

Basis for Agreement in Principle
Prepared by the Staff of the IESBA
January 2017

*International Ethics Standards Board
for Accountants®*

Revisions Pertaining to Safeguards in the Code— Phase 1

IESBA

International
Ethics Standards
Board for Accountants®



International
Ethics Standards
Board for Accountants®

This document was prepared by the Staff of the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate *Code of Ethics for Professional Accountants™* (the Code).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © January 2017 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 17](#).

**BASIS FOR AGREEMENT IN PRINCIPLE:
REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE—PHASE 1**

CONTENTS

	Page
I. Introduction	4
II. Background.....	4
III. Highlights of Safeguards Phase 1	4
IV. Basis for Agreement in Principle.....	6
Overview of Safeguards ED-1 and General Feedback.....	6
Reasonable and Informed Third Party	11
Description of Acceptable Level.....	12
Safeguards Versus Conditions, Policies and Procedures	13
Applying the Conceptual Framework to Professional Accountants in Public Practice (PAPPs)	15
Other Matters	15

I. Introduction

1. At its December 2016 meeting, the IESBA agreed in principle the text of Phase 1 of the Safeguards project, taking into account respondents' feedback on the December 2015 Exposure Drafts, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) and [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1](#) (Structure ED-1), as well as input from its Consultative Advisory Group (CAG).
2. This Basis for Agreement in Principle has been prepared by the staff of the IESBA. It summarizes the feedback received from respondents to Safeguards ED-1 and explains the rationale for the IESBA's decisions in agreeing in principle the text of Phase 1 of the Safeguards project.
3. A Basis for Conclusions document for the Safeguards project will be published once Phase 2 of the project is completed.

II. Background

4. Responsive to concerns raised by stakeholders, in particular by some regulators, in January 2015 the IESBA approved the Safeguards project with the aim of improving the clarity, appropriateness, and effectiveness of the safeguards in the Code. For example, it was noted that certain safeguards in the Code may be inappropriate or ineffective, and that some safeguards merely duplicate existing requirements imposed by quality control and auditing standards or existing best practice and are not tailored to address the specific threats to independence or compliance with the fundamental principles. Some regulators suggested that the IESBA should:
 - (a) Clarify the safeguards that are not clear in the extant Code and eliminate those that are inappropriate or ineffective;
 - (b) Better correlate a safeguard with the threat it is intended to address; and
 - (c) Clarify that not every threat can be addressed by a safeguard.
5. Safeguards ED-1 was approved and released in December 2015. Concurrently, the IESBA approved and released Structure ED-1, which proposed new structure and drafting conventions for the Code.¹ Safeguards ED-1 was drafted in accordance with those proposed new conventions.

III. Highlights of Safeguards Phase 1

6. The agreed-in-principle text of Safeguards Phase 1 establishes an enhanced conceptual framework that, among other matters:
 - (a) Explicitly states that a professional accountant (PA) is required to address threats to compliance with the fundamental principles by eliminating them or reducing them to an acceptable level by:
 - (i) Eliminating the circumstances, including interests or relationships, that are creating the threats;
 - (ii) Applying safeguards, where available and capable of being applied; or

¹ Information about the IESBA's conclusions with respect to Phase 1 of the Structure project is included in the [Basis for Agreement in Principle, Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure BFAP).

² Section 120, paragraph R120.10

- (iii) Declining or ending the specific professional activity.
- (b) Clarifies the safeguards in the extant Code and no longer includes safeguards that the IESBA determined were inappropriate or ineffective. The enhanced conceptual framework:
 - (i) States that safeguards are actions, individually or in combination, that the PA takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level;³
 - (ii) Explains that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the PA acting ethically, and which might also impact the identification and evaluation of threats to compliance with the fundamental principles, are no longer safeguards.⁴ In contrast to the extant Code, those conditions, policies and procedures are no longer characterized as safeguards because they do not meet the new description of safeguards in the enhanced conceptual framework;
 - (iii) Provides improved examples of actions that might be safeguards to address specific threats and provides a link between those examples and the threats they are intended to address; and
 - (iv) Includes new application material that explains that there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the level of the threat to an acceptable level.⁵
- (c) Includes new requirements to assist PAs in evaluating and addressing threats. Specifically:
 - (i) In evaluating threats, PAs are required to consider new information or changes in facts and circumstances. This means that if a PA becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant is required to re-evaluate and address that threat accordingly. New application material explains that remaining alert throughout the professional activity assists the PA in determining whether new information has emerged or changes in facts and circumstances have occurred. The IESBA's agreed-in-principle text also explains that if new information results in the identification of a new threat, the PA is required to evaluate and, as appropriate, address this threat. ⁶
 - (ii) In addressing threats, PAs are required to form an overall conclusion about whether the actions that they take, or intend to take, to address the threats will eliminate or reduce them to an acceptable level. In forming this overall conclusion, PAs are required to review any significant judgments made or conclusions reached, and use the reasonable and informed third party test.
- (d) Establishes descriptions of the terms “reasonable informed third party” and “acceptable level.”

