

Safeguards Phase 1—Summary of Significant Comments on ED-1, Issues and Task Force Proposals

Introduction

- This paper summarizes the significant issues raised by respondents to the December 2015 Exposure Draft (ED), [*Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*](#) (Safeguards ED-1) and the Task Force (TF's) proposals. Those proposals take into account input from the IESBA and the IESBA Consultative Advisory Group as a result June 2016 discussions. The paper is organized as follows:
 - Overview of responses and general comments;
 - Summary of responses to specific proposals, including:
 - Feedback on the enhancements to the conceptual framework (CF);
 - Description of reasonable and informed third party concept;
 - Description of acceptable level;
 - Description of safeguards and conditions, policies and procedures;
 - Matters pertaining to the revision of proposed Section 300¹; and
 - Other matters.

Overview of Responses and General Comments

- Comment letters were received from 53 respondents, as listed in the Appendix to this paper. The respondents to Safeguards ED-1 comprise of the following:

Category of Respondent ²	Number of Responses	Percentage
Regulators and Oversight Authorities (Regulators)	7	13%
National Standard Setters (NSS)	2	4%
Firms	10	19%
Public Sector Organizations (Public Sector)	2	4%
Preparers of Financial Statements (Preparers)	1	2%
IFAC Member Bodies ³ and Other Professional Organizations (MBs)	30	56%
Individuals	1	2%
Total	53	100%

¹ Section 300, *Application of the Conceptual Framework to Professional Accountants in Public Practice*

² Some of the respondents (e.g., 20EUAR, IOSCO, IFIAR, FEE, APESB) indicated in their letter that their response either: represent a collective view of various organizations; or incorporates input from various stakeholders within their respective jurisdictions based on targeted outreach about Safeguards ED-1.

³ Certain IFAC Member Bodies also hold the dual role of ethics standard setter in their jurisdictions.

General Support for Revisions to the CF

3. The majority of respondents⁴ across all stakeholder groups expressed strong support for the overall objective of clarifying and enhancing safeguards in the Code. In addition to some editorial suggestions to clarify and refine the proposals, certain respondents:
- Questioned whether some of the revisions went beyond just reviewing the effectiveness of safeguards in the Code.⁵ Those respondents noted that:
 - The scope of the safeguards project should be focused on addressing concerns about the clarity of safeguards in the Code, and should not change the meaning of concepts in the extant Code.
 - Extensive revisions to the CF are likely to significantly impact national Codes, which in turn could potentially hinder the progress that is being made towards convergence or harmonization with the IESBA Code.⁶
 - Indicated that the CF should also address independence.⁷
 - Indicated a need for additional guidance to clarify the IESBA's expectation about how compliance with the provisions in Safeguards ED-1 should be documented.⁸
 - Suggested that the IESBA consider and determine how to accommodate national projects and initiatives with similar or relevant objectives (e.g., European Union Audit Reforms).⁹

TF Proposal

Scoping of Safeguards Project

4. The TF noted the strong support for its proposals and agreed to retain its project approach. It has refined its proposals to address the significant issues raised by respondents taking into account, where appropriate, respondents' editorials and other suggestions. Regarding the questions raised about whether the proposals went beyond the scope of reviewing the effectiveness of safeguards in the Code, the Task Force affirmed its view that clarifications to the requirements and application material in the CF are needed in order to improve how professional accountants apply the "threats and safeguards approach" set out in the Code. The January 2015 Safeguards project proposal notes that the project is intended to evaluate and make recommendations on the clarity, appropriateness and effectiveness of the current overview of safeguards in Sections 100¹⁰ and 200¹¹ of the extant Code and those safeguards that pertain to NAS in

⁴ **Regulators:** 20EUAR, IAIS; IFIAR, IOSCO, NASBA, UKFRC; **NSS:** APESB, NZAuASB; **Firms:** BDO, CHI, EYG, GTI, PWC, RSM; **Public Sector:** AGNZ, GAO; **Preparers:** VRC; **MBs:** ATT, ACCA, AICPA, ASSIREVI, CAANZ, FAR, HICPA, ICAEW, IDW, IPA, ISCA, JICPA, KICPA, NBA, NFCPAAROC, OECFM, SMPC, WPK **Individuals:** DJuvenal

⁵ **MBs:** AICPA, CNCC

⁶ **Regulators:** NASBA; **MBs:** AICPA

⁷ **Regulators:** IRBA; **Public Sector:** AGNZ

⁸ **MBs:** SMPC

⁹ **Regulators:** UKFRC; **MBs:** FEE

¹⁰ Section 100, *Introduction and Fundamental Principles*

¹¹ Section 200, *Introduction (Professional Accountants in Public Practice)*

Section 290¹² of the Code.

The CF and Independence

5. Regarding the suggestions for the CF to address independence, the CF set out in Section 120 in paragraphs 120.10 A1 – 120.10 A2 of **Agenda Item C-2**, include new guidance under a heading titled *Considerations for Audits, Reviews and Other Assurance Engagements* which:
 - (a) State that professional accountants in public practice are required to be independent when performing audits, reviews or other assurance engagements.
 - (b) Explain that independence is linked to the fundamental principles of objectivity and integrity and restates the extant description of independence.
 - (c) State that the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements.
 - (d) Refer to the requirements and application material in Parts 4A—*Independence for Audits and Reviews* and 4B—*Independence for Other Assurance Engagements* of the restructured Code for requirements and application material that explain how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements, as the case may be.
 - (e) Explain that the categories of threats to compliance with the fundamental principles described in paragraph 120.5 A3 (i.e., self-interest, self-review, advocacy, familiarity and intimidation) also apply to threats to compliance with independence.

