

# Supplement B to Agenda Item 3A

## Safeguards ED-1 Supplement B – Compilation of Responses to Questions

**Note 1:** This supplement has been prepared for information only. A comprehensive summary of the significant comments received as of May 11, 2016 on the December 2015 Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) and the Task Force’s related analysis are included in Agenda Item 3-A and 3B. IESBA meeting. All comment letters on the ED can be accessed [here](#).

**Please consider the environment before printing this supplement.**

**Note 2:** Members of the Monitoring Group are shown in **bold**.

### Question 1: Proposed Revisions to the Conceptual Framework

1. Do respondents support the Board’s proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to:
  - (a) Identifying threats;
  - (b) Evaluating threats;
  - (c) Addressing threats;
  - (d) Re-evaluating threats; and
  - (e) The overall assessment.

If not, why not?

#	Source	Detailed Comment
1.	20EUAR	<i>Addressing threats – situations where no safeguards are possible:</i> The proposals point to certain situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. <sup>1</sup> We encourage the Board to state clearly that there are situations in which no safeguards are possible and, rather than referring to examples, <sup>2</sup> link those situations with the requirement to take action such as, depending on the circumstances, not accepting or resigning from an engagement.

<sup>1</sup> IESBA Safeguards ED §120.7 A1

<sup>2</sup> IESBA Code of Ethics Independence Sections C1 and C2

#	Source	Detailed Comment
		<p><i>Re-evaluation of threats:</i> We believe that a re-evaluation of threats should not be restricted to the emergence of new information or changes in facts and circumstances. We believe the professional accountant should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the relationship with the audited entity.</p> <p><i>Overall assessment of threats:</i> The proposals introduce a requirement to perform an overall assessment of judgements made and conclusions reached regarding threats to compliance with the fundamental principles but do not specify when such an overall assessment should occur. We invite the Board to clarify that aspect of the requirement.</p>
2.	AAT	<p>(a) AAT supports the clarity in both the requirement, and also the application material to the identification of threats.</p> <p>(b) AAT supports the approach of taking what was formerly “safeguards in the work environment” as contextual information to inform the identification and evaluation of threats.</p> <p>(c) AAT agrees on the approach taken in the proposal in situations where the threat level is not deemed acceptable. It is clear and concise and lacks any ambiguity. This allows the professional accountant to take adequate steps ensure that they eliminate or reduce the threat to an acceptable level. The proposal has also taken into account circumstances where this is not possible and the threat cannot be reduced or eliminated. AAT welcomes the fact that the drafting has changed the emphasis to that of personal responsibility to take action, as opposed to “applying a safeguard”.</p> <p>(d) AAT believes it is vital to ensure that a professional accountant re-evaluates and addresses threats. It also allows a professional accountant also consider whether existing safeguards continue to be effective and appropriate. AAT supports the proposal to make this mandatory. AAT’s only observation to this regard is that the wording as drafted in R120.8 might be considered passive, and from an enforcement perspective allow for a professional accountant to defend a position on the basis that “they did not become aware”. An alternative drafting suggestion is as follows:</p> <p>When the professional accountant identifies 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 shall re-evaluate and address that threat accordingly.</p> <p>AAT suggests that this then changes the emphasis from being qualified, i.e., the requirement is only initiated “if the accountant becomes aware” to a proactive requirement to re-evaluate upon receipt of new information.</p> <p>It is AAT’s view that re-evaluation will be required in more circumstances than it would not if the professional accountant has not terminated the threat entirely. Therefore the clause should be drafted in such a manner as to make this circumstance routine as opposed to occasional, which may be interpreted by use of “if” as opposed to “when”.</p>

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		(e) AAT is in favour of the proposal for a professional accountant to review the judgement that they have made, and how they have reduced the threat to an acceptable threat level or how it has been eliminated entirely. However AAT believes there should be a requirement to document this process in order that the professional accountant can demonstrate that they have applied the conceptual framework to the ethical dilemma they face.
3.	ACCA	<p>A well-structured Code, which is not of excessive length, is important in achieving compliance. Therefore, we support cross-references in section 300 to relevant application material that is already provided in section 120 – a section that must be understood by <i>all</i> professional accountants.</p> <p>The proposed requirement of paragraph R120.3 to apply the conceptual framework may not be the best way to express the fundamental obligations of professional accountants. In essence, the requirements are to comply with the fundamental principles and (equally as important) to safeguard those fundamental principles. To be numb to threats to compliance would be reckless and, in itself, lacking professional behaviour.</p> <p>We believe the requirements are best expressed in such terms, with the use of the conceptual framework expressed as very important application material. This approach would better help to shape behaviours and attitudes, and so reduce the risk that following the restructured conceptual framework may amount to mere compliance.</p> <p>We believe the requirement to remain alert to changing circumstances, and consider the perspective of a reasonable and informed third party is useful. Often, the third party perspective serves as a useful indication of where the public interest lies and, in itself, helps the professional accountant to exercise objectivity.</p> <p>We support the logical structure of section 120, which runs chronologically through the stages of identifying, evaluating, addressing and re-evaluating threats. We comment on paragraph 120.6, in respect of evaluating threats, under question 2. The other identified stages of the process are considered below.</p> <p><i>Identifying threats:</i> Arguably, the most important paragraph in this section is R120.5, as it is a requirement. It states that the professional accountant 'shall' identify threats, and so it is assumed that the professional accountant has the skills and resources to do so. This requirement is not supported by the content of paragraphs 120.5 A1 to A3, which focus entirely on the creation of threats, rather than their identification. Paragraph 120.5 A4 lists a number of conditions, policies and procedures that may already exist to make the identification of threats easier, but these may not be under the control of the professional accountant.</p> <p>Therefore, while we support the proposal to cease referring to circumstances created by the profession, legislation or the work environment as 'safeguards', something is clearly missing from this section. In a given situation, it is likely that the professional accountant will be unaware that there is a threat to be identified. Sensitivity to threats is heightened by an</p>

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		<p>understanding of the impact of legal and professional requirements and procedures established in the work environment. (This is especially true in the SMP environment.)</p> <p>Therefore, guidance is required to make professional accountants more sensitive to threats. This might be through additional guidance material, or by requiring appropriate internal processes, or both. We recognise the ability of professional bodies to support their members in identifying (or being alert to) threats to compliance with the fundamental principles. However, consistent guidance is better achieved through the IESBA – either alongside the Code or within it.</p> <p><i>Addressing threats:</i> We support the proposals, which have the effect of making the professional accountant responsible for identifying and implementing safeguards that are under the professional accountant's control. However, on balance, we believe that a further paragraph (120.7 A3) is required, to illustrate some of the safeguards that are available to address certain threats. In order to retain the conciseness and clarity of section 120, this might take the form of cross-references to sections 200 and 300.</p> <p>We also have concerns that the word 'significant' in paragraph 120.7 A1 has no agreed meaning in this context. It would assist understanding if the different aspects of significance were considered. These would include the perspective of third parties – not only hypothetical reasonable and informed third parties, but other third parties, whose opinions may have an impact on the reputation of the professional accountant and the profession.</p> <p><i>Re-evaluating threats:</i> It is important that the professional accountant remains alert to changes that might impact threats to compliance with the fundamental principles, and we recognise the importance of proposed paragraph R120.8. It is also important that the professional accountant re-evaluates the threats after implementing the appropriate safeguards, in order to assess the extent to which those safeguards have had the anticipated impact on the threats. Although this is linked to paragraph R120.9, we are not satisfied that the point is expressed clearly within the structure currently proposed.</p> <p>In being alert to changes (paragraph 120.8 A1), the professional accountant must, as stated, have regard to the impact of the changes on the level of the threat and the appropriateness of the safeguards applied. However, we believe that an important factor has been omitted, namely the appearance of adequately safeguarding the fundamental principles – the perspective of both hypothetical and actual third parties.</p> <p><i>The overall assessment:</i> This paragraph is very important, but it does not state when the overall assessment must take place, or what exactly the professional accountant must consider at this stage. The professional accountant must take the time to consider objectively whether the intended outcome of the process has been achieved. This must take place following the implementation of the safeguards that were deemed appropriate. But there might subsequently be indications that an overall assessment is again necessary – perhaps as safeguards become less effective, or the nature of the threats change.</p>

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		<p>There are a number of points at which the professional accountant is required to assess threats and safeguards, and it is important to exercise objectivity at such times. That objectivity may, itself, be threatened. Therefore, the importance of documenting one's assessment (including any consultation process) is clear. This serves as a record and also a safeguard (helping the professional accountant to adopt a third party perspective). We believe that the IESBA should consider the points at which the professional accountant's decision-making process should be documented.</p>
4.	AGNZ	<p>The additional matters we raise for your attention are as follows:</p> <p><b><i>Should the same 'Acceptable Level' be applied to all of the Fundamental Principles in the Code?</i></b></p> <p>The Code requires professional accountants to comply with the following fundamental principles:</p> <ul style="list-style-type: none"> <li>• Integrity;</li> <li>• Objectivity;</li> <li>• Competence and Due Care;</li> <li>• Confidentiality; and</li> <li>• Professional Behaviour.</li> </ul> <p>Our focus has been on objectivity, with a particular emphasis on the independence of the auditor. However, in reflecting on all of the fundamental principles, it is clear to us that the same 'acceptable level' or standard should be applied to all of the fundamental principles.</p> <p>Because professional accountants are acting in the public interest, in our view there is no doubt that the 'acceptable level' should be set at a high level. Our view is based on the importance of professional accountants' public interest obligations, which requires having the trust of those parties who rely on professional accountants' work and opinions.</p> <p><b><i>Is the proposed 'acceptable level' appropriate?</i></b></p> <p>To act in the public interest, professional accountants must apply a very high standard (or 'acceptable level') when assessing if they comply with the fundamental principles. For example, the auditor gives the capital markets credibility by providing assurance as to the reliability of audited information. In turn this provides investors, and potential investors, with a sound basis for making investment decisions. It has been argued that the standards that auditors must apply to themselves in</p>

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		<p>assessing their ability to carry out audits is similar to the standards that the judiciary must apply in deciding whether they can sit in judgement on a case without bias.<sup>3</sup></p> <p>In our opinion, the ‘acceptable level’ that is proposed in the Exposure Draft when applying the ‘reasonable and informed third party’ test is too low. The Exposure Draft asks the auditor to place themselves in the shoes of a ‘reasonable and informed third party’ and to assess if a reasonable and informed third party ‘would likely’ conclude that the fundamental principles have been complied with.</p> <p>We admit that any ‘acceptable level’ test will always be subject to ambiguity, but we would argue that a more demanding ‘acceptable level’ is needed, given the trust that a professional accountant must assume when acting in the public interest. Although we don’t have a strong view on the wording that should be used in setting the ‘acceptable level’, there are a number of more appropriate alternatives that could be used. We have attempted to describe the alternatives in the following diagram.</p> <p>Acceptable Level →</p> <p>50% 100%</p> <p>Might</p> <p>Probable</p> <p>Would Reasonably</p> <p>Would Conclude with Virtual Certainty</p> <p>Would</p> <p>Possible</p> <p>On Balance</p> <p>Would Likely</p> <p>Would Conclude with Virtual Certainty</p> <p>Would Beyond Reasonable Doubt</p> <p>Could</p> <p>In our opinion, the ‘acceptable level’ should be in the range of ‘Would Conclude with Virtual Certainty’, ‘Would Conclude with Virtual Certainty’, ‘Would Beyond Reasonable Doubt’ and ‘Would’. Our argument for supporting a more rigorous ‘acceptable level’ test is also</p>

<sup>3</sup> See the extract from the April 2003 Report of the HIH Royal Commission in Australia on the Audit Function in Appendix 2 to this submission. The specific recommendation that auditors should apply a ‘freedom from bias’ test similar to that used by the judiciary is highlighted on page 14 in Appendix 2 to this submission.

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		<p>based on the fact that all information needed to apply the test is known to the professional accountant. There is no risk that conclusions are based on incomplete or unreliable information.</p> <p>(a) Yes.</p> <p>(b) No. As discussed in our covering letter we consider the 'acceptable level' is too low.</p> <p>(c) No. If the 'acceptable level' is higher (as we believe it should be) then the approach to addressing threats will need to change.</p> <p>(d) We agree that threats need to be re-evaluated as new circumstances arise.</p> <p>(e) We consider the requirement in paragraph R120.9 should be supported by application guidance that indicates when the overall assessment should be carried out. We would presume the overall assessment should be carried out</p> <ul style="list-style-type: none"> <li>• Before any work is commenced; and</li> <li>• When new information becomes available or when new circumstances arise that indicate a threat to the fundamental principles</li> </ul> <p><b>Appendix 2: Extract from the April 2003 Report of the HIH Royal Commission in Australia on the Audit Function<sup>4</sup></b></p> <p><b>7.2 The audit function</b></p> <p>It is the responsibility of the directors of a company to produce accounts that are in accordance with the requirements of the <i>Corporations Act 2001</i>. The financial reports prepared by the directors must be in accordance with accounting standards (s. 296) and must present a true and fair view of the financial position and performance of the company (s. 297).</p> <p>The financial reporting system is underpinned in the case of public and large private companies by a requirement that their accounts be audited by a registered auditor. A company has to obtain from its auditor a report to shareholders on whether its financial report is in accordance with those requirements of the Corporations Act.</p> <p>While the auditor's services are normally procured by a company's board or management, the appointment of the auditor is a matter for the annual general meeting.<sup>[30]</sup> Once appointed the auditor holds office until death, removal or resignation from office.<sup>[31]</sup> An auditor can be removed by resolution of the company in general meeting<sup>[32]</sup> or can resign as auditor of the company with the consent of ASIC.<sup>[33]</sup></p>

<sup>4</sup> The full report was available on-line at [www.hihroyal.com.gov.au/](http://www.hihroyal.com.gov.au/) This website no longer appears to be active.

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		<p>As a practical matter great store is placed by directors, as well as by shareholders, creditors and others with an interest in the financial position of a company, in the fact that its accounts have been audited. The fact remains however that a company's financial report is the responsibility of the directors by whom it is signed and presented.</p> <p>The point of an audit is to provide independent assurance of the integrity of the way in which the company has reported. It follows that shareholders in particular have an interest in the proper functioning of the audit process as it provides them with comfort in making investment decisions. This element of assurance is of course also relevant to the directors themselves, so far as they rely on management in the preparation of the accounts as well as to others with an interest.</p> <p>Recent high-profile corporate collapses, including that of HIH, have given rise to public concerns about the efficacy of the audit function, as well as about other aspects of the financial reporting system. These concerns in turn have led to a series of reports and proposals for changes in this area.</p> <p>In September 2002 the Commonwealth Government issued a chapter of its Corporate Law Economic Reform Program entitled 'Corporate disclosure— Strengthening the Financial Reporting Framework'. CLERP 9, as it is known, set out a series of reform proposals with a view to achieving further improvement in audit regulation and the wider corporate disclosure framework. An earlier report to the Minister for Financial Services and Regulation entitled 'Independence of Australian Company Auditors. Review of Current Australian Requirements and Proposals for Reform' by Professor Ian Ramsay in October 2001 was followed by Report 391 of the Joint Standing Committee on Public Accounts and Audit 'Review of Independent Auditing by Registered Company Auditors' in August 2002.</p> <p>My inquiry into the failure of HIH necessarily dealt with HIH's audit process and the role of its auditor. Drawing on that experience as well as other developments I turn to policy questions relevant to the audit function.</p> <p><b>7.2.1 Auditor independence</b></p> <p>Auditor independence is a critical element going to the credibility and reliability of an auditor's reports.<sup>[34]</sup> Audited financial statements play a key role promoting the efficiency of capital markets and the independent auditor constitutes the principal external check on the integrity of financial statements.<sup>[35]</sup> The Ramsay report recognised the following four functions of an independent audit in relation to capital market efficiency<sup>[36]</sup>:</p> <ul style="list-style-type: none"> <li>• adding value to financial statements</li> <li>• adding value to the capital markets by enhancing the credibility of financial statements</li> <li>• enhancing the effectiveness of the capital markets in allocating valuable resources by improving the decisions of users of financial statements</li> <li>• assisting to lower the cost of capital to those using audited financial statements by reducing information risk.</li> </ul>



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		<p>In addition to the above functions noted in the Ramsay report, an independent audit contributes to capital market efficiency by enhancing the consistency and comparability of reported financial information in Australia.</p> <p>It is widely accepted that the auditor must be, and be seen to be, free of any interest which is incompatible with objectivity.<a href="#">[37]</a></p> <p>There must be public confidence in the auditor for an audit to fulfil its functions.</p> <p>The responsibility of auditors to maintain independence in the carrying out of their function was stated by the US Supreme Court:</p> <p style="padding-left: 40px;">The independent public accountant performing this special function owes allegiance to the corporation's creditors and stockholders, as well as the investing public. This public watchdog function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust.<a href="#">[38]</a></p> <p>In the absence of a competently and independently performed audit, there is increased risk to the efficiency of capital markets. There is a danger that the audit report will lure users into a false sense of security that there has been an independent scrutiny of the financial report when there has not.</p> <p>While auditors perform a statutory function, the work is generally carried out by private professional services firms. Although it is the shareholders to whom the audit report is addressed, and it is the shareholders who usually appoint and remove the auditor, it is management who have the day-to-day interaction with the auditor. The processes of appointment and removal of an auditor will generally follow the recommendations of management.</p> <p>CLERP 9 noted these factors may lead to apparent conflicts for auditors:</p> <ul style="list-style-type: none"> <li>• the audit function has a significant public interest element, yet auditors are paid by the entity they are overseeing (management)</li> <li>• there is a personal relationship between auditor and client</li> <li>• audit partners, managers and staff may have career and financial incentives to comply with audit client wishes on the presentation of financial reports</li> <li>• lower level audit staff may have career and financial incentives to acquiesce in audit partner wishes</li> <li>• audit staff may see themselves more as business consultants</li> <li>• audit firms rely on non-audit services for their revenue and profit growth</li> <li>• corporate clients may view audit as a dead compliance cost and want to capitalise on the knowledge of audit firm professionals.<a href="#">[39]</a></li> </ul> <p>CLERP 9 stated that the difficulties which arise from these matters are that:</p>

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		<ul style="list-style-type: none"> <li>only company management has direct fee payment, contract and personal contact relationships with the auditor</li> <li>other incentives such as regulatory penalties, professional rules, the protection of auditor reputation, and personal career development may in some cases not be as strong as those relationships</li> <li>this can lead to market perceptions of auditors acting for profit rather than the public interest. <a href="#">[40]</a></li> </ul> <p><b>Regulation of audit independence</b></p> <p>The current regulation of audit independence derives from:</p> <ul style="list-style-type: none"> <li>the Corporations Act 2001</li> <li>professional standards and guidance issued by the professional accounting bodies.</li> </ul> <p>The relevant requirements of the Corporations Act are concerned with such matters as indebtedness and employment relationships between a company and its auditor. <a href="#">[41]</a> These provisions are directed to specific indicia of independence. The standards and guidance issued by the professional accounting bodies are more comprehensive. The enforcement of these requirements is generally undertaken by the professional bodies themselves.</p> <p><b>Reform proposals</b></p> <p>Various definitions and tests of audit independence have been proposed in the current round of reform proposals including by the Ramsay report and the JSCPA report.</p> <p>Paragraph 10 of Professional Statement F1 'Professional Independence' issued by the Institute of Chartered Accountants and CPA Australia states:</p> <p style="padding-left: 40px;">In determining whether a member in public practice is or is not seen to be free of any interest which is incompatible with objectivity, the criterion should be whether a reasonable person, having knowledge of the relevant facts and taking into account the conduct of the member and the member's behaviour under the circumstances, <i>could conclude</i> that the member has placed himself or herself in a position where his or her objectivity <i>would or could be impaired</i>. [emphasis added]</p> <p>In contrast, the definition of independence contained in paragraph 14 of Professional Statement F1 is:</p> <p>(a) <i>Independence of mind</i>—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and</p> <p>(b) <i>Independence in appearance</i>—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, <i>would</i></p>

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		<p><i>reasonably conclude a firm's, or a member of the firm's, integrity, objectivity or professional scepticism had been compromised.</i> [emphasis added]</p> <p>The two definitions contained within Professional Statement F1 are inconsistent. It can be seen that the definition in paragraph 14 contains a test that requires a higher standard of certainty as to the compromise of independence than does the test in paragraph 10.</p> <p>In CLERP 9 the Commonwealth Government put forward a proposal to amend the Corporations Act to include a general statement of principle requiring the independence of auditors:[42]</p> <p style="padding-left: 40px;">The general statement of principle will also establish a general standard of independence that an auditor is not independent with respect to an audit client if the auditor <i>is not</i>, or a reasonable person with full knowledge of all relevant facts and circumstances <i>would conclude</i> that the auditor <i>is not, capable</i> of exercising objective and impartial judgment on all issues encompassed within the auditor's engagement. In determining whether an auditor is independent all relevant circumstances should be considered, including all relationships between the auditor and audit client. [emphasis added][43]</p> <p>CLERP 9 further proposed that the law be amended to require the auditor to make an annual declaration, addressed to the board of directors, that the auditor has maintained independence in accordance with the Corporations Act and the rules of the professional accounting bodies.[44]</p> <p><b><i>Difficulties with CLERP 9 proposals</i></b></p> <p>In my opinion, there are certain difficulties inherent in the standard of independence proposed in CLERP 9. The proposed standard of independence requires the independence of 'the auditor'. It will be important to clarify in the Corporations Act that the requirement of audit independence applies equally to both individual auditors and their firm (if any). Since both the individual auditor and the firm sign the audit report[45], it follows that both should be required to be, and be seen to be, independent. There may be some circumstances where one is independent, but the other is not. For example, I have discussed in Chapter 21 the change of the HIH audit engagement partner in 1999. Despite my conclusion that the circumstances surrounding that change gave rise to the perception that Andersen was not independent, I drew no such conclusion in relation to the new engagement partner's actual independence as a result of his appointment.</p> <p>The proposed standard of independence in CLERP 9 imposes a high standard of certainty of the lack of independence by requiring that a reasonable person <i>would conclude</i> that the auditor is not independent. That test appears to require a higher degree of satisfaction than is required in civil proceedings. In my opinion, the high standard adopted in the CLERP 9 proposals does not pay sufficient regard to the importance of auditors being seen to be exercising impartial and objective judgment. For reasons that are discussed below, I consider that the importance of audit independence is such that the test</p>

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		<p>should be stated in terms of <i>might</i> rather than <i>would</i>. Neither CLERP 9, the Ramsay report nor SEC Rule 210-01 (upon which the proposed definition is based) provide any explanation for or discussion of the high standard of the proposed definition. I am proposing an alternative standard of audit independence which deals with the difficulties I perceive in the CLERP 9 proposals.</p> <p><b><i>Matters for an audit independence standard</i></b></p> <p>In framing an alternative standard of audit independence, there is a particular need to consider: the difficulty of identifying any actual breach of independence; the manner in which the auditor undertakes his or her task; the interaction between the company, users of the financial reports and regulatory bodies; and the relationship an auditor has with management.</p> <p>Inadequate independence on the part of an auditor will usually be difficult to discern. Suspicions might be excited but definite conclusions could be drawn only in extreme circumstances. Rarely would an auditor deliberately or even consciously compromise their independence. More often, as was the case with HIH, the auditor will deny that their independence was in any way compromised, even where an objective consideration might point to the opposite conclusion. Rarely will there be unequivocal evidence that conclusively establishes for example a connection between influence exerted by management upon the auditor and the provision by the auditor of an unqualified audit opinion. The existence of such a connection from a range of surrounding circumstances can usually only be inferred.</p> <p>The difficulties associated with identifying a compromise of audit independence are inherent in the nature of the audit process. Most of the decisions of an auditor are made behind closed doors, either internally within the audit firm or in conjunction with management. In the case of HIH only selected matters were taken to the audit committee because Andersen and HIH management often resolved issues before the audit committee meetings. Users of the financial statements are not aware of the reasons for the auditor's decisions nor the extent to which the auditor has relied on management representations. Nor are users of the financial statements aware of any pressure which might have been exerted on the auditor by management, such as obtaining an opinion from another audit firm on a technical issue which supports management's view that a judgmental or controversial item accords with accounting standards. Such an initiative by management may leave the auditor feeling constrained to accept that opinion and put aside his or her own opinion on the issue as being merely a difference of professional judgment.</p> <p>In addition, the form of the audit certificate is largely standard and does not provide any reasoned analysis of the basis for the opinion expressed. Adopting the words of Brooking J in the <i>Phosphate Co-operative Co of Australia Ltd. v Shears (No.3)</i> case (which considered the independence of a report required to be prepared by an independent expert) '[t]he calm, reflective air of the report in no way suggests its long period of gestation or the travail which accompanied its birth'.</p>

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		<p>The users of the financial statements are not privy to the information that is received by the auditor or the process by which the auditor exercises skill and judgment to reach conclusions on that information. The company, users of the financial reports and regulatory bodies place significant reliance upon the integrity of auditors. Auditors have an obligation to ensure that they are, and are seen to be, maintaining high standards of honesty and probity, acting in the interests of the shareholders of the company to whom they are reporting and exercising independence of mind to ensure that financial reports provide a true and fair view of the financial position and performance of the company.</p> <p>Absent independence, shareholders, creditors and other users of the financial statements can have no assurance or comfort as to the truth or fairness of the financial report of the economic entity with which they deal. Such assurance adds value to capital market efficiency because it enhances the credibility of financial statements. It is in those circumstances that the <i>perception</i> that an auditor is independent takes on greater importance.</p> <p>The primary purpose of the audit is to provide an independent and objective review of the company's financial statements. Corporate resources are expended on an audit for that purpose. An independent and objective audit, conducted with an appropriate degree of professional scepticism, is required. Management, in particular senior management, might have a natural interest in presenting the results of the company in the most favourable light and having the auditors sign off on that form of presentation. That interest of management can give rise to tension in the performance of an independent and objective review. In these circumstances, if the auditor is under pressure to conform with management's expectations, the rationale for the expenditure of corporate resources upon audit may be undermined. Where personal relationships between the auditor and management undermine professional independence and objectivity in any way, good corporate governance is imperilled.</p> <p>In light of the above, it is critical that the auditor should be seen to be exercising impartial and objective judgment in addition to the actual exercise of that impartial and objective judgment. Any standard of audit independence must reflect this requirement.</p> <p>Further, the difficulties referred to in discerning any actual lack of independence, coupled with a reluctance on the part of auditors to confront their own lack of independence, supports the introduction of an objective standard of independence. The CLERP 9 proposals acknowledge the need for such an objective standard.</p> <p><b><i>Other models for dealing with conflict</i></b></p> <p>The issue of audit independence does not normally arise in the course of litigation. Where an audit is undertaken incompetently it is often said that a lack of independence adds nothing to what is otherwise a complete cause of action based upon a breach of duty. Where an audit is not undertaken incompetently, a lack of independence will not cause any loss of itself.</p>

