

Safeguards—Issues and Task Force Proposals

How the Project Serves the Public Interest

Varying views exist on what constitutes a safeguard as well as on the effectiveness and appropriateness of safeguards within the Code. This project¹ will address the clarity, appropriateness and effectiveness of safeguards in Section 100² and Section 200³ of the Code, including those safeguards that pertain to non–assurance services (NAS) in Section 290⁴ of the Code. Through enhanced clarity, and more robust guidance relating to safeguards, the project aims to further promote the appropriate use of the conceptual framework (CF) among all professional accountants (PAs) to comply with the fundamental principles of the Code.

A more robust discussion of threats to compliance with the fundamental principles and safeguards in the Code will serve to support PAs in fulfilling their responsibility to act in the public interest, and, with respect to audits of financial statements, more broadly contribute to supporting audit quality.

Introduction and Recap of June/July 2015 Tentative Board Decisions

1. The Safeguards Project Proposal indicates that the Task Force will evaluate and make recommendations on the clarity, appropriateness and effectiveness of safeguards in Sections 100 and 200 of the Code, including those safeguards that pertain to NAS in Section 290 of the Code. With respect to potential proposals regarding NAS, the Task Force plans to consider such proposals at its October 2015 Task Force meeting (see section D to this paper).
2. In performing its work, the Task Force also deemed it appropriate to propose further changes to:
 - Enhance the format and layout of Section 100, in particular the paragraphs that describe how PAs should apply the CF; and
 - Revise, and in some cases expand on the content of the Code to provide more guidance about how PAs should apply the CF.
3. The Task Force’s proposals to-date, also:
 - (a) Introduce a revised description of the term “safeguards;” clarify the threshold of “acceptable level” with respect to the reduction of a threat; and explain the concept of a “reasonable and informed third party;”

¹ The January 2015 approved Project Proposal for the Safeguard project indicate that the project scope will encompass:

- The subsection entitled *Threats and Safeguards* (paragraphs 100.12–100.16) in Section 100.
- The subsection entitled *Threats and Safeguards* (paragraphs 200.3–200.15) in Section 200.
- The section entitled *Application of the Conceptual Framework Approach to Independence* (paragraphs 290.100 to 290.101).
- The section entitled *Provision of Non-Assurance Services to an Audit Client* (paragraphs 290.154 to 290.216).
- Necessary conforming changes to Section 291 resulting from any of the potential changes to Section 290.

² Section 100, *Introduction and Fundamental Principles*

³ Section 200, *Introduction* (Part B – Professional Accountants in Public Practice)

⁴ Section 290, *Independence – Audit and Review Engagements*

- (b) Simplify and streamline the examples of conditions that are likely to mitigate threats to compliance with the fundamental principles; and
- (c) Improve the linkage between threats, safeguards and the fundamental principles, in particular in Sections 100 and 200 of the Code.

Recap of June/July 2015 Tentative Board Decisions

4. At its June/July 2015 meeting, the Board considered issues identified by the Task Force and related Task Force proposals. Among other matters, the Board:
 - Broadly supported the Task Force's proposed re-orientation of the CF.
 - Broadly supported retaining the term "threat," in the Code, but suggested that the Task Force further reflect on the merits of the alternative term "risk."
 - Generally supported the direction of the Task Force's review of types of safeguards, including the Task Force's focus on greater clarity and effectiveness, but cautioned against opening the entire CF for reconsideration.
 - In relation to the involvement of those charged with governance (TCWG) with respect to the provision of NAS, broadly supported Option 4 as presented in the agenda material, i.e., allowing for a combination of informing TCWG, obtaining their concurrence or seeking their pre-approval as determined appropriate based on the PA's professional judgement. The Board did not support a prescriptive approach.
 - The Board agreed to the Task Force's proposals regarding documentation.
5. Among other matters, the Board asked the Task Force to:
 - Reconsider the proposed approach to the guidance on the concept of a "reasonable and informed third party," as the focus should be more on an objective assessment of the circumstances of the particular issue and the decisions made, in the context of stepping back from the matter, as opposed to assigning particular attributes to that conceptual person.
 - Further reflect on the description of a safeguard, particularly the appropriateness of linking the concept of effectiveness into the description, as the evaluation of effectiveness may only be capable of being performed for a safeguard when it is combined with other safeguards.

