



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017

April 28th, 2017

Re: IESBA Exposure Draft – Proposed revisions pertaining to Safeguards in the Code - Phase 2 and related conforming changes

Dear Mr Siong

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA’s Exposure Draft (ED) “Proposed revisions pertaining to Safeguards in the Code - Phase 2 and related conforming changes.

Principal comments

We support the Board's project to clarify the requirements and guidance regarding safeguards in the Code and, subject only to the suggestions that we have set out in this letter, we support the proposed revisions and conforming amendments.

In response to the specific questions that the Board raised in the ED:

1. Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 600 of the code (Question 1).
2. Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 950 of the code (Question 2).

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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3. Subject to the comment below on paragraph 310, we do not have any further examples of actions that might be safeguards (Question 3).
4. Other than a comment on Section 310 below we do not have any further observations on conforming amendments made to Chapter 2 (Question 4).

Proposed paragraph 310.8 A2 include “factors” that are relevant in evaluating the level of any threats created by conflicts of interest. These include, for example, “Separating confidential information physically and electronically”. We observe that these appear to be “actions that the professional accountant takes to effectively reduce threats to compliance with the fundamental principles to an effective level” and would be better placed, in line with the revised approach, in 310.8 A3 (safeguards). The factors that would need to be considered in evaluating the level of the threat appear to be more related to the circumstances mentioned in 310.4 A1. For example, where the firm has a self-interest in advising a client on acquiring a business which the firm is also interested in acquiring that is likely to be a factor in evaluating the level of threats to compliance with the fundamental principles.

Detailed comments

We provide some detailed comments and observations in the appendix. Some of these may be regarded as “restructuring” issues.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact Diana Hillier (diana.hillier@pwc.com) or me, at jan.e.mccahey@pwc.com.

Yours sincerely

A handwritten signature in cursive script that reads "Jan McCahey".

Jan McCahey
Global Regulatory Leader



Appendix

Detailed comments

Paragraph	Comment/observation
600.4 A3	<p>The 3rd bullet states as a factor in evaluating the threat to independence “The level of expertise of the client’s employees with respect to the type of service provided”. Given the discussion in R600.7 (and following) and the responsibilities of management we recommend that this bullet references management as well as employees. The same applies to 604.4 A2.</p> <p>The 5th bullet contains a reference to a “higher” level of threat in contrast to the Explanatory Memorandum which indicates on page 14 that reference to a “higher” level is no longer made. Accordingly, this seems to warrant review.</p> <p>The factors relevant “to evaluating the level of any threats created by providing a non-assurance service to an audit client” seem to focus solely on “management responsibilities” and the “self-review” threat. The Board may wish to consider adding other factors that pertain to the other types of threats. For example:</p> <ul style="list-style-type: none"> • Whether the firm will have an interest in the results or outcome of the service • Whether the firm will advocate the interests of the audit client to third parties.
R600.8	<p>While we recognise that this paragraph was subject to recent amendment, we wonder, on reflection, whether the words “would understand” in sub-bullet (a) might better read “would set and agree” so this would read:</p> <p><i>Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, <u>would set and agree:</u></i></p> <p><i>(i) The objectives, nature and results of the services; and</i></p> <p><i>(ii) The respective client and firm responsibilities.</i></p>
R601.8	This is an exception to para .7 (not .6)
604.5 A3	In the extant code, paragraphs 604.5 A1 and A3 are more clearly linked, with the latter being the explanation of why tax preparation return services does not usually create a threat. As a new stand-alone paragraph



	A3 is read as a mere statement and the conclusion to be drawn from it is not clear.
R604.11	This paragraph references “tax advisory services” in contrast to the section heading “Tax planning and other advisory services”. These might be better aligned.
604.16 A3/4	These paragraphs seem out of order. They are intended to address services that are not prohibited by R604.16 (and A1/2) but this is not clear. We suggest that these paragraphs either follow 604.15 A2 or that the context for these paragraphs is made clear.
605.4 A1	The effective prohibition on assuming a management responsibility has already been covered in R605.4 and does not, in our view, need to be repeated here (second sentence). The first sentence is a warning as in the extant code and works well without the second sentence.
605.5 A1 (third bullet)	We recommend that the word “service” is changed to “function”.
605.6 A1	In the extant code this paragraph is an explanation of the third bullet in 605.5.A1 above. Given this structure 605.6 A1 is effectively de-linked from the bullet and, as a result, reads as a stand-alone paragraph without any clear conclusion or explanation.
R609.6	In the extant code this is a specific prohibition (290.210). As redrafted this is written such that a service that “involves” certain activities is prohibited and so this could be read to be a broader prohibition than intended and this appears to represent an unintended change to the code. We suggest that this be amended to “if the service comprises” or similar.
R950. 4 A2	<p>Given that this section of the Code (dealing with non-audit assurance engagements) does not address any specific non-assurance service, unlike the section dealing with audit engagements, we question whether it is necessary or appropriate to include the following paragraph, as a conforming change. In our view this does not seem appropriate.</p> <p><i>New business practices, the evolution of financial markets and changes in information technology are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.</i></p>



950.7 A1	<p>We note the parallel change in the section dealing with audits but in this context where the focus is on non-assurance services that may be related to an assurance service we recommend that the word “related” be added back in as below:</p> <p><i>A firm might provide multiple non-assurance services to an assurance client. When providing a non-assurance service to an assurance client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other related non-assurance services provided to the assurance client.</i></p>
950.8 A2	<p>On balance, proposed (a) does not seem to add anything and the two examples that follow it are both examples of services <i>related to the subject matter information of an assurance engagement</i>. We recommend (a) be deleted, leaving:</p> <p><i>Examples of non-assurance services that might create self-review threats include:</i></p> <p><i>(a) Preparing subject matter information which is subsequently the subject matter information of an assurance engagement, such as, if the firm developed and prepared prospective information and subsequently provided assurance on this information, and</i></p> <p><i>(b) Performing a valuation that forms part of the subject matter information of an assurance engagement.</i></p>
310. 8A2	Please see comments in the cover letter above.