

IESBA

Safeguards Phase 1

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Overview of Safeguards ED-1 Proposals

- Enhanced guidance for applying the CF
 - More robust provisions to identify, evaluate and address threats
 - New requirement that emphasize the need for PAs to re-evaluate threats
 - New requirement for PAs to perform an overall assessment (step-back)
- Improved descriptions of key terms and concepts
 - Reasonable and informed third party
 - Acceptable level
 - Safeguards
- Streamlined examples of safeguards that are linked to threats

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Recent Activities

- Comment period closed March 21, 2016
- 53 comment letters received across a range of stakeholder categories, including from the CAG
- Task Force meeting May 9-10, 2016 to consider responses
 - IOSCO and IFIAR letters after meeting
- IESBA to consider revised proposals at its June 27-29, 2016 meeting

General Comments

- Strong support for project objectives, but also some reservations about making extensive changes to the CF
- Comments received about:
 - Need to refer to threats to independence in S120
 - Proposals go beyond safeguards project scope
 - Confusion about the link between S120 and S300
 - Appropriateness of the examples of safeguards in S300
 - Timing of the project: Desire to see how proposals fit within whole restructure Code

Response to General Comments

- Structure Task Force considering revisions to address concerns about independence
- More work to be done to address concerns about S300, but
 - Revisions made in S300 to align with revisions in S120
 - New application material in S120 to refer to provisions in S300
 - Some editorial suggestions taken on to improve the examples of safeguards
- IESBA to consider how to address concerns about timing at June meeting

Enhanced Description of the Conceptual Framework

Identifying, Evaluating and Addressing Threats

- Strong support for proposals – The CF is described as being more “streamlined” and “clearer”
- Confusion about number of stages in the conceptual framework (three? or five?)
 - What is the difference between the requirements for “re-evaluating threats” and the “overall assessment”?
 - When to perform the overall assessment? Does it apply to firms?
 - Is there are need for an additional stage to “design and implement a safeguard”?

Enhanced Description of the Conceptual Framework

Task Force Response

- New placement of requirements and revised introduction to clarify the timing for re-evaluating threats and performing the overall assessment
- New title headings
 - “Consideration of New Information or Changes in Facts and Circumstances” replaces “Re-evaluating Threats”
 - “Consideration of Significant Judgments Made and Overall Conclusions Reached” replaces “Overall Assessment”
- Other refinements to clarify proposals based on some respondents’ suggestions

Do CAG representatives agree?

Reasonable and Informed Third Party

- Strong support for establishing a description of reasonable and informed third party, but requests for further clarification
 - Confusion by the use of the word “hypothetical”
 - Varying views about who should be doing the test
 - Need to emphasize that the evaluation needs to be objective
 - Need to align with how the concept is used elsewhere in the Code (e.g., NOCLAR)
 - Consider how to accommodate existing descriptions of similar terms (e.g., in the EU and South Africa)

Reasonable and Informed Third Party

Task Force Response

- Revised wording to clarify that the concept is a test, which:
 - Involves a consideration by the PA about whether an objective person who possesses skills, knowledge and experience to evaluate the appropriateness of the PA’s judgments and conclusions would likely reach the same conclusions
 - Entails that objective person weighing all the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time that the PA’s judgments and conclusions were made

Do CAG representatives agree?

Other Significant Revisions

- Retain proposals to withdraw certain activities (e.g., firm-specific safeguards) which were formerly safeguards, but reinstate some extant wording to clarify its importance in the identification and evaluation of threats
- More explicit statement in S120 to indicate that there are situations when safeguards will not be capable of reducing threats to an acceptable level
- Several structural and editorials changes to improve flow of CF

Do CAG representatives agree?

Next Steps

- June 2016 IESBA meeting
 - IESBA consideration of responses to Safeguards ED-1 and Task Force proposed revisions
 - First read of NAS (will be subject to further revisions based on feedback on ED-1)
- September 2016 CAG and IESBA meetings

**Any other comments or
questions?**

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