Matters Addressed in This Paper

6. This paper is structured as follows:
 - Section A: Clarifying the CF, including establishing a revised description of the term "safeguards"
 - Section B: Clarifying what is meant by the threshold of "acceptable level" relative to reduction of a threat, and the concept of a "reasonable and informed third party"
 - Section C: Proposed revisions to Section 200, including types of threats and safeguards
 - Section D: Other issues for future Task Force consideration
 - Section E: Alignment and coordination with the Structure Task Force and others

Agenda Item 3-B reflects the Task Force's proposals in the light of the June/July Board discussion, and addresses proposed revisions to Sections 100 and 200 of the extant Code.

A. Clarifying the CF

Format and Layout

7. The Task Force recognizes that Section 100 of the Code addresses responsibilities that all PAs should fulfill and fundamental principles to which they should all adhere. The Task Force further notes that other sections of the Code (e.g., Section 200 in the case of PAs in public practice, and Section 290 in the case of auditors) build on Section 100 to provide more engagement-specific or service-specific requirements and guidance. Consequently, the Task Force agreed to retain in Section 100 only the requirements and guidance that it believes should be applicable to all PAs. The Task Force agreed to relocate guidance such as the latter part of the last sentence in extant 100.9 that relate only to PA in public practice to Section 200.⁵
8. At the June/July 2015 meeting, the Board generally agreed to align the CF approach to the extent appropriate with the approach to dealing with risks of material misstatement of the financial statements established in the International Auditing and Assurance Standards Board's (IAASB's) International Standards on Auditing (ISAs). Specifically, the ISAs require auditors to identify and assess risks of material misstatement of the financial statements; design responses to the assessed risks of material misstatement; and evaluate the sufficiency and appropriateness of the audit evidence obtained.⁶ To adopt a similar approach in the Code for threats, the Task Force sought to re-organize the content of extant Section 100 in accordance with the following outline, which was generally agreed to by the Board at its June/July 2015 meeting.
 - Introduction and Fundamental Principles
 - Introduction
 - Fundamental Principles
 - Conceptual Framework
 - Requirements and Application Material
 - Reasonable and Informed Third Party
 - Identifying Threats
 - Evaluating Threats
 - Addressing Threats
 - Re-evaluation of Threats

⁵ The last sentence in extant Section 100.9 states: "In such situations, the professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business)."

⁶ See ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*; and ISA 330, *The Auditor's Response to Assessed Risks*

9. The Task Force is of the view that the inclusion of the above subheadings in the Code would serve to assist PAs better understand how the CF approach should be applied, thereby enhancing its overall usefulness.
10. In proposing the revised layout and format of Sections 100 and 200, the Task Force deemed it appropriate to enhance the flow of the Code by re-positioning certain paragraphs without necessarily changing the text of those paragraphs. These paragraphs are presented in shaded grey text in **Agenda Items 3-B** and **3-C**. With respect to those paragraphs, IESBA members are asked to comment on their positioning only.