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		<p>There are many situations where the law imposes obligations upon people who face conflicts between their interests and their duties. In determining what I consider to be an appropriate standard of audit independence I have had regard to certain of those situations, namely the imposition of fiduciary obligations, the independence of directors, requirements in respect of related party transactions, and disqualification of members of the judiciary on the grounds of bias or apprehended bias, which are discussed below.</p> <p><i>Fiduciary obligations</i></p> <p>The primary elements of a fiduciary relationship are that:</p> <ul style="list-style-type: none"> <li>• the fiduciary has undertaken to act in the interests of another</li> <li>• that undertaking gives to the fiduciary the power to affect the interests of the other party</li> <li>• the person to whom the fiduciary duty is owed is vulnerable to the fiduciary's abuse of his or her position.<a href="#">[46]</a></li> </ul> <p>The vulnerability of one party to the other party with power or discretion was emphasised by Dawson J in <i>Hospital Products Ltd v United States Surgical Corp</i>:</p> <p style="padding-left: 40px;">There is, however, the notion underlying all the cases of fiduciary obligation that inherent in the nature of the relationship itself is a position of disadvantage or vulnerability on the part of one of the parties which causes him to place reliance on the other and requires the protection of equity acting upon the conscience of that other.<a href="#">[47]</a></p> <p>Vulnerable in this context does not mean intrinsic weakness but rather disadvantage due to the superior knowledge or power of the trusted party.<a href="#">[48]</a> A fiduciary relationship exists where one party is in a position of reliance upon the other because of the nature of the relationship.<a href="#">[49]</a></p> <p>It has been said that there are three purposes of the law of fiduciary obligations, namely:</p> <ul style="list-style-type: none"> <li>• the maintenance of high standards of honesty and propriety by those who are under a duty to act in the interests of others</li> <li>• the confiscation of gains arising from the abuse of a relationship of trust</li> <li>• the protection of one person's reasonable expectations that the other will act in her or his interests, and not in pursuance of a contrary self-interest or conflicting duty.<a href="#">[50]</a></li> </ul> <p>The fiduciary has a duty to account to the person to whom the fiduciary obligation is owed for any benefit or gain:</p> <ul style="list-style-type: none"> <li>• which has been obtained or received in circumstances where a conflict or significant possibility of conflict existed between the fiduciary's duty and their personal interest in the pursuit or possible receipt of such a benefit or gain</li> </ul>

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		<ul style="list-style-type: none"> <li>• which was obtained or received by use or by reason of the fiduciary's position or by reason of opportunity or knowledge resulting from the position.<a href="#">[51]</a></li> </ul> <p>As Lord Herschell stated in <i>Bray v Ford</i><a href="#">[52]</a> in relation to the conflict between duty and interest:</p> <p>It is an inflexible rule of a Court of Equity that a person in a fiduciary position is not, unless expressly otherwise provided, entitled to make a profit; he is not allowed to put himself in a position where his interest and duty conflict. It does not appear to me that this rule is founded upon principles of morality. I regard it rather as based on the consideration that human nature being what it is, there is a danger, in such circumstances, of the person holding a fiduciary position being swayed by interest rather than duty, and thus prejudicing those whom he was bound to protect.</p> <p>Several tests have been proposed to determine whether a fiduciary has a conflict of interest, including whether there is a 'real sensible possibility of conflict'<a href="#">[53]</a>, or a 'significant possibility of conflict' between duty and interest.<a href="#">[54]</a></p> <p><i>Directors</i></p> <p>In addition to the fiduciary obligations of a director discussed above, directors also have a statutory obligation to avoid conflicts of interest and duty.</p> <p><i>Related Parties</i></p> <p>Chapter 2E of the Corporations Act requires that transactions between a public company and any related party<a href="#">[55]</a> that give a financial benefit to the related party on other than arm's length terms be approved by the company's shareholders. The purpose of the chapter is to protect the interests of a public company's shareholders as a whole, by requiring shareholder approval for giving financial benefits to related parties that could endanger those interests.<a href="#">[56]</a></p> <p>In order for shareholders to make an informed decision about the related party transaction, the company is required to distribute an explanatory statement which sets out certain specified information.<a href="#">[57]</a></p> <p><i>Judicial bias</i></p> <p>The test laid down by the High Court to determine whether a judge is disqualified by reason of the appearance of bias is whether a fair-minded lay observer might reasonably apprehend that the judge might not bring an impartial and unprejudiced mind to the resolution of the question the judge is required to decide.<a href="#">[58]</a></p> <p>The majority of the High Court stated:</p> <p>That test has been adopted, in preference to a differently expressed test that has been applied in England, for the reason that it gives due recognition to the fundamental principle that justice must both be done, and be seen to be done. It is based upon the need for public confidence in the administration of justice. 'If fair-minded people reasonably</p>

#	Source	Detailed Comment
		<p>apprehend or suspect that the tribunal has prejudged the case, they cannot have confidence in the decision.’ The hypothetical reasonable observer of the judge’s conduct is postulated in order to emphasise that the test is objective, is founded in the need for public confidence in the judiciary, and is not based purely upon the assessment of some judges of the capacity or performance of their colleagues.<a href="#">[59]</a></p> <p>The parties to the litigation in question can waive an objection on the ground of bias, even where it is a question of the public apprehension of bias.<a href="#">[60]</a></p> <p><b>ASX Corporate Governance Council—Test for independent directors</b></p> <p>By way of comparison, the ASX Corporate Governance Council has defined an independent director as one who is independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the director’s ability to act in the best interests of the company.</p> <p><b>Proposed standard of audit independence</b></p> <p>I have concluded that a general standard of independence for auditors should be adapted from the test laid down to determine whether a judge is disqualified by reason of the appearance of bias. While judges and auditors perform different functions there is a common element. Both functions involve an exercise of judgment which results in the public expression of an important opinion which is capable of affecting society widely.</p> <p>Just as the requirement that a judge be seen to be free from bias is based on a need for public confidence in the administration of justice<a href="#">[61]</a>, the requirement that an auditor be seen to be independent is based on a need for public confidence in the credibility and reliability of reported financial information.<a href="#">[62]</a></p> <p><b>Recommendation 9</b></p> <p>I recommend that all standards of independence of auditors in Australia, including those contained in legislation and professional standards such as Professional Statement F1, be consistent with the standard of independence defined as follows:</p> <ul style="list-style-type: none"> <li>• An auditor is not independent with respect to an audit client if the auditor might be impaired—or a reasonable person with full knowledge of all relevant facts and circumstances might apprehend that the auditor might be impaired—in the auditor’s exercise of objective and impartial judgment on all matters arising out of the auditor’s engagement.</li> <li>• A reference to an auditor includes both an individual auditor and an audit firm. In determining whether an auditor or an audit firm is independent, all relevant circumstances should be considered, including all pre-existing relationships between the auditor, the audit firm and the audit client, including its management and directors.</li> </ul>



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5.	APESB	<p>APESB is of the view that the IESBA's proposed revisions create a conceptual framework that sets appropriate standards while providing flexibility to suit various circumstances and professional activities performed by professional accountants. Subject to our specific comments below, we are supportive of the proposed amendments which improve the flow of the Code and clearly articulates the expected correlation between threats and safeguards. We are of the view that this is a significant improvement on how safeguards are described in the extant Code.</p> <p>APESB's key concern is the use of the term 'might' throughout the Safeguards ED. We note that the IESBA's Drafting Guidelines<sup>5</sup> for the Structure of the Code Project includes the following definitions of 'might' and 'may' at paragraph 19:</p> <p style="padding-left: 40px;">'Use the word "may" for when a matter is permitted and use the word "might" with reference to a matter where there is a possibility that something will or will not occur.'</p> <p>APESB has noted a number of instances throughout the Exposure Draft where the use of the term 'might' may not be appropriate in a practical sense. For instance, please review proposed paragraph 300.2 A1, which describes a number of scenarios where threats are present, and the lead in paragraph describes it as "might." We respectfully suggest that in most of those instances it is more than likely that threats <u>are</u> present. Other instances where APESB considers 'might' is not the appropriate term to use are in paragraphs R120.5, 120.5 A1, R120.8, 300.2 A3 and 300.2 A11.</p> <p>Accordingly, we believe that the IESBA needs to perform a comprehensive review in this Exposure Draft of where the term "might" is used and critically evaluate whether the term is appropriate as otherwise there is a risk that the requirements of the Code may be diluted and cause an unintended loss of clarity. Based on the current drafting approach it is likely that a professional accountant may argue that in the identified circumstances it <u>might not</u> create a threat to the fundamental principles when a reasonable third party is likely to conclude that it does create a threat to the fundamental principles. We believe that the use of "may" in the extant Code is stronger than the use of "might" in the proposed revisions.</p> <p>Additional comments about the specific components of the conceptual framework and associated application guidance is noted below:</p> <p><u>(a)</u> Paragraph R120.5 is written using guidance language. To strengthen the requirement, the paragraph should be separated with the first sentence being retained as a requirement. The second sentence can be included in one of the application paragraphs. This would be consistent with the approach taken in paragraph R120.6.</p> <p><u>(b)</u> No additional specific comments.</p>

<sup>5</sup> *Structure of the Code – Drafting Guidelines (December 2015)* – presented to the IESBA at November – December 2015 meeting.

#	Source	Detailed Comment
		<p>(c) Paragraph 120.7 A1 includes a reference to the International Independence Standards C1 and C2 to provide examples of situations where the threat created would be so significant that no safeguards could reduce it to an acceptable level. However, this could be read in a manner that implies that these threats do not happen in other circumstances. APESB recommends removing the reference to Independence standards from this paragraph or alternatively including examples that cover professional accountants in business and professional accountants in public practice who provide non-assurance services.</p> <p>(d) Re-evaluating threats is not listed as a key component of the conceptual framework in paragraph 120.2. APESB recommends paragraph 120.2 is amended to specifically reference the step of re-evaluating threats.</p> <p>(e) The overall assessment is not listed as a key component of the conceptual framework in paragraph 120.2. APESB recommends paragraph 120.2 is amended to specifically reference the step of performing an overall assessment.</p> <p>Paragraph R120.9 includes reference to the reasonable and third party test. As the reasonable and third party test is included within the definition of acceptable level, we believe that the additional text is not required. APESB recommends deleting the following sentence:</p> <p style="text-align: center;"><del>‘The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.’</del></p> <p>This recommendation also applies to paragraph 300.2 A12.</p> <p>During APESB’s Australian stakeholder consultation process, stakeholders queried the timing and function of the overall assessment and how it differs from the re-evaluation of threats. We believe that it would be useful for the IESBA to develop guidance to clarify the timing of the overall assessment and how it differs from the re-evaluation of threats that is required under paragraph R120.8.</p>
6.	ASB	<p>Yes, we do support portions of the Board’s revisions to the conceptual framework, including the proposed requirements and application material related to identifying threats, evaluating threats, addressing threats and re-evaluating threats. We believe the conceptual framework is better organized and the material is clearer. We also believe the new requirements concerning the re-evaluation of threats makes the Code more robust.</p> <p>However, we do have some concern with regard to “the overall assessment” requirement. Specifically, we believe greater clarity is needed as to when the overall assessment should be performed. For example, is it intended that the overall assessment be performed whenever threats have been addressed or re-evaluated? Further application material on this requirement would be beneficial.</p>
7.	ASSIREVI	The proposed revisions to the identification of threats (letter a) seem to be more than a mere re- elaboration of the wording.

#	Source	Detailed Comment
		<p>The current framework (paragraph 100.8) states that: <i>"A professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles "</i>.Whereas paragraph R.120.5 of the Exposure Draft appears to change the current approach significantly, providing that <i>"the professional accountant shall identify threats to compliance with fundamental principles "</i>. This would seem to imply that the facts and circumstances known or knowable would no longer be important for the professional accountant. As such, the new wording would imply that professional accountant would have to activate all possible measures to identify threats to compliance with the fundamental principles.</p> <p>The difference compared to the current framework is significant; it does not merely involve the restatement of the existing requirements but is actually a new requirement which ASSJREVI would have concerns about.</p> <p>With respect to the <i>overall assessment</i> (letter e), the term "overall" does not seem to be clear in its meaning. We wonder if just the word "assessment" should be used, without additional explanations. The addition of the word "overall" could create uncertainties in interpretation.</p> <p>We also believe it may be appropriate to specify whether this activity is requested as part of a preliminary overall assessment of a threat to independence or, as suggested by paragraphs R.120.9 and 300.2 AI2, should it performed ex post if new information is obtained or the facts and circumstances change. ASSIREVI feels that the "assessment" should be performed during a preliminary phase, to be followed by regular monitoring of the independence threats over the engagement term to identify any changes i n the circumstances originally considered during the assessment phase. If any changes do take place, the initial assessment would be updated.</p> <p>In addition, more information could be provided about the methods to be used, the timing and any documentation requirements of this <i>"overall assessment"</i>, i including through the provision of guidance and examples.</p>
8.	BDO*	We support the Board's proposed revisions to the extant Code pertaining to the conceptual framework.
9.	CAANZ	<p>We note a disconnect between the introduction to the conceptual framework in 120.2 and the requirements stated in the remainder of section 120. The introduction states three components of the conceptual framework (identify, evaluate and address). Section 120.8 appears to introduce a new component of the framework in re-evaluating threats, and section 120.9 another component in making an overall assessment. We believe these two additional requirements should be referred to in 120.2 and 120.3 or included within 120.6 as steps required as part of evaluating threats.</p> <p>We believe greater guidance is required in regards to re-evaluating threats and conducting the overall assessment. The following are some areas where we can see our members seeking greater clarity:</p>

#	Source	Detailed Comment
		<ul style="list-style-type: none"> <li>When must the overall assessment be completed? For example, if a professional accountant issues a draft valuation report, are they required to make an overall assessment at the time of sending the draft report and then again when the final report is issued to the client, or just at the time of issuing the final report?</li> <li>What is the level of documentation required for an overall assessment or a re-evaluation?</li> <li>What is the level of documentation required to establish that a professional accountant re-evaluated threats, particularly if none were identified?</li> <li>Is the “reasonable and informed third party” test applicable when a professional accountant is re-evaluating threats (120.8) and making an overall assessment (120.9)?</li> </ul>
10.	CHI	<p>The proposed revisions to the requirements and the application material are clear and to the point. They are understandable and well structured. The presentation is acceptable to us. The structure is clear and readable, and the application material complements the requirements.</p> <p>In general the balance between the Conceptual Framework and Section 300 is appropriate. However, it would be helpful to provide professional accountants who are not in public practice with more information about the application and relevance of the Code. Rather than expanding the formal application material, this could be addressed through other support resources.</p>
11.	CNCC	<p>Since, as recalled in the introductory paragraph, we are not informed of any problem with the extent Code, we oppose the introduction of any new requirements, especially relative to re-evaluating threats (R.120.8) and the overall assessment (R.120.9). Therefore, we do not agree with this proposal and would prefer to see that subject matter being dealt with through application material only.</p> <p>As an example, regarding the re-evaluation of threats, we do consider it is a simple thought process that has to be present at any times. Indeed, new facts and circumstances are already being taken into consideration. The professional accountant has then to assess if a new threat has arisen and, if so, repeat the whole process again.</p>
12.	CPAA	<p>We agree with the proposed approach to identify, evaluate and address threats to compliance with the fundamental principles. In relation to the ‘re-evaluation’ of threats, we are of the view that more clarity is required. If addressing the threat leads to its elimination, reduction to an acceptable level or cessation of the professional activity or service, then it is not clear what the re-evaluation of the threat is hoping to achieve as a next step. Further, the re-evaluation requirement in paragraph R120.8 focusses on new information or changes in facts and circumstances. In our view, these are not necessarily parts of the re-evaluation phase but rather the identification phase that professional accountants must be undertaking in relation to all new information and changes in facts and circumstances, not only those that relate to pre-identified threats.</p> <p>As a result we are of the view that the re-evaluation phase of the proposal needs to be developed further or removed.</p>

#	Source	Detailed Comment
13.	CPAC	<p>Generally, we support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to the above. We believe the Conceptual Framework will help to foster ethical behavior and judgment among professional accountants and provide a useful process for professional accountants to identify, evaluate and address threats. We agree with the merit and importance of re-evaluating threats and also with the requirement to perform an overall assessment.</p> <p>Having said the above, some concern was expressed with the emphasis placed on the Conceptual Framework relative to the fundamental principles as proposed through the restructuring of the Code. Although the requirement to apply the Conceptual Framework was made clear through the restructuring, we did not find the linkage to the relevant fundamental principles to always be clearly laid out.</p> <p>We also noted that there may be inherent problems in applying the Conceptual Framework in all circumstances as it may allow for a defence based on the application of safeguards thereby diluting the principles and requirements. Ultimately, this could bring enforceability into question and may reduce the adoptability of the Code where jurisdictions are concerned that the requirements, including the application of safeguards, may not be sufficiently clear to establish when fundamental principles of ethics have been violated.</p> <p>In reviewing the clarity of the language used in Section 120, we noted that the description of Self-review threat in 120.5 A2 could be more clearly and concisely stated.</p>
14.	Djuvenal <sup>^</sup>	<p>Yes, I agree and support the Board's proposed revisions to the extant Code pertaining to the Conceptual Framework, including the proposed requirements and applications material related to: identifying threats; evaluating threats; addressing threats; re-evaluating threats and the overall assessment.</p>
15.	DTT*	<p>We do not support, as a whole, the proposed revisions to the extant Code pertaining to the conceptual framework as we are unconvinced that the current framework is not effective, and that the potential costs and benefits in making further changes have been appropriately weighed. As noted above, we also consider that the transformation of the conceptual framework into a rules-based approach will have unintended consequences which are not in the public interest.</p> <p>Subject to our comments above, we do not have any objection to the reorganization of the conceptual framework in line with the objectives of the structure project, however we do not support the addition of the additional Requirements steps (Re-evaluating threats and Overall assessment). See comments below.</p>

<sup>^</sup> This letter was received after the Task Force's physical meeting. The Task Force plans to further consider the respondents' comments at its July 2016 meeting and refine its proposals as deemed appropriate.

#	Source	Detailed Comment
		<p><u>Identifying threats</u></p> <p>We support any attempt by the Board to provide clearer guidance to assist professional accountants to identify threats and support compliance with the fundamental principles. However some of the proposed provisions have significantly changed the meaning and application of the conceptual framework and we are not supportive of such changes.</p> <p>The extant Code states that the professional accountant shall apply the conceptual framework to identify and evaluate threats to the fundamental principles and “shall identify” is only used in the independence section. However the Board is proposing to create a “shall” requirement in the framework with respect to identifying threats to the fundamental principles (proposed R.120.5: The professional accountant shall identify threats to compliance with the fundamental principles.) The premise of the conceptual framework is that threats shall be evaluated when they are identified (extant 100.8: “when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles”).</p> <p>As proposed, the professional accountant is now seemingly required to continually search for all facts and circumstances that may create threats to compliance with the fundamental principles. If this is the intention of the Board (and we would hope it is not), guidance should be provided to assist the professional accountant in understanding what is expected. For example, should the accountant now be required to talk to all of his or her close and immediately family members on a daily basis regarding all of his or her clients and business relationships to ensure that he or she has identified any threats to their compliance with the fundamental principle of objectivity? Will every threat that was not proactively identified by the accountant be a breach of the requirement?</p> <p>Accordingly, we do not support creating a new “shall” requirement in the conceptual framework for the accountant to identify threats to compliance with the fundamental principles. The accountant can only be required to evaluate the threats created by the facts and circumstances that the accountant knows or could reasonably be expected to know.</p> <p>We also suggest that the second statement in R120.5 would be more appropriately placed in the application guidance, particularly as it is not a “shall” statement. This should not be a pre-requisite to the identification of threats and it is not feasible for the accountant to be required to understand all facts and circumstances that might compromise compliance with the fundamental principles</p> <p>We agree that the categories of threats used in the extant Code remain appropriate.</p> <p><u>Evaluating Threats</u></p> <p>The Board proposes expanding the application material in the Code to better describe the process by which professional accountants should evaluate threats. However, as noted above, a very significant and important qualifier - the requirement to</p>

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		<p>evaluate threats based on the circumstances and relationships that the accountant knows or could reasonably be expected to know - has been removed.</p> <p>The Board has instead, we consider incorrectly, moved the concept of “facts and circumstances that the accountant knows or could reasonable by expected to know” into the concept of the reasonable and informed third party. The rationale for doing this is unclear.</p> <p><u>Re-evaluating Threats</u></p> <p>The Board is proposing a new requirement in R.120.8 that requires the accountant to “re-evaluate and address a threat” if the accountant 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.” It is not clear what this requirement is seeking to achieve. This step is already implicitly part of the conceptual framework. When a professional accountant knows, or could reasonably be expected to know, of facts or circumstances that may compromise compliance with the fundamental principles, whether because the facts and circumstances have changed or there is new information, he or she is required to evaluate those threats.</p> <p>We support making the application of the conceptual framework clearer if this is an area that has led to confusion, however in such a case, the clarification should form part of the application guidance on applying the conceptual framework. Practically speaking, the application guidance in 120.8 A1 and 120.8 A2 is helpful, however it would more appropriately form part of the existing application guidance on Evaluating Threats.</p> <p><u>Overall Assessment</u></p> <p>There is no rationale in the Exposure Draft to explain why the Board “felt it important to include – as part of, and not distinct from, the application of the conceptual framework - a new requirement for the professional accountant to perform an overall assessment by reviewing the judgments made and overall conclusions reached.”</p> <p>It is not clear what the Board’s proposal in paragraph R120.9 requires the accountant to do that is not already required to be done under the conceptual framework. It is also not clear how it is different or additional to existing obligations to determine that threats to compliance with the fundamental principles have been eliminated or reduced to an acceptable level. For example, when should this overall assessment be undertaken? Is it a periodic assessment that the professional accountant is required to document? What triggers the assessment to be undertaken? Is the assessment part of the conceptual framework or not? Neither the re-evaluation of the threats nor the overall assessment are included as steps in proposed paragraph 120.2. We strongly believe that including a requirement in the Code that is not clear in its meaning is not in the public interest.</p> <p>We do consider it is a very important principle the professional accountant to take a step back and consider the overall picture and not only be focused on specific threats and safeguards in isolation. We support making the provisions clearer if this is an</p>

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		area that has led to confusion, and, if this is the Board's intention with this provision, then we urge the Board to consider whether its objectives can be better achieved by making this part of the application guidance on applying the conceptual framework, not as an additional step.
16.	EYG	<p><b>(a)</b> Yes. We agree with the proposed revisions to the Code with respect to identifying threats, including the revised application material that describes the factors that may threaten compliance with the fundamental principles, and more clearly articulates that the identification of threats supports compliance with the fundamental principles.</p> <p><b>(b)</b> Yes. We agree with the Board's proposals to expand the application material in the extant Code to better describe the process by which professional accountants should evaluate threats.</p> <p><b>(c)</b> Yes. We agree with the Board's assessment that there are inconsistencies in how the term "safeguards" is used in the extant Code and support the Board's proposal to only use the term "safeguards" more narrowly to describe actions that the professional accountant undertakes to address threats to compliance with the fundamental principles and to discontinue using "safeguards" in the broader and more conceptual context.</p> <p>However, we note that the wording in Section 120 regarding "Conditions policies and procedures" differs from the equivalent wording in Section 300. Paragraph 120.5 A4 states that such conditions, policies and procedures "can affect the likelihood of the accountant's identification of threats..." whereas paragraph 300.2 A6 states that such matters may affect the "level of a threat". We agree above all that such matters can affect the level of a threat and that this assertion should also be made in section 120.</p> <p><b>(d)</b> Yes. We agree with the Board's proposals to require the professional accountant to re-evaluate threats and address threats when new information becomes available, or when there are changes in facts or circumstances. The wording would imply some degree of monitoring which we believe is appropriate.</p> <p><b>(e)</b> No. We believe the proposed requirement regarding an overall assessment and the step back approach is confusing and unnecessary (see Section R120.9). Firstly, we believe the word "overall" is redundant as the assessment involves only the following inputs: the facts regarding the service, the identified threats and the proposed safeguards.</p> <p>Secondly, we believe that this paragraph should be positioned <i>before</i> the paragraphs relating to "re-evaluating threats". Placing this paragraph after "re-evaluating threats" would suggest that the assessment takes place at the end of the process which would be incorrect as it would come too late. For example, in connection with the provision of a non-audit service, the correct sequence of steps when evaluating threats and safeguards would be to complete the assessment before initiating the service and then, while the service is being performed, monitoring that the facts and circumstances do not change such that a re-evaluation is necessary.</p>



#	Source	Detailed Comment
17.	FAR	<p>FAR supports the proposed revisions. FAR would like to add the following suggestions:</p> <p>c) In the ED 120.7 A1 reference is made to examples in International Independence Standards C1 and C2 of situations where no safeguards could reduce the threat to an acceptable level. It might be helpful to make clear in the reference, or perhaps in a footnote, that the Standards in C1 and C2 apply to audits and reviews and other assurance engagements. Perhaps other examples are needed for other engagements.</p> <p>e) The rationale behind the new requirement in the ED R120.9 to make an overall assessment is a bit unclear. What does it add that the other requirements do not already ascertain? When is the review of judgements and overall conclusions to be made in order to fulfill the requirements of the Code? Should this be done after addressing the threats and/or on a regular basis while the service is being provided? FAR is not opposed to the new requirement, but finds that it would benefit from an application paragraph that explains the "step-back" approach.</p>
18.	FEE	<p>Although it may add some clarity, IESBA should carefully assess the introduction of new requirements, namely the re-evaluation of threats and the overall assessment, as they are already implicit. Regarding the re-evaluation of threats, it is unclear if it is intended to be a new requirement or a simple thought process that has to be present at all times. New facts and circumstances are already being taken into consideration. When they arise, the professional accountant has to assess whether a new threat was created and, if it has been, repeat the whole process.</p> <p>Generally speaking, by adding further requirements, the Code becomes rules-based, leading invariably to a tick-box approach. This change does not meet the needs of practice and can result in problems of application by professional accountants.</p> <p>Furthermore, there are inconsistencies between the thought process described in sections 120 and 300, namely regarding the identification and evaluation of threats. For further details, please refer to our response to question 5.</p> <p>In addition, the new definition of safeguards together with the new category of circumstances makes it more difficult for practitioners to document properly and in a logical manner the threats, the safeguards, and the related conclusion.</p> <p>Apart from the independence requirements, the Code is rather vague in terms of documentation requirements. IESBA could consider introducing new requirements in order to help practitioners realise that the documentation aspect is important in some respects, especially for regulators. More guidance on documentation would help practitioners demonstrate the considerations they gave to the threats and safeguards approach for a particular situation. This might be a better approach than removing safeguards from the list that could be taken into account, but are no longer regarded as safeguards.</p>
19.	FSR	<p><i>It might seem that the paragraphs under the headings on reevaluation of threats and the overall assessment only state what seems obvious and therefore do not qualify for separate headings. They may be substituted with specifics in the paragraphs</i></p>