Documentation

6. The TF considered respondents' suggestions with respect to documentation and concluded that a consideration of documentation requirements with respect to the provisions in the proposed restructured Code should be done on a holistic basis and in coordination with the IAASB. The TF believes that the documentation requirements in the extant Code apply to the enhanced requirements and application material. The TF is of the view that the development of additional documentation requirements go beyond the scope of the Safeguards project and is a matter for future IESBA consideration.

Consideration of Other Jurisdictional Initiatives

7. In developing Safeguards ED-1, the TF and IESBA considered the initiatives and developments in local jurisdictions (e.g., European Union Audit Reforms) that are aimed at meeting similar objectives as the Safeguards project to determine whether they might be appropriate for global implementation.

Timing

8. Some respondents, including those who supported the proposals, urged IESBA to reconsider its planned timeline.¹³ Those respondents cautioned that having multiple on-going projects to revise various section

¹² Section 290, *Independence – Audit and Review Engagements*

¹³ **Regulators:** IRBA; **Firms:** DTT, EYG; **MBs:** AICPA, CNCC, CPAC, IDW, FEE, FAR, ISJCE, IDW, SMPC, WPK

of the Code at the same time creates practical challenges for translation and implementation. Some respondents also noted that current level of changes to the Code is confusing and makes it difficult for them to provide comments on pending proposals. Two respondents questioned whether the Board should consider having the Safeguards project subsumed into the Structure of the Code project,¹⁴ while another respondent suggested that the IESBA should finish its Structure of the Code project first before progressing its Safeguards project.¹⁵ There were two other respondents who reiterated a previously communicated view that the IESBA should hold off its standard setting activities, and instead focus its efforts on adoption and implementation of the Code.¹⁶

TF Proposal

9. Similar feedback was received in response to Structure ED-1. The timing of the Safeguards and Structure of the Code projects continue to be aligned. At its June 2016 meeting, the IESBA agreed to the development of a full compilation of the proposed restructured Code in a staff publication that would accompany the release of the Structure and Safeguards Phase 2 exposure drafts. With the input of the Planning Committee and Staff, the Structure TF plans to update IESBA at its September 2016 meeting with respect to the next steps for the of Structure and Safeguards projects.

Principles Versus Rules Based Provisions

10. A few respondents¹⁷ objected to the proposals and expressed a preference for the extant provisions. One respondent was of the view that “the proposed revisions to the CF, together with the proposed restructure of the provisions, has transformed the principles-based fabric of the CF into a set of rules. This respondent considered the proposals in Safeguards ED-1 to be a new rules-based approach to the application of the CF, predicated on specific activities that the PA must perform. The respondent cautioned that this new rules-based approach might reduce the strength of the CF.”¹⁸

TF Proposal

11. The TF is of the view that the enhanced CF continue to be principles-based, and incorporate clearer and more specific requirements and application material which makes it more robust, but not necessarily more prescriptive.

General Feedback from Monitoring Group (MG)

12. There were three MG members who commented on Safeguards ED-1 and were generally supportive.¹⁹ However, they suggested that the IESBA:
 - Include an explicit description of the linkage between the fundamental principles in the CF, and the requirements and application material in the proposed revised Code, to mitigate the risk that some

¹⁴ **MBs:** SMPC, SAICA

¹⁵ **MBs:** WPK

¹⁶ **MBs:** FEE, FAR

¹⁷ **Regulators:** IRBA; **Firms:** DTT; **MBs:** CNCC, FEE, SAICA

¹⁸ **Firms:** DTT

¹⁹ **Regulators:** IAIS, IFIAR, IOSCO

material could be seen as a list of examples to be addressed rather than material to support the assessments made by the PA.²⁰

- Revisit how definitions are dealt in the Code.²¹
- Clarify the purpose of Section 300,²² consider establishing requirements for PAs in public practice, and consider improving the examples of safeguards.²³
- Consider revising the title of Section 120,²⁴ to be “general framework” rather than a “conceptual framework” because Section 120 establishes an approach that the proposed restructure Code will require for all PAs.²⁵

Response

13. While the above suggestions were made to the IESBA in response to Safeguards ED-1, they pertain to structural matters more broadly, and accordingly are being addressed by the Structure TF as part of the Structure of the Code project.

Small and Medium Practice (SMPs) Considerations

14. Some respondents commented about the impact of Safeguards ED-1 on SMPs. Those respondents were supportive of the proposed revisions, in particular the new structure and format which they described as being clearer.²⁶ However, some respondents²⁷ were of the view that Safeguards ED-1 suggested that additional applicable material be included to help address the challenges that are unique to SMPs.
15. Some respondents were of the view that the removal of certain conditions, policies and procedures as safeguards would make it even more difficult for SMPs to apply safeguards.²⁸ Further discussion of the feedback from SMPs on specific topics and issues is included as part of the rest of this paper.

TF Proposal

16. In developing Safeguards ED-1, the TF was mindful to the specific SMP considerations highlighted by respondents. To obtain input about whether its refinements are responsive to the concerns raised, the TF and Staff continues to engage with the Ethics Committee of the SMPC.

Need for IESBA/IAASB Liaison

17. Some respondents suggested that the IESBA should liaise with the IAASB to:
 - Ensure that appropriate safeguards-specific conforming changes are made to the International Standards on Auditing (ISAs); to ensure that there is alignment between the Code and any relevant

²⁰ **Regulators:** IOSCO

²¹ **Regulators:** IFIAR, IOSCO

²² Section 300, *Application of the Conceptual Framework to Professional Accountants in Public Practice*

²³ **Regulators:** IOSCO

²⁴ Section 120, *The Conceptual Framework*

²⁵ **Regulators:** IOSCO

²⁶ **MBs:** ACCA, FAR, ICAB, SMPC

²⁷ **MBs:** ACCA, SMPC, JICPA

²⁸ **MBs:** FEE, FSR

ISAs; and to avoid any differences or unnecessary duplication.²⁹

- Ensure there is clarity on the inter-dependence between the effectiveness of safeguards and quality controls.