Revision of Content

Overview

11. In developing proposed revisions to extant Section 100, the Task Force has endeavored to:
 - (a) Reduce the ambiguities regarding the objective of the CF. Specifically, the Task Force is hoping to shift the focus to be on “the elimination or reduction of threats to compliance with the fundamental principles” rather than on “the application of safeguards.” In doing so, the Task Force has re-characterized the discussion of the CF approach in the Code to more explicitly link it to a discussion of the PA’s responsibility to eliminate or reduce threats to compliance with the fundamental principles (see paragraphs 100.6–100.20 of **Agenda Item 3-B**).
 - (b) Retain a general description of the fundamental principles, and the explanation of the PA’s responsibility to comply with those fundamental principles, by applying the CF that was in paragraphs 100.1–100.5 of the extant Code (see paragraphs 100.1–100.5 **Agenda Item 3-B**).
 - (c) Enhance the guidance in paragraph 100.6 of the extant Code to better explain the purpose of the CF and the PA’s responsibility to apply the CF to comply with the fundamental principles.
 - (d) Prominently articulate, overarching requirements and guidance in Section 100 of the Code for the PA to apply the CF (see paragraphs 100.8–100.9 of **Agenda Item 3-B**). The Task Force is of the view that the PA should be required to:
 - (i) Exercise professional judgement when applying the Code; and
 - (ii) Take into account whether a reasonable and informed third party would likely conclude that compliance with the fundamental principles is not compromised.To support the latter, the Task Force has developed a proposed description of the concept of a “reasonable and informed third party” (see further discussion of reasonable and informed third party in section B of this paper).
 - (e) Establish improved guidance in support of the overarching requirement described above to assist PAs appropriately apply the CF to:
 - (i) Identify threats to compliance with the fundamental principles (see paragraphs 100.11–100.13 of **Agenda Item 3-B**),
 - (ii) Evaluate those threats (see paragraphs 100.14–100.16 of **Agenda Item 3-B**), and
 - (iii) Address them (see paragraphs 100.17–100.19 of **Agenda Item 3-B**).
 - (f) Establish a more robust description of the term “safeguards” (see paragraph 13 of this paper below and paragraph 100.19 of **Agenda Item 3-B**).

- (g) Develop new guidance to better and more clearly explain that a re-evaluation of threats and safeguards is necessary when facts and circumstances change, i.e., establishment of a “step-back” requirement (see paragraph 100.20 of **Agenda Item 3-B**).

“Risks” Versus “Threats”

12. Pursuant to the June/July 2015 Board discussion, the Task Force considered the merits of using the term “risk” in lieu of the term “threat” throughout the Code. Consistent with the general direction of the June/July Board discussion, the Task Force agreed that the term “threat” should be retained. Reflecting on the views expressed during the May 2015 IESBA-National Standards Setters meeting, the Task Force concluded that the term “threat” is fundamental to the Code, and is generally well understood among PAs.

New and Revised Guidance Relating to Identifying, Evaluating and Addressing Threats

Identifying Threats

13. As part of its guidance relating to the identification of threats, the Task Force proposes to include a general discussion about threats in Section 100 of the Code, drawing from extant paragraphs 100.8 and 100.12 of the Code that describe how a PA would identify threats. The revised paragraphs also describe the factors that may threaten compliance with the fundamental principles, and more clearly articulate that the identification of threats supports compliance with the fundamental principles.
14. To inform its work on safeguards, the Task Force reviewed the threats appearing in other ethics codes and regulations, and concluded that the categories of threats in the extant Code remain appropriate.

Evaluating Threats

15. By expanding on paragraphs 100.8, 100.9, 100.14 and 100.16 of the extant Code, the Task Force has described a process by which PAs should evaluate threats. In conjunction with its work in revising paragraph 200.12, the Task Force is also proposing changes to the bulleted list in paragraph 100.14 of the extant Code to clarify and update the guidance presented.

Materiality and Significance

16. The Task Force observed that terminology that is consistent with the auditing concept of materiality is used throughout the Code. It is used to explain how the PA evaluates threats identified. For example, the Code gives some guidance regarding the application of materiality to financial interests, loans, guarantees and business relationships.⁷
17. In revising Sections 100 and 200, the Task Force has avoided the use of the term “material” and “significant” or “significance.” The Task Force is of the view that the terms may be relevant in the context of more specific requirements relating to NAS, but believes that those terms are not appropriate in establishing overarching requirements and principles about threats and safeguards.

⁷ Paragraph 290.101. In addition, the November 2012 IESBA Staff Questions and Answers, [Implementing the Code of Ethics – Part II](#) includes reference to the International Auditing and Assurance Standards Board’s (IAASB’s) International Standard on Auditing (ISA) 320, *Materiality in Planning and Performing an Audit* with respect to the meaning of materiality when the Code refers to a NAS having a material effect on the client’s financial statements.