#	Source	Detailed Comment
		<p><i>under the headings on identifying, evaluating and addressing threats, or by adding a general reference in paragraph 120.3 that states that the process is iterative and holistic.</i></p> <p><i>E.g. by adding “Identifying, evaluating and addressing threats is an iterative process, which requires awareness of new information or changes in circumstances that may lead to reevaluating identified threats and necessary safeguards, and which requires an overall assessment.”</i></p> <p><i>Further, the conceptual framework should only state the principles without re-requirements/application materials. Application materials and further requirements should be placed later in the Code by the specifics for professional accountants in practice and accountants in business.</i></p>
20.	GAO	<p>We support the IESBA’s proposed revisions to the extant Code pertaining to the conceptual framework. We believe the revisions would strengthen the professional accountants’ ability to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce these threats to an acceptable level. The following are three suggestions for revisions that we believe would further clarify the code.</p> <ul style="list-style-type: none"> <li>• The following change to paragraph R120.9 would emphasize the need for an objective assessment of whether a threat to compliance with the fundamental principles has been eliminated or reduced to an acceptable level and whether further action is needed:</li> </ul> <p>The professional accountant shall review judgments made and overall conclusions reached to determine <del>that</del> <u>whether</u> threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level, and <del>that no</del> <u>whether</u> further action is needed. The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.</p> <ul style="list-style-type: none"> <li>• Also with respect to paragraph R120.9, IESBA may wish to consider whether the proposed overall assessment should occur at various times over the course of an engagement. For example, there may be value in conducting an overall assessment during the planning of an engagement or service.</li> <li>• We believe “intimidation threats” as defined in paragraph 300.2 A1 (e) should be replaced with “undue influence threats.” GAGAS uses this term to describe similar threats in its conceptual framework to encompass a broader range of threats related to external influences or pressures that may affect an auditor’s ability to make independent and objective judgments. “Undue influence” better reflects the sometimes subtle nature of these threats. For example, a client that pays significant audit fees to a firm may exert undue influence without actually intimidating a firm or its members. We have additional comments on this threat category in our response to question 5 below.</li> </ul>

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21.	GTI*	<p>1. Grant Thornton supports the guidance in the proposals and believes the proposals will help achieve the Board's objectives to (i) bring clarity to safeguards that are not clear and eliminate those that are inappropriate, (ii) better correlate a safeguard with the threat it is intended to address, and (iii) make clear that not every threat can be addressed by a safeguard. We also believe the guidance in the proposals will enhance compliance with the fundamental principles and the Code. A clearer delineation between threats and safeguards will allow Professional Accountants to better correlate the relationship between the two, enabling stronger, more effective safeguards to be put in place.</p> <p>(a) Grant Thornton is supportive of the guidance for identifying threats.</p> <p>(b) Grant Thornton is supportive of the guidance for evaluating threats and believes the inclusion of the definition of "acceptable level" in the main body of the Code and the enhanced application material will aid Professional Accountants in performing a more in-depth evaluation of whether a threat is at an acceptable level or not and whether the application of safeguards is required.</p> <p>(c) Compliance with the fundamental principles and the Code enables the Professional Accountant to conduct the professional activity with objectivity. We believe the guidance for addressing threats in Sections 120 and 300 provides a concise framework to help Professional Accountants implement effective safeguards and make appropriate objectivity decisions, including auditor independence.</p> <p>We believe the Board's proposed definition of "safeguards" is more robust and precise and the new definition will help the Board achieve the objective of establishing a stronger correlation between threats and safeguards. The new definition will enable Professional Accountants to implement more effective safeguards, when the implementation of safeguards is appropriate.</p> <p>(d) We support the Boards proposal requiring Professional Accountants to re-evaluate a threat and the appropriateness of the safeguard(s) that has been implemented when new information becomes available or when there are changes to the facts and circumstances. This requirement will highlight the Professional Accountant's responsibility to continually assess their objectivity and is particularly important in maintaining independence in audit engagements.</p> <p>(e) Grant Thornton is supportive of the guidance for the overall assessment.</p>
22.	HICPA	<p>We welcome the Board's proposed revisions to the extant Code pertaining to the conceptual framework. In particular, we support the introduction of the new requirement for the professional accountant to re-evaluate threats to compliance with the fundamental principles when there is new information or change in facts and circumstances, and the new requirement to do an overall assessment of judgements made and conclusion reached.</p>

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		Nevertheless, from corruption prevention perspective, we suggest that after identifying a threat, a professional accountant should disclose the threat to his supervisor and/or a designated person in the firm, and document such threat and the follow-up action.
23.	IAIS	<p>IAIS believes that the proposed revisions to the conceptual framework of the Code regarding the definition and the treatment of threats to compliance with the fundamental principles provide a better articulation of principles and more robust application material.</p> <p>However, the IAIS has the following comments:</p> <p><input type="checkbox"/> Regarding the paragraph 120.5.A4 and 120.6 A3, ideally compliance with the fundamental principles should be sought independently of the conditions, policies and procedures established by the profession, legislation, regulation or firms – although it is recognised that practically this could be difficult. Consequently, it may be useful to link in a further discussion of the relationship between such conditions, policies and procedures and the assessment of compliance with the fundamental principles; an</p> <p><input type="checkbox"/> Regarding the paragraph R 120.7, it is probably very difficult to eliminate existing relationships so as to help ensure that their persistent negative impacts on independence of mind are reduced to an acceptable level. Whilst concrete interests (for example, conflicts arising from a specific piece of work) might be eliminated, it is not clear that, for example, a long-standing client relationship is capable of elimination in the same way. Consequently, it may be useful to recognise the special challenges involved in eliminating the relationship circumstances that create familiarity threats.</p>
24.	ICAB	Yes, we support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to (a) identifying threats, (b) evaluating threats, (c) addressing threats, (d) re-evaluating threats and (e) the overall assessment.
25.	ICAEW	<p>Yes, subject to the documentation issue discussed below, we support the approach.</p> <p>In a number of areas, the redraft includes explicit requirements in respect of matters which were more implicit in the current code. Examples include the need for an overall assessment and the need to re-evaluate threats. While we do not disagree with making these requirements more explicit, this can have an impact on documentation. We take the code's requirements in this area to be that documentation is not required (other than in respect of assurance activities) but may be in the accountant's own interests. However, the wording is capable of being read in a number of ways (a point we raise in our response to the structure consultation) – some member bodies and regulators could interpret these requirements, now that they are explicit, as requiring documentation where it was not required before. It would be helpful for the Board to be clear about its expectations.</p>

#	Source	Detailed Comment
		In particular, where the work being undertaken by the professional accountant is an audit engagement in accordance with ISAs, is the overall assessment envisaged different than that required in, for example, ISA 220.11? While the code has a much wider focus than audits, where accountant carry out work in accordance with other standards with similar terminology, it is important to be consistent, or clear that differences are intended.
26.	ICAG	<p>a. Yes, we agree. The proposed requirements and application material give a broad scope on how a professional accountant can identify threats to compliance (Paragraph R120.5). It relates threats to compliance with the fundamental principles. As threats to compliance can arise in varied situations, the ED reiterates the importance of a professional accountant exercising professional judgment, being alert to changing circumstances, and taking into account the conclusion that a reasonable and informed third party would come to regarding whether the Accountant has complied with fundamental principles (Paragraph R120.4).</p> <p>b. Yes, we agree. In evaluating a threat, it is important for an Accountant to evaluate whether the threat is at an acceptable level. As the ED has defined what an acceptable level is (Paragraph 120.6 A1), it makes it easier for the Accountant to identify threats to compliance.</p> <p>c. Yes, we agree. Paragraph R120.7, states that an Accountant can either eliminate or reduce threats to an acceptable level. It also points out that not all threats to compliance has safeguards.</p> <p>d. Yes, we agree. The ED points out the importance of Accountant being alert throughout the professional activity or service in order to determine whether new information has emerged or changes in facts and circumstances have occurred that would change the conclusion reached on threats identified and safeguards put in place. New threats identified have to be evaluated and addressed.</p> <p>e. Yes, we agree. The Accountant shall review identified threats and safeguards put in place to be satisfied that threats to compliance with the fundamental principles have been eliminated or reduced to an acceptable level and no further action is required.</p>
27.	ICAS	We are supportive of the substance of these proposed revisions. However, we do question the ordering of the relevant paragraphs in the proposed revised Code. We believe that the content of paragraph R120.9 “Overall Assessment” should be placed before the content of paragraphs of R120.8 to 120.8A2 on “Re-evaluating Threats”. If the professional accountant 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 professional accountant would then need to re-evaluate their overall assessment. We very much see this as an ongoing approach.

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		<p>We note, however, that the Introduction to Section 120 currently only mentions identifying, evaluating and addressing threats. There is no mention of re-evaluating threats and the overall assessment. We believe it would be helpful for the reader if these new requirements were also highlighted at the start of the Section.</p> <p>We have concerns over the proposed wording to 120.2 – this could be misread as imposing an obligation on the professional accountant to identify threats to compliance with the fundamental principles even if there are no such threats.</p>
28.	ICJCE^	we are pleased to confirm the total support of the ICJCE to the comments set out in FEE comment letter
29.	ICPAK	Yes, we support the Board's proposed revisions. This to assist in applicability to all professional accountants.
30.	IDW	<p><u>Identifying threats</u></p> <p>We agree with the Board's conclusion that the listing and categories of threats in the extant Code do not need to be augmented.</p> <p>The second sentence of R120.5 does not contain the term "shall" so as to be a clear requirement, but is a statement of fact explaining how the requirement is exercised. We suggest the Board clarify its intent (i.e., as a requirement or application material). In our view, it is important for the IESBA to clarify that the understanding shall be sufficient for the intended purpose.</p> <p>Although we agree in principle to the proposed change in treatment of external measures (previously "<i>safeguards created by the profession or legislation</i>," "<i>safeguards in the work environment</i>," and "<i>safeguards implemented by the entity</i>"), that are continually present in a professional accountant's working environment, as they may potentially reduce or eliminate one or more particular threats, we believe the Code needs to provide further clarification.</p> <p>In particular, whilst there may be a clear understanding by PAs and regulators alike as to the potential negation of threats by safeguards created by the profession or legislation in a particular jurisdiction, the impact of safeguards within the other two categories may require more subjective evaluation. In our view, clarification of documentation requirements pertaining to the identification (and non-identification) of threats in all such situations would be helpful.</p> <p>Whilst we believe that it may not be necessary for a PA to document safeguards created by the profession or legislation in a particular jurisdiction to eliminate a threat, documentation would likely be appropriate in situations where a PA has taken account of safeguards in the work environment and safeguards implemented by the entity during identification.</p> <p>Without such clarification the Code will be unclear as to whether the IESBA intends this change to mean that when such a measure eliminates a threat, the professional accountant will no longer be faced with a threat to identify and consequently would not be expected to evidence non-identification. In contrast, it appears clear that measures that serve to reduce a particular threat will require that the professional accountant identifies a threat prior to taking account of such measures in</p>

#	Source	Detailed Comment
		<p>evaluating whether the threat is at an acceptable level or not. However, distinguishing between these two scenarios may not always be straightforward in practice, which in turn could impact the expectations e.g., of oversight authorities as to a professional accountant's actions (and thus potentially documentation thereof) in this context.</p> <p>In our view, in executing this change in approach, the Board also ought to specify that the requirement to identify threats excludes both threats that are eliminated by "external" measures as well as threats rendered clearly trivial, since threats of such inconsequence cannot threaten compliance with the fundamental principles. Consequently, only a threat that is both not clearly trivial and only partly addressed by a safeguard would be identified and evaluated.</p> <p><u>Evaluating threats</u></p> <p>We refer to our comment above concerning the need for clarification in regard to clearly trivial threats.</p> <p><u>Addressing threats</u></p> <p>We suggest that R120.7 be revised. The possible actions in (a) and (b) address a threat when services are provided. It needs to be clear that these are not mutually exclusive actions, as they could be combined, where appropriate. These should be distinguished from the action taken under (c), since this is an action of last resort, where services are denied because the threat cannot otherwise be reduced.</p> <p>Indeed, (c) fits better under 120.7 A1, which might then need to be elevated to a requirement. It needs to be clear that where no safeguards are available the professional accountant is required to decline or discontinue the service. The Board should, however, add recognition that this may not be possible, adding the term "unless precluded from so doing by law or regulation". In some jurisdictions there may be legislation preventing an auditor from resigning, especially, but not limited to the public sector.</p> <p><u>Re-evaluating threats</u></p> <p>Whilst we agree with the Board's proposal to introduce a new requirement in R120.8, we do not support the proposed creation of a new section. This is over-engineering of the Code, and it suggests that a routine process is intended, which does not reflect the substance of the requirement. We suggest R120.8 be moved to the section on identifying threats.</p> <p>In our view, 120.8 A2 should be revised so to become a clear conditional requirement, since it requires the professional accountant to act in the event that a new threat is identified.</p> <p><u>The overall assessment</u></p> <p>We agree with the proposed requirement in R120.9 for the professional accountant to make an overall assessment as to achievement of an objective – compliance with the fundamental principles (here we refer to our comments above).</p>

#	Source	Detailed Comment
		We agree that such requirement is not needed for every section of the Code, but once in total, which constitutes a similar approach to that taken by the IAASB in ISA 200. 21 and 24.
31.	IFIAR <sup>^</sup>	<p><b>Identification of Threats and Link with Safeguards</b></p> <p>As the threats and safeguards approach is dependent on a firm's self-analysis and self-review, there should be a stronger requirement for the firm to actively consider all the different types of threats that could arise.<sup>1</sup> We believe that giving greater prominence to the types of threats that the audit firm is required to consider, by including them directly in the requirements, would encourage greater consistency in application.</p> <p>Additionally, the proposal does not sufficiently highlight the need for a strong correlation between threats and safeguards. We urge the Board to emphasize the importance of that correlation by expanding the requirements to that effect.</p> <p><b>Addressing Threats</b></p> <p>The proposals indicate, in the application material<sup>2</sup> and examples<sup>3</sup> that situations exist where the threat created would be so significant that no safeguards could reduce it to an acceptable level, and that the professional accountant would have no option but to decline or discontinue the engagement. We believe that more emphasis should be placed on those situations, and that those cases should be dealt with in the requirements of the Code: an obligation for action should be attached to those cases.</p> <p><b>Clarification of Timing of Re-Evaluation of Threats and Overall Assessment</b></p> <p>We do not believe that a re-evaluation of threats should be restricted to the emergence of new information, but rather as a constant state of awareness. We believe the professional accountant should at least engage in periodic re-evaluation of threats on a timely basis to evaluate new information or potential changes in facts and circumstances.</p> <p>Similarly, we note that it is unclear in the proposals when the overall assessment<sup>4</sup> should be performed. Provisions on timing should be added in this regard.</p>
32.	IOSCO <sup>^</sup>	<p><b>Addressing Threats</b></p> <p>We believe that non-compliance with the fundamental principles should be regarded with the utmost severity such that the professional accountant's first inclination is to discontinue the service/relationship or resign, as appropriate. Exhibiting this termination-first mindset in addressing threats can promote compliance with the Code, not just in the letter of the law but in the spirit of the rules. The Board should encourage professional accountants to have a mindset that does not view safeguards as the primary approach.</p>



#	Source	Detailed Comment
		<p>In addition, we have observed that paragraph 120.7 A1 states that:</p> <p style="padding-left: 40px;">“There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. International Independence Standards C1 and C2 of the Code provide examples of such situations.”</p> <p>While we agree with the first sentence in paragraph 120.7 A1, we believe the message that the Board should also communicate is that there are certain occurrences of non-compliance for which no safeguards should even be considered. Examples of these include an intentional or severe breach of the fundamental principles or for example, a breach of an independence requirement that is not inconsequential and involves a key audit partner and/or manager-level individuals within the firm who are responsible for overseeing the engagement.</p> <p>While paragraph 120.7 A1 points to certain situations where the threat created would be so significant that no safeguards could reduce such a threat to an acceptable level, we believe the reference to such threats in the International Independence Standards C1 and C2 of the Code is vague. More specifically, it is not clear to us which situations in the International Independence Standards C1 and C2 compels the public accountant to conclude that no safeguards could reduce a threat to an acceptable level or moreover compel the public accountant to conclude that no safeguards are ever available for certain instances of non-compliance. We believe the Board should strengthen the provision in paragraph 120.7 A1 to specify those instances of non-compliance with the Code for which the Board has predetermined that safeguards should not even be a consideration. Further, this paragraph should be communicated earlier in the Paper and with greater authority than its current placement as “Application Material”. Perhaps this message could be inserted prior to paragraph R120.3 – Requirements and Application Material.</p> <p><b>Re-evaluating Threats</b></p> <p>We agree with paragraph R120.8 which states that:</p> <p style="padding-left: 40px;">“If the professional accountant 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 shall re-evaluate and address that threat accordingly”.</p> <p>However, we do not believe that a re-evaluation of threats should be undertaken only if new information emerges or if there has been any change in the facts and circumstances. We believe the Paper should require the professional accountant to engage in periodic re-evaluation of threats at intervals that the Board deems reasonable <i>to determine</i> if any new information has emerged or if there has been any change in the facts and circumstances. Having said this, the level of frequency of periodic re-evaluation might vary based on the nature of the services provided or relationship between the professional</p>

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		<p>accountant and the issuer. For example, threats to objectivity may necessitate a different frequency of re-evaluation than threats to professional competence.</p> <p><b>Overall Assessment</b></p> <p>We commend the Board for including in the Paper the concept of an overall assessment consistent with input we provided to the Board in our 30 January 2015 comment letter. We believe that after having complied with the standard-specific requirements, the overall assessment provides an opportunity for the professional accountant to step back and determine whether the professional accountant is conforming to the spirit of the fundamental principles based on the facts and circumstances. However, we note that the Paper is unclear with respect to <i>when</i> the overall assessment should be performed (paragraph R120.9). Provisions on timing should be added in this regard.</p>
33.	IPA	<p>We agree with the changes to the Code that will require Professional Accountants to apply the conceptual framework and comply with the fundamental principles as opposed to a rules-based checklist approach. This involves all professional accountants reflecting on their circumstances and particular situation placing less reliance on the Code to identify every possible scenario which is both unrealistic and unachievable.</p> <p>We support the change to make the requirements distinct from the application material. The requirements set out in Section 120 improve the clarity of the Code by clearly identifying each step involved in evaluating a threat.</p> <p>The IPA welcomes the proposed changes to the explicit requirement to apply the conceptual framework and related requirements and application material by all professional accountants. It is not possible to determine every conceivable threat that the professional accountant may encounter and as a result, the professional accountant needs to use their professional judgement as to how the fundamental principles of the conceptual framework apply to their situation.</p> <p>The overall changes will remove the tendency by the profession to use a checklist approach to identify and evaluate threats and rely on specific threats identified by the current Code. The professional accountant will need to consider the circumstances, the specific engagement, work assignment and interests and relationships to determine whether a threat to the fundamental principles has been created. However, consideration should be given to the level of documentation expected by professional accountants in public practice to demonstrate compliance with the fundamental principles.</p> <p>We agree with the new requirement and corresponding application material for the professional accountant to re-evaluate the threats to compliance with fundamental principles when the professional accountant becomes aware of new information, circumstances or facts. This new requirement re-iterates the need for the professional accountant to consider each step in light of new information.</p>

#	Source	Detailed Comment
		<p>We suggest however, further clarification should be made between when the professional first evaluates the threat and when a second evaluation is triggered. In many circumstances, it would be assumed that once a threat has been identified, all relevant facts at the time of evaluating the threat were analysed and appropriate action was taken. The timing and significance of the new information would need to be taken into consideration as to whether a threat is re-evaluated, particularly for professional accountants in public practice.</p> <p>We agree with the new requirement for the professional accountant to conduct an overall assessment by reviewing the judgements made and overall conclusions reached to determine whether the threat identified has been eliminated or reduced to an acceptable level and no further action is required. However, in practice and to achieve the required outcome, this may require someone other than the professional accountant who raised and evaluated the threat to do the 'step-back' and consider approach. It may not always be possible, depending on the scenario, to have another professional accountant to perform.</p>
34.	IRBA	<ol style="list-style-type: none"> <li>1. No. As the conceptual framework is the foundation for the use of the IESBA Code, we feel that the proposed amendments are insufficient to bring the required clarity and allow for enforceability in the future.</li> <li>2. The conceptual framework has not been given the prominence it deserves. The repetition of the header on each page of the proposed restructured IESBA Code is not sufficient for a better understanding of the Code.</li> <li>3. We suggest that consistent reference be made to a five-step Conceptual Framework, which entails the following: <ol style="list-style-type: none"> <li>1. Identify threats;</li> <li>2. Evaluate threats;</li> <li>3. Address threats;</li> <li>4. Re-evaluate threats; and</li> <li>5. The overall assessment.</li> </ol> </li> </ol> <p>We note that para 120.2 only makes reference to the first three steps, which may lead users to question whether there has been any change from the extant approach.</p> <ol style="list-style-type: none"> <li>4. A requirement to document the professional accountant's evaluation of the conceptual framework would allow for enforceability. It would be difficult to assess post facto if this step was properly considered without the professional accountant's documented understanding.</li> <li>5. Also, a diagrammatic representation will help users understand this process better, and assist in identification and recollection of the conceptual framework.</li> </ol>

#	Source	Detailed Comment
		<p><i>Diagram 1: Suggested Diagrammatic Representation to the Five-Step Conceptual Framework</i></p> <p>6. We have observed that in the five-step Conceptual Framework outlined above there has been an inadvertent omission that is imperative to understanding the conceptual framework. This omission relates to “designing and implementing a safeguard”. This step can be performed after either the “evaluate the threats” or “address threats” steps.</p> <p>7. Below are more detailed notes on items the Board should consider in finalising the proposed amendments.</p> <p><b>(a) Identifying Threats</b></p> <p>8. The current proposed amendments do not make it clear that there is a rebuttable presumption that every engagement or situation will have some threat. This is similar to the language used in the ISAs when considering risk assessment, as discussed in ISA 220 and ISA 315. As such, we suggest that this be rephrased so it reads as follows: <i>A professional accountant shall presume that there is a threat to the fundamental principles in every engagement or situation. When identifying and assessing the threats to the fundamental principles, the professional accountant will have to document where he or she concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified threats to the fundamental principles</i></p> <p>9. Threats may arise in categories not described in the five threats provided in para 120.5 A2. We also note that these threats are limited to objectivity and independence. We suggest that there may be threats to other fundamental principles.</p> <p>10. Though not specifically stated, there is general understanding of when threats are considered at an engagement level. We agree that identification of threats should not be limited to the engagement level but rather that there is also a responsibility to consider threats at a firm level. However, it is unclear what would trigger the firm to identify threats to the fundamental principles.</p> <p><b>(b) Evaluating Threats</b></p> <p>11. We suggest that the first option for a professional accountant would be to eliminate the threats identified. If it is not possible to eliminate the threat, only then should the option to reduce the threat to an acceptable level be available.</p> <p>12. Requirement R120.6 is inconsistent with R120.7 as proposed under addressing threats. We would like to change the tone of this requirement and suggest that a professional accountant should try to address the specific threat rather than allow for a classification of such a threat as acceptable without any effort to eliminate it.</p> <p>13. Para 120.6 A3 requires further consideration. While we agree that there may be circumstances that mitigate the impact of the threat, the way this is phrased suggests that a professional accountant may evaluate the threat with the policies and procedures identified under para 120.5 A4 and will not be required to take any further action.</p>

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		<p><b>New Step – Designing and Implementing a Safeguard</b></p> <p>14. This subsection will consider the correlation between the specific threat that has been identified and the safeguard response.</p> <p>15. We suggest that the illustration of the five- Step Conceptual Framework be updated as below: <i>Diagram 2: Suggested Six-Step Conceptual Framework</i></p> <p>16. We suggest that the definition of a safeguard be moved to the section that deals with application material on elements of a safeguard. We discuss this further below.</p> <p>17. In the explanatory memorandum, pg. 7, point 9(f) states that actions are only safeguards when they are effective in eliminating threats to compliance with the fundamental principles or reducing them to an acceptable level. However, a similar emphasis is not made in the proposed amendments. Therefore, the amendments should be updated to reflect this critical element.</p> <p><b>(c) Addressing Threats</b></p> <p>18. The proposed amendment does not suggest how quickly a professional accountant would have to address the threat. We suggest that if a threat is not addressed in a timely manner, this may lead to a breach in the requirement of the Code. The Code should address this shortcoming with a requirement.</p> <p><b>(d) Re-evaluating Threats</b></p> <p>19. Para 120.8 suggests that this step will be done when the professional accountant becomes aware of new information or changes in facts and circumstances. There is no requirement to do this exercise regularly or at least on an annual basis.</p> <p>20. If there are threats at an engagement specific level, there should be a requirement to perform this step towards the end of the engagement, even if no new information has come to the professional accountant's attention.</p> <p>21. Although this is a requirement in ISA 220, it is necessary to include it in the Code because this step should be required on all engagements and not be limited to audit engagements.</p> <p><b>(e) The Overall Assessment</b></p> <p>22. From the explanatory memorandum, we understand this step to be the “stepping back” principle. However, as these words have not been included in the proposed amendments, we would suggest their inclusion to bring clarity.</p> <p>23. The proposed amendment does not include reference to the timing of this step, i.e. when the professional accountant will be required to carry out this step.</p>