³ Section 120, paragraph 120.10 A1

⁴ Section 120, paragraphs 120.6 A1 and 120.7 A2

⁵ Section 120, paragraph 120.10 A2

⁶ Section 120, paragraphs R120.9, 120.9 A1 and 120.9 A2

IV. Basis for Agreement in Principle

Overview of Safeguards ED-1 and General Feedback

7. Safeguards ED-1 proposed enhancements to the provisions in the extant Code relating to the conceptual framework (i.e., restructured Section 120)⁷ and the application of the conceptual framework to PAs in public practice (restructured Section 300).⁸ The ED proposed an enhanced and more robust conceptual framework with more explicit requirements and application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles.⁹ In response to Safeguards ED-1, 53 comment letters were received from various respondents, including regulators and audit oversight authorities, national standard setters, firms, public sector organizations, preparers, IFAC member bodies and other professional organizations. There was general support for the proposals, as well as detailed suggestions for refinements and other comments.
8. A substantial body of respondents 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 the scope of the project and whether some of the proposed revisions went beyond just reviewing the effectiveness of safeguards in the Code. Those respondents were in particular of the view that:
 - The scope of the 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 conceptual framework would likely significantly impact national Codes, which in turn could potentially hinder the progress being made towards convergence or harmonization with the IESBA Code.
 - Suggested that the conceptual framework should also address independence.
 - Suggested a need for additional guidance to clarify the IESBA's expectation about how compliance with the provisions in Safeguards ED-1 should be documented.
9. Some respondents, including some monitoring group members, made comments and suggestions about structural matters. Those comments and suggestions have been dealt with as part of the Structure project.¹⁰

⁷ Section 120, *The Conceptual Framework* (Part 1, Complying with the Code, Fundamental Principles and the Conceptual Framework)

⁸ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice* (Part 3, Professional Accountants in Public Practice)

⁹ Section 120, paragraphs R120.6, R120.7 and R120.10

¹⁰ The following are examples of some respondents' suggestions that were dealt with as part of the Structure project:

- Revisit how definitions are dealt in the Code.
- Clarify the requirements for PAPPs.
- Consider changing the title of Section 120 from "conceptual framework" to "general framework" to better convey that it establishes an approach that the IESBA will require for all PAs in the restructured Code.

IESBA Agreement in Principle

Scope of the Project

10. Given the strong support from respondents overall for the scope of the proposals, the IESBA has retained its approach to the scope of the project. The IESBA believes in particular that the enhancements to the conceptual framework are a necessary part of achieving clarity regarding safeguards in the Code. The IESBA focused its efforts post-exposure on developing clarifications to the requirements and application material in the conceptual framework that it believes are needed in order to improve how PAs apply the “threats and safeguards approach.” The IESBA believes that the agreed-in-principle changes will enhance the robustness of the concept of safeguards and its application in the Code.

The Conceptual Framework and Independence

11. The enhanced conceptual framework now addresses independence in new application material under a heading titled *Considerations for Audits, Reviews and Other Assurance Engagements* within Section 120. This new application material:
 - (a) States that PAPPs are required to be independent when performing audits, reviews or other assurance engagements.
 - (b) Explains that independence is linked to the fundamental principles, more specifically the principles of objectivity and integrity as stated in the extant definition of independence.
 - (c) States 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) Refers to 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) Explains that the categories of threats to compliance with the fundamental principles (i.e., self-interest, self-review, advocacy, familiarity and intimidation) and the categories of threats to independence are the same.

Documentation

12. The IESBA determined that the documentation requirements in the extant Code apply equally in the context of the revisions in Phase 1 of the Safeguards project. The IESBA is of the view that a further review of the documentation requirements in the Code should be done on a holistic basis, in potential coordination with the International Auditing and Assurance Standards Board (IAASB). Accordingly, the IESBA is considering this matter as it develops its strategy and work plan for its next strategy cycle.