TF Proposal

18. The TF has referred comments about the need for IAASB/ IESBA liaison the Planning Committee. Also, Staff has communicated respondents' comments and views about topics of mutual interest between the IESBA and IAASB that they believe should be progressed on a coordinated basis to IAASB staff.

Matters for CAG Consideration

1. Do Representatives agree with the TF's response to the general comments on Safeguards ED-1?

Summary of Responses to Specific Proposals

Feedback on the Enhancements to the CF

19. The majority of respondents were supportive of the proposed enhancements to the CF, requiring a PA to identify, evaluate and address threats. They noted that the streamlined language in the CF made the requirements and application material in the Code clearer. However, some respondents believed that the timing for performing the various stages in the CF is unclear. One respondent questioned whether the CF should be described as a "five" versus a "three" step approach, given the proposed requirements for re-evaluating threats and for an overall assessment. That respondent also suggested that the Board consider adding a new step "designing and implementing safeguards" to the CF so that the PA would be required to consider the correlation between the specific threat that has been identified, and how to "build" a safeguard that is responsive to that threat.³⁰

TF Proposal

20. The TF continues to be of the view that the simple three stage approach described in the CF set out in Section 120 is appropriate. In response to the feedback received, the TF's revised proposals in **Agenda Item C-2** include several refinements to clarify the various stages in the CF. With the use of new subheading titles, the TF 's proposals clarify that the timing for applying the requirement to:
 - Consider new information or changes in facts and circumstances, formerly titled "Re-evaluating Threats" should be as part of evaluating threats. The new subheading titled "Consideration of New Information or Changes in Facts and Circumstances" positioned under the main heading "Evaluating Threats" is intended to clarify that the requirement to re-evaluate threats is not an additional stage per se, but rather forms part of the professional accountant's responsibility to properly evaluate threats to compliance with the fundamental principles.
 - Perform the overall assessment, formerly titled "Overall Assessment" should be as part of addressing threats. The new subheading titled "Consideration of Significant Judgments Made and Overall Conclusions Reached" positioned under the main heading "Addressing Threats" is intended

²⁹ IRBA, DTT IRBA notes, for example, in ISA 260: "A22(b) Safeguards created by the Profession, legislation or regulation, safeguards within the entity and safeguards with the firm's own system and procedure."

³⁰ **Regulators:** IRBA

to clarify that the requirement to perform an overall assessment is not an additional stage per se, but rather forms part of the professional accountant's responsibility to properly address threats to compliance with the fundamental principles.

Threats

21. A few respondents commented on the proposed requirement to identify threats in paragraph R120.5 of Safeguards ED-1. Those respondents asked that the IESBA:
- Develop new application material to assist in the identification of threats.³¹ It was noted that the application material included in Safeguards ED-1 focused entirely on the creation of threats, rather than on their identification.
 - Withdraw the requirement, and instead provide only application material to assist the PA identify threats to compliance with the fundamental principles. The respondent was of the view that it is not feasible for the accountant to be required to understand all facts and circumstances that might compromise compliance with the fundamental principles.³²
 - Make it clear that there is a rebuttable presumption that every engagement or situation will have some threat.³³
 - Include some general information concerning the different types of self-interest threats in 120.5 A2.³⁴

TF Proposal

22. The TF continues to believe it is important to require that professional accountants identify threats to compliance with the fundamental principles. Accordingly, it believes that the requirement to identify threats to compliance with the fundamental principles and the supporting application material that:
- Explain that understanding the facts and circumstances, including professional activities, interests and relationships that might compromise compliance with the fundamental principles enables the professional accountant to identify threats;
 - Indicate that threats to compliance with the fundamental principles might be created by a board range of facts and circumstances, the description of which, are not all possible;
 - Describe the various categories of threats to compliance with the fundamental principles; and
 - Explain that the existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization might assist in the identification of threats to compliance with the fundamental principles.

should be retained. See paragraphs R120.5 – 120.5 A5.

23. The TF also affirmed its view that the categories of threats in the Code continues to be complete and appropriate.

³¹ **MBs:** ACCA

³² **Firms:** DTT

³³ **Regulators:** IRBA

³⁴ **MBs:** ACCA

Addressing Threats

24. Safeguards ED-1 included new application material that states “There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level.” The aim behind the statement was supported, but a number of respondents were of the view that this application material should be stated more clearly to indicate that there are situations in which no safeguards are possible.³⁵ Another respondent suggested that this application material should be elevated to a requirement to make it clear that when there are no safeguards available, the PA is required to decline or discontinue the service “unless precluded from doing so by law or regulation”.³⁶ One MG member³⁷ suggested that the IESBA reposition this provision so that it appears before R120.3 in Safeguards ED-1.
25. Some respondents also commented on the last sentence in that paragraph referring to examples of those situations in the International Independence Standards in C1 and C2 and suggested that the Board:
- Avoid this approach, and instead, link those situations with the requirement to take action such as, depending on the circumstances, not accepting or resigning from an engagement.³⁸
 - Strengthen the provision to specify three instances of non-compliance with the Code for which IESBA has predetermined that safeguards should not even be a consideration.³⁹
 - Also, include a reference to examples of those situations for all PAs, and not just for those who provide audit, review and other assurance engagements.⁴⁰

TF Proposal

26. In response to the feedback received, the TF has reversed the order of the provisions in 120.7 A1 and 120.7 A2 of Safeguards ED-1. The TF has also revised the wording in 120.7 A1 of Safeguards ED-1 to state that: “There are some situations in which the circumstances creating the threats cannot be eliminated and there are no safeguards to eliminate the threats created or reduce them to an acceptable level. In such situations, the professional accountant is required to decline or end the specific professional activity” (see paragraph 120.8 A2).
27. The last sentence of 120.7 A2 of Safeguards ED-1 has been deleted.

