

Meeting: IESBA

Meeting Location: New York, USA

Meeting Date: June 27–29, 2016

Agenda Item

3

Safeguards – Phases 1 and 2

Objectives of Agenda Item

1. To consider the significant issues raised by respondents to the December 2015 Exposure Draft, [*Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*](#) (Safeguards ED-1) and related Task Force proposals.¹
2. To consider safeguards-specific revisions to the non-assurance services (NAS) section of the extant Code in a restructured format (i.e. Section 600²).³
3. To agree on the planned approach for developing safeguards-specific conforming amendments for other sections in the Code including, as deemed applicable the restructured versions of Phase 1 of the Part C, Long Association and NOCLAR close-off documents.

Task Force

4. Members:
 - Gary Hannaford, Chair, IESBA Member
 - Kim Gibson, IESBA Member
 - Wui San Kwok, PwC Singapore and former IESBA Deputy Chair
 - Ian McPhee, IESBA Member
 - Jens Poll, IESBA Technical Advisor
 - Sylvie Soulier, IESBA Member
- Observer:
 - Don Thomson, Structure of the Code Task Force Chair and former IESBA Member

¹ The December 2015 Exposure Draft, [*Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1*](#) (Structure ED-1) included certain paragraphs that were either: (i) shaded to denote repeated text in Safeguards ED-1, or (ii) shaded and italicized to denote extant text that is restructured but is subject to further revisions as a result of Phase 2 of the Safeguards project. Paragraphs R400.9–R400.10 of Section 400 are shaded and italicized text, and pertain to the application of the conceptual framework to independence. Those restructured paragraphs correspond to paragraphs 290.4–290.11, *Application of the Conceptual Framework Approach to Independence* of the extant Code. Safeguards-specific revisions to the shaded and italicized paragraphs will be presented at the September 2016 IESBA meeting.

² Section 600, *Provisions for Non-assurance Services Provided to An Audit Client*

³ The Task Force has leveraged the November/ December 2015 IESBA agenda materials that included a draft of the proposed restructured NAS section of the extant Code.

Activities Since Last IESBA Discussion

5. The Task Force has held one physical meeting and three teleconferences to develop the agenda materials for this meeting.

Coordination with the Structure Task Force

6. As part of its ongoing coordination efforts, the Structure Task Force has provided input to the safeguards agenda materials for this meeting, including the Task Force's proposals in **Agenda Items 3-B, Proposed Revisions to Safeguards ED-1 and 3-D, Section 600, Provision of Non-assurance Services to an Audit Client.**

Application of the Conceptual Framework to Independence

7. At its March 2016 meeting, the IESBA agreed that clarification of the description of the linkage between independence and the fundamental principles is necessary. The Board agreed that such revisions would make it clearer to users of the Code that the provisions in the conceptual framework that are set out in Section 120⁴ also apply with respect to threats to independence.
8. The Structure Task Force has developed revisions to improve:
 - The statement that reads "Independence is a measure of objectivity both in mind and appearance, which is applied to audit engagements..." (i.e., paragraph 3 of the Guide, and paragraphs 112.A1 and 400.1–400.2 in Structure ED-1 which correspond to paragraphs 290.1, 280.2 and 290.4 of the extant Code).
 - The March 2016 suggested wording to be included in paragraph 120.3 A1 that reads:

"PAs are required to apply the CF in order to comply with the fundamental principles in a wide variety of roles and circumstances. ...Part C, *Professional Accountants in Public Practice*, including the International Independence in C1 and C2, set out additional requirements for applying the CF."
9. Section 120 in **Agenda Item 3-B** include in shaded gray text the Structure Task Force's proposed revisions to clarify the description of the linkage between independence and the fundamental principles in the Code. Further discussion of this proposal is included at **Agenda Item 2-A, Structure Phase 1 ED – Issues and Task Force Proposals.**
10. Input from the Board on this improved description of the linkage between independence and the fundamental principles will inform the Safeguards Task Force's future discussions about safeguard-specific changes in Section 400.