#	Source	Detailed Comment
35.	ISCA	<p><u>(a) Identifying threats, (b) Evaluating threats</u></p> <p>Paragraphs 9(g)(ii), 27, 28 and 44 of the Explanatory Memorandum suggest that “conditions, policies and procedures” can both affect the likelihood of identification of threats (i.e. under “identifying threats”) and impact the level of a threat to compliance with the fundamental ethical principles (i.e. under “evaluating threats”).</p> <p>To improve the clarity and relevance of the application material in relation to identifying and evaluating threats, the IESBA may wish to consider the following in the proposed Code:</p> <p>(1) <u>Paragraph 120.6 A2</u></p> <p>Examples of qualitative and quantitative factors relevant to the professional accountant's evaluation of threats should be provided to facilitate understanding.</p> <p>(2) <u>Paragraph 120.6 A3</u></p> <p>Instead of merely referring to the conditions, policies and procedures in paragraph 120.5 A4, there should be more elaborations on how the different conditions, policies and procedures affect the identification and evaluation of threats differently to enhance understanding. For example, having effective complaints systems is more relevant to increasing the likelihood of threats being identified than to the evaluation of the threats.</p> <p>(3) <u>Paragraphs 300.2 A1-A6</u></p> <p>It is stated in section 120 that certain conditions, policies and procedures established by the profession, legislation and regulation could affect both the professional accountant's identification, as well as evaluation of threats to the fundamental principles. However, we note that there are no examples of conditions relevant to identification provided in paragraph 300.2 A1 whereas there are examples of conditions relevant to evaluation provided in paragraphs 300.2 A4 and A6.</p> <p>The IESBA could consider including certain examples in paragraph 300.2 A6 which are also applicable to identification of threats in paragraph 300.2 A1. One example would be methods and processes for establishing compliance with the fundamental principles by all personnel, which could be put in practice when the firm establishes a process to flag out partners who have served on engagements for a certain number of years to identify any potential familiarity threats.</p> <p>In addition, as the first bullet point in paragraph 300.2 A1(d) uses the term “members of the engagement team”, we would like to suggest that the last bullet point in the same paragraph be amended from “senior personnel” to “senior <u>members of the engagement team</u>” for consistency.</p> <p>Further, we note that paragraph 300.2 A6 uses the phrase “..... impacted by the work environment within a firm and its operating environment” which may suggest that the work and operating environments are different. However, it should not be</p>

#	Source	Detailed Comment
		<p>the case. Thus, the IESBA may consider amending the phrase such that it reads “..... impacted by <u>the firm and its operating environment</u>”. This would be consistent with paragraphs 300.2 A2(c).</p> <p><u>(c) Addressing threats</u></p> <p>As threats to compliance are usually with reference to the fundamental principles, we would like to suggest adding the words “with the fundamental principles” to paragraph 300.2 A7, such that it reads “..... determines that the identified threats to compliance <u>with the fundamental principles</u> are not at an acceptable level.....”.</p> <p>Furthermore, with reference to paragraph 300.2 A8, the phrase “..... and the threats may not be addressed by <u>applying the requirements in Section 120</u> .....” may not be appropriate as professional accountants can still apply section 120 and address the threats by eliminating the circumstances creating the threats or declining/discontinuing the service [specifically, paragraphs R120.7(a) and (c)]. Thus, we propose to amend the phrase such that it reads “..... and the threats may not be addressed by <u>applying safeguards</u>”.</p> <p><u>(d) Re-evaluating threats</u></p> <p>With reference to step (d) on re-evaluating threats, we would like to suggest that the IESBA consider including application material on the timing of the re-evaluations to be performed. We are of the view that new threats could emerge with the passing of time, and it may not always be apparent to the professional accountant that new information has emerged or facts and circumstances have occurred that impact the level of a threat or affect the professional accountant's conclusion about whether safeguards applied continue to be appropriate in addressing identified threats. Hence, the timing of the performance of the re-evaluations will be important and it may be appropriate to include periodic re-evaluations of existing information or facts and circumstances as part of the application material.</p>
36.	JICPA	We support the Board's proposed revisions.
37.	KICPA	Please refer to the KICPA General Comment
38.	KPMG*	n/a
39.	MIA	The MIA is supportive of the IESBA's proposed revisions to the extant Code pertaining to the conceptual framework, especially emphasising the importance of applying the conceptual framework, rather than simply complying with specific requirements in the Code. In Malaysia, we observe that many professional accountants seem to perceive that no guidance is provided so long as their scenarios are not matched with the extant specific requirements and hence the application of the conceptual framework should be emphasised throughout the Code.

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40.	NASBA	<p>NASBA generally supports the Board's proposed revisions to the Code regarding identifying threats, evaluating threats, addressing threats and the overall assessment.</p> <p>However, we believe the addition of "Re-evaluating threats" to this section of the framework is unnecessary. The ongoing assessment (and reassessment) of threats is part of the normal due care that an accountant must exercise.</p>
41.	NBA	<p>Yes, we do. The proposals clarify which steps the conceptual framework consists of. However, we believe requirements d) re-evaluating threats and e) the overall assessment are not new requirements, but are already an implicit part of the extant conceptual framework. Appropriate application of the extant conceptual framework brings along that a professional accountant (PA) should perform an overall assessment of all threats and all safeguards taken. A PA should already be constantly aware of changing or new facts and circumstances as well. We believe it is not correct to present these requirements as new ones, it should be made clear that existing implicit requirements will now become explicit.</p> <p>We are pleased the proposals do not include any documentation requirements regarding the application of the conceptual framework. In the Dutch ethical standards (independence regulation excluded) a PA should only document when he identifies a threat and he takes safeguards against that threat, so as to enable him to comply with the fundamental principles. Documentation is not required if he decides to refuse or discontinue an engagement because of the threat identified. In guidance we however recommend to document in not-obliged situations as well. In our opinion this approach is sufficient.</p>
42.	NFCPAAROC	<p>We support the proposal to revise the conceptual framework due to the fact that it strengthens the descriptions of requirements and application material regarding identifying threats, evaluating threats, addressing threats, re-evaluating threats and the overall assessment, which should assist the professional accountants taking actions to address threats.</p>
43.	NZAuASB	<p>The NZAuASB is supportive of creating a separate section covering the conceptual framework, and considers that this may strengthen the emphasis and application of a clarified conceptual framework. In addition, the NZAuASB supports the explicit and overarching requirement to apply the conceptual framework to eliminate or reduce threats to compliance (R120.3), as well as the proposed overarching requirement, supplemented explicit requirements and application material with respect to each step in the framework.</p> <p>The NZAuASB supports the clearer description of the conceptual framework approach in proposed paragraph 120.2. However, this description is incomplete given the proposed additional requirements to re-evaluate the threats and perform an overall assessment. The NZAuASB recommends that these headings should be added to 120.2 as bullets (d) and (e). Also 120.2 and R120.3 are repetitive and the NZAuASB queries the need for both paragraphs. The NZAuASB recommends that these paragraphs should be combined, and that bullets should be used to outline the steps involved as drafted in paragraph 120.2.</p>



#	Source	Detailed Comment
		<p>The NZAuASB supports the use of the additional headings throughout section 120.</p> <p><b>(a)</b> The NZAuASB is supportive of the explicit requirements to identify threats, but recommends that this should be clarified to include the word “any” as follows, “the professional accountant shall identify <u>any</u> threats ...” as there may not always be a threat to identify.</p> <p>The NZAuASB is supportive of retaining the description of threats as described in the extant Code.</p> <p>The NZAuASB considers that the positioning of proposed 120.5 A4 is confusing. This paragraph describes examples of conditions, policies and procedures that can affect the <b>identification</b> of threats, including corporate governance requirements, education, training and experience requirements, compliance systems, duty to report breaches and monitoring and disciplinary procedures. The NZAuASB agrees that these conditions, policies and procedures may impact on the level of the threat, rather than the existence of the threat and therefore queries the term “identification”. The NZAuASB agrees that these factors are not ‘safeguards’ and might impact on the accountants <b>evaluation</b> of the threat, but query whether this is appropriate for the <b>identification</b> of the threat. The NZAuASB recommends that this should be further clarified or moved to the section on evaluating threats. This is already cross referred to in proposed paragraph 120.6 A3.</p> <p><b>(b)</b> The NZAuASB is supportive of any additional application material that may assist to describe the process by which a professional accountant should evaluate threats. Clarification to the term “acceptable level” is also helpful, refer question 2 below.</p> <p><b>(c)</b> The NZAuASB is supportive of the proposed revised use of the term safeguards, refer question 2 below. The NZAuASB have no further recommendations to proposed R120.7 or the accompanying application material.</p> <p><b>(d)</b> The NZAuASB is supportive of the proposed new requirement to re-evaluate the threat. The NZAuASB considers that this addition may promote the use of the conceptual framework, a framework that needs to be objectively applied on a continual basis, rather than just as background information. The NZAuASB is of the view that this requirement is part of the conceptual framework and should be described as such in 120.2, see recommendation above.</p> <p><b>(e)</b> The NZAuASB is supportive of the proposed new requirement to perform an overall assessment by reviewing judgements made and conclusions reached. The NZAuASB considers that this proposed requirement strengthens the framework. Further, this requirement is part of the conceptual framework and should be described as such in 120.2, see recommendation above.</p>
44.	OECFM	<p>(a) Yes</p> <p>(b) Yes</p> <p>(c) Yes</p>

#	Source	Detailed Comment
		<p>(d) Yes</p> <p>(e) Yes</p>
45.	PWC*	<p><b>“Overall Assessment”</b></p> <p>We support the need to identify, evaluate and address threats to compliance with the fundamental principles and to re-evaluate threats if there are changes in the relevant facts and circumstances.</p> <p>The proposal includes the concept of an “overall assessment” in the description of the Conceptual Framework in Part A of the Code paragraph R120.9.</p> <p>We understand that this proposal is a response to the comment from IOSCO in its letter to the Board of 30 January 2015 (extract below for ease of reference) and which refers to the need for a “step back”.</p> <p><i>..., 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.</i></p> <p><i>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 which, pursuant to our suggestions above, could serve as and be called overall objectives.</i></p> <p>This comment was evidently made in the context of an audit of financial statements and the related independence requirements. However, R120.9 applies both to Professional Accountants in Professional Practice and those in Business.</p> <p>Our concerns with the provision as drafted are as follows:</p> <ol style="list-style-type: none"> <li>1. It is not clear whether the assessment is to be performed in relation to a specific threat or in terms of the overall relationship/engagement with the client/employer.</li> <li>2. If the former, it is not evident what such an assessment achieves if the facts and circumstances have not changed subsequent to the initial process of identifying and addressing the threat.</li> <li>3. It is not clear when this overall assessment is to be undertaken. This is particularly challenging in the case of those accountants “in business” who have an ongoing relationship with the employing organisation.</li> <li>4. The additional documentation requirements are unclear.</li> </ol>

#	Source	Detailed Comment
		<p>Our understanding is that the provision is intended to be a requirement to “step back” and look at the “totality” of the facts and circumstances that may create threats to compliance with the fundamental principles, as may be appropriate, for example, in forming a conclusion at the end of an audit or in managing a conflict of interest.</p> <p>We see this as particularly challenging to describe and apply when there is not a specific engagement or relationship to consider, such as will generally be the case for professional accountants in business and we recommend that the Board specifically re-considers, and clarifies, application by accountants in business. How, for example, will this assessment be replicated in revised Section B?</p> <p>The concept of the “overall assessment” is also included in Section 300, Application of the conceptual framework by Professional Accountants in Professional Practice:</p> <p style="padding-left: 40px;"><i>When applying the conceptual framework, Section 120 requires that the professional accountant reviews judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated, or reduced to an acceptable level and that no further action is needed. The reasonable and informed third party test described in Section 120 is relevant to this assessment.</i></p> <p>This proposal is contained in Part C, 300.2 A12 as application material. This would apply in the context of all the relevant sections of Part C, such as that relating to managing conflicts of interest and may have most relevance in the context of applying the independence requirements. We assume that this will be further replicated in C1 (dealing with audits) in due course.</p> <p>We agree that an overall assessment makes sense in the context of an audit or assurance engagement (or other engagement specific circumstance), but we remain concerned about the matters set out above (see items 1 to 4). Overall, we believe that greater clarity is needed (in all Parts of the Code) to address the points above, including the practicalities for the professional accountant as to when this assessment is to be undertaken, the focus of the assessment, and what might be expected in terms of documentation beyond the initial documentation of identifying and addressing threats to the fundamental principles.</p> <p>In the context of the independence requirements, we believe that the need for an overall assessment or conclusion is largely covered by the ISA 220, as this requires the engagement partner to form a conclusion on independence requirements.</p> <p><b>Relevant Ethical Requirements</b></p> <p><i>9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.</i></p>

#	Source	Detailed Comment
		<p><i>10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.</i></p> <p><i>Independence</i></p> <p><i>11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement.</i></p> <p>We recognise that this Phase 1 ED does not address application in the context of independence but we feel that it is useful to make this comment now. As the Board reflects on the responses to this ED, we encourage the Board to work with the IAASB to ensure that there is alignment between the Code and the relevant ISA and to avoid any differences or unnecessary duplication.</p> <p>We note that in 300.2 A1 the emphasis is on the “professional accountant” who is defined in the extant Code as an individual who is a member of an IFAC member body. This places the responsibility on an individual, whereas in practice it may be more appropriate for the “firm” or “an engagement team” to undertake the activities required in the code. Further, as structured, it has the possibility that a client engagement team comprising a number of professional accountants would individually be required to comply with a requirement. This would be duplicative and unnecessary in our view.</p>
46.	RSM UK	<p>(a) <i>Identifying threats</i>: Whereas we understand implicitly the intention that the fundamental principles should provide the ultimate test by which all analyses of threats and safeguards are evaluated by professional accountants when faced with given sets of circumstances, we are unclear what, if any, added degree of specification of our responsibilities that such an obligation would entail and what it would be intended to address.</p> <p>It seems to us that, where the consultation paper says, in para 9(a)(i), that “[<i>Professional accountants should</i>] <i>comply with the fundamental principles, rather than simply complying with specific requirements in the Code. The fundamental principles are not simply background information but establish the overarching objectives professional accountants are required to meet</i>”, the inference is that it would be possible to comply with the specific requirements yet fail to pass the overarching principles test.</p> <p>If that is the harm that the paper is aimed at, it does not say it clearly, and it would have been helpful had some prosaic examples been given. It seems to infer that a new test is being created, inviting the professional accountant to consider first the specific provisions, then tie back his or her analysis to the fundamental principles (FPs), as if the second part of the test presents not only a conjunctive but a higher test.</p>

#	Source	Detailed Comment
		<p>It is almost impossible for the reader to discern how the threats and safeguards approach is improved, simply by coupling how specific provisions should be interpreted with an unspecific reference to the FPs. This is a matter of critical importance to those in public practice. If what is meant is that a capricious or highly constructive interpretation that hangs, for its acceptability, on a line of specific text that is then stretched beyond rational acceptance to the assertion that it satisfies the FPs, we accept that but if it does not mean that, and is instead inferring the kind of conjunctive test we have referred to, then we think an impossible onus is being placed on the professional accountant in practice.</p> <p>The problem, in our eyes, is compounded by para 9(a)(ii), which appears to say exactly the same thing as sub-paragraph (i): “[Professional accountants should] apply the conceptual framework, which involves identifying, evaluating and addressing threats to compliance with the fundamental principles. The proposed revisions relating to the conceptual framework retain the principles-based approach in the extant Code, and continue to emphasize the need for professional accountants to exercise professional judgment in applying the conceptual framework.”.</p> <p>Whereas we do not take issue with the revised wording used in para R120.5 A2 to explain what the various sorts of threats mean (in fact, these changes and additions are helpful and quite well-expressed), the revised section does no more than state that any of these threats might threaten compliance with the FPs and is a generalised proposition with which we agree. We reiterate our concern, though, that regulators may introduce the higher test that we have referred to, without that having been IESBA’s intention.</p> <p>(b) <i>Evaluating threats</i>: We support the revised wording in para R120.6. We believe the revised ‘reasonable and informed third party’ test<sup>6</sup> is a significant improvement on the ‘perception’ test that obtains at present.</p> <p>(c) <i>Addressing threats</i>: We support any proposition that obliges the professional accountant, having performed an analysis that leads to the identification of threats, to be satisfied that he or she has fully and meaningfully had regard to what safeguards are capable of addressing those threats, and has adequately deployed them. We further support the intention to remove references in the Code to ‘safeguards’ used other than in the specific context.</p> <p>We support the text of new para R120.7 but think that it would be better to replicate International Independence Standards C1 and C2 in new para 120.7 A1.</p> <p>(d) <i>Re-evaluating threats</i>: We accept too that circumstances can metamorphose between initially taking on professional assignments and the execution phase of them, causing manageable situations to become less so with the passage of</p>

<sup>6</sup> “The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.”

#	Source	Detailed Comment
		<p>time and with changes occurring in the background circumstances. Indeed, the computer-based training that our firm provides to staff makes specific reference to the danger of this sort of instance, which can be quite difficult to identify unless staff and partners are vigilant.</p> <p>We caution, for the same reason that we did in relation to paras 9(a)(i) and (ii) above, whether it is necessary to make more prominent the overarching requirement for professional accountants in public practice, however.</p> <p><i>The overall assessment:</i> We accept the text of new para R120.9.</p>
47.	RSM*	We support the Board's proposals because they create a clear and logical process that builds on the extant Conceptual Framework Approach.
48.	SAICA	<p>(a) Yes, we support the changes.</p> <p>The rework has added value by linking the 5 fundamental principles to the type of threats in a clearer more crisp read, and the code now clarifies that circumstances could lead to more than one threat which also may result in multiple breaches of different fundamental principles.</p> <p>SAICA approves and agrees with the removal of polices etc. which are included as safeguards in the extant code to that of an environmental factor to influence the identification potential threats that might exist</p> <p>SAICA believes that re-evaluating was already practiced, as it is very professional to do so. Just as much as audit materiality is re-calculated at the end of the field work to ensure that all determinations of "below materiality" still stand up to scrutiny, so the re-evaluation of threats makes sense. In this way, by giving that request more prominence, it will assist auditors to better observe compliance with the fundamental principles and evaluate threats to compliance in a more stringent manner.</p> <p>The overall assessment now proposed to be included in the code is a valuable addition to the code. This brings about a deeper insight into the overall effect of the threats and if they have been reduced to an acceptable level after applying the safeguards, but where there are many, the overall assessment will indicate if further action is required.</p> <p>(b) SAICA believes that the definition of an acceptable level is a welcome addition to the code, it makes it clear that the situation refers to a hypothetical reasonable and informed party –a useful benchmark, for the PA to step back and consider his judgements– how would this hypothetical person see the situation if they knew all the facts set out before the PA at that moment.</p> <p>(c) Agreed. In paragraph 35 (s) and R120.7 (a), consider adding the following "Eliminating <b>or reducing</b> the circumstances, including interests....."</p> <p>(d) SAICA welcomes these changes and we believe the additional requirement to re-evaluate the threats and safeguards after new information comes to light, makes the conceptual framework more complete, it is also consistent with other</p>

#	Source	Detailed Comment
		<p>similar accounting principles well known in the accounting industry for example revaluation and write downs of goodwill or other investments when applying fair value accounting after certain events impact on future profitability.</p> <p>(e) SAICA supports the concept of overall assessment as it adds value to step back at the end of applying the framework and positively review the process as sound.</p>
49.	SMPC	<p>Overall we support the Board's proposed revisions to the extant Code pertaining to the conceptual framework. However, we believe that the new overarching requirements for all PAs to apply the Conceptual Framework (R120.3 and R300.2) should be replaced with overarching objectives for the PA, which are supported by more specific requirements. This would serve in combination with the requirement for PAs to make an overall assessment of whether or not the objective has been met (similar to R120.9), supported by the explicit requirements and application material. In our opinion, the broad requirements such as those in R120.3 and R300.2 can be difficult in practice (including monitoring compliance etc.). Using more general objectives means the requirements can be more specific and the expected actions are far clearer.</p> <p>The SMPC agrees that an overall assessment (R120.9) is useful. However, we do not consider that this is necessary for every section of the Code, but only once in total in R120.9. This approach would be similar to the one used in ISA 200<sup>7</sup>, paragraphs 21 and 24.</p> <p>In the section on Identifying Threats (paragraphs R120.5 and 120.5 A1) it should be recognized that the role and responsibilities of PAs may vary from one jurisdiction to another. For example, the familiarity threat outlined in 120.5A2 may not necessarily be considered a significant problem in certain countries when a professional accountant has been an employee for a long period of time. In our view, the descriptions of threats in the Conceptual Framework should be broad enough to cover PAs both in public practice and in business.</p> <p>We support the proposed change of approach for how certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can affect compliance with the fundamental principles and can be taken into account when identifying and evaluating threats, as they may potentially reduce or eliminate one or more particular threats. However, we suggest that some clarification may be needed, primarily in relation to safeguard measures beyond those created by the profession or legislation in a particular jurisdiction. For example, clarification of the documentation requirements pertaining to the identification (and non-identification) of threats where the PA intends to rely on safeguards already in place in the work environment and safeguards implemented by the entity.</p> <p>In our opinion, the Board could consider restructuring R120.7. It should be made clearer that the possible actions addressing the threats in a) and b) are not mutually exclusive actions and could be combined, where appropriate. These could also be</p>

<sup>7</sup> International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

#	Source	Detailed Comment
		<p>distinguished from c) since this is an action of last resort, where services are declined or discontinued because the threat cannot otherwise be reduced. It could be better positioned under 120.7 A1, which may then need to be elevated to a requirement. It should be clear that where the threat is so significant that no safeguards could reduce the threat to an acceptable level, the PA is required to decline or discontinue the specific professional activity or service involved.</p> <p>In addition, we believe that the Board should add recognition that this may not be possible in some jurisdictions where there may be legislation preventing an auditor from resigning. This recognition could come in the form of “unless precluded from doing so by law or regulation” being added.</p>
50.	SRA	We concur with the text, proposed in the ED
51.	UKFRC	<p>The FRC supports the Board in making revisions to the Code, in this area, which improve the overall clarity of the requirements that professional accountants should satisfy. The inclusion of an explicit statement to require the application of the conceptual framework is welcome, as is the provision of additional application material to better describe the conceptual framework. However, based on the responses to our own consultations on our Ethical Standard, we have set out in our other responses a number of ways in which we believe the revisions should be improved, and we also suggest:</p> <p>(a) that the Board consider using terminology that requires the professional accountant to meet the ethical outcomes required by the fundamental principles rather than focusing on ‘compliance’. This will mitigate the risk that applying the Ethical Code is seen as a compliance exercise, with the focus on meeting the technical requirements rather than identifying and taking any other actions that may be appropriate to ensure that they meet the ethical outcomes required; and</p> <p>(b) that the Board consider making <u>explicit</u> cross references between the conceptual framework and the requirements in the revised sections of the Code. This will mitigate the risk that the material in the revised Code is considered in isolation, and the Board’s intended focus on principles is lost as a result. We also believe that more explicit linkage into Section 300 will mitigate the risk that the material in 300.2 is seen as an exhaustive list of examples to be addressed, rather than material to support a principles-based assessment by the professional accountant.</p>
52.	VRC	n/a
53.	WPK	<p>We basically support the proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material.</p> <p>However we would like to make the following remarks:</p> <p><i>Evaluating threats</i></p>



#	Source	Detailed Comment
		<p>The introduction of “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization” (120.5 A4) that “might impact the professional accountant’s evaluation of threats....” (120.6 A3) in the phase of evaluating the threats as sort of a (new) category different from (extant) safeguards, may create more confusion than clarity for the PA in his or her effort to apply the conceptual approach (see our general comments).</p> <p><i>Addressing threats</i></p> <p>As currently drafted the measures to address an identified threat under (c) appear to be of equal quality or as alternatives to those safeguards provided under (a) and (b). We, however, consider the decline or discontinuation of a service or activity to be a measure of last resort. These measures can be better addressed in R 120.7 A1. We also would like to draw the attention of the Board to the fact, that in some jurisdictions, like Germany, such measures are not available, e.g. in case of a statutory audit. The Board should therefore consider to add the term “unless precluded from doing so by law or regulation” to such a measure, regardless where they are addressed.</p> <p><i>Re-evaluating threats</i></p> <p>We concur with the general requirement to re-evaluate threats in case that new information or facts and circumstances arise. However, we considered this re-evaluation to be already inherently provided in the provisions of the extant Code. As now drafted in the ED, the requirement to re-evaluate the threats together with the respective application material appears to establish a new routine activity of its own, rather than being considered a conditional one. Overall we, therefore, believe that this section does not bring about any substantial change, nor does it facilitate the readability of the Code and the application of the conceptual framework. Alternatively, a clarification that the evaluation is not a one-time exercise and new information or facts and circumstances need to be considered when evaluation the threats, might be sufficient when added in the evaluation section.</p>

## Question 2: Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable Level”

2. Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party;” and (b) “acceptable level” in the Code. If not, why not?