Re-evaluating Threats and Overall Assessment

28. Some respondents, in particular regulators, were of the view that the professional accountant’s re-evaluation of threats should not be restricted to the emergence of new information or changes in facts and circumstances, but rather the professional accountant should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the professional activity.⁴¹ One of

³⁵ **Regulators:** 20EUAR, IFIAR

³⁶ **Regulators:** IOSCO; **MBs:** IDW, SMPC

³⁷ **Regulators:** IOSCO

³⁸ **Regulators:** 20EUAR

³⁹ **Regulators:** IOSCO

⁴⁰ **NSS:** APESB; **Firms:** DTT; **MBs:** FAR, FEE

⁴¹ **Regulators:** 20EUAR, IFIAR, IOSCO

those respondents was of the view that the level of frequency for periodic re-evaluation might vary based on the nature of the services provided or relationship between the professional accountant and the entity. For example, that respondent noted that threats to objectivity may necessitate a different frequency of re-evaluation than threats to professional competence and due care.⁴²

29. Some respondents suggested that guidance for re-evaluating threats and for performing an overall assessment should be provided in the form of application material rather than as requirements.⁴³ One respondent suggested that the ordering of those two requirements be should be reversed;⁴⁴ while another respondent suggested that the titles of the headings “Re-evaluating Threats” and “Overall Assessment” should be revised in order to be more specific about the material presented in those respective provisions.⁴⁵
30. Many respondents asked for clarification about the new requirement for performing an overall assessment. In particular, some respondents sought clarification about:
- The expected timing of assessment.⁴⁶
 - Whether IESBA intended for there to be a difference between the requirements for re-evaluating threats and for performing the overall assessment.⁴⁷
 - Whether the overall assessment is considered to be a component of the CF.⁴⁸
 - Level of documentation requirement for an overall assessment⁴⁹ (see TF Proposal pertaining to documentation above).
 - Whether the IESBA believes that the overall assessment should be performed by someone other than the PA who identified and evaluated the threat.⁵⁰
 - Whether it is necessary to include the overall assessment in all sections of the Code. The respondent was of the view that it was sufficient to include the provision one time in Section 120.⁵¹

TF Proposal

31. As discussed above, the TF’s revised proposals include revisions to clarify the timing for the professional accountant’s re-evaluation of threats and for performing the overall assessment (see paragraphs 19–20 of this paper).

⁴² **Regulators:** IOSCO

⁴³ **MBs:** CNCC

⁴⁴ **Firms:** EYG

⁴⁵ **MBs:** FSR

⁴⁶ **Regulators:** 20EUAR, IFIAR, IOSCO; **Firms:** DTT, PWC; **Public Sector:** AGNZ, GAO; **MBs:** ACCA, AICPA, ASSIREVI, CAANZ, CNCC, FAR, FEE

⁴⁷ **MBs:** AICPA

⁴⁸ **Regulators:** IRBA; **NSS:** APESB; **Firms:** DTT

⁴⁹ **MBs:** ASSIREVI, CAANZ, ICAEW

⁵⁰ **MBs:** IPA

⁵¹ **MBs:** SMPC

32. The TF's proposals in paragraphs R120.7–120.7 A1 also include revisions to clarify that the overall assessment is a consideration of significant judgments made and overall conclusions reached. It:
- Requires that the professional accountant, and in the case of audits, reviews and other assurance engagements, the firm, form an overall conclusion about whether the actions that the accountant takes, or intends to take to address the threats created will eliminate those threats or reduce them to an acceptable level.
 - Explains that as part of forming this overall conclusion, it is necessary to review the significant judgments that have been made or conclusions reached, taking into account the reasonable and informed third party test.
33. The application material in Safeguards ED-1 has been refined to clarify what is meant by remaining alert. Paragraph 120.7 A1 clarifies that remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:
- (a) Impact the level of a threat; or
 - (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

Matters for CAG Consideration

2. Do Representatives agree with the TF's proposed revisions to clarify the various stages of the conceptual framework, including the revisions made to explain the timing for re-evaluating threats and performing the overall assessments?

Description of Reasonable and Informed Third Party Concept

34. Respondents from all stakeholder groups expressed strong support for having a description of reasonable and informed third party. However, respondents' views about the proposed wording for that description of reasonable and informed third party were mixed:
- One respondent was of the view that the words "skills, knowledge and experience" as used in Safeguards ED-1 implies that the reasonable and informed party is required to have similar skills and knowledge as a professional accountant. This respondent suggested that the wording in the proposal should be revised to be "sufficient and relevant skills, knowledge and experience..."
 - One respondent suggested that the Board clarify that the test is being performed by the professional accountant.⁵²
 - Several respondents urged the Board to avoid the word "hypothetical".⁵³ There were suggestions that the word "hypothetical" be replaced with the word "independent"; "uninvolved"; or "objective".
 - One respondent suggested that the Board should clarify the characteristics that the reasonable and informed third party should possess. For example, it was suggested that the IESBA indicate that this person is expected to have a reasonable knowledge of business and economic activities, a

⁵² **Regulators:** IRBA

⁵³ **Regulators:** UKFRC; **Firms:** DTT, SRA; **Public Sector:** AGNZ; **MBs:** CNCC, CPAA, SAICA

general understanding about auditing, and is expected to be diligent in their review and analysis of the relevant information.⁵⁴

