

Meeting: IESBA CAG Meeting

Meeting Location: New York

Meeting Date: September 13-14, 2016

Agenda Item

C

Safeguards Phases 1 and 2 – Cover, Including Report Backs

Objectives of Agenda Item

1. To note the report-back on the March 2016 CAG discussion and the June 2016 teleconference.
2. To provide a summary of the significant issues raised by respondents to the December 2015, Safeguards Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1), the related significant IESBA discussions to-date and the Task Force's response.
3. To obtain CAG Representatives' views on the revisions made to Safeguards ED-1 in light of the feedback provided during the June 20, 2016 CAG teleconference and the IESBA June 2016 meeting.
4. To obtain CAG input on the Task Force's proposals pertaining to the safeguards-specific revisions to the non-assurance (NAS) section of the extant Code (i.e. Section 600¹).

Project Status and Timeline

5. The IESBA approved its Safeguards ED-1 in December 2015. It included proposed revisions to the conceptual framework (CF) that are applicable to all professional accountants. The deadline for comments on Safeguards ED-1 was March 21, 2016.
6. Also released in December 2015 was the ED titled, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure ED-1). Safeguards ED-1 used the proposed new structure and drafting conventions in Structure ED-1, and the full text of Safeguards ED-1 is included in Structure ED-1 (shaded in gray text). The deadline for comments on Structure ED-1 was April 18, 2016.
7. Phase 2 of the Safeguards project will be informed by the feedback from the respondents on the Safeguards ED-1 and Structure ED-1 and will include:
 - (a) Revisions to certain provisions in Section 290² of the Code that address the provision of NAS to audit clients to enhance the clarity, appropriateness and effectiveness of safeguards that pertain to NAS.
 - (b) Safeguards-specific conforming amendments to other areas in the Code, as applicable, to:
 - (i) The shaded and italicized paragraphs that were included in Structure ED-1.³ This

¹ Section 600, *Provision of Non-assurance Services to an Audit Client*

² Section 290, *Independence – Audit and Review Engagements*

³ Structure ED-1 noted that certain paragraphs were either: (i) shaded and included in the Safeguards ED-1, or (ii) shaded and italicized and would be subject to further revisions resulting from the Safeguards project. Those shaded and italicized paragraphs in Structure ED-1 include: paragraphs 112.2 A2, 310.10 A3, 320.3 A2, 320.3 A5, 320.4 A3, 321.5 A2, 330.3 A3,

includes a consideration of safeguard-specific conforming changes to certain paragraphs (i.e., those that deal with the application of the conceptual framework to independence) in proposed Section 400.⁴

- (ii) The proposed restructured text of the March 2016 Part C Close off document titled, *Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles* (Part C Phase 1).
 - (iii) The proposed restructured text of the Long Association (LA) proposals.
 - (iv) The proposed restructured text of the July 2016 final pronouncement, *Responding to Non-Compliance with Laws and Regulations* (NOCLAR).
8. The Safeguards project is being closely coordinated with the Structure of the Code project. Some of the feedback received on Structure ED-1 is relevant to the revisions to Safeguards ED-1 and vice versa. Accordingly, the Safeguards Task Force continues to coordinate closely with the Structure Task Force in developing its proposals. The proposals for Safeguards Phase 2 will also be drafted in the format and drafting conventions of the proposed restructured Code.
9. Appendix 2 to this paper provides a project history, including links to the relevant CAG documentation.

Report Backs on CAG Discussions

10. Below are extracts from the minutes of the March 2016 CAG meeting and June 2016 teleconference⁵ and an indication of how the project Task Force or IESBA has responded to CAG Representatives' comments.

Report Back on March 2016 Meeting

Matters Raised	Task Force/IESBA Response
REPORT BACK ON MARCH 2016 DISCUSSION	
Mr. Hansen and Ms. McGeachy-Colby complimented the Task Force on its thoughtful and thorough work.	Support noted.
Ms. McGeachy-Colby indicated that the SMPC would be formally responding to the Safeguards ED-1. Referring to the response to a query from Ms. Lang in the Report Back section of the agenda materials regarding the description of a "reasonable and informed third party," Mr. Hansen asked for further elaboration about the Task Force's rationale for the use of the word "could"	Point taken into account. Mr. Hannaford responded that the IESBA considered both words, and concluded that the intended work effort implied by the word "could" (currently used in the extant Code) remains appropriate. This phrase is carried forward from paragraph 100.3 of the extant Code.