Comments Pertaining to Format, Structure and Terminology

11. Some respondents commented on and provided suggestions about certain drafting conventions, terms used and the overall format and layout of the provisions in Safeguards ED-1. Those comments and suggestions have been referred to and are being addressed by the Structure Task Force.

Timing

12. The December 2015 [IESBA Update, Restructuring the Code of Ethics for Professional Accountants](#)

⁴ Section 120, *The Conceptual Framework*

set out the IESBA's plan for coordinating its work on the Safeguards project with the Structure of the Code project. The timing of the Safeguards projects continues to be aligned with that of the Structure of the Code project. See further discussion about timing at **Agenda Item 2-A**.

Other

13. As noted at footnote 1 above, Structure ED-1 included material in shaded and italicized text that are subject to further revisions as a result of Phase 2 of the Safeguards project.⁵ The Task Force plans to continue to work closely with the Structure Task Force in developing revisions to this material and plans to present its proposals at the September 2016 IESBA meeting.

Planned Approach for Safeguards-specific Conforming Amendments

14. In close coordination with the Part C and Long Association Task Forces, the Task Force plans to develop proposed safeguards-specific conforming amendments to the relevant sections of the Code, where necessary and presents its proposals to IESBA in September 2016.

Safeguards-specific Amendments Pertaining to Part C of the Extant Code

15. As noted in the Part C agenda materials, the Part C Task Force considered suggested safeguards-specific conforming amendments to the IESBA's March 2016, [*Changes to Part C of the Code Addressing Preparation of Information and Pressure to Breach the Fundamental Principles*](#) (i.e., Part C Phase 1 close-off document). These suggested conforming amendments will form the basis of the Safeguards Task Force's work at its July 2016 meeting.
16. Part C Phase 2 (i.e., revision of Section 350⁶ of the extant Code) is at an initial stage and proceeding as a separate work stream. It does not form part of the Safeguards project scope.

Draft to be Discussed at the Meeting

17. The Task Force proposes that for the discussion pertaining to:
- Safeguards Phase 1, the marked versions of the proposed changes to Safeguards ED-1 at **Agenda Items 3-B** be discussed during the meeting.
 - Safeguards Phase 2, the clean version of the NAS proposals at **Agenda Item 3-D** be discussed during the meeting.
18. During the discussion of Structure Phase 1, reference will also be made to certain revisions in **Agenda Item 3-B**. Where changes proposed to Section 120 are arising from the recommendations of the Structure Task Force, reference is made to **Agenda Item 2-A**, the Structure Task Force's issues paper.

⁵ See Structure ED-1, paragraphs 112.2 A2, 310.10 A3, 320.3 A2, 320.3 A5, 320.4 A3, 321.5 A2, 330.3 A3, 330.3 A5, 330.3 A9, **R400.9**, **R400.10**, 400.14 A1, 410.3 A2, 410.7 A2, 410.9 A3, 411.2 A2, 430.2 A2, 510.11 A2, 510.11 A4, 510.11 A6, 511.4 A2, 520.6 A2, 521.3 A2, 521.4 A2, 521.5 A2, 521.6 A2, 522.3 A3, 524.3 A3, 524.4 A2 and 525.2 A1.

⁶ Section 350, *Inducements*

Material Presented

Safeguards Phase 1 – The Conceptual Framework and Application of the Conceptual Framework for Professional Accountants in Public Practice (Sections 120 and 300⁷)

- Agenda Item 3–A Summary of Significant Comments on Exposure Draft and Task Force Proposals
- Agenda Item 3–B Proposed Revisions to Safeguards ED-1 (i.e., Sections 120 and 300) [Mark-up from ED]
- Agenda Item 3–B.1 Proposed Revisions to Safeguards ED-1 [Clean]

Safeguards Phase 2 – NAS (Sections 600)

- Agenda Item 3-C Issues and Task Force Proposals
- Agenda Item 3-D Section 600, Provision of Non-assurance Services to an Audit Client [Clean]
- Agenda Item 3-E Mapping Table for NAS

Action Requested

19. The IESBA is asked to consider the meeting materials above and provide feedback to the Task Force, in particular on the matters for IESBA consideration in **Agenda Items 3-A and 3-C**.

⁷ Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*