-evaluation of threats at intervals that the Board deems reasonable to determine if any new information has emerged or if there has been any change in the facts and circumstances. Having said this, the level of frequency of periodic re-evaluation might vary based on the nature of the services provided or relationship between the PA and the issuer.</p> |
| 34 | IOSCO | MG Member | Overall Assessment of Threats | <p>The Paper is unclear with respect to when the overall assessment should be performed (par. R 120.9). Provisions on timing should be added in this regard.</p> |