

Safeguards—Proposed Revisions to Sections 100 and 200 of the Code

[MARKED FROM EXTANT CODE]

In this paper, the requirements and guidance in Sections 100 and 200 of the extant Code have been marked to illustrate proposed revisions to achieve the Task Force's suggested improvements to Safeguards (see **Agenda Item 3-A**). This paper should be read in conjunction with **Agenda Items 3-A and 3-B**. Certain paragraphs of the extant Code have been reordered. The shaded text in parentheses indicates the link to the extant Code and the rationale for the changes shown in mark-up.

A. SECTION 100

Introduction and Fundamental Principles

Introduction

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code. [Extant 100.1]
- 100.2 This Code contains three parts. Part A establishes the fundamental principles of professional ethics for professional accountants ~~and provides. It also describes the~~ conceptual framework that the Code requires professional accountants ~~shall to~~ apply: to identify, evaluate, and address the threats to compliance with the fundamental principles.
- ~~(a) Identify threats to compliance with the fundamental principles;~~
 - ~~(b) Evaluate the significance of the threats identified; and~~
 - ~~(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the professional accountant determines that the threats are not at 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.~~
- A professional accountant shall use professional judgment in applying this conceptual framework. [Extant 100.2. Deleted text has been incorporated in new paras. 100.7 and 100.9 below]
- 100.3 Parts B and C describe how the conceptual framework applies in certain situations. ~~They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided.~~ Part B applies to professional accountants in public practice. Part C applies to

professional accountants in business. Professional accountants in public practice may also find Part C relevant to their particular circumstances. [Extant 100.3]

- 100.4 The use of the word “shall” in this Code imposes a requirement on the professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code. [Extant 100.4]

Fundamental Principles

- 100.5 A professional accountant shall comply with the following fundamental principles:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
 - (b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
 - (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
 - (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
 - (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110–150. [Extant 100.5]

Conceptual Framework Approach

- 100.6 The circumstances in which professional accountants operate may create specific threats to compliance with the fundamental principles. ~~It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles.~~ The conceptual framework assists the professional accountant in complying with the fundamental principles while meeting the responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited. [Extant 100.6. The first deleted sentence has been moved to para. 100. 12 below and the second deleted sentence has been adapted to 100.7 below]

- 100.7~~The conceptual framework that requires a~~ specifies an approach for the professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats to compliance with the fundamental principles by eliminating or reducing them to an acceptable level. [Adapted from the third sentence of extant 100.6]

Requirements and Application Material

- 100.8 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. [New requirement]
- 100.9 When applying the conceptual framework, ~~In making that determination,~~ the professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party ~~weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards,~~ would likely conclude that compliance with the fundamental principles is not compromised. [Adapted from the last sentence in extant 100.2 and 100.7. Mark up shows changes from the first two sentences of extant 100.7]

Reasonable and Informed Third Party

- 100.10 A reasonable and informed third party is 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. [New application material drawing from extant 100. 7 and 100.8]

Identifying Threats

- 100.11 An understanding of the circumstances or relationships that may compromise compliance with the fundamental principles is a prerequisite to the professional accountant's identification of threats to such compliance. [New application material drawing from extant 100.8]

Threats and Safeguards

- 100.12 Threats may be created by a broad range of relationships and circumstances. ~~However,~~ it is impossible to define every situation that creates threats to compliance with the fundamental principles ~~and specify the appropriate action.~~ In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created., ~~requiring the application of different safeguards.~~ When ~~a circumstance~~ relationship or relationship circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. [The first sentence is the first sentence in extant 100.12, second sentence is adapted from second and third sentences in extant 100.6. The

last two sentences in the paragraph are adapted from the second and third sentences in extant 100.12.]

- 100.13 Threats to compliance with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;
 - (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or activity or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity or providing a current service;
 - (c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
 - (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
 - (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

~~Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances. [Adapted from the lead in and lettered list in extant 100.12]~~

Evaluating Threats

- 100.14 When the professional accountant identifies a threat, the application of the conceptual framework calls for the professional accountant to evaluate whether such threat is at an acceptable level. This evaluation involves weighing all the facts and circumstances available at the time of the activity or service. The existence of qualitative as well as quantitative factors is relevant to the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable. [New application material that takes into account extant 100.7]
- 100.15 A threat will not be at an acceptable level if any of the fundamental principles is compromised or would likely be compromised. [New application material]
- 100.16 The existence of conditions established by the profession, legislation, regulation, the firm or the employing organization may impact the level of the threat to compliance with the fundamental principles and can affect the likelihood of identifying or deterring unethical behavior. Examples of these conditions include:
- Corporate governance ~~regulations~~ requirements. [Used to be the third bullet]
 - ~~Continuing professional development requirements.~~

- Educational, training and experience requirements for ~~entry into~~ the profession. [Used to be the first bullet]
- ~~Professional standards.~~
- Effective complaint systems.
- An explicitly stated duty to report breaches of ethical requirements.
- Professional or regulatory monitoring and disciplinary procedures.
- ~~External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.~~ [New lead-in adapted from extant 100.13, 100.14 and 100.16. Bulleted list adapted from the list in extant 100.14]