An Enhanced Conceptual Framework for All PAs

Stages in the Conceptual Framework

13. A substantial body of respondents were supportive of enhanced and more explicit requirements for PAs to identify, evaluate and address threats. They observed that the proposed revisions were clearer and more streamlined than the material in the extant Code. However, some respondents asked for

clarification about the number of stages in the conceptual framework and the timing for performing them. For example, a respondent questioned whether the conceptual framework should be described as a “five” versus a “three” step approach, given the proposed requirements for re-evaluating threats and for an overall assessment. The respondent also suggested that the IESBA consider adding a new step to the conceptual framework titled “designing and implementing safeguards,” which would require PAs to consider the correlation between the specific identified threat and the safeguard that would need to be put in place to respond to that threat.

IESBA Agreement in Principle

14. The IESBA determined that a simple three-stage conceptual framework as proposed in Safeguards ED-1 remained appropriate. In response to the feedback received, however, the IESBA has refined its proposals to clarify that PAs should:
 - Consider new information or changes in facts and circumstances in order to properly evaluate threats. The requirement under the heading “Re-evaluating Threats” in Safeguards ED-1 has been repositioned under a subheading titled “Consideration of New Information or Changes in Facts and Circumstances” under the main heading “Evaluating Threats.” This approach clarifies that the requirement for PAs to re-evaluate threats is not an additional stage in the conceptual framework but, rather, is part of the PA’s responsibility to properly evaluate threats.
 - Consider significant judgments made and overall conclusions reached (i.e., perform an overall assessment or “step back”) in order to properly address threats. The requirement under the subheading titled “Overall Assessment” in Safeguards ED-1 has been repositioned under a subheading titled “Consideration of Significant Judgments Made and Overall Conclusions Reached” under the main heading “Addressing Threats.” This approach clarifies that that PAs should perform an overall assessment as part of their responsibility to properly address threats.

Identifying Threats

15. A few respondents commented on the proposed requirement to identify threats and suggested that the IESBA:
 - Develop new application material to assist PAs identify threats. Those respondents believed that the proposals 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, on the grounds 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.
 - Make it clear that there is a rebuttable presumption that every engagement or situation will have some threat.

IESBA Agreement in Principle

16. The IESBA believes it is an important part of the conceptual framework that PAs be required to identify threats to compliance with the fundamental principles. Accordingly, it has made revisions to:¹¹
- Explain that understanding the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, enables the PA to identify threats;
 - Indicate that threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances, which it is not possible to fully describe in the Code;
 - 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.
17. Additionally, taking into account the suggestion to make clear that there is a “rebuttable presumption” that every engagement or situation will have some threat, the IESBA has endeavored to specify, as part of its proposals under Phase 2 of the Safeguards project ([Safeguards ED-2](#)), the types of threat that might be created when providing specific non-assurance services (NAS) to audit clients.

Addressing Threats

18. Safeguards ED-1 included new application material that stated that “there are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level.” While a number of respondents supported the principle behind the statement, some, including a monitoring group member, were of the view that the Code should state even more explicitly that there are situations in which safeguards are not capable of addressing threats. A respondent suggested that this application material should be elevated to a requirement to make it clear that when no safeguards are available, the PA should decline or discontinue the professional activity “unless precluded from doing so by law or regulation.”
19. Safeguards ED-1 included a reference to the examples of situations that apply in the International Independence Standards when PAs may not be able to apply safeguards to address threats. Some respondents challenged this approach, and suggested that the IESBA:
- Strengthen the statement to specify the instances for which IESBA has determined that safeguards should not even be a consideration.
 - Refer to examples for all situations and for all PAs, and not just for engagements that require independence.

IESBA Agreement in Principle

20. In response to the feedback received, the IESBA has:
- (a) Revised the text to make clear that “there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable

¹¹ See paragraphs R120.6–120.6 A4.

of being applied to reduce the level of the threat to an acceptable level;”¹²

- (b) Repositioned the statement so that it appears after the description of safeguards under a new subheading “Actions to Eliminate Threats;” and
- (c) Deleted the last sentence of paragraph 120.7 A2 in Safeguards ED-1 that referred PAs to relevant examples in the International Independence Standards.