**Note:** Members of the Monitoring Group are shown in bold below.

#	Source	Detailed Comment
1.	20EUAR	<i>“Reasonable and informed third party”:</i> We see practical issues regarding application of this test by professional accountants and enforcement by audit regulators. We believe the proposals would benefit from further clarity. The proposals as currently drafted would appear to drive the conclusion that only another accountant could be this “third party”. We would not agree with that conclusion. We believe that a wider range of stakeholders should be captured by the “third party” test. We believe that one of the fundamental characteristics of the third party is the notion of an assessment by an independent individual who is unrelated to the audit and/or network firm and has the ability to weigh the specific facts and circumstances and conclude in a manner that is devoid of bias in both fact and appearance. We encourage the Board to provide further clarity in this area.
2.	AAT	AAT supports the clarification of the term “acceptable level” to ensure that accountants are enabled to gain a better understanding of their obligations to act in accordance with the conceptual framework and the code.  The reasonable informed third party test or standard is a test well known and accepted within common law jurisdictions. AAT is keen to ensure that the reasonable and informed third party is not limited to being a professional accountant, mindful of the public interest drivers of the profession. AAT believes that the wording used is appropriate to strike the balance between professional knowledge, but also the wider objective public interest drivers.
3.	ACCA	As drafted, the third party test is applied in assessing whether the fundamental principles have been complied with (R120.4) and whether threats to compliance with the fundamental principles have been eliminated or reduced to an acceptable level (R120.9). It is not clear why threats to compliance are not mentioned in paragraph R120.4.  We welcome the explanation in paragraph 120.4 A1 that the reasonable and informed third party is a hypothetical person. The description of the person includes the ability to ‘objectively evaluate’ certain things, but this hypothetical person could simply be described as ‘independent’. If the relevant sections of the Code were to refer to assessment by ‘a reasonable and informed independent party’, the second sentence of paragraph 120.4 A1 could be removed. Nevertheless, there will always be a high level of subjectivity involved whenever one is expected to consider the perspective of a hypothetical third party. In our opinion, the proposed paragraphs on evaluating threats are unclear. In particular, 120.6 A1 states:

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		<p>'An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles.'</p> <p>It is an absolute requirement of the Code that the professional accountant complies with the fundamental principles. The conceptual framework exists to safeguard those principles, and minimise the risk that they will be breached in the foreseeable future. Taking the meaning of 'acceptable level' as set out in paragraph 120.6 A1, it is unclear to us what difference exists between the elimination of threats to compliance and reducing them to an acceptable level.</p>
4.	AGNZ	<p><b><i>Is the process for assessing the 'Acceptable Level' when applying the 'Reasonable and Informed Third Party' test appropriate?</i></b></p> <p>In applying the 'reasonable and informed third party' test, the professional accountant is placed in the almost impossible position of being asked to be judge, jury and executioner in their own trial. The stakes are high because the professional accountant is required to act in the public interest.</p> <p>If we apply the rules used by the judiciary in deciding if there is bias, then any cause for doubt will disqualify them from sitting in judgement of a case. Such decisions are made on the grounds of 'appearance' as much as they are on 'fact'.</p> <p>Critical to the application of the 'reasonable and informed third party' test is whether the information that is known and used by the professional accountant is available to those who are reliant on the professional accountant's work and conclusions. While the standard continues to allow the professional accountant to be the judge in their own court, it seems entirely reasonable that all of the information the professional accountant has used in making their decision is disclosed publicly.</p> <p>Professional accountants continue to attract criticism when undisclosed circumstances are subsequently discovered. This usually occurs after deficiencies have been found in the work or actions of a professional accountant. If professional accountants are acting in the public interest then there is no reason for them not to fully disclose all of the facts they have used in making their decisions when applying the 'reasonable and informed third party' test.</p> <p>There is an added dimension that applies to commercial firms of professional accountants in applying the 'reasonable and informed third party' test and that relates to the provision of other services, over and above the firm's public interest activities. This is a complication not faced by the judiciary in making their decision as to whether they can sit in judgement of a case. The profit motive of commercial firms of professional accountants does not sit comfortably with firms' public interest obligations, particularly in the eyes of those who rely on the work and conclusions of the professional accountant. This fact raises questions about the credibility of the 'reasonable and informed third party' test when it is exercised in the context of commercial pressures.</p>

#	Source	Detailed Comment
		<p>If a higher 'acceptable level' is required (and we would strongly argue that this is necessary), any doubt over the ability of a professional accountant to satisfy the 'reasonable and informed third party' test would result in them either disqualifying themselves from accepting the public interest engagement, or removing the threat to the fundamental principle.</p> <p>If, under a higher 'acceptable level' regime, it is determined that a threat exists but there is doubt over whether the threat compromises a fundamental principle, it may be appropriate for a firm to introduce an 'independent process' to decide on the application of the 'reasonable and informed third party' test. Without detailing how such a process might operate it may, for example, consist of a panel of several individuals who are sufficiently independent as to have credibility in the eyes of those who will place reliance on the professional accountant's work and opinions.</p> <p>We support the change that expresses the 'acceptable level' in the positive, rather than the negative. The expression in the negative causes confusion under the existing Code.</p> <p>However, we consider further improvements are required so that there is greater transparency over the application of the 'reasonable and informed third party' test, and in requiring the 'acceptable level' to be at a higher standard. Our suggestions on both of these matters (in our covering letter) reflect our view that greater transparency and a higher standard is needed if professional accountants are to properly meet their public interest responsibilities.</p>
5.	APESB	<p>(a) APESB is supportive of the proposed revisions to the concept of reasonable and informed third party. An editorial suggestion is to replace "test" in the first sentence of paragraph 120.4 A1 with "assessment".</p> <p>During APESB's Australian consultation process, stakeholders noted that the words 'skills, knowledge and experience' imply that the reasonable and informed person has similar skills and knowledge as an accountant, but believe that the reference should be to '<u>sufficient and relevant</u> skills, knowledge and experience.' The inclusion of the words 'sufficient and relevant' will ensure that an appropriate level of skills and knowledge is applied during this assessment.</p> <p>(b) APESB is supportive of the proposed revisions to the concept of acceptable level.</p> <p>However, there is an unnecessary duplication of the definition of acceptable level. The definition should only be set out in the glossary and not included in the body of the Code. We, therefore, suggest that paragraph 120.6 A1 is unnecessary and should be deleted.</p>
6.	ASB	<p>(a) Yes, we support the proposed revision aimed at clarifying the concept of "reasonable and informed third party" and believe the proposed description provides greater clarity to this important concept.</p> <p>(b) No, we do not support the proposed revision aimed at clarifying the concept of "acceptable level." We believe the definition of "acceptable level" should include the phrase, "weighing all the specific facts and circumstances available to the professional accountant at that time," as, it is in the extant definition. We understand that this notion is embedded into the</p>

#	Source	Detailed Comment
		description of a reasonable and informed third party, however, it would provide clarity if included in the definition of “acceptable level.”
7.	ASSIREVI	<p>With respect to the proposed revision to the concept of a <i>“reasonable and informed third party”</i>, we note that paragraph 120.4 A I refers to the <i>“relevant facts and circumstances that the accountant knows or could reasonably be expected to know at the time that the evaluation is made”</i> while the Code's focus in its current framework is on <i>“all the specific facts and circumstances available to the professional accountants at the time”</i>.</p> <p>This is quite a significant change which we do not support, especially as regards the ex-post evaluation of the accountant's conduct. In fact, the test of the <i>“reasonable and informed third party”</i> is designed to ascertain that the accountant's conclusions about the return of the threat to an acceptable level are correct. It follows that the test should be based on the facts and circumstances known to the accountant when they perform their evaluations and, hence, should not be based on facts and circumstances that may only theoretically be known by the accountant.</p>
8.	BDO*	We support the proposed revisions aimed to clarify the concepts related to ‘reasonable and informed third party’ and ‘acceptable level’.
9.	CAANZ	<p>It is important that definitions be consistent between the Code and the Glossary. We note that there are the following differences in wording between 120.4 A1 and the Glossary definition of “Reasonable and Informed Third Party”,</p> <ul style="list-style-type: none"> <li>• One refers to “accountant” and the other to “professional accountant”</li> <li>• One refers to a concept involving a test and the other refers to a concept</li> </ul> <p>We support the definition of Reasonable and Informed Third Party included in the Glossary. We support the definition of “acceptable level”.</p>
10.	CHI	<p>We welcome the proposed revisions. We consider that the revisions do clarify the concepts of “reasonable and informed third party” and “acceptable level”.</p> <p>Whilst the term “reasonable and informed third party” is known and understood in Common Law jurisdictions, IESBA should be alert to the importance of clearly explaining the meaning of this term in other legal systems. The term is also well understood in the English language. We trust that IESBA has given consideration to the meaning and understanding of “reasonable and informed third party” when it is translated into other languages.</p>
11.	CNCC	Concerning the concept of “acceptable level” (120.6 A1), we prefer to keep the current definition, which corresponds to a well-established practice, considering that the new one increases the level of compliance with the fundamental principles to an

#	Source	Detailed Comment
		<p>unnecessarily high level. Indeed, the present requirement is based on a negative form compared to the affirmative form used in the proposal.</p> <p>We welcome the effort to define the concept of "reasonable and informed third party" and notably the concept of objectivity which is the most important to evaluate in a neutral manner the professional accountant's judgments and conclusions. Nevertheless, we find certain features raise more questions than answers such as: a hypothetical person, level of competences of this person.</p>
12.	CPAA	<p>CPA Australia supports the proposed clear division between the 'reasonable and informed third party' and 'acceptable level'. While we support the description of the 'reasonable and informed third party' test, we note that in the extant code it is used not only for assessments of compliance with the fundamental principles. In paragraph 290.5 for example, it is used to assess the existence of a network and the term is also used in relation to independence, which is not a fundamental principle. We are of the view that the third party test is a test that enables professional accountants to distance all their assessments from potential biases and influences, and is thus relevant for all professional judgements. We do not think that it should be limited to the determination of compliance with the fundamental principles. However, if it is to be used exclusively for that purpose then its use for other assessments should be reviewed.</p> <p>We also do not think the term 'hypothetical' is appropriate, as it is likely to elicit perceptions of artificiality. We suggest consideration of the term 'uninvolved' instead.</p> <p>We propose that the description of the 'reasonable and informed third party' can be amended to:</p> <p style="padding-left: 40px;">The concept of a reasonable and informed third party is a test which requires an evaluation by an uninvolved person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation.</p> <p>We support the description of 'acceptable level' and note that it covers the interaction between the 'reasonable and informed third party' and compliance with the fundamental principles that we addressed in our comments above.</p>
13.	CPAC	<p>Generally, the proposed revisions regarding a "reasonable and informed third party" were found to clarify the concept and the emphasis on a hypothetical person rather than an actual person in the descriptions was appropriate. Having said this, we noted that the actual use and practical application of this concept will prove critical.</p> <p>It was observed by some that having only one concept of who a reasonable and informed third party is may not be appropriate for all situations. For example, there may be instances where the view of another normally prudent and diligent</p>

#	Source	Detailed Comment
		<p>professional accountant placed in the same circumstances should be considered, and other situations where the conclusions should be that of a reasonably informed member of the general public.</p> <p>We support the proposed revisions aimed at clarifying the concept of “acceptable level” in the Code.</p>
14.	Djuvenal <sup>^</sup>	<p><u>Yes, I support the proposed revisions aimed at clarifying the concepts of (a) reasonable and informed third party and (b) acceptable level in the Code.</u></p>
15.	DTT*	<p><u>Reasonable and informed third party</u></p> <p>The reasonable and informed third party is a tried and tested concept within the law and in trying to define it, we consider that the Board has changed and expanded its essential meaning. This not only creates confusion for professional accountants, it also confuses the issue of enforceability which is one of the Board’s objectives.</p> <p>We agree that the “reasonable and informed third party” concept is an extremely important and fundamental concept in the Code. However, we disagree with the statement in the Exposure Draft that it is “whereby the professional accountant considers whether there has been compliance with the fundamental principles.” It is in fact whereby the accountant, after considering compliance with the fundamental principles in fact, considers compliance in appearance. It is the requirement that the professional accountant be guided not solely by the effect that the threats and safeguards would have on his or her compliance with the fundamental principles, but by the perceived effect it could be expected to have.</p> <p>We do not consider it helpful to describe a reasonable and informed third party as a “hypothetical person” nor a person that has “skills and experience.” It isn’t a person of any sort, actual or hypothetical. It is a legal concept to demonstrate an objective weighing of facts by the professional accountant him or herself, using professional judgment. The Board’s proposal makes it appear that this is a separate person who evaluates the appropriateness of the professional accountant’s judgments and conclusions; when in fact it is a test that the professional accountant applies to evaluate compliance in appearance rather than fact.</p> <p>The Board has also changed the reasonable and informed third party test by replacing “<u>weighing all the specific facts and circumstances available to the professional accountant at that time</u>” (in extant paragraph 120.4, emphasis added) with “weighing <u>all the relevant facts and circumstances that the accountant knows or could reasonably be expected to know</u>, at the time the evaluation is made” (in proposed paragraph 120.4 A1, emphasis added). It is not explained why this change has been made, however we consider it fundamentally changes the test.</p>

<sup>^</sup> This letter was received after the Task Force’s physical meeting. The Task Force plans to further consider the respondents’ comments at its July 2016 meeting and refine its proposals as deemed appropriate.

#	Source	Detailed Comment
		<p>Instead of providing a framework to assist the accountant to consider compliance in appearance on the basis of his or her professional judgment, it appears to create a mechanism for a hypothetical person to “second-guess” the assessment made by the professional accountant as to what relevant facts they could reasonably have been expected to know, not the specific facts available on which the accountant is making the assessment.</p> <p>We urge the Board to reconsider its proposals with respect to trying to define a reasonable and informed third party.</p> <p><u><i>Revised definition of acceptable level</i></u></p> <p>We do not object to including the definition of “acceptable level” (currently in the Glossary of the extant Code) in the main body of the Code to give this term prominence. We continue to have the same concerns, as expressed previously, regarding the interaction of the changes to this provision with the changes to the definition of a reasonable and informed third party and the other changes to the conceptual framework as a whole, including the removal of “weighing all the specific facts and circumstances available to the professional accountant at that time.” As noted above with respect to the reasonable and informed third party test, it is important that any conclusion on whether a threat is at an acceptable level is reached solely on the facts and circumstance available to the accountant at the time of the evaluation and based on the accountant using their professional judgment.</p> <p>We are additionally concerned with the removal of very important guidance contained in extant paragraph 100.9 that there may be situations where threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the extant Code specifically states that the professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement or the employing organization. We consider it is weakening the application of the conceptual framework to suggest in proposed paragraph 120.7 A1 that instances where threats that are so significant that no safeguards could reduce the threat to an acceptable level could only arise in the context of the independence standards. Likewise, we consider it confusing to not have any linkage now between the concept of threats that are too significant that they cannot be reduced to an acceptable level (proposed paragraph 120.7 A1) and declining or discontinuing the activity or service (proposed paragraph R120.7(c)).</p>
16.	EYG	<p><b>(a)</b> Yes. We believe the proposed more fulsome description of “reasonable and informed third party” adds clarity to the concept and will support the professional accountants’ appropriate application of the conceptual framework (i.e., in identifying, evaluating and addressing threats). We also agree with the Board’s clarification that the reasonable and informed third party is a hypothetical person (rather than an actual person) who is competent and possesses sufficient skills to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions.</p>



#	Source	Detailed Comment
		<b>(b)</b> Yes. We concur with the Board's view that the term "acceptable level" is critical to the proper understanding of the conceptual framework and the Code more broadly. Accordingly, we support the Board's proposal to include the definition of "acceptable level" (currently in the Glossary of the extant Code) in the main body of the Code to give this important term appropriate prominence and to better explain, in an affirmative manner, what the term means.
17.	FAR	FARs supports the proposed revisions. In particular, it is a good idea to include the definition of "acceptable level" in the direct context of the requirement to evaluate threats.
18.	FEE	<p>The imposition of the "third party test" is intended to provide a basis for establishing a framework to ensure the objective and rigorous assessment for determining the need for, as well as the nature and extent of, further action. It should be emphasised that what is deemed to be a "reasonable and informed third party" is subjective and the reference to a "hypothetical person" only reinforces this approach without any benefit for the user.</p> <p>Regarding the "acceptable level", the Federation considers that the proposed amendment introduces a different concept, making it unnecessarily more stringent, in replacing "to conclude that compliance with the fundamental principles is not compromised" with "to conclude that the professional accountant complies with the fundamental principles". Although we understand the reasoning of shifting to an affirmative approach, this amendment does not bring added value as it is not very instructive on how professional accountants would achieve the intended result. The application of "acceptable level" by professional accountants is a well-established practice and therefore the Federation does not see a need for change.</p>
19.	FSR	<p><i>The hypothetical third party is supposed to be very competent and insightful. Therefore, the test is likely to result in acceptance in many practical cases where a less informed third party probably would draw a fail conclusion. We find it well advised to set such a high standard in principle, and thereby to leave the handling of the "newspaper-test" up to professional accountants and audit firms and their risk appetites. Nonetheless, we would suggest some mentioning of this fact that may point to the possible business risks that ought to be considered in some cases in spite of an accepted third party test.</i></p> <p><i>On the other hand, what is deemed to be a "reasonable and informed third party" is subjective. Such subjective concepts cannot be properly addressed within a Code with an international remit. This could lead to inconsistent application and render the provisions in the Code unworkable. Subjectivity is always a factor in this assessment, and interpretation is likely to vary in different jurisdictions. Therefore, we see no need to clarify the concept of "reasonable and informed third party". Explained in such a detailed way, it contradicts the principles-based nature of the Code. In addition, the amendments introduced, and especially the reference to an "hypothetical person", reinforce the subjective approach to this test, making it more difficult to professional accountants to apply it.</i></p>

#	Source	Detailed Comment
20.	GAO	We support the IESBA's proposed revisions aimed at clarifying the concepts of "reasonable and informed third party" and "acceptable level" in the Code. We believe the IESBA's description of a "reasonable and informed third party" would prompt the professional accountant to objectively evaluate his or her judgments and conclusions and would guide the professional accountant in applying the conceptual framework. Further, we believe the revision's description of an "acceptable level" would assist professional accountants in determining whether they are in compliance with the fundamental principles of the Code by affirmatively explaining the term.
21.	GTI*	<p>(a) Grant Thornton supports the Board's proposal to clarify the concept of "reasonable and informed third party" by more fully describing the term in the body of the Code. Considering the importance of auditor independence, we believe that the Board could strengthen the application of the concept by making it clear that for audit engagements such third parties are the users of the financial statements.</p> <p>(b) Grant Thornton is supportive of the Board's proposal to clarify the concept of "acceptable level". We believe moving the definition to the body of the Code and enumerating certain factors (qualitative and quantitative) that should be considered once a threat has been identified, will enable the Professional Accountant to perform a more comprehensive evaluation of whether the threat is mitigated appropriately.</p>
22.	HICPA	We do not have any comment to the proposed description and application material on "reasonable and informed third party" and the revised definition of the term "acceptable level".
23.	IAIS	The IAIS supports the enhanced description of what a "reasonable and informed third party" is, the introduction of the corresponding application material, as well as the revised definition of the term "acceptable level".
24.	ICAB	Yes, we support the proposed revisions aimed at clarifying the concepts of (a) "reasonable and informed third party;" and (b) "acceptable level" in the Code.
25.	ICAEW	<p>We have not encountered significant issues among our members with understanding the concept of the reasonable and informed third party. However, we believe the enhanced description will be of use should such uncertainty arise. We are pleased that the opportunity to create a new formal definition has been resisted: definitions of concepts generally deflect attention away from what they are trying to achieve, onto the scope suggested by the exact words.</p> <p>As regards the discussion on acceptable level, we support the inclusion of the discussion in the main body of the code – though would prefer it to be a discussion rather than a definition (see above). We note that the wording focuses exclusively on the views of the reasonable and informed third party. While this is consistent with the existing code, as the focus of much of this project is to set out explicitly what might be implicit at present, perhaps it would be worth pointing out that:</p>

#	Source	Detailed Comment
		<ul style="list-style-type: none"> <li>the threat to be considered is net of any safeguards applied; and</li> <li>the accountant him- or herself should, having exercised professional judgment, be satisfied that the threat, adjusted for appropriate safeguards, would now be unlikely to be able to impact on his or her ethical behaviour.</li> </ul> <p>Given the importance of the views of the reasonable and informed third party, we think that the change from taking a view that 'compliance with the fundamental principles is not compromised' to 'complies with the fundamental principles' is actually quite a significant change. While the explanatory memorandum states that the intention is to 'better explain' what the term means, in our view the meaning of the term has been changed: it is much more difficult to conclude that someone is behaving in line with a set of behavioural principles, than to assess whether there are reasons why they are not doing.</p>
26.	ICAG	<p>We agree with the proposed revisions to the “reasonable and informed third party” concepts. This concept is consistent with the provisions of other standards like the requirements to be independent not just in thought but appearance as well.</p> <p>Of particular interest in this definition is the part that requires the professional to “reasonably have known”. This places the final responsibility in the determination of appropriateness of the safeguards at the door step of the professional involved.</p>
27.	ICAS	<p>Yes, we are generally supportive of the proposed revisions to the Code aimed at clarifying the concepts of:</p> <p>(a) “reasonable and informed third party”; and</p> <p>(b) “acceptable level”.</p> <p>We do believe that it should be clarified that the “reasonable and informed third party” concept relates to a hypothetical actual person as opposed to also possibly including a legal persona or body.</p> <p><i>“The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.”</i></p> <p><i>“An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles”.</i></p>
28.	ICPAK	<p>Yes, we support the Board’s proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party;” and (b) “acceptable level” in the Code.</p>
29.	ICJCE <sup>^</sup>	<p>we are pleased to confirm the total support of the ICJCE to the comments set out in FEE comment letter</p>

#	Source	Detailed Comment
30.	IDW	<p><i>Use of the Third Party Test</i></p> <p>We note that material in paragraph 100.7 of the extant Code has been used as a basis for the proposed definition of the term “reasonable and informed third party”. We believe that application guidance would be helpful to stress that hindsight cannot be taken into account, e.g., by a regulator inspecting an auditor’s work.</p> <p>We are not convinced that a third party test is necessary in circumstances where the Code requires a PA to exercise professional judgment. If used in other circumstances, we would only support the application of this so-called third-party test as proposed in R120.4 A1 in relation to a determination of whether the accountant complies with the fundamental principles of the Code. However, we do not believe that additional third-party tests for specific matters are appropriate elsewhere in the Code beyond this.</p> <p><u>Acceptable level</u></p> <p>We agree that it is appropriate to include the extant definition of “acceptable level” in the section dealing with the evaluation of threats, and to revise this definition to avoid unnecessary repetition as proposed.</p>
31.	IFIAR^	<p>Reasonable and Informed Third Party</p> <p>The proposals expand the description of the reasonable and informed third party but we have concerns with how the concept can be applied in practice. Specifically, we recommend that the Board considers the appropriateness of the proposed definition of "reasonable and informed third party" which, as currently drafted, appears to imply that such a third party could only be, de facto, another professional accountant.</p>
32.	IOSCO^	<p>Reasonable and Informed Third Party</p> <p>We note that the Paper defines Reasonable and Informed Third Party as follows:</p> <p>“The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.”</p> <p>We believe the proposed definition appears to concentrate on the “informed” part of the concept, that is, a person who possesses “skills, knowledge and experience”. However, the Board should provide additional clarity on the characteristics this person possesses. For example, the Board may wish to indicate that this person is expected to have a reasonable knowledge</p>

#	Source	Detailed Comment
		<p>of business and economic activities, has a general understanding about auditing and is expected to be diligent in their review and analysis of the relevant information.</p> <p>We also believe the Board could go further with respect to the “reasonable” part of this concept. More specifically, an independent third party is not just another professional accountant but someone who is unrelated to the audit and/or network firm or the audited entity in fact and appearance, who considers the specific facts and circumstances and concludes in a manner that is devoid of bias. One additional element the Board may wish to consider in assessing the accountant’s objectivity as part of the “reasonable” concept is whether the outcome of the accountant’s decision could have any bearing on the judgment exercised by those charged with governance, as they are representing the interest of investors.</p>
33.	IPA	<p>We agree with the changes to the Code that will require Professional Accountants to apply the conceptual framework and comply with the fundamental principles as opposed to a rules-based checklist approach. This involves all professional accountants reflecting on their circumstances and particular situation placing less reliance on the Code to identify every possible scenario which is both unrealistic and unachievable.</p> <p>We support the change to make the requirements distinct from the application material. The requirements set out in Section 120 improve the clarity of the Code by clearly identifying each step involved in evaluating a threat.</p> <p>We agree with the revised description of a Reasonable and Informed Third Party, in particular a hypothetical person who possesses the skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. However, we do acknowledge that different stakeholders may view the judgements and conclusions made differently depending on their perspective and this will continue to exist.</p> <p>We agree with the revised definition of an acceptable level which is “a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles”. It retains the need to apply the Reasonable and Informed Third Party test.</p>
34.	IRBA	<p>Through our consultation with a range of stakeholders and review, we found that the reasonable and informed third party test was still a cause for confusion.</p> <p>One reason for this confusion is that the name is similar to the term “reasonable man test”, which is used in the legal profession. These are considered different as the concept in the Code suggests that the person has a certain level of skills, knowledge and experience, which is different to the test used in the legal profession. Also, the definition in the Code is a self-imposing test, while tests similar in concept are performed by a third party. We suggest that a change in the phrase may help to make it clear that these two concepts are different.</p>

#	Source	Detailed Comment
		<p>Additional clarity needs to be given that this is not an actual person, but rather a test or concept.</p> <p>We suggest that the word “hypothetical” does not enhance clarity and should be reconsidered.</p> <p>The definition of a reasonable and informed third party has certain commonality with the definition of professional judgement. We noted that professional judgement, though used in the Code, is not defined. The ISAs, however, include a definition of professional judgement which can be considered.</p> <p>The revision should make it clear that the professional accountant will be performing the test.</p> <p>Although it can be inferred that the reasonable and informed third party could be highly skilled and experienced, it is unclear from the text what level of skills, knowledge and experience is expected. Would this imaginary person be at a beginner level, an expert level or have working knowledge?</p> <p>We believe that the reasonable and informed third party would not be limited to a professional accountant. However, the description of this test is not clear.</p> <p>It is unclear what the expectation would be on the professional accountant when making these decisions. Would it be inherent or implied, or would the professional accountant be required to document this concept?</p> <p>We question whether the bar has been set too high with this description. Not all investors will meet this definition, yet they will be able to judge a professional accountant based on appearance. There may be some inconsistency created.</p> <p>We emphasise that the reasonable and informed third party concept be included in the description of independence of appearance. Thus, the way the definition is finalised will affect the way the independence in appearance principle is understood and used in the future.</p> <p>“Acceptable Level”: This definition seems to get lost in the proposed amendment. Its prominence should be improved.</p> <p>There are many variable in this definition, which may suggest that this concept will be difficult to use, especially from an enforceability perspective. We suggest that the word “likely” be removed from the definition.</p>
35.	ISCA	<p>We note that the IESBA has clarified in the proposed paragraph 120.4 A1 that the “reasonable and informed third party” needs to weigh all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time of the evaluation.</p> <p>Notwithstanding the clarification, we are of the view that the “reasonable and informed third party” remains judgemental and may be difficult to apply in practice. Different professional accountants may have different understanding of what constitutes “<i>all the relevant facts and circumstances</i>”. This may lead to variations in practice when the test is applied to the same scenario by different professional accountants.</p>