35. Some respondents, in particular regulators,⁵⁵ suggested that the proposal be revised to avoid the notion that only a professional accountant could perform the reasonable and informed third party test. On the other hand, one respondent was of the view that the reasonable and informed third party is a legal concept and disagreed with the Board's proposal which made the concept of the "reasonable and informed third party" seem like a real person.⁵⁶
36. A respondent⁵⁷ suggested that it would be helpful to explain that the reasonable and informed third party concept should be described as "one who has a legitimate interest in the professional accountant meeting the ethical outcomes required by the fundamental principles – i.e., that the reasonable and informed third party test is intended to be applied through the objective lens of the public in whose interests the professional accountant accepts a responsibility to act." Thus, the test would reflect the anticipated views of such parties, whilst assuming that they are informed about the circumstances (e.g., about the nature of the threats and the nature of any safeguards) on the assumption that they would be reasonable (i.e., rational, fair and moderate rather than extreme) in forming those views.
37. Some respondents cautioned that the IESBA should consider the meaning of the term reasonable and informed third party when it is translated into different languages, or when it is used in different jurisdictions.⁵⁸ For example, it is noted that in South Africa, there is a term that is similar in name "reasonable man test". Also, one respondent suggested that the concept be revised to be "objective reasonable and informed third party" so as to reflect the importance of the objectivity of the third party and also to align more closely with the wording in the 2014 EU Audit Regulation.⁵⁹

TF Proposal

38. The TF has revised the description of the reasonable and informed third party concept to make it clear that it is a test that it is performed by the professional accountant. The test involves the professional accountant's consideration of whether the same conclusions would likely be reached by another person. The TF is of the view that this other person effectively meets the description of a reasonable and informed third party. Such a person, the reasonable and informed third party, would possess sufficient knowledge and experience to objectively evaluate the appropriateness of the accountant's conclusions, and weigh all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions were made (see 120.4 A1).
39. The TF agrees that although the professional accountant performs the test, it is done from the "objective lens" of a person who may not necessarily be a professional accountant, but rather knows enough about a professional accountant's work to understand and challenge the PA's judgments made and conclusions reached.

⁵⁴ **Regulators:** IOSCO

⁵⁵ **Regulators:** 20EUAR, IFIAR, IOSCO, IRBA, UKFRC; **MBs:** ACCA,

⁵⁶ **Firms:** DTT

⁵⁷ **Regulators:** UKFRC

⁵⁸ **Regulators:** IRBA; **Firms:** CHI; **MBs:** ISCA, WPK

⁵⁹ **Regulators:** UKFRC

40. The TF continues to believe that the focus of this test should be on what the professional accountant is required to do based on the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time that the professional accountant's judgments and conclusions were made, but not when the test is performed. The TF has dropped:
- The word "skills" to avoid the notion that the reasonable and informed third party has to have the same skills as another professional accountant.
 - The words "...to determine whether the accountant complies with the fundamental principles..." in an effort to keep the description of the term sufficiently general for it to be used elsewhere in the Code, and not just in the context of compliance with the fundamental principles. The TF believes that these words are picked up in the description of acceptable level.
 - The word "hypothetical" in response to concerns raised about translation challenges. The TF believes that the revised description, even without the word "hypothetical" clarifies that the test is performed by the professional accountant from the perspective of another person, rather than by another real person.

Matters for CAG Consideration

3. Do Representatives agree with the TF's proposed revisions to clarify the description of reasonable and informed third party?

Description of Acceptable Level

41. More than half of the respondents expressed support for the proposed revised description of "acceptable level".⁶⁰ However, some respondents suggested:
- The word "likely" should be dropped from the description.⁶¹ One of those respondents suggested that the word "likely" be replaced with the word "probable" which in their view means more likely than not – a higher bar, that "likely".
 - The extant words description of acceptable level should be retained.⁶²
 - The description of acceptable level be more prominently positioned.⁶³
42. Some respondents were of the view that the "acceptable level" bar is too low⁶⁴ and suggested that the description be revised to be "... a level at which a reasonable and informed third party would likely conclude that PA's compliance with the fundamental principles would not be compromised by the threat identified"⁶⁵ or "threats be eliminated or reduced to a level at which the fundamental principles would not be

⁶⁰ **Regulators:** IAIS; **NSS:** APESB, NZAuASB; **Firms:** CHI, EYG, GTT, RSM UK, RSM, SRA; **Public Sector:** AGNZ, GAO; **MBs:** ATT, CPAA, FAR, ICAB, ICAS, ICPAK, IDW, IPA, JICPA, KICPA, MIA, NASBA, NBA, OECFM, SAICA, SMPC

⁶¹ **Regulators** IRBA, UKFRC

⁶² **Firms:** DTT; **MBs:** AICPA, CNCC

⁶³ **Regulators** IRBA

⁶⁴ **Regulators:** UKFRC, ISCA; **Public Sector:** AGNZ

⁶⁵ **MBs:** ISCA

compromised”.⁶⁶ One of the respondents⁶⁷ who expressed this view suggested that the term “acceptable level” be withdrawn from the Code, thereby focusing the PA on ensuring that threats are eliminated or reduced to a level where the reasonable and informed third party test would be passed, rather than on finding a level of threats that is “acceptable”. This respondent believes that this (implicit) link to the reasonable and informed third party test would better accord with the expectations of stakeholders, and better support stakeholders’ confidence in the PA.

43. Some respondents were of the view that having “acceptable level” described affirmatively, is unnecessarily more stringent. Those respondents questioned the rationale for the change and asked for more guidance on how PAs would achieve the intended result.⁶⁸

TF Proposal

44. The TF considered the feedback and continues to believe that describing “acceptable level” in an affirmative manner is clearer. As a counterbalance to concerns raised, the TF has made some refinements to emphasize that the determination of whether a threat is at an acceptable level is done by the professional accountant. The TF continues to believe that the application of the reasonable and informed third party test is relevant to this determination.
45. The TF has noted some merit to the suggestion to avoid the use of the term “acceptable level” but has agreed to retain the concept because it is used pervasively throughout the Code and is well understood.
46. The TF has agreed to include a subheading titled “Acceptable Level” above paragraph 120.6 A3 as a way of making the term “acceptable level” more prominent. It is also included in the glossary of defined terms.

