

17 March 2016

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Dear Sirs,

**RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA) EXPOSURE DRAFT (ED) – PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE - PHASE 1**

In preparation of this comment letter, the Institute of Singapore Chartered Accountants (ISCA) has sought views from its members through a one-month public consultation and discussed the ED with members of the ISCA Ethics Committee.

Generally, we agree with all the suggestions in the ED and do not have significant comments or additional insights, except for the following specific questions:

**Proposed Revisions to the Conceptual Framework**

Question 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?

(a) Identifying threats, (b) Evaluating threats

Paragraphs 9(g)(ii), 27, 28 and 44 of the Explanatory Memorandum suggest that “conditions, policies and procedures” can both affect the likelihood of identification of threats (i.e. under “identifying threats”) and impact the level of a threat to compliance with the fundamental ethical principles (i.e. under “evaluating threats”).

To improve the clarity and relevance of the application material in relation to identifying and evaluating threats, the IESBA may wish to consider the following in the proposed Code:

(1) Paragraph 120.6 A2

Examples of qualitative and quantitative factors relevant to the professional accountant’s evaluation of threats should be provided to facilitate understanding.

(2) Paragraph 120.6 A3

Instead of merely referring to the conditions, policies and procedures in paragraph 120.5 A4, there should be more elaborations on how the different conditions, policies and procedures affect the identification and evaluation of threats differently to enhance understanding. For example, having effective complaints systems is more relevant to increasing the likelihood of threats being identified than to the evaluation of the threats.

(3) Paragraphs 300.2 A1-A6

It is stated in section 120 that certain conditions, policies and procedures established by the profession, legislation and regulation could affect both the professional accountant’s identification, as well as evaluation of threats to the fundamental principles. However, we note that there are no examples of conditions relevant to identification provided in paragraph 300.2 A1 whereas there are examples of conditions relevant to evaluation provided in paragraphs 300.2 A4 and A6.

The IESBA could consider including certain examples in paragraph 300.2 A6 which are also applicable to identification of threats in paragraph 300.2 A1. One example would be methods and processes for establishing compliance with the fundamental principles by all personnel, which could be put in practice when the firm establishes a process to flag out partners who have served on engagements for a certain number of years to identify any potential familiarity threats.

In addition, as the first bullet point in paragraph 300.2 A1(d) uses the term “members of the engagement team”, we would like to suggest that the last bullet point in the same paragraph be amended from “senior personnel” to “senior members of the engagement team” for consistency.

Further, we note that paragraph 300.2 A6 uses the phrase “..... impacted by the work environment within a firm and its operating environment” which may suggest that the work and operating environments are different. However, it should not be the case. Thus, the IESBA may consider amending the phrase such that it reads “..... impacted by the firm and its operating environment”. This would be consistent with paragraphs 300.2 A2(c).

(c) Addressing threats

As threats to compliance are usually with reference to the fundamental principles, we would like to suggest adding the words “with the fundamental principles” to paragraph 300.2 A7, such that it reads “..... determines that the identified threats to compliance with the fundamental principles are not at an acceptable level.....”.

Furthermore, with reference to paragraph 300.2 A8, the phrase “..... and the threats may not be addressed by applying the requirements in Section 120 .....” may not be appropriate as professional accountants can still apply section 120 and address the threats by eliminating the circumstances creating the threats or declining/discontinuing the service [specifically, paragraphs R120.7(a) and (c)]. Thus, we propose to amend the phrase such that it reads “..... and the threats may not be addressed by applying safeguards”.

(d) Re-evaluating threats

With reference to step (d) on re-evaluating threats, we would like to suggest that the IESBA consider including application material on the timing of the re-evaluations to be performed. We are of the view that new threats could emerge with the passing of time, and it may not always be apparent to the professional accountant that new information has emerged or facts and circumstances have occurred that impact the level of a threat or affect the professional accountant’s conclusion about whether safeguards applied continue to be appropriate in addressing identified threats. Hence, the timing of the performance of the re-evaluations will be important and it may be appropriate to include periodic re-evaluations of existing information or facts and circumstances as part of the application material.

**Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable Level”**

Question 2: Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party”, and “acceptable level” in the Code. If not, why not?

We note that the IESBA has clarified in the proposed paragraph 120.4 A1 that the “reasonable and informed third party” needs to weigh all the relevant facts and circumstances

that the professional accountant knows, or could reasonably be expected to know, at the time of the evaluation.

Notwithstanding the clarification, we are of the view that the “reasonable and informed third party” remains judgemental and may be difficult to apply in practice. Different professional accountants may have different understanding of what constitutes “*all the relevant facts and circumstances*”. This may lead to variations in practice when the test is applied to the same scenario by different professional accountants.

In addition, an unintended consequence of the clarification could be that it may be onerous for professional accountants to apply the test. Professional accountants have to consider and cover *all* possible angles in order to meet the requirements of the test. If things go wrong, it will be all too convenient, especially with the benefit of hindsight, to pin all the blame on the professional accountants, which may not be fair.

For “acceptable level”, we note that the concept is mostly used in relation to reducing threats to the fundamental principles to an “acceptable level”. Thus, to strengthen the relationship between “threat” and “acceptable level”, paragraph 120.6 A1 could be refined as follows:

“An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant’s compliance with the fundamental principles would not be compromised by the threat identified”.

#### Other comments

For ease of reference and quotation, the IESBA could consider using proper numbering reference, such as (a) or (i) instead of bullet points when examples are listed, for instance in paragraph 120.5 A4.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Assistant Director, Technical Advisory and Professional Standards, or Mr Ang Soon Lii, Manager, Technical Advisory and Professional Standards, at ISCA, via email at [waigeat.kang@isca.org.sg](mailto:waigeat.kang@isca.org.sg) or [soonlii.ang@isca.org.sg](mailto:soonlii.ang@isca.org.sg) respectively.

Yours faithfully,



Mr Titus Kuan  
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