330.3 A5, 330.3 A9, **R400.9, R400.10**, 400.14 A1, 410.3 A2, 410.7 A2, 410.9 A3, 411.2 A2, 430.2 A2, 510.11 A2, 510.11 A4, 510.11 A6, 511.4 A2, 520.6 A2, 521.3 A2, 521.4 A2, 521.5 A2, 521.6 A2, 522.3 A3, 524.3 A3, 524.4 A2 and 525.2 A1.

⁴ Proposed Section 400, *Application of Conceptual Framework to Independence for Audits and Reviews*

⁵ The minutes for the March 2016 CAG meeting and the June 20, 2016 CAG teleconference will be approved at the September 2016 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
<p>rather than “should” in the phrase “...This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time” He wondered why the bar was felt to be too high with the word “should” as he believed that professional accountants (PAs) should be expected to know as opposed to its being probable that they would know.</p> <p>Ms. McGeachy-Colby supported Mr. Hannaford's explanation, noting that in some jurisdictions, the word “should” could be read to mean “shall.” As such, in her view the word “could” achieved an appropriate balance.</p>	
<p>Referring to the discussion about explicit requirements, Mr. Hansen wondered whether it would be useful for the Code to include a number of explicit prohibitions. Mr. James agreed, noting that the current approach seems to be for PAs to first seek to apply safeguards to address threats to compliance with the fundamental principles, as opposed to a mindset that would preclude consideration of safeguards if a relationship, interest or service is prohibited. Mr. Hansen concurred, noting that there are situations where the threats are so significant that PAs should not even perform the work.</p>	<p>Point accepted.</p> <p>Acknowledging the points raised, Mr. Hannaford highlighted during the meeting that paragraph 120.7 A1⁶ of Safeguards ED-1 which already states that there are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. He explained that Phase 2 of the project pertaining to NAS will deal with the prohibitions in the Code. Mr. Siong reminded Representatives that the Code already includes specific prohibitions for certain situations, and highlighted some examples of these prohibitions.</p> <p>Reflecting on feedback from the CAG and respondents, the Task Force has repositioned paragraph 120.7 A1 of Safeguards ED-1(see paragraph 120.8 A2 in Agenda Item C-2).</p> <p>Paragraph 120.8 A2 clarifies that there are some situations in which the circumstances creating the threats cannot be eliminated and there can be no safeguards to eliminate the threats created or reduce them to an acceptable level. The paragraph further notes that in such situations, the PA is required to decline or end the specific professional activity.</p> <p>Also, Section 600 in Agenda Item C-5 includes examples of situations when certain types of non-</p>