Matters for CAG Consideration

4. Do Representatives agree with the TF’s conclusions about how the term acceptable level should be described in the proposed restructured Code?

Description of Safeguards and Conditions, Policies and Procedures

47. The majority of respondents were supportive of the enhancements to the description of safeguards.⁶⁹ However, there was a view that the proposals could be further improved, if the Code:
- Emphasizes that safeguards are intended to eliminate or to reduce *specific* threats, define how specific safeguards address specific risks of non-compliance, and clarify that it is necessary for each threat to be linked to a specific action to be taken by the PA.⁷⁰ One of those respondents added that as part of the definition of safeguards, the Board should also consider including examples of actions taken by management to eliminate or reduce specific threats.⁷¹

⁶⁶ **Regulators:** UKFRC

⁶⁷ **Regulators:** UKFRC

⁶⁸ **MBs:** FEE, CNCC

⁶⁹ **Regulators:** IAIS, NASBA; **Firms:** BDO, CHI, EYG, GTI; PWC, RSM UK, RSM, SRA; **NSS:** NZAuASB; **Public Sector:** AGNZ, GAO; **MBs:** ATT, ACCA, ASSIREVI, CPAA, CPAC, FAR, HICPA, ICAB, ICAEW, ICAG, ICAS, ICAPK, IPA, JICPA, MIA, NBA, NFCPAAROC, OECFM, SAICA, SMPC, WPK; **Individuals:** DJuvenal

⁷⁰ **Regulators:** 20EUAR, IOSCO

⁷¹ **Regulators:** IOSCO

- Clarifies the description of safeguards to: “Safeguards are actions, individually or in combination, that the individual(s) providing professional services take that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level. A PA shall be responsible for the overall effectiveness of safeguards.”⁷²
 - Avoids the use of the words “that effectively...” in describing safeguards.⁷³
48. Some respondents were of the view that the IESBA should consider the impact that the new definition of safeguards will have on individual jurisdictions.⁷⁴ For example, it was suggested that the proposed description should be consistent with the description of safeguards used in the soon to be effective regulation that will be applicable in the EU for auditors of public interest entities.

Requests for Additional Application Material for Safeguards

49. Two respondents were of the view that the definition of safeguards should be supported by additional application material that explains its attributes.⁷⁵ For example, the application material may indicate that a safeguard can be disclosed; corroborated; or reproduced; and documented. Also, this application material should indicate that “safeguards must commensurate with the threats; must not itself further threaten independence or the public interest; is it not the first resort; and must not be subjective.”
50. One regulatory respondent was of the view the description of safeguard should make it explicit that:⁷⁶
- 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;
 - 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.

Concerns Raised about the Description of Safeguards

51. Some respondents were concerned that the proposed description of safeguards⁷⁷ is burdensome and no longer allow for PA professional judgment. Generally, these same respondents opposed the proposal to withdraw certain conditions, policies and procedures that were formerly classified as safeguards (see the conditions, policies and procedures subsection below).

TF Proposal – Description of Safeguards

52. The TF reaffirms its description of safeguards and accordingly no revisions have been made to Safeguards ED-1 in this regard. However, the revised proposals makes it more explicit that there are some situations in which the circumstances creating the threats cannot be eliminated and there are no safeguards to eliminate the threats created or reduce them to an acceptable level. The revised proposals explain that in such situations, the professional accountant is required to decline or end the specific professional activity

⁷² **Firms:** BDO

⁷³ **Firms:** DTT; **MBs:** IDW

⁷⁴ **Regulators:** 20EUAR, UKFRC; **Individuals:** DJuvenal,

⁷⁵ **Regulators:** IRBA; **MBs:** NBA

⁷⁶ **Regulators:** UKFRC

⁷⁷ **MBs:** AICPA, CAANZ, FEE, FSR, ICJCE, IDW

(see paragraphs 120.8 A1 and 120.8 A2).

53. With respect to the suggestions to have additional application material and in some cases examples of safeguards in the CF, the TF is of the view that it is important for the CF to establish the overarching and more general provisions. The TF believes that subsequent sections of the Code should build on the provisions in the CF, including with more specific application material and examples that are based on specific facts and circumstances.

Conditions, Policies and Procedures

54. Respondents views about whether the IESBA should withdraw the terms “safeguards created by the professional or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” from the Code were mixed. Some respondents, including MG members, expressed full support for IESBA’s proposals.⁷⁸ Other respondents disagreed with the Board’s proposals and felt that the “safeguards created by the professional or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” form part of a holistic framework that is designed to assist the PA comply with the fundamental principles and should retained.⁷⁹
55. The respondents, including those who did not support the proposals, offered suggestions for improvement. They noted that the IESBA should:
- Incorporate revisions in 120.5 A4 to:
 - Be more positive by stating that “Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can enhance the likelihood ...” rather than “... can affect...”⁸⁰ or
 - Make it clearer by stating that “...or the employing organization can affect the likelihood of the accountant’s identification occurrence of threats to compliance with the fundamental principles or to enhance the ability of the accountant to identify threats. Examples ...”⁸¹
 - Clarify whether the safeguard definition is intended to apply to firms.⁸²
 - Consider transitional provisions for those policies and procedures that have been used as safeguards to remind PAs that they have been rescinded.⁸³
 - Explain why the provision “certain conditions...” appear twice in Section 120, first in the subsection titled identifying threats, and in a subsection titled evaluating threats, and then again in Section 300 in a different manner.⁸⁴