Addressing Threats

- 100.17 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the application of the conceptual framework calls for the identification and application of safeguards to eliminate those threats or reduce them to an acceptable level. [New application material]
- 100.18 ~~In such situations, the professional accountant shall decline or discontinue the specific professional activity or service involved or, When safeguards are not available, or cannot be applied, to eliminate the identified threats to compliance with the fundamental principles or reduce them to an acceptable level, the application of the conceptual framework requires the professional accountant to shall decline or discontinue the specific professional activity or service involved, 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).~~ [New application material adapted from the last sentence in extant 100.9]

Safeguards

- 100.19 Safeguards are specific actions or other measures that may the professional accountant takes to effectively eliminate identified threats to compliance with 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. They fall into two broad categories:
- (a) ~~Safeguards created by the profession, legislation or regulation; and~~
 - (b) ~~Safeguards in the work environment.~~ [New application material adapted from extant 100.13]

Re-evaluation of Threats and Safeguards

- 100.20 Facts and circumstances may change over time and new information about threats and the appropriateness of safeguards may come to the attention of the professional accountant. In such cases, the conceptual framework calls for a re-evaluation of the threats and safeguards if the changed or new information indicates an inconsistency with the professional accountant's original

identification and evaluation of threats. Remaining alert throughout the professional activity or service assists the professional accountant in identifying changes in facts and circumstances that may result in threats to compliance with the fundamental principles. [New application material drawing from 100.13, 200.1 and requirements in auditing standards related to re-evaluation of risks]

Conflicts of Interest

- 100.17 A professional accountant may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:
- The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
 - The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict.
- 100.18 Parts B and C of this Code discuss conflicts of interest for professional accountants in public practice and professional accountants in business, respectively.

Ethical Conflict Resolution

- 100.19 A professional accountant may be required to resolve a conflict in complying with the fundamental principles.
- 100.20 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:
- (a) Relevant facts;
 - (b) Ethical issues involved;
 - (c) Fundamental principles related to the matter in question;
 - (d) Established internal procedures; and
 - (e) Alternative courses of action.
- Having considered the relevant factors, a professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.
- 100.21 Where a matter involves a conflict with, or within, an organization, a professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee.
- 100.22 It may be in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.
- 100.23 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental

principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

- 100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

Communicating with Those Charged with Governance

- 100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the professional accountant or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

B. SECTION 200

Introduction

- 200.1 It is in the public interest and, therefore required by this Code, that professional accountants in public practice comply with fundamental principles and apply the conceptual framework contained in Part A of the Code. Part A of the Code describes the conceptual framework, which specifies an approach for the professional accountant to identify, evaluate and address threats to compliance with the fundamental principles. This part of the Code describes the application of the conceptual framework with respect to professional accountants in public practice. [First two sentences are new. The last sentence is adapted from the penultimate sentence in extant 200.1]
- 200.2 A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Requirements and Application Material

Application of the Conceptual Framework Approach by Professional Accountants in Public Practice

- 200.3 In accordance with Part A of the Code, the professional accountant in public practice shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. [New requirement]

Identifying Threats

- 200.4 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. This Part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in public practice that create or may create actual or perceived threats to compliance with the fundamental principles. An understanding of the circumstances or relationships that may compromise compliance with the fundamental principles is a prerequisite to the professional accountant in public practice's identification of threats to such compliance. [First sentence of extant 200.3, second sentence of extant 200.1 and new last sentence adapted from extant 200.1]

Types of Threats

- 200.5 The following are categories of threats, and examples of circumstances that create those threats for a professional accountant in public practice when undertaking an activity or providing a service: [New consolidated lead-in adapted from the first sentence in the second paragraph in extant 200.3 and the lead-in to extant 200.4. Streamlined lettered lists in extant 200.3, 200.4, 200.5, 200.6, 200.7 and 200.8]

(a) Self-interest Threats

- (i) A member of the assurance team having a direct financial interest in the assurance client.
- (ii) A firm having undue dependence on total fees from a client or the possibility of losing a significant client.
- (iii) A member of the assurance team having a significant close business relationship with an assurance client.
~~A firm being concerned about the possibility of losing a significant client.~~
~~A member of the audit team entering into employment negotiations with the audit client.~~
~~A firm entering into a contingent fee arrangement relating to an assurance engagement.~~
~~A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.~~

(b) Self-review Threats

- (i) A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- (ii) A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- (iii) A member of the assurance team being, or having recently been, a director or officer of the client. ~~A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.~~

~~The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.~~

(c) Advocacy Threats

- (i) The firm promoting shares in an audit client.
- (ii) A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.

(d) Familiarity Threats

- (i) A member of the engagement team having a close or immediate family member who is a director or officer of the client. ~~A member of the engagement team having a close or immediate family member who is an or is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.~~
- (ii) A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.
~~A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.~~
- (iii) Senior personnel having a long association with the assurance client.