⁶ Proposed Section 120, *The Conceptual Framework*

Matters Raised	Task Force/IESBA Response
	assurance services that might be prohibited for audit clients depending on the particular circumstances.
<p>Mr. Ahmed suggested that the IESBA consider mapping the key concepts that are included in the fundamental principles and conceptual framework (CF) (i.e., Part A of the Code) to the concepts that appear in subsequent sections of the Code (i.e., Parts B and C). For example, he questioned:</p> <ul style="list-style-type: none"> Why objectivity and integrity are included as fundamental principles, but not professional skepticism. He wondered whether the IESBA believed that professional skepticism was already covered within the fundamental principles of objectivity and integrity. The IESBA's rationale for including a reference to objectivity in the breaches to independence section of the Code, but not to integrity and professional skepticism. 	<p>Point taken into account.</p> <p>During the meeting, Mr. Hannaford responded that the fundamental principles are the same as those included in the extant Code. He added that the IESBA is mindful that auditors are required to exercise professional skepticism in planning and performing audits of financial statements. He then highlighted the paragraphs in proposed Section 400 that deal with independence, objectivity and professional skepticism.</p> <p>The question raised about how the Code deals with professional skepticism has been referred to the IESBA representatives on the Joint Professional Skepticism Working Group (PSWG) (see Agenda Item J3).</p>
PHASE 2 – PROPOSED CONSEQUENTIAL AMENDMENTS ARISING FROM SAFEGUARDS ED-1	
<i>Application of the CF to Independence – Proposed Section 400⁷</i>	
<p>With respect to the Task Force's proposal to repeat certain provisions in proposed Section 400 that already exist in proposed Section 120, Ms. McGeachy-Colby expressed the view that anything important is worth repeating. Mr. Dalkin and Ms. Singh agreed.</p>	<p>Point accepted.</p> <p>The provisions in Section 400 that formed part of Structure ED-1 have been further revised to incorporate the feedback from respondents. Section 400 includes introductory text that refer readers to the requirements in the conceptual framework set out in Section 120. See Section 400 in Agenda Item B-2.</p>
<p>Referring to the Report-Back on the September 2015 CAG discussion, Mr. Nicholson questioned whether the point raised by Ms. Miller regarding the distinction between independence and objectivity had been appropriately addressed.⁸ Mr. Nicholson commented that the point was not so much the link between the two but rather the distinction between them. In his view, it is not appropriate for the Code to characterize threats to objectivity and threats to independence as being the same. He noted that the IIA standards make clear that these two</p>	<p>Point accepted.</p> <p>During the meeting, Mr. Hannaford explained how the Task Force proposed to link the two concepts, inviting the CAG to respond to this proposal in Safeguards ED-1.</p> <p>At its June 2016 IESBA meeting, the IESBA considered and provided input on the Structure Task Force's preliminary proposals aimed at clarifying the interaction between the requirements and application material relating to compliance with the fundamental principles and independence.</p>

⁷ Proposed Section 400, *Application of Conceptual Framework to Independence for Audit and Review Engagements*

⁸ See paragraph 3 of the Guide and paragraphs 112.A1 and 400.1–400.2 in Structure ED-1.

Matters Raised	Task Force/IESBA Response
<p>concepts are different but equally important. He suggested that objectivity could be referred to as a state of mind. In contrast, independence is more about reporting lines, etc. He noted as example that a threat to objectivity could be time pressure whereas a threat to independence could be a conflict of interest</p> <p>Mr. Ahmed wondered what the statement “independence is a measure of objectivity” in paragraph 400.1 meant. He commented that one could think about something that is intrinsically valuable, such as independence. One could also think about something that is intrinsically instrumental. He felt that there was a need to clarify the distinction.</p> <p>Mr. Yurdakul noted his personal view that independence should be a fundamental principle in the Code, in particular as it relates to audits of financial statements. He felt that subordinating independence to objectivity did not put the right focus on it, and it may be perceived as being less important. He added that in his view independence should not be linked to just objectivity, but also to integrity and professional skepticism.</p>	<p>The proposed revisions in the restructured Code now include a section titled <i>Considerations for Audits, Reviews and Other Assurance Engagements</i> which:</p> <ul style="list-style-type: none"> • State that professional accountants in public practice are required to be independent when performing audits, reviews or other assurance engagements. • Explain that independence is linked to the fundamental principles of objectivity and integrity and restates the extant description of independence. • 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. • Refer to the requirements and application material in Parts 4A–<i>Independence for Audits and Reviews</i> and 4B–<i>Independence for Other Assurance Engagements</i> 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. • 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. <p>See paragraphs 120.10A1–120.11 A2 of Agenda Item C-2 and Section 400 of Agenda Item B-2.</p>
<p>Mr. Yurdakul observed that the IESBA distinguishes requirements with an “R”, and application material with an “A”. He suggested that the IESBA consider distinguishing introductory or contextual information with an “I” so that it would be clear that that material is for information purposes. He also questioned the rationale for including</p>	<p>Point taken into account.</p> <p>Mr. Hannaford responded that the Task Force was following the Structure drafting guidelines. He also noted that proposed Section 400 is not a standalone section but must be read with the rest of the Code.</p>