⁷⁸ **Regulators:** IAIS, UKFRC; **NSS:** APESB, NZAuASB; **Public Sector:** AGNZ, GAO; **Firms:** BDO, CHI, GTI, PWC, RSM UK, RSM, SRA; **MBs:** ATT, ACCA, CPAA, CPAC, FAR, ICAB, IDW, MIA, NCPAAROC, OECFM, SAICA, SMPC, WPK

⁷⁹ **Regulators:** NASBA; **Firms:** DTT; **MBs:** AICPA, CAANZ, FEE, FSR, IPA

⁸⁰ **MBs:** CPAC

⁸¹ **Firms:** RSM

⁸² **Regulators:** IRBA

⁸³ **MBs:** FEE

⁸⁴ **Firms:** EYG; **MBs:** ICAEW, WPK

- Reinstate wording from the extant Code which refers to an “effective, well publicized complaint system operated by the employing organization... that enables colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour.”⁸⁵
 - Enhance the examples of safeguards in the proposals, by for example:⁸⁶
 - Including a statement within Section 120 to cross-refer to the examples of safeguards in Section 300.
 - Presenting the list of examples of safeguards and related threats in paragraph 300.2 A1 in a more innovative manner.
56. One respondent was of the view that the IESBA should undertake post implementation review that include a cost-benefit analysis at the end of the project and consider that reducing the availability of safeguards could lead to increased costs in business, namely for SMPs, for which external review may in some cases be the only available option.⁸⁷

TF Proposal

57. The TF agreed to retain the retain proposals to withdraw certain activities (e.g., firm-specific safeguards) which were formerly characterized as safeguards in the extant Code. Responsive to some respondents’ suggestions, the TF has reinstated some the wording from the extant Code to clarify the importance of those conditions, policies and procedures in the identification and evaluation of threats. The TF has also taken on some of respondents’ other suggestions to clarify the related application material in paragraphs 120.5 A4, 120.6 A3 and 300.2 A1 of Safeguards ED-1 (see revised paragraphs 120.5 A5, 120.6 A2 and 300.5 A1).

Matters for CAG Consideration

5. Representatives are asked to consider the feedback on Safeguards ED-1 and indicate whether they agree with the TF’s conclusions to:
- (a) Make no change to the description of “safeguards” in Safeguards ED-1.
 - (b) Retain proposals to withdraw certain activities (e.g., firm-specific safeguards) which were formerly characterized as safeguards in the extant Code.

Matters Pertaining to the Revision of Proposed Section 300

58. Respondents were generally supportive of the IESBA’s proposals in Section 300.⁸⁸ However, many respondents found the structure unclear.⁸⁹ It was suggested that the IESBA clarify the intended linkage between Section 120 and Section 300, for example, by repeating or cross-referring certain requirements

⁸⁵ See paragraph 100.16 of extant Code

⁸⁶ **MBs:** ACCA, SMPC

⁸⁷ **MBs:** FEE

⁸⁸ **Regulators:** IAIS, UKFRC; **NSS:** NZAuASB; **Firms:** CHI, EYG, GTI, RSM, SRA; **Public Sector:** GAO; **MBs:** ATT, ACCA, AICPA, CNCC, CPAA, CPAC, FAR, FSR, HICPA, ICAB, ICAEW, ICAG, ICAS, ICPAK, IDW, IPA, JICPA, KICPA, MIA, NFCPAAROC, OECFM, SAICA, SMPC, WPK; **Individuals:** DJuvenal,

⁸⁹ **Regulators:** IAIS, IOSCO, IRBA; **NSS:** APESB; **Firms:** BDO, DTT; **Public Sector:** AGNZ; **MBs:** CAANZ, **MBs:** FEE, FSR, ICAS, ICJCE, WPK

and application material to related provisions in Section 120.⁹⁰ Another source of confusion for some respondents is the use of the words “professional accountant”, “accountant”, “firm” and “professional accountant in public practice” in proposed Section 300.⁹¹ This comment was referred to the Structure of the Code TF.

59. One respondent was of the view that the list of examples of threats in 300.2 A1 of Safeguards ED-1 should be examples of threats to compliance with the fundamental principles, rather than threats to independence. The respondent suggested that it would be useful to have illustrative examples that are first categorized by each of the fundamental principles, and then by each type of threat.⁹²
60. The following are other comments that respondents made on Section 300 with respect to the:
- Examples of threats in 300.2 A1 of Safeguards ED-1. One respondent noted that the examples of “self-interest threats” in Section 300 all pertain to situations when the interests of the PA is very closely aligned with those of the client. It was suggested that IESBA include one or more examples of conflicting interests. Also, some respondents were disappointed to have fewer examples of the types of threats.⁹³
 - Examples of safeguards in para 300.2 A9 of Safeguards ED-1. Some respondents, including one of the MG members challenged whether some of the examples of safeguards were effective safeguards given that self-interest and self-review threats also exists on a firm-wide basis.⁹⁴ Other respondents suggested wording changes clarify the safeguards.⁹⁵
 - One respondent suggested that the IESBA consider, during the second phase of the project, having “joint audit” as an example of safeguard to address threats to independence. The respondent was of the view joint audits create a forum whereby joint auditors can challenge each other’s position in order to come to an agreement on a common position.⁹⁶
61. One respondent was of the view that Safeguards ED-1 should include a requirement that require PAs to disclose safeguards to TCWG.⁹⁷

TF Proposal

62. New introductory material has been included in Section 300 to better explain the interaction between the requirements for professional accountants in public practice and those for all professional accountants in the CF set out in Section 120. This new material was developed by the Structure TF, and it explains that Section 300 describes the requirements and application material for professional accountants in public practice when they apply the conceptual framework set out in Section 120. It also clarifies that the