#	Source	Detailed Comment
		<p>In addition, an unintended consequence of the clarification could be that it may be onerous for professional accountants to apply the test. Professional accountants have to consider and cover <i>all</i> possible angles in order to meet the requirements of the test. If things go wrong, it will be all too convenient, especially with the benefit of hindsight, to pin all the blame on the professional accountants, which may not be fair.</p> <p>For “acceptable level”, we note that the concept is mostly used in relation to reducing threats to the fundamental principles to an “acceptable level”. Thus, to strengthen the relationship between “threat” and “acceptable level”, paragraph 120.6 A1 could be refined as follows:</p> <p><u>“An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant’s compliance with the fundamental principles would not be compromised by the threat identified”</u></p>
36.	JICPA	We support the proposed revisions.
37.	KICPA	<p>The lack of additional explanation of the “reasonable and informed third party” test results in the existing standards, not being able to provide clarified description of the purpose and the level of the test. The proposed ED, supplemented with explanations of the context of implementing the test, is believed to contribute to increasing the accuracy of the test, as compared to existing standards. Still, how to implement the test in a consistent manner to professional accountants remains a problem, as professional accountants’ judgment is highly likely to intervene in the test.</p> <p>Aside from this, the expression of “acceptable level” is being widely used in the Code and is an essential part of implementing the conceptual framework. The proposed ED describing its meaning in an affirmative manner leads to improvement in clarifying its meaning, as compared to existing standards using a negative expression.</p>
38.	KPMG*	n/a
39.	MIA	<p>The proposed revisions enhance the clarity on the concept of “reasonable and informed third party” and “acceptable level”. However, the skills, knowledge and experience that a person shall possess in assessing “reasonable and informed third party” test should be elaborated in the Code. We wonder if a person from other professions such as the legal profession will be regarded as part of the person who is able to objectively evaluate the appropriateness of the professional accountant’s judgements and conclusions. We would appreciate if the IESBA could clarify and indicate as to whether the reasonable and informed third party must be a hypothetical person from the accounting profession.</p>
40.	NASBA	NASBA supports the proposed revisions that clarify “reasonable and informed third party” and “acceptable level” in the Code.
41.	NBA	Yes, we support the proposed revisions aimed at clarifying the concept of a “reasonable and informed third party”. Although we have not experienced any interpretation and applica- tion issues with the extant concept ourselves, we believe that it will

#	Source	Detailed Comment
		<p>help the application and acceptance of the Code if this concept is clarified further. Especially in principle-based regulation it is very important that the “benchmark” is clear (what the third party [test] is and what the third party test is for). The outcome of the third party test (what a reasonable and informed third party expects a PA to do) depends on the jurisdiction a PA operates in (including the jurisdiction’s culture, legislation, etc.), his role and position at the time, the specific facts and circumstances of the case. The concept of the third party test fits perfectly well within the principle-based character of the Code. The description as proposed does not change this already existing concept.</p> <p>The extant Code seems to relate the third party test only to the requirement to determine whether safeguards are necessary and possible. The proposal relates the third party test to every step of the conceptual framework, so including a) identifying threats and b) evaluating threats. We support this proposed amendment.</p> <p>We can support the proposed amendment of the definition of “acceptable level”, although we recommend the IEASBA to depart from the concept of “acceptable level”. The proposed affirmative approach (“a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles”) fits better from a legislative and regulatory point of view. In our national ethical and independence standards we only use the concept of threat. A threat is “an unacceptable risk that the professional accountant does not comply with the fundamental principles due to self-interest, self-review, advocacy, familiarity, or intimidation”. Either there is a threat or not. Safeguards are only effective, when they eliminate a threat. We believe the result of our national approach is similar to the proposal but simpler.</p>
42.	NFCPAARO C	We support the proposal to revise the conceptual framework due to the fact that it strengthens the descriptions of requirements and application material regarding identifying threats, evaluating threats, addressing threats, re-evaluating threats and the overall assessment, which should assist the professional accountants taking actions to address threats.
43.	NZAuASB	<p><b>(a)</b> The NZAuASB is supportive of the proposed description of the term “reasonable and informed third party”. The NZAuASB considers that the informed third party test should apply at all stages of the framework, in identifying, evaluating and addressing threats. For this reason the NZAuASB is supportive of the reference to the third party in R120.4. The positioning of the description of the “reasonable and informed third party” then follows in 120.4 A1. The NZAuASB notes however that explicit reference is made to the third party in evaluating the threat and again at the overall assessment stage. The NZAuASB however considers that the third party test would also apply to identifying any threat and in determining whether the threats have been addressed. If so, this should also be explicitly stated at each stage.</p> <p><b>(b)</b> The NZAuASB is supportive of the proposed description of “acceptable level”.</p>
44.	OEFCM	(a) Yes



#	Source	Detailed Comment
		(b) Yes
45.	PWC*	<p><b>Reasonable and Informed Third Party (Question 2)</b></p> <p>Paragraph 120.4 A1 introduces the concept of a “reasonable and informed third party”. While we concur with the underlying principle, we are concerned that the evaluation entails weighing what the accountant “knows or could reasonably be expected to know” at the time. A third party assessment with the benefit of hindsight might come to a different conclusion. This is particularly true given an uncertainty or expectation gap generated by the words “expected to know”. We believe that this goes beyond a judgement that the accountant can reasonably be expected to make.</p> <p>Moreover, we note that the same principle adopted in the NOCLAR project is expressed differently - <i>“In determining the need for, and nature and extent of, further action, 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 <u>at the time</u>, would be likely to conclude that the professional accountant has acted appropriately in the public interest.”</i></p>
46.	RSM UK	We support the ‘reasonable and informed third party’ (‘R and ITP’) test, and references to ‘acceptable level’ being ‘tied back’ to the R and ITP test.
47.	RSM*	We support the proposed revisions aimed at clarifying the above terms. Including guidance describing the attributes of a “reasonable and informed third party” makes it clear that a high standard of fact gathering and assessment is required. A positive description of what constitutes compliance with the fundamental principles is preferable to the extant test that compliance has not been compromised and the resulting judgment on what constituted a compromise.
48.	SAICA	SAICA endorse the new definitions, we would however recommend the IESBA investigate whether “Hypothetical” is easily translated into other languages.
49.	SMPC	<p>We generally agree with the revised description of “Reasonable and Informed Third Party” in particular, that the third party is described as competent by possessing “skills, knowledge and experience”. It may be helpful to stress that hindsight cannot be taken into account if such a test is to be included.</p> <p>The application of this test as proposed in 120.4 A1 in relation to a “stand-back” determination of whether the accountant complies with the fundamental principles of the Code is also considered appropriate. However, as previously stated, we do not believe that additional third-party tests are appropriate elsewhere in the Code.</p>

#	Source	Detailed Comment
		<p>We agree with the proposed revisions to an “acceptable level” and the inclusion of this as application material in the section on Evaluating Threats. The guidance included in 300.2 A3 with respect to considering whether the audit client is a public interest entity is useful and the Board might wish to consider this in relation to the application material to R120.6.</p> <p>The SMPC acknowledges that the Board has not used the term “material” or “significant” in proposed sections 120 and 300 as it believes that the meaning of these terms is consistent with the auditing concept of materiality as described by the ISAs and is not appropriate for establishing the overarching requirements and principles about threats and safeguards. However, we wonder whether the term “materiality” is more precise and understandable compared to “quantitative factors” in 120.6 A2, as generally speaking accountants are familiar with this concept.</p>
50.	SRA	<p>We refer to proposed article 120.4 A1. The proposed description of a “reasonable and informed third party” is in our view unclear as it involves an evaluation by a hypothetical person. We note that this concept is vitally important in the context of the conceptual framework and should therefore be clear.</p> <p>A hypothetical person does not exist; there is a risk that therefore the concept could be associated with actual persons possessing the skills, knowledge and experience mentioned, which is not intended. Furthermore the description is not clear regarding the timing of the test to be performed.</p> <p>In our view there is no need to change the text in the present CoE, which describes clearly the evaluation to be made by the accountant in the context of the conceptual framework. We therefore advise to maintain the present text.</p> <p>The descriptions of “acceptable level” and “safeguard” are included in the application material. Taking into account the importance of these descriptions we advise to include them in the text of the requirements.</p>
51.	UKFRC	<p>Although the FRC supports the Board’s aim of clarifying the concepts referred to, we do not consider that the proposed revisions in the Exposure Draft adequately achieve that aim. We believe that it is unhelpful that the concept of the ‘reasonable and informed third party’ at 120.4.A1 now refers to a “hypothetical” person. Whilst we understand the thinking behind this proposal, we believe it may undermine, and does not appropriately clarify, the concept. It may lead to the concept of such a person being seen as an artificial construct rather than as a reasonable and informed party who has a legitimate interest in the professional accountant meeting the ethical outcomes required by the fundamental principles. It is just such a misapprehension of the third party concept that has led some to consider that, in the context of an audit, ‘those charged with governance’ (rather than the body of intended users of the audit report) provide the most appropriate perspective for the ‘third party’.</p> <p>This weakness in the definition is further compounded by the requirement for the third party to “possess skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgements”. We consider that this</p>

#	Source	Detailed Comment
		<p>risks an overly narrow focus, whereby a professional accountant might assess their judgements purely from the perspective of what another professional accountant might consider reasonable, rather than considering the views of those whose interests may be harmed by a failure of the professional accountant to behave in accordance with the fundamental principles.</p> <p>We believe it would be more helpful to explain that the third party in this concept is one who has a legitimate interest in the professional accountant meeting the ethical outcomes required by the fundamental principles – i.e. that the third party test is intended to be applied through the objective lens of the public in whose interests the professional accountant accepts a responsibility to act. Thus, the test should reflect the anticipated views of such parties, whilst assuming that they are informed about the circumstances (e.g. about the nature of the threats and the nature of any safeguards) on the assumption that they would be reasonable (i.e. rational, fair and moderate rather than extreme) in forming those views.</p> <p>We also suggest that the reference to the third party be extended to read '<u>objective</u>, reasonable and informed third party', which would reflect the importance of the objectivity of the third party (i.e. one not influenced by interests that would conflict with the public interest) and would also align it with the term used in the 2014 EU Audit Regulation (EU 537/2014) and Directive (2014/43/EC).</p> <p>For the reasons set out above, we believe that the third party needs to be <u>objective</u>, <u>reasonable</u> and <u>informed</u>, but we suggest that it would be better to require them to be 'informed' in a general sense rather than implying that they require specific professional skills. Our experience is that a professional accountant will often not question a behaviour or course of action that might subsequently be challenged by a non-accountant who may well be the user of the professional accountant's services.</p> <p>We support the aim of expressing the requirement to eliminate or reduce threats "to an acceptable level" in an affirmative manner. However, the continued use of the term "acceptable level" causes us concern. We believe the term itself implies a bar at too low a level. We believe that the most direct and affirmative manner in which to express this bar is to require threats to be eliminated or reduced "to a level at which the fundamental principles would not be compromised". This would avoid the implication that the professional accountant's focus should be on finding a level of threats that is "acceptable" and rather would focus them on ensuring that threats were eliminated or reduced to a level where the third party test would be passed. We believe this (implicit) link to the third party test would better accord with the expectations of stakeholders, and better support their confidence in the professional accountant.</p> <p>We also suggest that it should be made clear that the third party test would only be passed when it is <u>probable</u> (i.e. more likely than not) that the [objective,] reasonable and informed third party would conclude that none of the fundamental principles had been compromised.</p>
52.	VRC	n/a

Safeguards ED-1 Supplement B – Compilation of Responses to Questions  
*IESBA Meeting (June, 2016)*

#	Source	Detailed Comment
53.	WPK	<p>There is no need to clarify the concept of „reasonable and informed third party“. Due to the in-herent subjectivity in this concept (that will be even highlighted through the reference to a “hypo-thetical person”) such a detailed explanation does not add any additional value. It rather appears to be contradictory to the principle-based nature of the Code and to the objective of clarity.</p> <p>The third party test is highly subjective, and the interpretation is likely to be impacted by cultural influences, which may lead to inconsistent application of the Code by auditors and third parties.</p>

### Question 3 and 4: Proposed Revised Description of Safeguards

3. Do respondents support the proposed description of “safeguards?” If not, why not?
4. Do respondents agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code:
  - (a) Do not meet the proposed description of safeguards in this ED?
  - (b) Are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum?”

If not, why not?

#	Source	Detailed Comment
1.	20EUAR	<p><i>4. Consistency and enforceability</i></p> <p>One of the key areas of focus for us, as audit regulators, is the fact that the Code should allow for consistent application by different auditors. In order to drive consistent application, we need clear provisions in order to establish appropriate lines between situations that are permitted and those that are not. Consistency in application of the ethics provisions creates a level playing field for auditors, and is likely to improve the confidence of users in the audited financial statements.</p> <p>We are in favour of enhancements to the Code which leave less room for interpretation and facilitate its enforceability. We encourage the Board, as it progresses in the project as in other instances, to use terminology which reduces the room for interpretation.</p> <p>The notion of "safeguards" that protect auditors from threats to compliance with fundamental ethics principles, as used in the current Code, is not always applied in a consistent manner. We see an interest in clarifying the conditions in which a "safeguard" could be accepted by an auditor as a means to mitigate a threat.</p> <p><i>European context</i></p> <p>We note that the notion of "safeguards" is also used in the regulation which will be applicable in the European Union for auditors of public interest entities starting 17 June 2016.<sup>8</sup> We draw the Board’s attention to the fact that, for us, there is an interest in ensuring that the notions used in the Code are consistent or at least compatible with those used in the European context.</p>

<sup>8</sup> For example, Regulation (EU) No 537/2014, articles 4, 5 and 6

#	Source	Detailed Comment
		<p>Furthermore, we suggest that the Code take into account the level of requirements set by the European regulation. Indeed, a code that is less stringent than the legal framework in force would impair its potential interest for the countries applying this framework. Consistency with the applicable legal requirements for ethics would allow for a wider recognition of the Code.</p> <p><i>Need to adapt the safeguards to the situation:</i> We believe that the Code should emphasize that safeguards are intended to eliminate or to reduce <i>specific</i> threats. We encourage the Board to define how specific safeguards address specific risks of non-compliance and to clarify the necessity for each threat to be linked to a specific action by the professional accountant.</p>
2.	AAT	<p>3. The proposed description is clear and sufficiently worded in order to be helpful to professional accountants in enabling them to comply with the fundamental principals. AAT does not believe this description needs further exploration.</p> <p>4. AAT agrees with IESBA's conclusions that safeguards as defined in the extant code do not meet the proposed description of safeguards. This emphasises that a professional accountant is responsible for ensuring their ethical compliance and cannot solely rely on safeguards created by third parties. AAT believes that the safeguards mentioned above are still very important and that their proposed description, and proposed application will give a more broadened and holistic approach. They are in essence contextual information in determining the significance of the threat. AAT considers this appropriate and that this should minimise the risks in non compliance with the fundamental principles of the code.</p>
3.	ACCA	<p>3. We support the proposed description, which achieves greater clarity as a result of its brevity. However, as explained under question 1 above, we believe users of the Code would be greatly assisted by examples of safeguards, which could be provided by cross-references to sections 200 and 300 of the restructured Code.</p> <p>4. We agree that 'safeguards created by the profession or legislation', 'safeguards in the work environment', and 'safeguards implemented by the entity' should not be included in the updated understanding of safeguards, which should focus on actions that are available to the professional accountant, rather than existing circumstances. Nevertheless, these existing circumstances are important to the professional accountant's evaluation of threats. In fact, a professional accountant's sensitivity to threats is heightened by an understanding of the impact of legal and professional requirements and procedures established in the work environment. Therefore, guidance is necessary to explain the impact of these circumstances on the assessment of threats. A clear understanding of such circumstances can underpin the appropriate behaviours of a professional accountant.</p> <p>Further, the responsibilities of the professional accountant include ethical leadership. Therefore, guidance within the application material, or alongside the Code, should consider the impact that the professional accountant could have on 'safeguards' implemented by the entity.</p>

#	Source	Detailed Comment
4.	AGNZ	<p><b><i>Does the Internal Separation Safeguard satisfy the ‘Reasonable and Informed Third Party’ test?</i></b></p> <p>Based on our arguments under the previous heading, we would strongly suggest that the traditional internal separation safeguard (for example, where different partners and engagement teams with separate reporting lines within the same firm provide non-assurance services) does not satisfy the ‘reasonable and informed third party’ test.</p> <p>3. The definition of safeguards, as defined in paragraph 120.7.A2 appears to be reasonable. However, the availability of safeguards will be significantly reduced under a higher ‘acceptable level’ regime.</p> <p>4. (a) Yes. (b) Yes.</p>
5.	APESB	<p>3. APESB supports the proposed description of ‘safeguards.’</p> <p>4. (a) APESB is supportive of the IESBA’s view that the safeguard types described in the extant Code would no longer meet the proposed definition of safeguards in the ED.</p> <p>(b) APESB is supportive of the IESBA’s view that the listed extant safeguards types should be considered as conditions, policies and procedures. We agree that the extant safeguards referred to were not specifically designed and implemented in response to threats of compliance with the fundamental principles.</p>
6.	ASB	<p>3. No. We do not support the revision to the description of safeguards as it would only incorporate those safeguards that would effectively eliminate or reduce threats to an acceptable level. We believe the Board should continue to view all existing safeguards as safeguards but provide clarification that not all safeguards will be effective in eliminating or reducing an identified threat. The application of safeguards involves professional judgment and we believe professional accountants are capable of determining which safeguards, if any, are effective.</p> <p>4. (a) No, we do not believe that all safeguards within the categories, “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” would not meet the proposed description of safeguards. Specifically, we believe there may be safeguards under these categories that individually or in combination with other safeguards, could effectively eliminate or reduce threats to compliance with the fundamental principles to an acceptable level. We do, however, support the existing approach in the extant Code whereby a professional accountant should not be able to solely rely on safeguards implemented by the entity/client.</p> <p>For example, there are certain firm-wide safeguards in the work environment such as “Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.” that could be effective in mitigating self-</p>

#	Source	Detailed Comment
		<p>interest threats resulting from a significant client of the firm. Another safeguard that could be effective for self-review threats resulting from the provision of non-assurance services is “Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.” Also, “continuing professional development requirements,” an extant safeguard created by the “profession or legislation”, could effectively safeguard against threats to the fundamental principle of “Professional Competence and Due Care.” Accordingly, we do not support the premise that safeguards within these categories would not be effective.</p> <p>(b) No, we do not believe the respective safeguards in question are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26-28 of this Explanatory Memorandum.” As noted in 3 above, we believe the Board should continue to view all existing safeguards in the IESBA Code as safeguards and should not revise the definition of safeguards, as proposed.</p>
7.	ASSIREVI	<p>3. ASSIREVI agrees with the proposed revisions.</p> <p>4. ASSIREVI agrees with the proposal made in the Exposure Draft to identify the safeguards as <i>"actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with fundamental principles or reduce them to an acceptable level"</i>, which differ from the <i>"conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization"</i>.</p> <p>However, the extant paragraph 100.13 qualifies the two categories of <i>"safeguards created by the profession, legislation or regulation"</i> and <i>"safeguards in the work environment"</i> as measures <i>"that may eliminate threats or reduce them to an acceptable level"</i>. We believe that this principle should be not eliminated in the proposed new provisions. The Code should clarify that, while the above-mentioned <i>"conditions, policies and procedures"</i> are not <i>"safeguards"</i> under the new definition", they are, in combination therewith, the set of actions and conditions that the accountant may consider in their overall assessment of the situation and the level of threats to independence.</p> <p>Based also on the provisions of paragraph s 300.2 A2 and 300-2 A6, the <i>"conditions, policies and procedures"</i> should consist of the tools used not only to identify possible threats to the accountant's independence (as provided for in paragraph 120.5 A4) but also to assess the level of threats to independence and their reduction to an acceptable threshold.</p>
8.	BDO*	<p>3. In general, we support the proposed description of ‘safeguards’. However, we believe there can be some confusion in the wording ‘...actions,... that the professional accountant takes’.</p> <p>The proposed definition in the exposure draft is: ‘Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.’</p>



#	Source	Detailed Comment
		<p>We believe the description would be easier to understand if it was revised to: ‘Safeguards are actions, individually or in combination, that the individual(s) providing professional services take 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.’</p> <p>Depending on the situation, however, the safeguards may be carried out by more than one professional accountant or a combination of professional accountant(s) and individual(s) who are not professional accountant(s). For example, if a safeguard for an audit engagement relates to having someone who is not on the engagement team completing the bookkeeping work and that individual is not a professional accountant, the safeguard is the professional service that such individual performs rather than the actions of a professional accountant.</p> <p>4. We agree that the “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats.</p>
9.	CAANZ	<p>3. The positive definition of safeguards at 120.4 whereby a “reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles” is stronger than the extant negative definition (para 100.2) whereby “compliance with the fundamental principles is not compromised”.</p> <p>The difference is that the new definition requires positive action by the professional accountant, whereas the extant definition is more focused on the professional accountant not doing actions (i.e. actions which would compromise compliance with fundamental principles). We believe that the standard imposed by the new Code is thus more burdensome, which we do not believe was the intention. As a result, we do not support the definition.</p> <p>If the definition is retained, we would encourage IESBA to provide more guidance to professional accountants in regards to what actions are necessary for the professional accountant to take (and document) in order to comply with this requirement.</p> <p>4. We agree with IESBA’s conclusion. However, we believe that the safeguards included in the extant code (200.12-200.15) and not retained in the ED provide the professional accountant with useful guidance on applicable safeguards and IESBA should consider expanding 300.2.A9 to include some of them.</p> <p>Furthermore, the ED (120.7.A2) says “Safeguards are actions...that effectively eliminate threats to compliance...or reduce them to an acceptable level”, the Code does not appear to contemplate the very real situation where a professional accountant may reasonably believe that a safeguard will eliminate threats to compliance but in actual fact the safeguard doesn’t. The extant standard 100.13 does not contain this expectation of the safeguard being effective. This is increasing</p>

#	Source	Detailed Comment
		the professional accountant's responsibility to assess the effectiveness of safeguards. We recommend the IESBA consider including some form of moderator to this paragraph.
10.	CHI	<p>3. We support the proposed description of "safeguards".</p> <p>We observe that 120.7 A2 explains the meaning of "safeguards". There would be merit in providing a more detailed explanation about the meaning, interpretation and application of "safeguards" in Section 120. Many professional accountants would find this more detailed explanation that expands upon the description helpful. By contrast, the commentary about "safeguards" intended for professional accountants in public practice in 300.2 A9 is about right in content and presentation. 300.2 A9 appropriately expands upon the description.</p> <p>4. We understand the approach taken by IESBA. We note the change in the meaning of "safeguards" and in light of this we agree with the conclusions about the terms used in the extant Code. 120.5. A4 could contain further examples such as "corporate policies and compliance procedures", "legislative and regulatory requirements" and "internal monitoring and oversight procedures".</p>
11.	CNCC	<p>3. We do not have specific observations for this question.</p> <p>4. We agree with the fact that the conditions, policies and procedures referred to in paragraph 120.5 A4 do not meet the proposed definition of safeguards. Nevertheless, we do not have sufficient information to understand the use of the list provided and the mix of policies or procedures that belong to different parties (firm, client...) does not help either. As an example, we wonder if the procedures related to "corporate governance requirements" regard both client and firm and if so, is there a rank?</p> <p>Furthermore, we believe that the different nature of items presented in the same list of examples, may be analyzed as having the same impact on the likelihood of the accountant's identification of threats to compliance with the fundamental principles, which could be misleading. Therefore we consider that the creation of this new category creates unnecessary difficulties.</p>
12.	CPAA	<p>3. CPA Australia supports the proposed description of safeguards.</p> <p>4. CPA Australia agrees with IESBA's conclusion to remove "<i>safeguards created by the profession or legislation,</i>" "<i>safeguards in the work environment,</i>" and "<i>safeguards implemented by the entity</i>".</p> <p>However, we urge IESBA to provide additional guidance and examples of possible safeguards and to review the content and the examples of possible conditions, policies and procedures that are included in paragraph 120.5 A4. The proposed content of this paragraph states that conditions, policies and procedures 'can affect the likelihood of the accountant's identification of threats'. We do not think that these conditions could provide a defence when a professional accountant fails</p>

#	Source	Detailed Comment
		<p>to identify an existing threat and the responsibility to identify threats should not be shifted from the professional accountant. We are of the view that the emphasis should be on the existence, identification but also evaluation and addressing of threats.</p> <p>The current list of examples in paragraph 120.5 A4 and its relationship to the conceptual framework is unclear. For example, how would educational, training and experience requirements for the profession interact with the conceptual framework and the obligations of professional accountants?</p> <p>We are also of the view that paragraph 120.5 A3 should alert professional accountants to the potential cumulative effect of threats.</p>
13.	CPAC	<p>3. We support the proposed description of “safeguards”. We found the description to be clear and agree that the proposed description establishes a stronger correlation between threats and safeguards and the fundamental principles of the Code.</p> <p>4. (a) We agree with IESBA’s conclusions and note that other Sections of the Code such as 310.3 A3 in the restructuring project may require further review to ensure that the profession is not similarly described as a safeguard.</p> <p>(b) We agree with IESBA’s conclusions. In reviewing Section 120, we identified that the language used in 120.5 A4 could be more positively stated with the following revision “Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can” enhance “the likelihood of the accountant’s identification of threats to compliance with the fundamental principles.”</p>
14.	Djuvenal <sup>^</sup>	<p>4. Yes, I support the proposed description of “safeguards”.</p> <p>5. I suggest for the Board’s contact the National and Regional Regulators to know if have some impact of new definition in each country, because profession or legislation in country can be different points of research and subject for this matter.</p>
15.	DTT*	<p>3. We support the Board’s objective of clarifying the application of safeguards, however we do not understand how the objectives being sought by the Board are achieved by defining a safeguard as an action that must be “effective” in order to eliminate or reduce threats to compliance with the fundamental principles. The safeguards are actions and taken to address threats, but the effectiveness of such actions would seem to be a separate assessment. Much in the same way that a mitigating action or control is implemented in response to a weakness or a risk, the effectiveness of the action must be judged at the time it is applied by the accountant, both in fact and appearance, and then potentially re-evaluated if</p>

<sup>^</sup> This letter was received after the Task Force’s physical meeting. The Task Force plans to further consider the respondents’ comments at its July 2016 meeting and refine its proposals as deemed appropriate.