Conditions that May Impact the Level of a Threat

18. The Task Force accepts that there are conditions that are established by the profession, legislation, regulation, the firm or employing organization that may impact the level of a threat to compliance with the fundamental principles, which can affect the likelihood of identifying or deterring unethical behavior.
19. However, the Task Force concluded that these conditions should not be characterized as “safeguards” in the Code. The Task Force is of the view that the determination of a safeguard should be made at the engagement level so that the PA is able to appropriately weigh the facts and circumstances relevant to the engagement or activity.

Addressing Threats

20. The Task Force is proposing new guidance in paragraph 100.17 of **Agenda Item 3-B** to explain that if a PA determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the application of the CF calls for the identification and application of safeguards to eliminate those threats or reduce them to an acceptable level.

Description of Safeguards

21. The new guidance regarding addressing threats includes a revised description of safeguards. The Task Force observed inconsistencies in how the term “safeguards” is used in the extant Code. Specifically, the Task Force noted that there are instances where the term safeguards is intended to have a broad and conceptual meaning, while in other instances the term is used to more narrowly describe actions or measures that PAs undertake to address threats to compliance with the fundamental principles.
22. The Task Force is of the view that having a more robust definition of the term “safeguards” addresses some of the concerns that have been raised by some stakeholders, in particular regulators, regarding the effectiveness and appropriateness of safeguards in the Code. Accordingly, the Task Force proposes the following as a new description of the term “safeguards,” taking into account the input received at the June/July Board meeting:

Specific actions or measures that the professional accountant takes to effectively eliminate identified threats to the fundamental principles or reduce them to an acceptable level. Safeguards, which may be individual or a combination of specific actions or other measures, are effective when they eliminate or reduce the level of the threat to an acceptable level, such that the fundamental principles are not compromised, or are not likely to be compromised.

23. The revised description clarifies that safeguards:
 - Must be effective to address specific threats to compliance with the fundamental principles.
 - May be an individual or a combination of specific actions or measures.
 - Are effective when they eliminate or reduce the level of the threat such that the fundamental principles are not compromised, or are likely to be compromised.
24. The Task Force is of the view that with the proposed revised description of safeguards together with the proposed clarifications made to the CF, the linkage among “safeguards,” “threats” and the “fundamental principles” is stronger. The Task Force proposes to discontinue using the term

“safeguards” in its broader context, using instead the term “conditions” or simply “actions or measures” as appropriate.

25. The Task Force is of the view that the PA would need to exercise professional judgement to determine whether an action or measure is appropriate and effective enough to be a safeguard that is responsive to the identified threat. As noted in paragraph 11(g) above, the Task Force believes that the PA should re-evaluate whether a safeguard remains effective whenever new information arises during an engagement.
26. Additionally, the content in paragraph 100.9 of the extant Code relating to when the PA declines or discontinues a specific professional activity or service has been retained, but re-characterized as guidance for PAs. The Task Force is of the view that the appropriate application of the CF would result in the PA declining or discontinuing the specific professional activity or service involved, if the safeguards are not available, or cannot be applied.

Establishment of a Step-back Requirement

27. The Task Force is also of the view that the identification, evaluation and addressing of threats could be an iterative process that may be ongoing based on the nature and extent of the engagement or activity. Accordingly, the Task Force agreed to introduce new guidance in paragraph 100.20 of **Agenda Item 3-B** that explains that the CF calls for a re-evaluation of threats and safeguards if information about threats and safeguards changes, or if new information indicates an inconsistency with the PA’s original identification and evaluation of threats. In doing so, the Task Force aims to respond to specific feedback on the matter from a regulatory respondent⁸ to the Structure of the Code consultation paper.

Matters for Consideration

1. IESBA members are asked for views on the Task Force’s proposed revisions to Section 100 of the Code, in particular:
 - (a) The proposed revisions to the CF in paragraphs 100.6–100.20 of **Agenda Item 3-B**.
 - (b) The description of the term “safeguards” in paragraph 100.18 of **Agenda Item 3-B**.