Matters Raised	Task Force/IESBA Response
application material to support some requirements but not others.	This comment has been referred to the Structure Task Force and is being considered in conjunction with the feedback received from respondents to Structure ED-1. See Agenda Items B-1 and B-2 .
Mr. Bradbury of IMF commented on the Task Force's suggested wording in paragraph R400.11, "In deciding whether to accept or continue an audit engagement, or whether an individual may be an audit team member, the firm shall identify threats to independence," noting that independence should be evaluated on an ongoing basis and not only when considering acceptance or continuance of an audit engagement.	Point accepted. This comment has been referred to the Structure Task Force and is being considered in conjunction with the feedback received from respondents to Structure ED-1. See Agenda Items B-1 and B-2 .
<i>Communicating with Those Charged with Governance (TCWG)</i>	
<p>Mr. van der Ende noted that it is important to consider enhancements to auditor communication with TCWG about the audit more broadly as the role of TCWG is becoming increasingly important in all types of activity and not just with respect to independence. He also agreed with the Task Force that consideration of possible enhancements to requirements for auditor communication with TCWG should involve close coordination between the IESBA and the IAASB in order to develop a common approach. With respect to the specific questions raised by the Task Force, Mr. van der Ende suggested that the IESBA spend more time to carefully consider the varying perspectives, including:</p> <ul style="list-style-type: none"> • Whether the Code should require auditor communication about independence matters and whether those requirements should be for audits of listed entities, public interest entities (PIEs) or all entities. • How the provisions in the Code should accommodate the unique considerations for the various types of organizations and corporate governance structures, including SMEs that may not necessarily have a separate governance function in place. <p>Mr. James agreed with Mr. van der Ende and suggested that in deciding the extent to which the</p>	<p>At its March 2016 meeting, the IESBA agreed to defer further work with respect to the consideration of enhancements to provisions relating to auditor communication with TCWG in the Code pending further liaising with the IAASB. Accordingly, this issue no longer forms part of the Safeguards project scope and will be considered as part of IESBA's future strategy and work plan.</p>

Matters Raised	Task Force/IESBA Response
<p>IESBA should align with the IAASB, there should be an understanding of how the extant provisions are being applied in practice. He added that the IESBA should form a view about the specific matters that auditors should communicate to TCWG, and explore whether the extant provisions that encourage communication about independence matters is facilitating those communications. In this regard, he suggested that obtaining an understanding of the implications in those jurisdictions that have adopted the IESBA Code but not IAASB standards, and vice versa, would be particularly important. Mr. Ahmed questioned whether the need for the Code to be aligned with IAASB standards is a practical or real issue.</p> <p>Mr. Ayoub felt it important to maintain consistency with the ISAs. He also felt that a differential approach could be taken, with a requirement with respect to PIEs but an encouragement with respect to entities that are not PIEs.</p> <p>In relation to the matter of alignment with ISAs, Mr. Hansen advised the IESBA to deal with what is within its purview. He added that as a matter of principle, if auditor communication with TCWG is important for PIEs, it should be equally important for all other entities. However, the communication could be less formal for the latter. Ms. McGeachy-Colby agreed, noting a concern about the need for potential conforming amendments to IAASB standards and the need to educate SMPs.</p> <p>Mr. Dalkin felt that intellectually the communication principle should apply to all entities. He noted that public sector entities generally do not have audit committees. Accordingly, some guidance would be needed as to how to identify TCWG for such entities.</p> <p>Ms. Robert commented that from an EU perspective, enhanced communication between auditors and TCWG would be welcome, noting that the EU audit legislation already would require such communication. She cautioned that consideration should be given to varying corporate governance</p>	