⁹⁰ **Regulators:** IRBA; **NSS:** APESB; **Firms:** BDO; **Public Sector:** AGNZ; **MBs:** CAANZ, CNCC, CPAC, FAR, FEE, IDW, NBA, WPK

⁹¹ **NSS:** NZAuASB; **Firms:** DTT; **MBs:** CPAC, IDW, SMPC

⁹² **Firms:** PWC

⁹³ **NSS:** NZAuASB; **Firms:** DTT; **MBs:** ACCA, ICAEW, SMPC

⁹⁴ **Regulators:** IOSCO

⁹⁵ **Regulators:** IAIS, IOSCO, IRBA, NASBA; **Public Sector:** GAO; **NSS:** APESB, NZAuASB; **Firms:** CHI, DTT, PWC; **MBs:** ASSIREVI, CPAA, IDW, IPA, SAICA

⁹⁶ **MBs:** CNCC

⁹⁷ **Regulators:** IRBA

provisions in Section 300 apply to both professional accountants and firms.

63. The TF has reviewed the examples of safeguards in Section 300 of Safeguards ED-1 and believes that they are appropriate (see paragraph 300.7 A1 of **Agenda Item C-2**). In response to feedback from the June 2016 IESBA meeting, the TF has dropped as an example of safeguard “consulting or seeking approval from those charged with governance or an independent third party...”
64. The TF also made several editorials and refinements to Section 300 to:
- Align to the revisions made in the CF set out in Section 120; and
 - Incorporate, when appropriate, respondents’ suggestions.

Other Matters

65. The revisions to the proposals in Safeguards ED-1 also reflect changes to align to the updated format and drafting conventions used by the Structure TF as a result of the Structure of the Code project. For example, the use of the word “might” or “may” and “professional accountant” versus “accountant”.

Matters for CAG Consideration

6. Representatives are asked for views about the TF’s proposed revisions to Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*.
7. Representatives are asked to share any further comments on matters relevant to Safeguards Phase 1.

Appendix (Para. 2)

List of Respondents to Safeguards ED-1

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (53)	Region
Regulators and Oversight Authorities (7)			
1.	20EUAR	Group of 20 European Audit Regulators	EU
2.	IAIS	International Association of Insurance Supervisors	GLOBAL
3.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
4.	IOSCO	International Organizations of Securities Commissions	GLOBAL
5.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
6.	NASBA	National Association of State Boards of Accountancy	NA
7.	UKFRC	United Kingdom Financial Reporting Council	EU
National Standard Setters (2)			
8.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
9.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Firms (10)⁹⁸			
10.	BDO*	BDO International Limited	GLOBAL
11.	CHI	Crowe Horwath International	GLOBAL
12.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
13.	EYG*	Ernst & Young Global	GLOBAL
14.	GTI*	Grant Thornton International Ltd	GLOBAL
15.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
16.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
17.	RSM*	RSM International	GLOBAL
18.	RSM UK	RSM United Kingdom	EU
19.	SRA	Samenwerkende Accountantskantoren	EU
Public Sector Organizations (2)			
20.	AGNZ	Office of the Auditor General of New Zealand	AP
21.	GAO	United States Government Accountability Office	NA

⁹⁸ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

Preparers of Financial Statements (1)			
22.	VRC	Vereniging van Registercontrollers Netherlands Association of Registered Controllers	
IFAC Member Bodies and Other Professional Organizations (30)⁹⁹			
23.	AAT	Association of Accounting Technicians	EU
24.	ACCA	Association of Chartered Certified Accountants	GLOBAL
25.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
26.	ASSIREVI	Associazione Italiana Revisori Contabili	EU
27.	CAANZ	Chartered Accountants Australia and New Zealand	AP
28.	CNCC	Compagnie Nationale des Commissaires aux Comptes	EU
29.	CPAA	CPA Australia	AP
30.	CPAC	Chartered Professional Accountants of Canada (CPA Canada) Public Trust Committee	AP
31.	FAR	FAR (Institute for the Accountancy Profession in Sweeden)	EU
32.	FEE	Fédération des Experts Comptables Européens - Federation of European Accountants	EU
33.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
34.	HICPA	Hong Kong Institute of Certified Public Accountants	AP
35.	ICAB	Institute of Chartered Accountants of Bangladesh	AP
36.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
37.	ICAG	Institute of Chartered Accountants Ghana	SA
38.	ICAS	Institute of Chartered Accountants of Scotland	EU
39.	ICJCE	Instituto de Censores Jurados de Cuentas de España	NA
40.	ICPAK	Institute of Certified Public Accountants of Kenya	AP
41.	IDW	Institut der Wirtschaftspruefer	EU
42.	IPA	Institute of Public Accountants	AP
43.	ISCA	Institute of Singapore Chartered Accountants, including the ISCA Ethics Committee	AP
44.	JICPA	Japan Institute of Certified Public Accountants	AP
45.	KICPA	Korean Institute of Certified Public Accountants	AP
46.	MIA	Malaysian Institute of Accountants	AP

⁹⁹ Certain IFAC Member Bodies hold the dual role of ethics standard setter in their jurisdictions.

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47.	NBA	Royal Netherlands Institute of Chartered Accountants	EU
48.	NFCPAAROC	The National Federation of Certified Public Accountant Associations of the Republic of China	AP
49.	OECFM	Ordre des Experts Comptables et Financiers de Madagascar (OECFM)	MEA
50.	SAICA	South African Institute of Chartered Accountants	MEA
51.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
52.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
Individuals (1)			
53.	DJuvenal	Denise Silva Ferreira Juvenal	SA