B. Determination of An Acceptable Level and Reasonable and Informed Third Party

28. When applying the CF, a PA is required to determine whether the safeguards applied are effective at eliminating or reducing threats to an acceptable level. Questions have been raised, including from

⁸ International Organization of Securities Commissions note in their January 20, 2015 letter, that:

“In practice, on more than an infrequent basis, auditor oversight and securities regulators have encountered auditors who attempt to justify their actions by indicating compliance with the requirements without stepping back to determine if the facts and circumstances suggest that the fundamental principles may be violated though the requirements were achieved.

The fundamental principles are not simply background information but are overarching objectives that auditors must meet whereas the standards-specific requirements capture specific areas identified by the Board to which auditors must comply. We believe greater emphasis should be placed on the need for auditors to step back after complying with the standards-specific requirements to determine if, based on the facts and circumstances, the auditor is independent with respect to the fundamental principles.”

the IESBA Consultative Advisory Group (CAG), about what constitutes “an acceptable level” in the context of reducing threats to compliance with the fundamental principles. The extant Code defines an “acceptable level” as follows:

A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

29. The Task Force is of the view that establishing a description of what is meant by the term “reasonable and informed third party” would help address some of the concerns that have been raised. The concept of a reasonable and informed third party is fundamental to the PA’s evaluation of whether the safeguards applied are effective in eliminating or reducing the threat to an acceptable level.
30. The Task Force believes that the “reasonable and informed third party” test is intended to be an important and objective test which requires the PA to “step back” to consider whether compliance with the fundamental principles is compromised. Retaining the principles in paragraphs 100.2 and 100.8 of the extant Code, the Task Force proposes the reasonable and informed third party be described as:

A conceptual person who possesses suitable skills, knowledge and experience to evaluate the appropriateness of the professional accountant’s conclusions. This evaluation entails weighing all the specific facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time, to objectively determine whether the relevant threats to compliance with the fundamental principles will be eliminated or reduced to an acceptable level.

31. In coming to a view on how the concept of a “reasonable and informed third party” should be described, the Task Force concluded that:
- There is a public interest benefit to be derived from the reasonable and informed third party test. However, the test is not intended to represent the views of any one individual or stakeholder group.
 - Having a simple and easy to understand description of the concept in the Code would better assist PAs in determining whether safeguards have been appropriately applied to eliminate or reduce threats to an acceptable level.

Matters for Consideration

2. IESBA members are asked to provide views on the proposed description of the concept of a “reasonable and informed third party” (see paragraph 100.10 of **Agenda Item 3-B**).

C. Revisions to Section 200, Including Types of Threats and Safeguards

Background

32. The Task Force observed that the extant Code includes several examples of conditions, actions or measures that are described as safeguards. They are distinguished as:
- (a) Safeguards established by the profession, legislation or regulation, firm or an employing

organization;⁹

- (b) Safeguards in the work environment which could either be: firm-wide,¹⁰ or engagement-specific safeguards;¹¹
 - (c) Safeguards that the client has implemented.¹²
33. As discussed in section A of this paper, the Task Force has established a revised description for the term safeguards. Only the matters described as engagement-specific safeguards constitute a safeguard under the Task Force's enhanced description of a safeguard. The Task Force believes that other examples do not meet its proposed description of a safeguard because they are not expressly designed and implemented to respond to the threats that the PA has identified.

Conditions in a Work Environment

34. The Task Force accepts that conditions may exist in a work environment that are conducive to compliance with the fundamental principles. For example, continuing professional development requirements created by the profession directly support compliance with the fundamental principle of professional competence and due care. While such factors would not reduce a threat to compliance with the fundamental principles, the significance of a threat may increase if such factors are not present. The Task Force is of the view that these factors also support the application of engagement-specific safeguards. Thus, the Task Force is proposing that these conditions be included as factors for the PA to consider when evaluating threats.

Application of the CF Approach by PAs in Public Practice

35. The Task Force is of the view that it would be helpful for section 200 to follow the same format, and build on the content of Section 100, with more specific requirements and guidance for PAs in public practice. The Task Force is also of the view that doing so would clarify the linkage between the two sections, thereby strengthening the foundational requirements and principles related to compliance with the fundamental principles of the Code (see paragraphs 200.3, 200.4, 200.6, 201.12 and 200.15 of **Agenda Item 3-B**).