Re-evaluating Threats and Overall Assessment

- 21. Some respondents, including some monitoring group members, were of the view that with respect to the PA’s re-evaluation of threats the PA should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the professional activity. One of those respondents was of the view that the frequency of the re-evaluation might vary depending on the nature of the professional activity or the relationship between the PA and the entity. For example, it was noted that threats to objectivity might necessitate a different frequency of re-evaluation compared to threats to professional competence and due care.
- 22. A respondent suggested that the requirement for re-evaluating threats should instead be application material. Others offered drafting suggestions for clarity. For example, many respondents were of the view that:
 - (a) The expected timing of the overall assessment should be specified.
 - (b) The IESBA should clarify whether it intended a difference between the requirements for re-evaluating threats and for performing the overall assessment. Some respondents also felt it was unclear whether the requirement to perform an overall assessment was a key component of the conceptual framework.
 - (c) The IESBA should clarify whether the overall assessment should be performed by someone other than the PA who identified and evaluated the threat. Along those lines, questions were raised about whether the requirement to perform the overall assessment should be repeated in all sections of the Code if it was included in the conceptual framework.

IESBA Agreement in Principle

- 23. As noted above, the IESBA has made revisions to the requirements relating to re-evaluating threats and performing an overall assessment. These refinements clarify the timing relating to the application of those requirements and emphasize that they are not intended to be separate stages in the conceptual framework.
- 24. With respect to the requirement to re-evaluate threats and address them accordingly, the IESBA revisited the proposed application material that explained what is meant by remaining alert and determined that this guidance continued to be clear and appropriate. However, the IESBA determined to add new application material to clarify that if new information results in the identification of a new threat, the PA is required to evaluate and, as appropriate, address this threat.
- 25. With respect to the requirement to perform an overall assessment, the IESBA has clarified that the overall assessment is a consideration of significant judgments made and overall conclusions reached. The revised requirement also establishes an obligation for the PA to form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the

¹² See paragraph 120.10 A2.

threats created will eliminate those threats or reduce them to an acceptable level. As part of the overall assessment, PAs are required to take into account the reasonable and informed third party test when reviewing significant judgments made or conclusions reached.

Reasonable and Informed Third Party

26. Respondents across all stakeholder groups expressed strong support for having a description of the term “reasonable and informed third party” in the Code. However, respondents’ views about the proposed description in Safeguards ED-1 were mixed, and many provided drafting suggestions. For example, some respondents:

- Were of the view that the words “skills, knowledge and experience” seemed to imply that the reasonable and informed third party would be required to have the same skills and knowledge as a PA. It was suggested that the IESBA consider using the words “sufficient and relevant skills, knowledge and experience...” instead.
- Suggested that the IESBA clarify that the test is being performed by the PA.
- Suggested avoiding the use of the word “hypothetical” and using alternatives such as “independent,” “uninvolved,” or “objective” instead.
- Requested that the IESBA clarify the characteristics that the reasonable and informed third party should possess.
- Suggested that the reasonable and informed third party be described as “one who has a legitimate interest in the PA 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 PA accepts a responsibility to act.”
- Observed that the meaning of the term reasonable and informed third party was rooted in jurisdictional codes, law or regulation, and expressed concerns about the term being used internationally.

IESBA Agreement in Principle

27. The IESBA determined to emphasize the existing requirement for PAs to use the reasonable and informed third party test when applying the conceptual framework. The IESBA also determined to add new application material to explain the reasonable and informed third party test.¹³ This new application material clarifies that the reasonable and informed third party test is:

- A consideration by the PA about whether the same conclusions would likely be reached by another party.
- Made from the perspective of a “reasonable and informed third party,” who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made.

28. The IESBA agreed that the reasonable and informed third party is a concept and not a real person. However, because of the importance that the concept has in applying the requirements in the Code, the IESBA believes that it is important to establish a clear description of the attributes for this

¹³ Section 120, paragraphs R120.5 and 120.5 A1

“reasonable and informed third party” to help PAs in applying the test. The IESBA agrees with its CAG and some respondents to Safeguards ED-1 that the reasonable and informed third party does not need to be a PA. However, the IESBA also believes that the reasonable and informed third party needs to possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.