Matters Raised	Task Force/IESBA Response
<p>structures across jurisdictions when exploring changes to auditor communication with TCWG, as such communications are most effective with proper corporate governance structures.</p> <p>Mr. Bradbury of FEI believed that auditor communication with TCWG should apply with respect to all entities, viewing such communication as a protection for the entities themselves. He felt it important to think about <i>what</i> auditors should communicate.</p> <p>Mr. Ahmed agreed that communication with TCWG is an important topic. He noted that the extant Code contained a clear requirement as to how to communicate with TCWG about breaches in independence. He wondered whether this would strengthen or weaken the argument as to whether to require communication with TCWG. He was not persuaded that there should not be a communication requirement. In relation to the matter of consistency with the ISAs, he wondered why the IESBA would find it difficult to align the Code with the ISAs on this topic if the IESBA felt it sufficiently important to articulate these communication principles.</p>	
<i>Documentation</i>	
<p>Mr. Dalkin shared his perspectives about the benefits that have flowed from requiring documentation for audits of public sector entities. He expressed support for the Code to include an explicit requirement for firms to document <i>how</i> they have reached their conclusions with respect to the application of the CF to independence. He explained that the Code for public sector entities currently includes a similar requirement.</p> <p>Mr. Hansen expressed support for paragraph R402.2, adding that from his experience as a regulator it is not helpful if there is a lack of clarity regarding documentation.</p>	<p>Support noted.</p>
<p>Mr. James was of the view that the proposed wording in paragraph 402.2 A1, “A lack of documentation does not determine whether a firm considered a particular matter or whether a firm is</p>	<p>Point taken into account.</p> <p>The Task Force is of the view that a lack of documentation does not mean a breach of</p>

Matters Raised	Task Force/IESBA Response
<p>independent as required by C1,” can be perceived by regulators as being defensive for the firms even if not so intended. He suggested that the IESBA consider revising it to be more neutral. He also felt that there should be greater clarity that paragraph R402.2 requires the documentation of all the conclusions, not only when these are significant, as the proposed wording seemed to send mixed signals.</p>	<p>independence, but rather is intended to assist professional accountants comply with the Code.</p>
<p>PHASE 2 – ISSUES AND TASK FORCE RECOMMENDATIONS PERTAINING TO SAFEGUARDS IN THE NAS SECTION OF THE CODE</p>	
<p><i>Principles and Criteria</i></p>	
<p>Mr. Hansen was supportive of the Task Force’s proposals, but noted that a question that continues to arise is how long a firm should cool off before coming back to provide the same NAS to the audit client. He added that this question might be outside the scope of this project but welcomed views on it.</p>	<p>Point taken into account.</p> <p>Mr. Hannaford pointed to proposed requirements and application material for engagement periods in paragraphs R400.17–400.19 A1.</p> <p>The Task Force further considered Mr. Hansen’s comment and is of the view that further exploration of firm cool off periods before coming back to provide the same NAS to the audit client is outside of the safeguards project scope.</p>
<p>Mr. Dalkin noted that how a NAS should be described is an interesting question. He noted that in the public sector environment, there is a question as to whether auditor preparation of financial statement disclosures when management does not have the requisite expertise is a NAS or a part of the audit.</p>	<p>Point accepted.</p> <p>Mr. Hannaford explained that generally, this scenario is prohibited under the extant Code for PIEs and that the Task Force was not proposing to withdraw any of the existing prohibitions in the Code. He added that there is already guidance in the Code regarding what is considered to be of a routine or mechanical nature.</p>
<p>Mr. Kocktvedgaard noted that it is important for the IESBA to consider how its provisions pertaining to provisions of NAS to audit clients compare to ethical requirements in other jurisdictions.</p>	<p>Point taken into account.</p> <p>As part of developing its proposals, the Task Force took into account ethical requirements in other jurisdictions that pertain to provision of NAS to audit clients.</p>
<p>Mr. Thompson suggested that there be clarity regarding the distinction between non-audit and non-assurance services.</p>	<p>The Task Force considered whether the terms “non-audit” and “non-assurance services” services and affirms its view that the term “non-assurance services” is appropriate. Section 600 continues to include specific examples of non-assurances services.</p>