#	Source	Detailed Comment
		<p>circumstances change. We suggest the description of safeguards in proposed paragraph 120.7 A2 be amended as follows: “Safeguards are actions, individually or in combination that the professional accountant takes <del>that effectively</del> to eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.”</p> <p>The Board considers that the proposed description of safeguards, together with the other proposed clarifications to the conceptual framework establish a stronger correlation between “threats and safeguards” and the fundamental principles in the Code. Yet, if safeguards are by their nature effective, individually or in combination, it is unclear why the Board believes it is necessary to add steps to re-evaluate threats when existing threats have already been reduced or eliminated through safeguards (which by definition must be effective in doing so), unless there has been a change in circumstances.</p> <p>4. If one applies the proposed definition of a safeguard to these safeguards in the extant Code, then it may be reasonable to conclude that they no longer meet the definition of a safeguard. This is a result of the changes being proposed which appear to refocus the conceptual framework into a series of activities that must be performed by the professional accountant rather than the application of a holistic framework (which includes safeguards in the profession, work environment etc.) designed to help the professional accountant comply with the fundamental principles.</p> <p>Nonetheless, changing how the Code refers to these safeguards (for example as conditions, policies and procedures) should not change their importance to the conceptual framework. Whether or not they are referred to as safeguards or whether they are considered to duplicate existing requirements imposed by quality controls, without the “safeguards created by the profession or legislation,” and “safeguards in the work environment,” the safeguards applied at an individual level by the professional accountant cannot be effective on their own.</p> <p>By making this distinction in proposed Section 120, the “conditions, policies and procedures” have been demoted as being only relevant to the likelihood of a professional accountant identifying a threat to compliance to the fundamental principles (the activity being undertaken by the accountant) rather than also being important in helping the professional accountant comply with the fundamental principles. For example, they also act as deterrent to unethical behavior, as referred to in extant 100.16, which refers to an “effective, well publicized complaint system operated by the employing organization... that enables colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior”. The proposals have simply included an “effective complaint system” as an example of a condition in 120.5 A4 and it is unclear what this means without the context in the extant Code.</p> <p>We have the same comments with respect to the classification of “conditions” that might impact the evaluation of whether a threat is at an acceptable level in Section 300. Given the importance of the “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “conditions, policies and procedures”, the Board should consider re-locating these concepts to the introductory section of the conceptual framework or a place of similar prominence.</p>

#	Source	Detailed Comment
		<p>The International Forum of Independent Audit Regulators (“IFIAR”) in its “2015 Inspection Findings Survey” released on March 3, 2016 links its inspection findings with respect to independence and ethical requirements with International Standard on Quality Control 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” (“ISQC1”). In IFIAR’s report, a departure from standards on quality control and ethics and independence requirements may or do have an effect on audit quality. We do not believe that the Board can isolate the conceptual framework and the application of safeguards from their inherent reliance on a system of quality controls for their effectiveness.</p> <p>We suggest that before concluding on this piece of work, the Board work closer with the International Auditing and Assurance Standards Board (“IAASB”) as it undertakes its project on ISQC1 (included in the 2015-2016 IAASB work plan) to ensure there is clarity on the inter-dependence between the effectiveness of safeguards and quality controls. The Board should also consider the interaction of safeguards with requirements in International Standard on Auditing (“ISA”) 220, “Quality Control for an Audit of Financial Statements” and ISA 230, “Audit Documentation.”</p>
16.	EYG	<p><b>3.</b> Yes. We agree with the Board’s proposed more robust description of safeguards in paragraph 120.7 A2 and with other proposed clarifications to the conceptual framework, we believe a stronger correlation between “threats and safeguards” and the fundamental principles is established in the Code.</p> <p><b>4.</b> (a) Yes. We acknowledge that there are conditions, policies and procedures 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. However, we agree that these conditions, policies and procedures do not meet the revised description of “safeguards” proposed by the Board.</p> <p>(b) Yes. We agree that that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum.</p> <p>However, as discussed above in our response to Question 1(c) we believe that section 120 and section 300 do not explain this concept in the same manner. More specifically paragraph 120.5 A4 should state that “conditions, policies and procedures” can impact the level of a threat as noted in paragraph 300.2 A6.</p>
17.	FAR	<p><b>3.</b> FAR supports the proposed description.</p> <p><b>4.</b> FAR agrees that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code do not meet the proposed description of safeguards in the ED</p>

#	Source	Detailed Comment
		<p>and that they are better characterized as proposed in the ED. In fact, FAR particularly commends this revision, since these particular descriptions of safeguards in the extant Code have not corresponded to what FAR has perceived as safeguards that can be used to lower identified threats to an acceptable level.</p>
18.	FEE	<p>3. As mentioned in the general comments, the proposed description of safeguards has to be assessed in conjunction with the other amendments introduced in this regard. Introducing the concept of “effectiveness” in the definition of safeguard is unnecessary as, by definition, the elimination of threats must always be effective.</p> <p>We have strong concerns in relation to the removal of certain conditions, policies, and procedures as safeguards, as it will add confusion to the process and impact their application by SMPs. In particular, with respect to the assessment of threats to independence, so far the current model has been considered as very practical in terms of documentation. The proposed draft seems unclear and leaves uncertainty as to how practitioners should consider the ‘old’ safeguards – i.e. the circumstances that are part of a new category of items to be considered – in terms of documentation.</p> <p>A cost-benefit analysis will be necessary at the end of the project when both phases’ outcomes will be consolidated. IESBA should consider that reducing the availability of safeguards could lead to increased costs in business, namely for SMPs, for which external review may in some cases be the only available option.</p> <p>In addition, the proposed R120.7, “Declining or discontinuing the specific professional activity or service involved” should not be at the same level as the remaining actions/measures because it should be regarded as last resort, and in some jurisdictions it is not even possible.</p> <p>Overall, we believe that IESBA is proposing a very strict concept of safeguard, disregarding important practical implications.</p> <p>4. We agree with the revised definition of safeguards as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats” as discussed in paragraphs 26–28 of the <i>Explanatory Memorandum</i>. However, this revised definition should not be used to review the entire threats and safeguards approach. We have strong concerns in relation to the removal of certain conditions, policies, and procedures as safeguards, as it adds confusion to the process and makes it more difficult for SMPs to consider how to apply the safeguards approach. The confusion comes from the fact that another category has been implicitly created with the proposed amendments in conjunction with the safeguards, namely other elements than can be considered, but that should not be considered as safeguards anymore.</p> <p>The Federation believes that this approach can be misleading for supervisory authorities as they will also have to deal with this new undefined category.</p>

#	Source	Detailed Comment
19.	FSR	<p>In our opinion, we would prefer a pause in both ethics and independence standard setting. This would have left time for IESBA to focus on adoption and implementation of the Code. Further relentless amendments to the Code cannot be justified. We regret that such views have not been followed.</p> <p>Our responses to the questions set out in the ED can be found in the appendix to this letter. Our general comments are as follows:</p> <ul style="list-style-type: none"> <li>• We have some concerns that the new structure could lead to a very comprehensive Code and many copy paste redundancies.</li> <li>• We would like to express our strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it adds confusion to the process and make more difficult for SMPs to apply the safeguards approach. The confusion comes from the fact that another category has been implicitly created with the proposed amendments in conjunction with the safeguards, namely <i>other elements than can be considered, but that should not be considered as safeguards anymore</i>.</li> <li>• Regarding SMPs, it would have been very useful to discuss these challenges in Phase 1 rather than leaving it for a second moment (Phase 2), as this matter should be assessed in conjunction with the proposed amendments.</li> <li>• We would also call for your attention on the terminology harmonisation and the proposed removal of the reference to materiality and significance: some concepts are indeed directly linked to audit (e.g. materiality) and some are not (e.g. significance) and these two should not be mixed.</li> </ul> <p>3. <i>We are of the view that the proposed description of safeguards has to be as-sessed in conjunction with the other amendments introduced in this regard. All aspects considered, we believe that IESBA is adopting a very strict concept of safeguards, disregarding important practical implications. As mentioned in our general remarks, we have strong concerns in relation to the removal of certain conditions, policies and procedures as safeguards, as it will add confusion to the process especially on the application by SMPs.</i></p> <p>4. <i>As mentioned above, we have strong concerns in relation to the removal of cer-tain conditions, policies and procedures as safeguards, as it will add confusion to the process and lead to a very narrow concept of safeguard.</i></p>
20.	GAO	<p>3. We support the IESBA's proposed description of "safeguards" and believe the description establishes a strong correlation between "threats" and "safeguards" and the fundamental principles in the Code. We believe the proposed description would strengthen the professional accountants' ability to apply the conceptual framework as it emphasizes the</p>

#	Source	Detailed Comment
		<p>proactive nature of safeguards and the professional accountant’s responsibilities for taking action and eliminates ambiguity by effectively removing the possibility of ineffective safeguards.</p> <p>4. We agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code do not meet the proposed description of safeguards in the exposure draft and are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats,” as discussed in the referenced paragraphs. As noted in our response to question 3, we believe the proposed description of safeguards better explains the process by which professional accountants should evaluate threats and the proactive nature of safeguards and the professional accountant’s responsibilities for taking action, as it establishes a strong correlation between “threats” and “safeguards.” In our view, conditions, policies and procedures established by the profession or firm, legislation, regulation, or an employing organization may affect the level of a threat to compliance with fundamental principles but should not be viewed as safeguards on their own.</p>
21.	GTI*	<p>3. Grant Thornton is supportive of the Board’s proposed description of safeguards. As discussed above, we feel the Board’s proposal to make the definition of “safeguards” more robust and precise will help the Board achieve the objective of establishing a stronger correlation between threats and safeguards and the implementation of more effective safeguards, when appropriate.</p> <p>We note that the safeguards listed in Section 300.2 A9 almost exclusively address objectivity related threats (self-interest and self-review). There does not appear to be a clear threats and safeguards guidance and examples that address threats to the fundamental principles of integrity, professional competence and due care, and professional behavior.</p> <p>In order to strengthen the proposal, we would recommend the Board consider adding examples of threats and safeguards to the Code that address the fundamental principles of integrity, professional competence and due care, and professional behavior.</p> <p>4. (a) Grant Thornton agrees with IESBA’s conclusions that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards implemented by the entity” in the extant Code do not meet the proposed description of safeguards in the ED. We are also supportive that the Board has gone through the various bullet points listed under each section in the extant Code and has identified those that are actions a Professional Accountant can take to eliminate threats to compliance with the fundamental principles, as defined by the proposed definition of safeguards, and included them in the proposal as effective safeguards.</p> <p>(b) Grant Thornton agrees with IESBA’s conclusions that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards implemented by the entity” in the extant Code are better</p>



#	Source	Detailed Comment
		characterized as “conditions, policies and procedures” that affect the Professional Accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26-28 of this Explanatory Memorandum for the reason discussed in (a) above.
22.	HICPA	<p>3. We support the proposed description of "safeguards" in the Exposure Draft.</p> <p>4. We agree with the IESBA's conclusions that "safeguards created by the profession or legislation", "safeguards in the work environment", and "safeguards implemented by the entity" do not meet the proposed description of safeguards in the Exposure Draft, and are better characterized as "conditions, policies and procedures that affect the professional accountant's identification and potentially the evaluation of threats".</p>
23.	IAIS	<p>3. The IAIS believes the description is clear and understandable. However, the IAIS believes that the application of the concept of “reducing a threat to an acceptable level” might be very challenging as materiality relates not only to quantitative measures but also to perception. There may be some instances where the perception of the lack of independence cannot be reduced to an acceptable level.</p> <p>4. The IAIS agrees that “safeguards created by the profession or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” in the extant Code do not meet the revised definition of safeguards as they are not expressly designed and implemented to address the threats that the professional accountant has identified.</p>
24.	ICAB	<p>3. Yes, we support the proposed description of “safeguards”.</p> <p>4. (a) Yes, we agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code do not meet the proposed description of safeguards in this ED.</p> <p>(b) Yes, we agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum</p>
25.	ICAEW	<p>3: Yes.</p> <p>4: Yes: this has caused confusion in the past, resulting in arguments that effective safeguards have been applied when they have not.</p> <p>We note that in discussing the conditions, polices and procedures, paragraph 120.5A4 notes that their existence or otherwise might affect the identification of threats. We believe that it would be worth clarifying that they might also affect the</p>

#	Source	Detailed Comment
		assessment of whether those identified threats are significant (presently alluded to in the draft in 120.6A3), and the availability and effectiveness of safeguards.
26.	ICAG	<p>3. We agree with the definition as given in the revised code.</p> <p>4. a. What we see with the new definition is its attempt to broaden the definition of safeguards and also apply the reasonable third party test. With this in mind, it makes a lot of sense to come to that conclusion where the safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” is considered quite narrow in scope and more of a rule based system. The current definition expands the responsibilities of the professionals beyond safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” to the reasonable third party test.</p> <p>b. We agree with characterising these as conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats. This makes it a means to an end rather than being used as an end in itself.</p>
27.	ICAS	<p><b>3.</b> Yes, we support the proposed description of safeguards.</p> <p><i>“Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.”</i></p> <p><b>4.</b> We agree that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards implemented by the entity” in the extant Code do not meet the proposed description of safeguards in the ED. We agree that they are better characterized as “conditions, policies and procedures” that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum. However, we do believe that there will be a major education exercise required to inform practitioners, particularly those in smaller firms as to the justification for the removal of such matters from the category of “safeguards”. This may also cause issues in relation to ensuring that this proposed change to the Code is translated appropriately.</p>
28.	ICPAK	<p>3. Yes, we support the Board’s proposed description of “safeguards”.</p> <p>4. Yes, we support the Board’s proposed revisions</p>
29.	ICJCE^	Other comments in FEE letter with regard to the removal of certain safeguards or to the approach to SMP issues are also of concern for us and we hope that IESBA will consider them in preparing the final pronouncement amending the Code.
30.	IDW	3. The proposed text in 120.7 A2 is an amended version of the description in the extant Code.

#	Source	Detailed Comment
		<p>Extant Code 100.13: “Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level.”</p> <p>Proposed 120.7 A2: “Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.”</p> <p>We comment on the proposed change of wording from “may” to “effectively”. We presume that the change has been proposed because removing external measures from the definition means that the professional accountant ought to have sole control of safeguard actions, and that accordingly the IESBA seems to believe that the term “may” is therefore no longer appropriate. However, for a variety of reasons safeguards themselves may not be a “watertight” response to threats, and so we would challenge whether this change in emphasis within the definition itself is actually justified. In addition, we are concerned that the term “effectively” may not be sufficiently clear. In this context we believe that this term could be interpreted in two ways. It could mean “to all intents and purposes” i.e., in effect, or it could mean that the intended elimination or reduction of a threat was effective, i.e., objective met. We suggest the Board delete this term or otherwise clarify the intended meaning.</p> <p>4. We agree with the IESBA’s conclusion.</p> <p>We refer to our response to q.1 in regard to the manner in which the Board has proposed to execute this change.</p>
31.	<b>IFIAR<sup>^</sup></b>	<p>As the threats and safeguards approach is dependent on a firm's self-analysis and self-review, there should be a stronger requirement for the firm to actively consider all the different types of threats that could arise.<sup>1</sup> We believe that giving greater prominence to the types of threats that the audit firm is required to consider, by including them directly in the requirements, would encourage greater consistency in application.</p> <p>Additionally, the proposal does not sufficiently highlight the need for a strong correlation between threats and safeguards. We urge the Board to emphasize the importance of that correlation by expanding the requirements to that effect.</p>
32.	<b>IOSCO<sup>^</sup></b>	<p><b>Definition of Safeguards</b></p> <p>We note that the Paper defines safeguards as “actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.” We believe the definition should emphasize the actions are intended to eliminate “specific threats” to compliance with the fundamental principles or reduce them to an acceptable level. Further, as part of the definition of safeguards, the Board should also consider the inclusion of actions taken by the issuer to eliminate or reduce specific threats.</p>

#	Source	Detailed Comment
33.	IPA	<p>We do perceive there to be some limitations to the 'Reasonable and Informed Third Party' test from a public interest perspective, however, the revised definition does allow more clarity to achieve and evaluate whether a threat is reduced to an acceptable level.</p> <p>3. We agree with the proposed changes to the description of safeguards which requires that each and every threat be addressed individually (or in combination) and effectively eliminated or reduced to an acceptable level. We believe the change in the description of the safeguard has the benefit of eliminating a generalised approach to evaluating the threat. However, the change in the description and the removal of the safeguards created by the profession or legislation; safeguards in the work environment; and safeguards implemented by the entity may have unintended consequences. A public practice may have safeguards at the firm level that address particular threats, for example where assurance and non-assurance services are provided to a client.</p> <p>4. We strongly disagree with the proposed removal of "safeguards created by the profession or legislation," "safeguards in the work environment," and "safeguards implemented by the entity" from the Code. Whilst the revised description of 'safeguards' requires the firm or organisation to address the specific threat and related safeguard (as to avoid a checklist approach to safeguards), the broader safeguards (provided they are implemented by the organisation) assist in the application of the need to re-evaluate the threat and the overall assessment.</p> <p>We suggest that if these safeguards are removed consideration be given to their overall relevance. That is, relevant conditions, policies and procedures that affect the professional accountant's identification and potentially the evaluation of threats is considered to be significant to applying the conceptual framework and complying with the fundamental principles.</p>
34.	IRBA	<p>3. We suggest that the definition of safeguards be followed by application material. Additional elements of the description of a safeguard that the Board may want to consider, inter alia, are the following:</p> <ul style="list-style-type: none"> <li>Can be disclosed;</li> <li>Can be corroborated;</li> <li>Can be reproduced;</li> <li>Must be commensurate with the threats;</li> <li>Must not itself further threaten independence or the public interest;</li> <li>Is not the first resort;</li> <li>Must not be subjective (its utility, must be self-evident); and</li> </ul>

#	Source	Detailed Comment
		<p>Can be documented.</p> <p>Para 120.5 A4 should not reduce the primary duty of the professional accountant to identify threats and clarify that the list is not a safeguard.</p> <p>Safeguards can be enhanced by including application material that can address correlation between the safeguards and threats as well as the proportionality of safeguards considered.</p> <p>The safeguards definition has only identified the professional accountant. We question whether the firm has been inadvertently left out of the definition.</p> <p>4. (a) Yes.</p> <p>(b) Yes.</p> <p>We suggest that transitional provisions be provided for policies and procedures that have been used as safeguards as described in the extant Code. This is a reminder that where these have been applied as safeguards, they should be rescinded and threats reconsidered.</p>
35.	ISCA	n/a
36.	JICPA	<p>3. We support the proposed description of “safeguards” except for the following:</p> <p>In paragraph 120.7 A2, safeguards are defined as follows:</p> <div data-bbox="625 902 1675 1032" style="border: 1px dashed black; padding: 5px;"> <p>“Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.”</p> </div> <p>Meanwhile, “Addressing Threats” is stipulated in paragraph R120.7 as follows (this is also provided in paragraph 300.2 A7):</p> <div data-bbox="625 1084 1675 1414" style="border: 1px dashed black; padding: 5px;"> <p>“If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so by:</p> <p>(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;</p> <p>(b) Applying safeguards, where available and capable of being applied; or</p> <p>(c) Declining or discontinuing the specific professional activity or service involved.”</p> </div>

#	Source	Detailed Comment
		<p>The definition of safeguards in paragraph 120.7 A2 implies that there is a case where threats are effectively eliminated by applying safeguards and there is another case where threats are reduced to an acceptable level by applying safeguards. Meanwhile, the actions taken by the professional accountant stated in paragraph R120.7 include (a) eliminating the circumstances and (b) applying safeguards. This is understood that “(a) eliminating the circumstances” can be accomplished without applying safeguards. However, it is considered that there are quite a few cases where safeguards are applied to eliminate the circumstances. In this regard, the relationship between eliminating the circumstances and applying safeguards is unclear.</p> <p>In addition, in the extant code, there has been a logical flow that “a circumstance may create threats and then the accountant eliminates or reduces them to an acceptable level by applying safeguards” which is stated in paragraphs 100.12 and 100.13 of the extant code. Compared to the extant code, in this proposal, it is unclear how the definition of safeguards relates to the provisions of addressing threats.</p> <p>Extant Paragraph 100.12 (excerpt)</p> <div data-bbox="621 724 1675 816" style="border: 1px dashed black; padding: 5px;"> <p>“A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.”</p> </div> <p>Extant Paragraph 100.13 (excerpt)</p> <div data-bbox="621 870 1675 963" style="border: 1px dashed black; padding: 5px;"> <p>“Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level.”</p> </div> <p>Therefore, if separating “eliminating the circumstances” and “applying safeguards” is meaningful for the professional accountants to better address threats, the wording is considered appropriate as those in the proposal. However, if it is not meaningful to better address threats, only application of safeguards should be stated in both paragraphs R120.7 and 300.2 A7 without separating (a) and (b).</p> <p>In the case of separating (a) and (b) without practical benefits, it is considered that there will be harmful effects on practice, only increasing check boxes in a checklist, for example.</p> <p>4. We agree with the IESBA’s conclusions.</p>
37.	KICPA	<p>3. Within the context of existing Code, safeguards are illustrated not only as conditions, policies and procedures, in general, that make an impact on how professional accountants identify and evaluable threats, but also as actions professional accountants take, thereby making it difficult to have a clear-cut understanding of safeguards.</p>

#	Source	Detailed Comment
		<p>As suggested in our general comment, the proposed ED describes actions only as safeguards, aligned with threats such actions can address, thereby resulting in further clarified correlation between the safeguards and the fundamental principles (or independence).</p> <p>4. Please refer to both our general comment and ones to the question 3.</p> <p>We support the principle of the Board's revision that aims to referring safeguards as actions, as described in our general comment. But, all of the relevant examples of "safeguards created by the profession or legislation," "safeguards in the work environment," and "safeguards implemented by the entity" in the existing standards do not meet the proposed description of safeguards in this ED. We suggest the Board consider this in its final process of revision.</p>
38.	KPMG*	n/a
39.	MIA	<p>3. We support the proposed description of "safeguards" as it is more stringent application than the description in extant Code, unlike the extant Code which allows manipulation when applying safeguards:</p> <ul style="list-style-type: none"> <li>• Proposed description – Safeguards are actions that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.</li> <li>• Extant description – Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level.</li> </ul> <p>4. (a) Safeguards created by the profession, legislation or regulation cannot be regarded as safeguards that directly eliminate threats to compliance with the fundamental principles. We believe that actions must be able to effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level in order to be considered as safeguards. The examples of safeguards given in the extant Code do not meet the proposed description of safeguards as they are merely conditions that affect identification of threats. For example, educational, training and experience requirements for entry into the profession.</p> <p>(b) The proposed phrase i.e. conditions, policies and procedures that affects the professional accountant's identification of threats to compliance with the fundamental principles is more reflective of the actual meaning of the examples listed in Paragraph 120.5 A4 of the Code.</p>
40.	NASBA	<p>3. NASBA generally supports the changes to the description of "safeguards." However, while we support the emphasis on the active nature of safeguards (the actions that the accountant must take), we believe removing the passive, structural safeguards (see response to #4 below) does not improve the understanding of safeguards. Safeguards include both active responses on the part of the accountant, as well as the more passive elements that are structurally part of the profession</p>

#	Source	Detailed Comment
		<p>(educational standards, professional standards, governance structures, regulations). We do not see value in removing these elements from the concept of safeguards.</p> <p>4. We disagree with the IESBA's conclusions that "safeguards created by the profession or legislation," "safeguards in the work environment," and "safeguards implemented by the entity" would not meet the description of safeguards in the Exposure Draft. Thus, we believe this language should be retained. We have some concern that the revision may cause accountants to address fewer situations using the framework since they will not be identified as threats at all. In addition, retaining these items as safeguards requires the accountant to evaluate their relative effectiveness, which we believe is critical to the overall effectiveness of the framework.</p>
41.	NBA	<p>3. and 4. We support the clarification of the threats and safeguards approach in the proposals. However, we believe further clarification is needed with regard to threats and safeguards ('conditions, policies and procedures') that are created by others than the PA. It is not clear to us what the IESBA intends with the proposals mentioned in questions 3 and 4. It occurs to us that the proposal to qualify certain extant safeguards no longer as safeguards under the revised description, can be interpreted in different ways, each possibly having a different impact on PAs. We wonder whether the proposals intend to result in a 'starting point' for the PA:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> where less threats remain to be addressed by the PA (actions taken by others - for instance the firm - do influence the existence and the weight of any threat) and the safeguards to be taken by the PA are only related to any residual risk, i.e. the risk re- maining after the actions taken by others to eliminate the threat or reduce the level of the threat; or</li> <li><input type="checkbox"/> where the same threats remain regardless of any actions already taken by others; i.e. the PA has to identify threats independent of any actions already taken by others. In this situation it should be clarified how the actions taken by others impact the need to eliminate these threats or reduce them to an acceptable level.</li> </ul> <p>In both cases it should be clarified whether the PA is expected to 'accept' the actions taken by others as a given? Or is he, what we would support, supposed to clarify how those ac- tions affect the threat and ascertain that these actions have actually been taken? We be- lieve it must be clear what the PA is required to do. And what the PA is supposed to docu- ment in respect of the actions taken by others?</p> <p>The current proposals do not sufficiently make clear what the PA is expected to do (see also paragraph 7 hereunder) and should, in our opinion, be extended in the form of further requirements or application material. Without that, the proposals in this area will be open for more interpretation by PAs and others than we consider appropriate. A more robust ap- proach is in our opinion required.</p>



#	Source	Detailed Comment
42.	NFCPAAROC	We support the proposal to revise the description of “safeguards” and agree with the IESBA's conclusions based on the better definition, which will assist the professional accountants to clarify the certain conditions, policies and procedures that are not regarded as safeguards.
43.	NZAuASB	3. The NZAuASB supports the proposed description of “safeguards”. 4. a) Yes, the NZAuASB agrees that these are not safeguards. (b) As discussed above, the NZAuASB agrees that these are conditions that potentially affect the evaluation of the threats, but that it is less clear how these conditions affect the existence or identification of the threat.
44.	OECFM	3. Yes 4. (a) Yes (b) Yes
45.	PWC*	n/a
46.	RSM UK	3. Yes, we support the proposal as expressed in new para R120.7 A2. 4. (a) Yes, we agree. (b) Yes, we also agree.
47.	RSM*	3. We support the proposed description of “safeguards”. A positive description of what constitutes a safeguard and the linkage to the definition of acceptable level is clear and will be helpful. 4. (a) We agree that the above forms of safeguard do not meet the proposed description of a safeguard because they exclude actions undertaken by the professional accountant. (b) We agree that the above forms of safeguard are more appropriately considered separately from the new description of safeguards. However, we consider that when applying the “Identifying Threat” stage of the process these conditions, policies and procedures affect both the likelihood of occurrence of a threat to compliance with fundamental principles and the likelihood of the accountant's identification of those threats. Proper application of the conditions, policies and procedures may indeed result in the mitigation of a threat or may improve the accountant's ability to identify the threat. Accordingly, we would make the following amendments to para 120.5 A4: “....or the employing organization can affect the likelihood of the accountant's identification <u>occurrence</u> of threats to compliance with the fundamental principles <u>or to enhance the ability of the accountant to identify threats</u> . Examples ...”