Description of Acceptable Level

29. A substantial body of respondents expressed support for the proposed revised description of the term “acceptable level.” Among various drafting comments, it was suggested that:
- The word “likely” should be replaced with the word “probable.”
 - The description of acceptable level be more prominently positioned.
30. A respondent suggested that the term “acceptable level” be withdrawn as a way of focusing PAs on considering that threats are addressed only when the reasonable and informed third party test is passed, rather than on finding a level of threats that is “acceptable.” The respondent suggested that having an implicit link to the reasonable and informed third party test in the description of “acceptable level” might better align with the expectations of stakeholders, thereby increasing their confidence in PAs.
31. Some respondents expressed a preference for the description in the extant Code and felt that describing “acceptable level” in an affirmative manner made it appear more stringent. Those respondents questioned the rationale for the change in the description.

IESBA Agreement in Principle

32. The IESBA reaffirmed its view that the term “acceptable level” should be described in an affirmative manner as this more clearly and directly conveys the intended meaning. The IESBA also accepted the suggestion from respondents for the term to be given prominence by including the description under its own subheading “Acceptable Level” in the Code.
33. Responsive to respondents’ feedback, the IESBA considered whether the description of “acceptable level” should be:
- (a) Changed to a requirement as opposed to being positioned as application material because respondents viewed the term “acceptable level” as a critical part of the “threats and safeguards” approach. The IESBA opted against this approach because it would deviate from the new structure and drafting conventions for the restructured Code. The IESBA was also of the view that the application of the principle involved in the description of “acceptable level” is covered by the requirements in the agreed-in-principle text. PAs are required to evaluate whether threats are at an acceptable level, and address those threats either by eliminating or reducing them to an acceptable level.¹⁴
 - (b) Re-positioned to be in close proximity to the requirement to apply the reasonable and informed third party test. The IESBA concluded that it is more appropriate to describe “acceptable level” as application material to evaluating threats.
34. The IESBA believes that the refinements made to the enhanced conceptual framework in response to the input received on the ED will better support all PAs in fulfilling their responsibility to act in the

¹⁴ Section 120, paragraphs R120.7 and R120.10.

public interest, including with respect to audits of financial statements, and thereby will contribute to support audit quality.

Safeguards Versus Conditions, Policies and Procedures

Revised Description of Safeguards

35. Some respondents were supportive of the enhancements to the description of safeguards. However, others were of the view the proposals could be further improved if the description:
- Emphasized that safeguards are intended to reduce *specific* threats.
 - Clarified the linkage between each specific safeguard and the threat that it is intended to address.
 - Was revised in the following manner: “Safeguards are actions, individually or in combination, that the ~~professional accountant~~ individual(s) providing professional services takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level. A professional accountant shall be responsible for the overall effectiveness of safeguards.”

There were also suggestions from some respondents for additional application material, including examples of safeguards in the conceptual framework.

36. A few respondents did not support the proposed description of safeguards. They expressed concern that it was too burdensome and would no longer allow for PAs’ professional judgment. Those respondents also disagreed with the proposal to withdraw from the Code “safeguards created by the professional or legislation, safeguards in the work environment and safeguards implemented by the entity.”

IESBA Agreement in Principle

37. The IESBA determined that safeguards are actions, individually or in combination, that the PA takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level. The revised description clarifies that safeguards are actions that *effectively reduce* threats to compliance with the fundamental principles to an acceptable level. The IESBA is of the view that safeguards cannot eliminate threats, but rather only reduce them to an acceptable level. The concept of *effectively reducing* threats also implies that the safeguards are addressing specific threats.
38. To make this clear, the revised application material under the subheading “Actions to Eliminate Threats” explains that there are some situations in which threats can only be addressed by declining or ending a specific activity.
39. With respect to the suggestions for additional application material, including examples of safeguards in the conceptual framework, the IESBA believes that it is important to focus the conceptual framework on establishing overarching and more general provisions. Subsequent sections of the Code can then build on the conceptual framework, including with more specific application material and examples that are based on specific facts and circumstances.

Conditions, Policies and Procedures

40. Respondents held mixed views about the IESBA’s proposal to withdraw the terms “safeguards created by the profession or legislation,” “safeguards in the work environment” and “safeguards

implemented by the entity” (herein referred to as the extant safeguards). The proposals in Safeguards ED-1 re-characterized those safeguards as conditions, policies and procedures established by the profession, legislation, regulation, the firm and the employing organization that can affect the likelihood of the PA’s identification of a threat. On one hand, some respondents, including some monitoring group members, expressed full support for the IESBA’s proposal. On the other hand, other respondents disagreed and felt that these extant safeguards form part of a holistic framework that is designed to assist PAs comply with the fundamental principles, and should therefore be retained.