Matters Raised	Task Force/IESBA Response
<i>Materiality</i>	
<p>Mr. James questioned how the IESBA determined the permissibility of a NAS from a materiality perspective. He also questioned why a reference is made to materiality in describing circumstances that create self-review threats, but not advocacy threats created for example by promoting, dealing in, or underwriting an audit client's shares.</p> <p>Mr. Koktvedgaard noted that the Code there is already some scaling built into the Code, such as a prohibition in the preparation of accounting records for PIEs but not for other entities. He suggested that consideration could be given to providing guidance on factors to take into account.</p>	<p>Point taken into account.</p> <p>Ms. Soulier explained that the Task Force is of the view that for some threats such as a self-review threat, materiality is always a relevant factor in evaluating the level of the threat. However, in other cases, such as advocacy and self-interest threats, a more qualitative evaluation and scalable approach is needed given the stronger perceptions and the fact that it may not be practicable to consider materiality (for example, promoting an audit client's shares).</p> <p>Mr. Hannaford agreed noting that the Task Force plans to consider whether further guidance is needed in the Code to assist professional accountants in making this evaluation.</p> <p>Proposed Section 600 in Agenda Item C-5 includes new application material to explain materiality in relation to an audits of clients' financial statements. This new application material refer professional accountants to ISA 320, <i>Materiality in Planning and Performing an Audit</i>.</p>
<i>Other Matters, Including Communication with TCWG about NAS Provided to an Audit Client</i>	
<p>Mr. Inuma noted that the more a firm is global, the more its systems should monitor compliance with independence requirements. Accordingly, he suggested that the list of matters a firm should communicate to TCWG should include the systems and processes for monitoring compliance with independence requirements.</p>	<p>At its March 2016 meeting, the IESBA agreed to defer further work with respect to the consideration of enhancements to provisions relating to auditor communication with TCWG in the Code pending further liaising with the IAASB. Accordingly, this issue no longer forms part of the Safeguards project scope and will be consider as part of IESBA's future strategy and work plan.</p>
<p>Mr. James also noted that the list of what a firm should communicate to TCWG should include breaches to independence requirements arising from providing NAS to an audit client. He also expressed support for the planned outreach efforts and suggested that the IESBA engage in dialogue with TCWG, in particular audit committee members, as they will be impacted by the proposed changes.</p>	

Report Back on June 2016 Teleconference

Matters Raised	Task Force/IESBA Response
GENERAL COMMENTS	
Mr. Hansen complimented the Task Force on its progress to-date.	Support noted.
Reflecting on the discussions from the June 2016 national standards-setters meeting, Mr. Hansen questioned the planned timing for Phase 1 and Phase 2 of the safeguards project and asked for views about suggestions to finalize the safeguards project before finalizing restructured Code.	<p>Point taken into account.</p> <p>Mr. Hannaford explained that planned timing for the release of Safeguards Phase 1 and 2 coincide with the timeframe for the Structure of the Code project. Accordingly, the IESBA's planned approval for both Phase 2 exposure drafts is planned for December 2016.</p> <p>At its June 2016 meeting, the IESBA agreed to make available a staff prepared compilation of the proposed restructured Code to assist stakeholders understand the finalized wording for Phases 1 and 2 of the Safeguards and Structure projects. The planned release for this document is scheduled to be at the same time as the Phase 2 exposure drafts.</p>
Ms. Elliott questioned whether the IESBA plans to review the provisions for professional accountants in business (PAIBs).	<p>Point taken into account.</p> <p>Mr. Hannaford explained that the provisions in Section 120 are applicable to all professional accountants and that as part of its Phase 2 work, the Task Force plans to develop conforming changes to the rest of the Code, including to the provisions that are applicable to PAIBs.</p> <p>He explained that in September 2016, the IESBA will consider updated proposals to restructure the Part C Close off document titled, <i>Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles</i> (Part C Phase 1). He also noted that those proposals will form part of Structure ED-2.</p>
Ms. Molyneux noted that the changes in the revised proposals are strong and extensive, but some for example, those that pertaining to describing the reasonable and informed third party might be difficult to implement. She then emphasized the importance of educating and training professional accountants to ensure the effective implementation of the Task Force's proposals.	<p>Point accepted.</p> <p>Mr. Hannaford explained that similar to its other standard-setting projects, the IESBA plans to undertake efforts to promote awareness and implementation of the final safeguards pronouncements.</p>