(e) Intimidation Threats

~~A firm being threatened with dismissal from a client engagement.~~

~~An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment for a particular transaction.~~

~~A firm being threatened with litigation by the client.~~

- (i) A firm being pressured by a client ~~to reduce inappropriately the extent of work performed in order to reduce fees.~~
- (ii) A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
- (iii) A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment.

The categories of threats are discussed in further detail in Part A of the Code.

Evaluating Threats

200.6 The evaluation of whether a threat is at an acceptable level depends on:

- (a) The nature of the engagement and the structure of the firm.
- (b) Qualitative and quantitative factors, as well as, the combined effect of multiple threats, if any.

- (c) Weighing all the facts and circumstances and relationships at the time of the activity or service.

The exercise of professional judgment, is critical to the professional accountant in public practice's application of the conceptual framework to evaluate threats to compliance with the fundamental principles, taking into account the perspective of a reasonable and informed third party as described in Part A. [New application material adapting from extant 200.10, and proposed revisions to Section 100.]

- 200.7 The level of a threat to compliance to the fundamental principles depends on the nature of the professional activity or service. ~~The nature and significance of the threats~~ It may also differ depending on whether ~~they arise in relation to the provision of services~~ such activity or service arises in relation to:

- (a) An audit client and whether the audit client is a public interest entity;
- (b) An assurance client that is not an audit client; or
- (c) A non-assurance client.

For example, undertaking an activity with or providing a service to an audit client may be perceived to result in a higher level of threat to the fundamental principle of objectivity. Such a threat may be further increased when the audit client is a public interest entity with a large number and wide range of stakeholders. [New application material adapting from second sentence in extant 200.3]

- 200.8 The level of a threat to compliance with the fundamental principles may also be affected by matters unique to the environment in which a firm operates, including the size, structure and organization of the firm. [New application material adapted from last sentence in extant 200.10]

- 200.9 Conditions may exist in the work environment or within a firm that may affect the level of a threat to compliance with the fundamental principles. Those conditions will vary depending on the circumstances. Examples of ~~firm-wide safeguards in the work environment~~ such conditions include: [Revised lead-in and streamlined bulleted list from extant 200.12]

~~Leadership of the firm that stresses the importance of compliance with the fundamental principles.~~

- (a) Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that ~~members of an assurance team~~ professional accountants will act in the public interest.
- (b) ~~Policies~~ Methods and procedures to implement processes for establishing and monitor quality control of engagements. ~~monitoring compliance with the fundamental principles by all personnel.~~
- (c) Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.

~~Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.~~

- (d) Management of the reliance on revenue received from a single client.
- (e) The engagement partner having authority for compliance with the fundamental principles, including decisions about the permissibility of services to an audit client.
- (f) Educational, training and experience requirements.
- (g) Processes to facilitate and address internal and external complaints and to draw attention to unprofessional or unethical behavior.

~~Documented internal policies and procedures requiring compliance with the fundamental principles.~~

~~Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.~~

~~Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.~~

~~Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.~~

~~Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.~~

~~Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.~~

~~Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.~~

~~Advising partners and professional staff of assurance clients and related entities from which independence is required.~~

~~A disciplinary mechanism to promote compliance with policies and procedures.~~

~~Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.~~

200.10 Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards conditions that exist within the client implemented entity's systems and procedures. However, it is not possible to rely solely on such safeguards those conditions to eliminate or reduce threats to compliance with the fundamental principles to an acceptable level. [Extant 200.14]

200.11 Examples of safeguards conditions that may exist within the client's an entity's systems and procedures include:

- (a) The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement.
- (b) The client has competent employees with experience and seniority to make managerial decisions.

- (c) The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- (d) The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services. [Extant 200.15]

Addressing Threats

- 200.12 If the professional accountant in public practice determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the application of the conceptual framework calls for the identification and application of safeguards to eliminate those threats to compliance with the fundamental principles or reduce them to an acceptable level. The term "safeguards" is further described in Part A of the Code. [New drawing from new application material in proposed revisions to Section 100]
- 200.13 In the work environment, the relevant safeguards may vary depending on the circumstances. Examples of engagement-specific safeguards in the work environment include: [Extant 100.13]
- (a) Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
 - (b) Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
 - (c) Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
 - (d) Discussing ethical issues with those charged with governance of the client.
 - (e) Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
 - (f) Involving another firm to perform or re-perform part of the engagement.
 - (g) Rotating senior assurance team personnel.
- 200.14 It may be necessary for the professional accountant in public practice to decline or discontinue the specific professional activity or service involved, or resign from the engagement if the threats to compliance with the fundamental principles are not eliminated or reduced to an acceptable level. [New drawing from proposed new application material in Section 100]

Re-evaluation of Threats and Safeguards

- 200.15 Facts and circumstances may change over time and new information about threats and the appropriateness of safeguards may come to the attention of the professional accountant in public practice. In such cases, the conceptual framework calls for a re-evaluation of the threats and safeguards if the changed or new information indicates an inconsistency with the professional accountant in public practice's original identification and evaluation of threats. Remaining alert throughout the professional activity or service assists the professional accountant in public practice in identifying changes in facts and circumstances that may result in threats to compliance with the fundamental principles. [New drawing from proposed new application material in Section 100]