IESBA Agreement in Principle

41. The IESBA reaffirmed the withdrawal of the extant safeguards. Responsive to some respondents’ suggestions, however, some of the material in paragraph 100.16¹⁵ of the extant Code has been reinstated to explain that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically, might also impact the identification of threats to compliance with the fundamental principles (see paragraph 120.6 A1).
42. In contrast to the extant Code, the new application material clarifies that those conditions, policies and procedures are no longer characterized as safeguards because they do not meet the new description of safeguards. Examples of those conditions, policies and procedures include:
 - Corporate governance requirements.
 - Educational, training and experience requirements for the profession.
 - Effective complaint systems which enable the PA and the general public to draw attention to unethical behavior.
 - An explicitly stated duty to report breaches of ethics requirements.
 - Professional or regulatory monitoring and disciplinary procedures.
43. Within Section 300, the IESBA has clarified that those conditions, policies and procedures might relate to the client and its operating environment as well as to the firm and its operating environment. In the agreed-in-principle text, revisions have been made to clarify that the PA’s evaluation of the level of the threat is also impacted by the nature and scope of the professional service. Consequently, paragraph 300.2 A5 in the ED has been deleted.¹⁶

¹⁵ Paragraph 100.16 of the extant Code states that: “Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organization, include:

- Effective, well-publicized complaint systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.
- An explicitly stated duty to report breaches of ethical requirements.”

¹⁶ Safeguards ED-1, paragraph 300.5 A5 stated that: “The level of a threat is impacted by the nature and scope of the professional service. Examples of professional services, the threats that might arise as a result, and how a professional accountant may address those threats are discussed in International Independence Standards C1 and C2.”

Applying the Conceptual Framework to Professional Accountants in Public Practice (PAPPs)

44. Respondents were generally supportive of the proposals in Section 300. However, many respondents suggested that the IESBA clarify the linkage between Sections 120 and 300. For example, it was suggested that certain requirements and application material in Section 120 be repeated or cross-referred to. It was also suggested that the IESBA revise the examples of threats in Section 300 so that they also focus on compliance with each of the fundamental principles.

IESBA Agreement in Principle

45. New introductory material has been included in Section 300 to better explain the interaction between the requirements for PAPPs and those for all PAs as set out in the conceptual framework.
46. The IESBA reviewed the examples of safeguards in Section 300 and has made refinements to clarify them, for example, to make clear that “consulting or seeking approval from those charged with governance or an independent third party...” is not a safeguard.
47. The IESBA also made other refinements to Section 300 to align with the revisions made to the description of the conceptual framework.

Other Matters

Small and Medium Practices (SMP)

48. Some stakeholders within the SMP community suggested that the IESBA consider the practical challenges currently faced by some SMPs as a result of limited resources when reviewing the safeguards in the extant Code.

IESBA Agreement in Principle

49. During Phase 1 of the project, the IESBA carefully reviewed the examples of safeguards in Part A of the extant Code to ensure that they align with the revised description of a safeguard. The agreed-in-principle text includes revised examples of actions that in certain circumstances might be safeguards to address threats.¹⁷
50. As part of Phase 2 of the project, the IESBA undertook a similar review of the other sections of the extant Code, including the NAS section. The Explanatory Memorandum to Safeguards ED-2 notes that the IESBA has endeavored to identify other actions that might qualify as safeguards in the different NAS situations or other contexts. It also notes that the IESBA acknowledges that some firms, particularly those in the SMP community, might continue to face practical challenges in applying appropriate safeguards given resource constraints. Safeguards ED-2 seeks input from respondents regarding additional actions they believe might meet the revised description of a safeguard in the different situations.

Interactions with IAASB

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

¹⁷ See paragraph 300.8 A1

- There is clarity on the inter-dependence between the effectiveness of safeguards and quality control.

IESBA Agreement in Principle

52. The IESBA is maintaining close coordination with the IAASB as a strategic priority. Among the cross-over topics or issues being discussed at Board and Staff levels are potential conforming amendments that may be needed to the IAASB's standards as a result of the IESBA's revisions to the Code from the Safeguards project.

The *Code of Ethics for Professional Accountants*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Ethics Standards Board for Accountants', '*Code of Ethics for Professional Accountants*', 'International Federation of Accountants', 'IESBA', 'IFAC', the IESBA logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © January 2017 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document. Contact permissions@ifac.org.

Published by:





**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org