Matters Raised	Task Force/IESBA Response
<p>Mr. Koktvedgaard wondered about whether the enhanced requirements and application material in the conceptual framework encourage more or less auditor judgment.</p>	<p>Point accepted.</p> <p>Mr. Hannaford explained that the more robust requirements in the conceptual frameworks specifies an approach to assist professional accountants think through how to identify, evaluate and address threats to compliance with fundamental principles. He explained that the application of the conceptual framework will avoid a situation whereby a professional accountant or firm simply try to apply safeguards without regard to the level of the threat or the appropriateness of such safeguards.</p>
<p>REASONABLE AND INFORMED THIRD PARTY</p>	
<p>Mr. Horstmann pointed to the feedback from International Forum of Independent Audit Regulators (IFIAR) and questioned who might be able to perform the reasonable and informed third party test. He questioned whether the intent was for the reasonable and informed third party test to be performed by a professional accountant versus a “Joe Public.”</p> <p>Ms. Ceynowa and Mr. Hansen echoed Mr. Horstmann views and suggested that the reasonable and informed third party test should be from the perspective of a user.</p> <p>Mr. Koktvedgaard wondered whether the reasonable and informed third party test should be different for independence of mind, versus independence in appearance.</p>	<p>Points accepted.</p> <p>Mr. Hannaford noted that some participants in the June 2016 national standards-setters meeting expressed similar views. He explained that the intent was for the reasonable and informed third party to be performed from the perspective of an objective person who possess sufficient skills and experience to challenge the judgments and conclusions reached professional accountant. He explained that feedback from the NSS indicate that the use of the word “skills” created the impression that the reasonable and informed third party needed to also be a professional accountant. The Task Force is recommending that the word “skills” be deleted.</p> <p>A revised description of the reasonable and informed third party concept included in paragraph 120.4 A1 of Agenda Item C-2 clarifies that:</p> <ul style="list-style-type: none"> • The reasonable and informed third party test involves consideration by the professional accountant about whether the same conclusions would likely be reached by another 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.

Matters Raised	Task Force/IESBA Response
<p>Ms. Elliott suggested the need for a word like “hypothetical” to describe the reasonable and informed third party. Mr. Kottvedgaard suggested that the Task Force focus on describing the characteristics of the reasonable and informed third party.</p>	<p>Point taken into account.</p> <p>Mr. Hannaford explained Safeguards ED-1 included the word “hypothetical” but that several urged that he IESBA avoid the use of such a word. Respondents suggested that the IESBA instead consider the use the words “uninvolved” or “objective”.</p> <p>See the Task Force response in the row above and the revised description of the reasonable and informed third party concept in paragraph 120.4 A1 of Agenda Item C-2.</p>
<p>Ms. Molyneux explained that jurisdictional laws and regulations also describe the reasonable and informed third party and questioned whether the existence of a description in the Code will present an issue.</p>	<p>Point taken into account.</p> <p>Mr. Hannaford explained that the Code includes a provisions to acknowledge that there are circumstances when laws or regulations preclude a professional accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail (see Section 100 of Agenda Item B-2).</p>
<p>Mr. Hansen suggested that the description of reasonable and informed third party be included in the glossary with other defined terms.</p>	<p>Point accepted.</p> <p>Mr. Hannaford also explained that the description of the reasonable and informed third party is relevant for all situations in the Code where the concept is used, including for in the recently released pronouncement, <i>Responding to Non-compliance with Laws and Regulations</i>. Ms. Jules added that the description of the reasonable and informed third party concept is already included in the glossary of the proposed restructured Code.</p>
IDENTIFYING, EVALUATING AND ADDRESSING THREATS	
<p>Ms. Ceynowa wondered whether the requirement for the professional accountant to decline or discontinue a specific professional activity should be positioned before the requirement to apply safeguards, as presented in paragraph R120.8 of the June 20, 2016 CAG teleconference agenda materials.</p>	<p>Point taken into account.</p> <p>Mr. Hannaford indicated that the Task Force will revisit the positioning of those provisions, but noted that as part of Phase 2 of the project, more prominence will be given to the prohibitions in the Code that indicate services that cannot be provided.</p> <p>The Task Force continues to be of the view that the positioning of the requirements in R120.8 is appropriate. The stronger and more explicit requirements and application material in Section 120</p>