Streamlining the Examples of Threats and Conditions that May Reduce Potential Threats

Threats

36. With a new lead-in, the inclusions of sub-headings, as well as a revised presentation of the format, the Task Force has streamlined and clarified the examples of threats in paragraphs 200.4–200.8 of the extant Code (see 200.5 of **Agenda Item 3-B**). The Task Force is of the view that doing so eliminates some duplication that currently exists in the Code, thereby making it easier to understand.

Conditions that May Reduce Potential Threats

37. In responding to criticisms that have been raised about the examples of conditions (characterized as firm-wide safeguards in extant Section 200 of the Code), the Task Force has also streamlined and

⁹ Paragraphs 100.14 and 100.16 of the extant Code

¹⁰ Paragraph 200.12 of the extant Code

¹¹ Paragraph 200.13 of the extant Code

¹² Paragraph 200.14–200.15 of the extant Code

updated the listing of matters in paragraph 200.12 of the extant Code (see paragraph 200.9 of **Agenda Item 3-B**). In doing so, the Task Force considered certain requirements in ISQC 1¹³ as well as similar requirements and best practices of national standard setters.

38. The Task Force considered including a reference to the requirements of ISQC 1 in the Code, but acknowledged that:
- (a) ISQC 1 applies only to firms of PAs that perform audits and reviews of financial statements, and other assurance and related services engagements. Thus, the requirements of ISQC 1 do not apply to PAs in public practice who do not provide these types of engagements.
 - (b) ISQC 1 may not be adopted by firms who adopt the Code, but do not comply with IAASB standards for some or all of their engagements.
 - (c) The IAASB has an ongoing Quality Control project which is likely to result in revisions to certain requirements in ISQC 1.¹⁴
39. However, the Task Force agreed that PAs would benefit most from having examples in the Code that draw from the key principles and guidelines in best practices and existing standards (e.g., ISQC 1).

Matter for Consideration

3. Do IESBA members agree the proposed revisions to Section 200 of the extant Code?

D. Other Issues for Future Consideration by the Task Force

Communications with TCWG, Including Audit Committee Members

Required Communications with TCWG

40. The extant Code explicitly requires communication with TCWG in the following circumstances:
- When an entity becomes a related entity of an audit client as a result of a merger or acquisition, and interests or relationships that would not be permitted under the Code cannot reasonably be terminated by the date of the merger or acquisition.¹⁵
 - When a breach of a provision in Section 290 or 291 occurs.¹⁶
 - When an audit client is a public interest entity (PIE) and for two consecutive years the total fees from the client and its related entities represent more than 15 percent of the total fees of the audit firm.¹⁷

¹³ International Standard on Quality Control (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 21 – 25

¹⁴ See [IAASB 2015-2016 Work Plan](#).

¹⁵ Paragraphs 290.34 - 36

¹⁶ Paragraphs 290.45 – 48, and Section 291, *Independence – Other Assurance Engagements*, paragraphs 35 – 36

¹⁷ Paragraph 290.219

- When an entity becomes an assurance client during or after the period covered by the subject matter information and the firm provided NAS that would not be permitted during the period of the engagement.¹⁸
41. ISA 260 (Revised) requires auditors of listed entities to communicate the following with TCWG:¹⁹
- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and
 - The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.
42. Specific to safeguards, the application material in ISA 260 (Revised) notes that:²⁰
- The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:
 - Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
 - Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.
 - Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between TCWG and the auditor.
43. ISA 260 (Revised) further explains that the appropriate timing for communications with TCWG will vary with the circumstances of the engagement, and that relevant circumstances include the significance and nature of the matter, and the action expected to be taken by TCWG (e.g., communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion).
44. The application material in ISA 260 (Revised)²¹ also explains that communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example

¹⁸ Paragraph 291.32

¹⁹ ISA 260 (Revised), *Communication with Those Charged With Governance*, paragraph 17

²⁰ ISA 260 (Revised), paragraphs A30 and A49

²¹ ISA 260 (Revised), paragraph A32

because they have a large number and wide range of stakeholders and considering the nature and size of the business.

