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**SENT VIA E-MAIL**

March 21, 2016

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

The American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its exposure draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (the "Exposure Draft"). The AICPA is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting; membership is also available to accounting students and CPA candidates. Throughout its history, the AICPA has been deeply committed to promoting and strengthening independence and ethics standards. Through the PEEC, the AICPA devotes significant resources to independence and ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

**General Comments**

We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. However, we have some concerns regarding the proposed revisions to the IESBA Code that are presented within our General Comments below and in the responses to request for specific comments.

Many member bodies, such as the AICPA, have converged and implemented the existing conceptual framework approach contained in the extant IESBA Code. In fact, the AICPA recently incorporated the existing approach into its revised Code as part of its project to restructure and codify the AICPA Code of Professional Conduct (AICPA Code) to bring it into closer alignment with the IESBA Code. Significant revisions to the conceptual framework approach in the IESBA Code resulting from the Safeguards project could result in a substantial burden on member bodies to revise their Codes, as well as other resources and tools developed on the conceptual framework,

and therefore, may hinder efforts to effectively converge with the IESBA Code. For example, in addition to the new requirements, the revised approach requires the professional accountant to evaluate whether threats are at an acceptable level rather than evaluating the significance of the threats. While this may not appear to be a substantive change to the conceptual framework approach, the revised language would result in a rewording of the entire AICPA Code.

Further, the IESBA Strategy and Work Plan described the Safeguards project as follows: “Review the safeguards throughout the Code from the perspectives of appropriateness and effectiveness, and consider whether changes should be made, including whether additional safeguards should be specified or whether existing safeguards should be removed.” However, based on our review of the proposal, it appears that this project has expanded beyond just reviewing the effectiveness of safeguards within the Code. The proposal revises the entire conceptual framework approach that has been embedded into the IESBA’s and member bodies’ Codes of Conduct. As most member bodies have incorporated the extant conceptual framework approach, including safeguards into their own Codes, the proposed revisions would have a significant impact on member bodies’ Codes as well as other application materials and guidance relevant to the conceptual framework. Given the significant progress made by member bodies to converge to the existing conceptual framework, we believe any revisions made should be limited to clarity issues and not change the underlying meaning or concepts contained in the conceptual framework.

We therefore ask IESBA to be mindful of any significant revisions made to the conceptual framework approach and determine whether the overall benefit to users of the Code outweighs the costs that will be incurred by member bodies to converge to the revised approach.

## **Responses to Request for Specific Comment**

### ***Proposed Revisions to the Conceptual Framework***

#### **1. Do respondents support the Board’s 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?**

Yes, we do support portions of the Board’s revisions to the conceptual framework, including the proposed requirements and application material related to identifying threats, evaluating threats, addressing threats and re-evaluating threats. We believe the conceptual framework is better organized and the material is clearer. We also believe the new requirements concerning the re-evaluation of threats makes the Code more robust.

However, we do have some concern with regard to “the overall assessment” requirement. Specifically, we believe greater clarity is needed as to when the overall assessment should be performed. For example, is it intended that the overall assessment be performed whenever threats

have been addressed or re-evaluated? Further application material on this requirement would be beneficial.

***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?**

- (a) Yes, we support the proposed revision aimed at clarifying the concept of “reasonable and informed third party” and believe the proposed description provides greater clarity to this important concept.
- (b) No, we do not support the proposed revision aimed at clarifying the concept of “acceptable level.” We believe the definition of “acceptable level” should include the phrase, “weighing all the specific facts and circumstances available to the professional accountant at that time,” as it is in the extant definition. We understand that this notion is embedded into the description of a reasonable and informed third party, however, it would provide clarity if included in the definition of “acceptable level.”

***Proposed Revised Description of Safeguards***

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

No. We do not support the revision to the description of safeguards as it would only incorporate those safeguards that would effectively eliminate or reduce threats to an acceptable level. We believe the Board should continue to view all existing safeguards as safeguards but provide clarification that not all safeguards will be effective in eliminating or reducing an identified threat. The application of safeguards involves professional judgment and we believe professional accountants are capable of determining which safeguards, if any, are effective.

**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?**

- (a) No, we do not believe that all safeguards within the categories, “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” would not meet the proposed description of safeguards. Specifically, we believe there may be safeguards under these categories that individually or in combination with other safeguards, could effectively eliminate or reduce threats to compliance with the fundamental principles to an acceptable level. We do, however, support the existing approach in the extant Code whereby a professional accountant should not be able to solely rely on safeguards implemented by the entity/client.

For example, there are certain firm-wide safeguards in the work environment such as “Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.” that could be effective in mitigating self-interest threats resulting from a significant client of the firm. Another safeguard that could be effective for self-review threats resulting from the provision of non-assurance services is “Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.” Also, “continuing professional development requirements,” an extant safeguard created by the “profession or legislation”, could effectively safeguard against threats to the fundamental principle of “Professional Competence and Due Care.” Accordingly, we do not support the premise that safeguards within these categories would not be effective.

(b) No, we do not believe the respective safeguards in question 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.” As noted in 3 above, we believe the Board should continue to view all existing safeguards in the IESBA Code as safeguards and should not revise the definition of safeguards, as proposed.

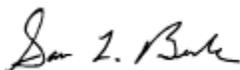
***Proposals for Professional Accountants in Public Practice***

**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?**

Yes, we agree with the IESBA’s approach to the revisions in proposed Section 300 for professional accountants in public practice with the exception of any issues noted above as they pertain to Section 300. Specifically, we do not support characterizing those safeguards that fall under “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” to “conditions, policies and procedures” and believe they should remain classified as safeguards.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA’s Exposure Draft.

Sincerely,



Samuel L. Burke, CPA  
Chair, Professional Ethics Executive Committee

cc: Brian Caswell, CPA, IESBA Member  
Lisa Snyder, CPA, CGMA, Director – Professional Ethics