Matters Raised	Task Force/IESBA Response
	<p>establish a more robust conceptual framework that is intended to be applicable to the Code. The Task Force believes that the conceptual framework, describes a logical approach for how professional accountants should identify, evaluate and in the case of the requirement in R120.8, address threats to compliance with the fundamental principles.</p> <p>The revised proposals explain 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. It explains that in such situations, the professional accountant is required to decline or end the specific professional activity (see paragraph 120.8 A2 in Agenda Item C-2).</p>
<p>Mr. Dalkin noted that one of the most significant and important changes in Safeguards ED-1 is the requirement for re-evaluating threats. He noted that in his view this change is responsive to some of the findings observed in the public sector environment. He expressed support for the revised placement of the provisions as part of the evaluating threats section.</p>	<p>Support noted.</p>
<p>Ms. Ceynowa and Mr. Hansen questioned whether the requirement for re-evaluating threats is intended to include situations when the professional accountant learns about contradictory information.</p> <p>Mr. Hansen suggested that it would be useful for the Code to include application material to indicate that such new information includes contradictory information.</p>	<p>Point taken into account.</p> <p>Mr. Hannaford responded affirmatively, and indicated that the Task Force would consider whether the Code should include an explicit statement in this regard.</p> <p>The Task Force is of the view that the consideration of contradictory information is most relevant when professional accountants perform audits, reviews or other assurance engagements and accordingly, would be more appropriate in the auditing and assurance standards.</p>

11. A summary of the significant comments on Safeguards ED-1, issues and the Task Force's revised proposals included in **Agenda Items C-1**.
12. **Agenda Item C-4** summarizes the rationale for the Task Force's proposals pertaining to the non-assurance services section of the Code.

Material Presented

Agenda Item C-1 Safeguards Phase 1 – Summary of Significant Comments on ED, Issues and Task Force Proposals

Safeguards Phase 1 and 2 – Cover, Including Report-Back
IESBA CAG Meeting (September 2016)

Agenda Item C-2	Safeguards Phase 1 – Proposed Revised Safeguards ED-1 (Mark-up from June 2016 CAG Teleconference)
Agenda Item C-3	Safeguards Phase 1 – Proposed Revised Safeguards ED-1 (Clean)
Agenda Item C-4	Safeguards Phase 2 – Issues Pertaining to Non-assurance Services and Task Force Proposals
Agenda Item C-5	Safeguards Phase 2 – Proposed Revisions to Section 600, NAS

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

IESBA Meeting Agenda Item 2-C, Safeguards Phase 1 – Proposed Revised Safeguards ED-1 (Mark-up from ED)	http://www.ethicsboard.org/meetings/september-26-30-2016-new-york-usa
IESBA Meeting Agenda Item 2-F, Mapping Table – Proposed Restructured Section 600 (Clean)	http://www.ethicsboard.org/meetings/september-26-30-2016-new-york-usa

Appendix 1

Project History

Project: Safeguards

Summary

	CAG Meeting	IESBA Meeting
Project commencement		January 2015
Development of proposed international pronouncement (up to exposure)	March 2015 September 2015	April 2015 June/July 2015 September 2015 November/ December 2015
Discussion of Responses to Safeguards ED-1	September 2016	June 2016 September 2016
Development of proposed international pronouncement (up to exposure) (ED-2)	March 2016 September 2016	March 2016 June 2016 September 2016

CAG Discussions: Detailed References

Project Commencement	<u>March 2015</u> See IESBA CAG meeting material here (see Agenda Items D, D-1, D-2, D-3 and D-4) and CAG meeting minutes (see section D).
Development of proposed international pronouncement (up to exposure)	<u>September 2015</u> See IESBA CAG meeting material here (see Agenda Items E and E-1) and CAG meeting minutes (see Section E). <u>March 2016</u> See Agenda Items B-1 and B-2 CAG meeting minutes at Agenda Item A-1 (see Section B). <u>June 2016 Teleconference</u> See CAG Agenda Items A, A-1, A-2 and A-3. <u>September 2016</u> See Agenda Items C-1, C-2, C3, C-4, C-5