Calls for Enhancing PAs' and Firms' Communications with TCWG

45. Some CAG Representatives²² were of the view that the Code should establish provisions to encourage further engagement between PAs and TCWG, in particular audit committee members. It was noted that although paragraph 100.25 of the extant Code mentions the PA's or firm's responsibility to communicate with TCWG, it does not emphasize it. Those CAG Representatives also suggested that the Task Force explore whether communication with TCWG could be characterized as a safeguard.

Task Force's Views

46. The Task Force believes that communication with TCWG increases transparency around the identification and evaluation of threats to compliance with the fundamental principles, and the actions or measures taken to eliminate or reduce those threats to an acceptable level.
47. Accordingly, the Task Force will be vigilant as it reviews the Code to consider how and whether requirements or guidance in the Code can be strengthened or clarified to encourage PAs and firms, in particular auditors, to communicate with TCWG. The Task Force is of the view that this aspect of its work will be dealt with in its proposals relating to NAS, and that coordination with the IAASB may be necessary.

Other Issues

48. Beyond considering Sections 100 and 200 of the Code, the Task Force plans to:
- (a) Consider the clarity, appropriateness and effectiveness of safeguards that pertain to NAS in Section 290 of the Code.
 - (b) Consider whether the extant Code includes sufficient and appropriate documentation requirements related to safeguards, and whether there is a need for alignment to the requirements and application material in ISA 220.²³
 - (c) Consider whether additional guidance is needed in the Code to explain the differences between the evaluation of the significance of the threat and the acceptable level for a PIE and a non-PIE.
 - (d) Continue to consider the challenges faced by the SMP sector in employing safeguards involving the segregation of duties.

Matters for Consideration

4. IESBA members are asked for views about the Task Force's planned approach with respect to TCWG.

²² See March 2015 CAG Public Session Meeting minutes available at:
http://www.ethicsboard.org/system/files/meetings/files/Agenda_Item_A_-_Draft_March_2015_IESBA_CAG_Minutes_Mark-Up.pdf

²³ ISA 220, *Quality Control for an Audit of Financial Statements*

5. IESBA members are asked to comment about the completeness and appropriateness of the remaining issues for future Task Force consideration.

E. Alignment and Coordination with the Structure Task Force and Others

49. The Task Force continues to work in close coordination with the Structure Task Force. The Task Force believes that the revisions relating to safeguards in **Agenda 3-B** are drafted in the format and language of the restructured Code (see also **Agenda Item 3** for a discussion about the planned timeline for the Safeguards project).

The CF Approach to Independence

50. The Structure Task Force has put forth proposals for revising paragraphs 290.4–290.12²⁴ of the extant Code (see **Agenda Items 2**). While the project scope in the Safeguards Project Proposal does not include those paragraphs, the Safeguards Task Force is of the view that in light of the nature of its proposals relating to Sections 100 and 200, it may be necessary to consider further changes to 290.4–290.12 that are of conforming or consequential in nature.
51. The Safeguards Task Force plans to work closely with the Structure Task Force, and take into account the outcome of the September 2015 CAG and Board discussions, in progressing future work relating to paragraphs 290.4–290.12 of the extant Code.

Other Matters

52. The Task Force is continuing to consider options for presenting the proposed changes in the ED so that respondents can easily identify and understand the proposed changes relating to safeguards.
53. The Task Force is of the view that proposed revisions should be exposed in the format and language of the draft restructured Code, supported by a detailed explanatory memorandum explaining the changes being proposed along with the rationale for the changes.
54. The Task Force anticipates that there will be a need for conforming amendments throughout the Code, and plans to liaise with other Task Forces as needed. The Task Force plans to conduct this work after the September 2015 IESBA meeting.
55. Depending on the nature and extent of the changes being proposed, it may also be necessary to liaise with the IAASB and its staff to determine whether conforming amendments are needed to the ISAs or ISQC 1.

²⁴ Paragraphs 290.14 – 290.12, *The Conceptual Framework Approach to Independence*