Safeguards ED-1 Supplement B – Compilation of Responses to Questions  
IESBA Meeting (June, 2016)

#	Source	Detailed Comment
		However, we consider that the revised Code should also include a discussion in the “Evaluating Threats” stage (para 120.6 A3) as to how the conditions, policies and procedures included in para 120.5 A4 can impact the professional accountant’s evaluation of the threats to compliance with the fundamental principles.
48.	SAICA	<p>3. SAICA supports the definition of safeguards. A safeguard is only “safer” if it has been tested and is proven and is perceived by a reasonable person to be effective in eliminating or reducing threats.</p> <p>4. (a) SAICA agrees with the view. These “safeguards” are general comments and cannot be listed as specific safeguards and does not in fact conform to the new definition of a safeguard.</p> <p>b) SAICA agrees with the amendments. A sentence could be included to state “...and could be used to identify potential safeguards that may exist and that could be tested to see if they address identified threats”.</p>
49.	SMPC	<p>We agree that the revised description of safeguards establishes a stronger correlation between “threats and safeguards” and the fundamental principles in the Code. However, the SMPC is concerned about the inclusion of the word “effectively” in place of “may”. We understand the change in emphasis is to reflect that if safeguards are to be effective they should eliminate or reduce the threats to an acceptable level. Nevertheless, for a variety of reasons safeguards themselves may not be a “watertight” response to the threats and we are concerned that the term “effectively” may not be accurate, especially when translated. We suggest the Board uses a different term or clarifies the intended meaning.</p> <p>We agree with the IESBA’s conclusions that the terms “safeguards created by the profession or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” do not meet the revised description of safeguards and are better characterized as conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats (120.5 A4). In our view, some of the examples in the extant Code are more general conditions to prevent or mitigate against bad practices, rather than actions to be taken by accountants to reduce threats. For instance, “disciplinary procedures” are not a safeguard to manage a detected threat.</p>
50.	SRA	<p>3. The descriptions of “acceptable level” and “safeguard” are included in the application material. Taking into account the importance of these descriptions we advise to include them in the text of the requirements.</p> <p>4. We concur with the text, proposed in the ED</p>
51.	UKFRC	3. We support the Board’s proposed description of safeguards, but suggest that for it to be effective, it should be expanded to make it explicit that:

#	Source	Detailed Comment
		<ul style="list-style-type: none"> <li>• A safeguard to eliminate a threat to meeting the outcomes required by the fundamental principles might include removing a professional accountant from any involvement in, or any position of influence over, an engagement, or withdrawing from the engagement;</li> <li>• Reducing a threat to a level where the fundamental principles would not be compromised would be a level where the third party test would be passed.</li> </ul> <p>In common with our response to Question 2, we believe that the test to be passed, when assessing whether a safeguard reduces the risk to a level where the fundamental principles would not be compromised, should be whether an [objective,] reasonable and informed third party would conclude that none of the fundamental principles had been compromised.</p> <p>4. We agree with IESBA's conclusions that the three safeguards referred to in the extant Code do not meet the proposed description in the ED. The FRC supports this proposed change, as the three classes of <u>actions taken by other parties</u> referred to in the extant Code may, for some professional accountants, be treated as automatically sufficient 'safeguards', thereby ending consideration of whether or not a threat has been appropriately identified and that therefore needs to be addressed by <u>their own action</u>.</p> <p>In making revisions to the FRC's Ethical Standard, we have focused on how best to ensure that auditors/ professional accountants make an assessment of threats and safeguards from a principles-based position, rather than considering whether or not a process will identify potential threats, and then address adequately any threat. We agree it may be useful to retain the reference to "conditions, policies and procedures", but on the basis that, proposed by IESBA, it is made clear that these are contextual factors that may underpin an assessment rather than providing safeguards in their own right.</p>
52.	VRC	n/a
53.	WPK	<p>3. We basically support the proposed description of "safeguards".</p> <p>In our view the proposed description is expected to have no significant change for the PA. The description of safeguards under the current Code ("<i>Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level</i>") seems to be wider than the proposed description of safeguards ("<i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level</i>"). In our understanding in the end the applied measures must be effective under both "versions" in order to reduce a certain threat to an acceptable level.</p> <p>4. a) We agree with IESBA's conclusions.</p> <p>b) We basically agree with IESBA's conclusions, provided that the consideration of these "conditions..." is adequately clarified.</p>

Safeguards ED-1 Supplement B – Compilation of Responses to Questions  
*IESBA Meeting (June, 2016)*

#	Source	Detailed Comment
		In addition we refer to our comments above (general and Q 1) regarding the consideration of “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization”.

## Question 5: Proposals for Professional Accountants in Public Practice

5. Do respondents agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?

#	Source	Detailed Comment
1.	20EUAR	N/A
2.	AAT	AAT supports the approach to the revisions proposed in section 300 for professional accountants in public practice. Whilst the application material to support the considerations is comprehensive AAT supports the fact that IESBA has recognised that the code does not describe all the circumstances that could be encountered by an accountant. This allows more flexibility and puts the onus on the accountant to be alert to other circumstances not listed in the proposal. AAT regards this approach as highly valuable and is in keeping with a holistic approach.
3.	ACCA	<p>We support the approach set out in the proposed introduction and overarching requirement, which we believe better aligns the obligations of professional accountants in public practice with the fundamental requirements of proposed section 120. We also agree that it is logical to set out the application material according to the structure of the conceptual framework, ie identifying threats, evaluating threats, addressing threats, re-evaluating threats, and making an overall assessment. We have the following comments under each of these headings:</p> <p><i>Identifying threats:</i> Although paragraph 300.2 A1 states that the threats listed are examples, we believe there is value in emphasising that the examples are not exhaustive. Although this suggestion may seem contrary to the objective of keeping the Code concise, we believe such emphasis would have a positive impact on attitudes and behaviours through the addition to the Code of only a few words.</p> <p>The examples given under 'self-interest threats' all appear to be where the interests of the professional accountant would be very closely aligned with those of the client. We recommend including one or more examples of conflicting interests. With this in mind, it might be argued that paragraph 120.5 A2 requires more general information concerning the different types of self-interest.</p> <p><i>Evaluating threats:</i> These paragraphs set out various factors that might impact the professional accountant's evaluation of the threats. However, it does not suggest how to evaluate the <i>overall</i> threat, which will depend of the ways in which the component threats interact. Perhaps, in some situations, individual threats must be addressed separately, due to their nature. The draft sections of the Code appear to be silent on this.</p> <p>The section on 'the professional service being provided' (paragraph 300.2 A5) cross-references to the International Independence Standards C1 and C2. This suggests a narrow application of the conceptual framework for professional</p>

#	Source	Detailed Comment
		<p>accountants in public practice. Therefore, we recommend that this paragraph makes very clear the wider significance of the service being provided on the evaluation of threats.</p> <p>We know that the evaluation of whether the threat is sufficiently low should be that of a hypothetical reasonable and informed third party. However, that is not easy to assess and, before addressing the threats, the professional accountant needs to be able to reach a conclusion regarding evaluation. Section 300.2 does not suggest how to approach this, or how to demonstrate an appropriate conclusion.</p> <p><i>Addressing threats:</i> The approach to setting out the example safeguards lacks innovation. One of the objectives of this project is to provide practical and effective guidance to SMPs, but the list in paragraph 300.2 A9 includes only one such safeguard. We suggest it would be useful to categorise different types of safeguard, and then map across to the appropriate types of safeguard from each category of threat. In many cases, for an SMP, the only appropriate safeguard will appear to be the involvement of another firm. But a thorough consideration of threats and available safeguards will highlight a <i>range</i> of appropriate safeguards. If SMPs see the involvement of another firm as the only available safeguard, the costs involved may be seen as a barrier to providing certain services. By mapping across from each type of threat to different types of safeguard, it would be possible to highlight the types of safeguard usually available to SMPs in each case. It would then be useful to provide specific, relevant examples within each category of safeguard.</p> <p><i>Re-evaluating threats:</i> As explained under question 1 above, changes in the facts and circumstances will usually come about after implementing appropriate safeguards, and the actual impact of those safeguards should be evaluated after implementation. This evaluation should also consider the third party perception of whether or not the fundamental principles have been adequately safeguarded.</p> <p><i>Overall assessment:</i> This section is very brief, comprising only two sentences. Please refer to our comments under question 1 above.</p>
4.	AGNZ	<p>In addition to the pervasive matters identified in our covering letter, we have several comments to make on the revisions to proposed Section 300.</p> <p>Paragraph 300.2 A3      At a conceptual level, we have some difficulty in distinguishing between the entity in para 300.2 A3 (a) and the entity in para 300.2 A3 (b). In our view, the threat will be the same if we accept that assurance is a public interest activity.</p> <p>Paragraphs 300.2 A4, A5 and A6      Evaluating the threats identified in these paragraphs, in the context of the reasonable and informed third party test presents particular challenges. We have discussed the application of this test in our covering letter, and have suggested that the ‘acceptable level’ as it is currently expressed in the Exposure Draft is too low.</p>

#	Source	Detailed Comment
		Paragraph 300.2 A9 In our view, a number of these safeguards do not satisfy the reasonable and informed third party test. The reasons for our view are set out in our covering letter.
5.	APESB	<p>APESB agree that the application of the conceptual framework is a key requirement that should be reiterated in Section 300 for professional accountants in public practice. While the concepts from Section 120 should not be duplicated in Section 300, in order to avoid Section 300 being disjointed there should be clear cross-referencing back to the key requirements in Section 120. For example, paragraph 300.2 A2, which lists conditions, policies and procedures specific to professional accountants in public practice, could be cross-referenced to the conditions, policies and procedures in 120.5 A4.</p> <p>APESB understands that there are proposals to include in Part B of the restructured Code a distinction between senior members in business and other members in business. APESB is of the view that where appropriate this distinction should also be implemented in Section 300. For example, using a Partner or a senior professional accountant in public practice to perform a review as distinct from another professional accountant in public practice. Particularly to clarify the safeguards described in paragraph 300.2 A9.</p> <p>APESB recommend the following specific amendments to paragraphs within Section 300:</p> <ul style="list-style-type: none"> <li>Paragraph 300.2 A1 provides examples of threats to compliance with the fundamental principles. The second threat listed under (a) Self-interest Threats could be amended to read: <i><u>‘A firm having undue dependence on total fees from a client, a revenue stream from multiple clients but originating from one contact or entity such as a bank referring clients, or the possibility of losing a significant client.’</u></i></li> <li>Paragraph 300.2 A3 could be amended to delete the words ‘with a large number and wide range of stakeholders’ from the last sentence. These words are being used to describe public interest entities, but as all public interest entities have these attributes, the additional text is not necessary.</li> <li>Paragraph 300.2 A9 refers to consulting with those charged with governance as a safeguard. APESB believes this point could be expanded to read as follows: <i><u>‘Consulting or seeking approval from those charged with governance or an independent third party, including a committee of independent directors, a professional regulatory body or another professional accountant <u>may</u> might address advocacy or intimidation threats.’</u></i></li> </ul>
6.	ASB	Yes, we agree with the IESBA’s approach to the revisions in proposed Section 300 for professional accountants in public practice with the exception of any issues noted above as they pertain to Section 300. Specifically, we do not support characterizing those safeguards that fall under “safeguards created by the profession or legislation,” “safeguards in the work

#	Source	Detailed Comment
		environment,” and “safeguards implemented by the entity” to “conditions, policies and procedures” and believe they should remain classified as safeguards.
7.	ASSIREVI	<p>The examples of the threats to independence have been revised in the new section 300.2 AI compared to that set out in paragraphs 200.4 and following paragraphs.</p> <p>We understand the reason behind the revision to be to clarify the circumstances, joining some and eliminating others. The example of the threats of self-interest and self-review threats include the proposal to replace the references to a <i>"member of the assurance team"</i> with a <i>"professional accountant"</i>. For example, paragraph 200.4 <i>"A member of the assurance team having a direct financial interest in the assurance client"</i> has been changed by paragraph 300.2 A 1 to <i>"a professional accountant having a direct financial interest in a client"</i>. If applied to an audit firm, this revision may be significant as it would seem to move the Code's focus to the possibility that a professional accountant may have financial interests in a client, regardless of whether the accountant is involved in the assurance service provided to that client.</p> <p>This appears to be an unintended consequence of the change which we hope the Board will remove.</p>
8.	BDO*	<p>We recognize that the approach of the IESBA is not to repeat the requirements of Section 120 within Section 300. However, we find it inefficient to have to refer to Section 120 for the requirement and then refer back to Section 300 for the application guidance specific to professional accountants in public practice.</p> <p>In addition, we believe it is confusing to have items as a requirement in one section (Section 120) and then include that same requirement as application material in another section (Section 300).</p>
9.	CAANZ	<p>We agree with the approach to the revisions in Section 300. We note that any changes to Section 120 resulting from the comments in Question 1 above would need to flow through to Section 300 as well.</p> <p>We feel that some repetition of Section 120's requirements, together with appropriate cross-referencing would help our members in using the Code. As the proposed Code stands, it requires navigating between sections 120 and 300 for a full understanding.</p>
10.	CHI	<p>We agree with IESBA's approach to the revisions in proposed Section 300. The Section is well structured. The Application Guidance contains appropriate detail to support the understanding of the Code. The examples are welcome and will be useful for illustrating the application of the Code.</p> <p>Regarding the examples given, we have specific comments as follows:</p>



#	Source	Detailed Comment
		<ul style="list-style-type: none"> <li>In 300.2 A11 states: “where the engagement partner’s immediate family member is recently employed by the client”. It might be better to refer to a “where a member of the engagement team’s immediate family member”. This would make it clear that changes in circumstances are not confined to those relating to the engagement partner.</li> <li>In 300.2 A9, it would be useful to specifically refer to “Engagement Quality Control Review” (“EQCR”) as defined in Auditing Standards. An EQCR could be specified for an engagement as a safeguard.</li> </ul>
11.	CNCC	<p>We agree with the new approach proposed by the IESBA in section 300, which is clearer and more readable. We draw your attention to the fact that this approach and the one retained in Section 120 are not consistent. Therefore, we strongly suggest IESBA to harmonise the two sections by reviewing section 120.</p> <p>We highly encourage the Board to consider, during the second phase of the project, "joint audit" as an appropriate safeguard. Indeed, as you may know, joint audit is compulsory in France for the statutory audit of all entities preparing consolidated financial statements as well as for the statutory audit of certain entities preparing single financial statements. Overall, there are more than 21 000 joint-statutory audit engagements in France, and we are therefore well placed to know the pros and cons of joint audit.</p> <p>Joint audit is an important safeguard which contributes both to the independence of the auditor and to the quality of audit. It contributes to the independence of the joint auditors from one another by creating a situation where they need to challenge each other's position in order to come to an agreement on a common position, towards the audited entity. It also contributes to the independence of the auditor towards the entity by reinforcing the position of the joint auditors who have discussed the issues together and within their respective firms and can therefore be stronger to resist the client's pressure.</p> <p>Joint audit also contributes to the quality of audit by creating an environment where the auditors share the work to be performed and where each auditor cross reviews the work done by the other in order to be in a position to issue the auditors' report with reasonable assurance that sufficient appropriate audit evidence has been obtained overall by the two auditors. It therefore creates a permanent quality control of the engagement that contributes to audit quality.</p> <p>In addition, even if the argument is probably less relevant to the IESBA, joint audit helps retaining an audit market which is less concentrated since it allows medium sized firms to remain on the PIE audit market.</p> <p>Finally, the fact that the European Union in its audit regulation has allowed for a much longer rotation period of 24 years in case of joint audit (as compared to the 10 years rotation and 20 years in case of tender) is a clear sign that the public authorities (European Commission, European Parliament and Council of Ministers) in Europe consider joint audit as a safeguard to independence.</p>

#	Source	Detailed Comment
		For all these reasons we urge the IESBA to consider joint-audit as an appropriate safeguard.
12.	CPAA	<p>Overall, we agree with IESBA's approach to the proposed section 300 subject to conforming amendments regarding our comments above. We note, however, that in paragraph 300.2 A6 the following example is included:</p> <p style="padding-left: 40px;">Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest.</p> <p>The extant and proposed restructured Code are based on the premise that acting in the public interest is a consequence of compliance with the fundamental principles of the Code This is expressed explicitly in proposed paragraph R100.3 and extant 120.1. Therefore we think the example should be revised to refer to the requirement to comply with the fundamental principles rather than act in the public interest.</p>
13.	CPAC	<p>Generally we agree that IESBA's approach may be useful to professional accountants. However in reviewing Section 300, we noted that it may be difficult to identify those professional accountants to whom the Section applies without relevant terms concerning public practice being clearly defined.</p> <p>We also noted that the requirements in R120.3 and R300.2 are very similar and that R300.2 may have been included for the purpose of providing the application guidance that follows. Some observed that repeating the Conceptual Framework with different content whether in a general section applicable to all professional accountants or in a more targeted section that contains its own threats and safeguards is a potential source of confusion. This may be overcome in a targeted context by adopting an approach that limits the particular Section only to the provision of specific applicable rules followed by relevant safeguards to ensure the rule is not breached without restating component parts of the Conceptual Framework.</p>
14.	Djuvenal <sup>^</sup>	Yes, I agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice.
15.	DTT*	The Exposure Draft proposes setting out a requirement upfront in Section 300 that requires the professional accountant to comply with each of the fundamental principles and apply the conceptual framework set out in proposed Section 120 (paragraph R300.2). However, without the requirements set out in section 300, the application guidance seems lost. Readers may not go back to section 120 to read the requirements then back to section 300 to read the application guidance, as it is not clear to which requirement each section of application guidance corresponds. Whilst hesitant to suggest more repetition of

<sup>^</sup> This letter was received after the Task Force's physical meeting. The Task Force plans to further consider the respondents' comments at its July 2016 meeting and refine its proposals as deemed appropriate.

#	Source	Detailed Comment
		<p>the requirement to apply the conceptual framework, in this case we support repeating the requirements from Section 120 in Section 300.</p> <p><i>Streamlined Examples of Threats and Safeguards</i></p> <p>The Board has “streamlined and thereby clarified the examples of the types of threats that are included in the extant Code” (paragraph 300.2 A1). We support the principle of making the examples easier to read, however are disappointed to see that many helpful and important examples of threats included the extant Code have been removed. We consider that examples are helpful, even if numerous, and removing them from the extant Code suggests that they no longer have valid application. For example, a firm entering into a contingent fee arrangement relating to an assurance engagement has been removed as an example of a self-interest threat, which suggests a change in position by the Board. As a matter of fact, such a fee arrangement creates a self-interest threat for non-assurance services as well, so rather than eliminating this example we suggest expanding it further.</p> <p>The Board has also expanded the application of other examples of threats through rewording, or through the use of “professional accountant” and “firm”, instead of “member of the assurance team”. In some cases “professional accountant” is used when “firm” or “member of the assurance team” would be more appropriate considering these are safeguards in Section 300.</p> <p>For instance, the first example of a self-interest threat under 300.2 A1(a) refers to a professional accountant having a direct financial interest in any client; whereas the extant code refers to a member of the assurance team having a direct financial interest in in an assurance client. This example is much more restrictive than what is in the extant Code and when taken in conjunction with the other changes in the Code will raise doubt as to its interpretation. If any professional accountant having a financial interest in any client could create a self-interest threat, then it is unclear to what lengths a professional accountant must go to satisfy the new requirement that they “shall identify” threats.</p> <p>In section 300.2 A2: The Board is proposing to clarify that some safeguards in the extant Code are in fact conditions that might impact the professional accountant’s evaluation of whether a threat is at an acceptable level, and streamline the examples. Those conditions include:</p> <p><u>The nature of the client and its operating environment</u>: This section is confusing as the examples used in 300.2 A3 are actually about the professional services being provided by the firm, not about the client and its operating environment (unlike 300.32 A4). Also, we do not consider the Board is correct in stating that providing a service to an audit client might be perceived to result in a higher level of threat to the fundamental principles. In fact the threat remains the same regardless of whether the same service is provided to an audit client or not; what changes is whether the threat is considered to be at an</p>

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		<p>acceptable level depending on whether or not a client is an audit client. The same holds true whether or not an audit client is a public interest entity. This will impact the perceived acceptable level of threat, not the level of the threat itself.</p> <p><u>The professional service being provided:</u> This should include much of the discussion in 300.2 A3 which addresses the provision of professional services such as audit services.</p> <p><i>Examples of Safeguards</i></p> <p>We support retaining the examples of engagement specific safeguards in 300.2 A9 that are in the extant Code, including the type of threat that is being addressed. However the wording of some of the examples could be improved. In the first two bullet points it is unclear what is meant by “or otherwise advise as necessary”. In the fourth bullet point, it is unclear why consulting with those charged with governance would address an advocacy threat.</p> <p><i>Re-evaluating threats</i></p> <p>Paragraph 300.2 A11 provides that actions implemented as safeguards may no longer be effective in eliminating threats or reducing them to an acceptable level, however does not explain what should be done about it. As mentioned previously, it seems to weaken the conceptual framework to separate any discussion about acceptable level from the concept that threats created may be too significant that no safeguards may be applied. The paragraph should at least direct the professional accountant towards what next steps could be taken; for example applying additional safeguards, declining to provide the service or discontinuing an existing relationship as soon as practicable.</p> <p><i>Enhancing Consistency in the Terminology Used in the Code</i></p> <p>We are supportive of the Board’s intention to ensure terms are used in a consistent manner in the Code. We note that the Board does not believe that the use of “significant” is appropriate to be used in the conceptual framework. As noted previously, we consider that removing the concept of “threats that are so significant that no safeguards can be applied” weakens the application of the conceptual framework. It is unclear why the Board has concluded that the term may only be relevant in the context of threats and safeguards relating to non-audit services provided to an audit client.</p>
16.	EYG	We are generally supportive of the proposed enhancements to Section 300 for professional accountants in public practice and have no further comments than those already discussed under the prior questions.
17.	FAR	FAR has no major objection to the IESBA's approach to the revisions. However, in FAR's opinion, there might be a risk that a professional accountant seeking guidance to the conceptual framework goes no further than to Section 120 (and perhaps Parts C1 and C2, as reference is made to these parts). As there are requirements in applying the conceptual framework expressed in Section 300 the connection between the two sections should be made clearer by adding cross-references to Section 300 in Section 120.

#	Source	Detailed Comment
		As pointed out in the answers to 1. c) regarding the ED 120.7 A1 the reference to International Independent Standards might include information that these Standards apply to audits and reviews and other assurance engagements.
18.	FEE	<p>The Federation would like to stress that the approach taken in Section 300 is not consistent with the one retained in Section 120, namely regarding the identification and evaluation of threats; we strongly advice that IESBA align the two sections. In this regard, the guidance provided in 300.2 A2 more helpful and should be retained. Nevertheless, the process is still very complex and difficult to read. We refer to our response to question 1.</p> <p>On the other hand, the scope of proposed 300.2 A5 could be broader. The reference to parts C1 and C2 of the Code give the impression that circumstances where no safeguards could reduce the threat to an acceptable level are only likely to arise in assurance engagements; we therefore suggest adding reference to other services.</p>
19.	FSR	In general, we support these revisions. It might seem, though, that the paragraphs under the headings on reevaluation of threats and the overall assessment may be substituted with specifics in the paragraphs under the headings on identifying, evaluating and addressing threats.
20.	GAO	<p>We believe the IESBA's approach to the revisions in the proposed Section 300 for professional accountants in public practice are appropriate and will support professional accountants in fulfilling their responsibility to act in the public interest and, with respect to audits of financial statements, will contribute to supporting audit quality. However, we suggest proposing a different approach to considering ethics issues that result from conflicting perspectives within an organization on a matter of professional concern. Ethics issues that place an employee in opposition to his or her employer differ fundamentally from those that involve the relationship between a firm and its client. Generally, threats within the workplace will not be identified, evaluated, and addressed in the manner described in the proposed revisions. For this reason, GAGAS focuses on the auditor-client relationship in its conceptual framework. IESBA might consider proposing a separate section in the code that addresses the threats that can result from the subordination of an employee's judgment due to pressures within that employee's workplace. The section could provide guidance on how to assess the significance of those threats and steps to take in the event that a significant threat is not resolved, up to and including the employee's disassociation from the employer.</p> <p>On a related matter, we suggest replacing the last of the three examples of "intimidation threats" in paragraph 300.2 A1 (e) with an example that focuses on the relationship between the firm and its clients rather than the relationship between the firm's partners or employees. This approach would be consistent with the approach taken for all the other examples in this paragraph. It is also consistent with our view, noted earlier in the paragraph above, that the risks associated with the professional accountant's subordination of judgment within the firm should be addressed separately and not within the</p>

#	Source	Detailed Comment
		conceptual framework. An appropriate replacement for the removed example might be a firm whose future work for a client implicitly or explicitly depends on the outcome of a service provided to the client by the firm.
21.	GTI*	Grant Thornton agrees with IESBA's approach for the revisions in proposed Section 300. We believe the revisions in this section provide a balanced framework that will be helpful in guiding Professional Accountants in fulfilling their responsibility to comply with the fundamental principles and to act in the public interest.
22.	HICPA	We agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice.
23.	IAIS	<p>The IAIS believes that it is helpful for section 300 to follow the same format and to be built on the content of Section 120, with more specific requirements and guidance for professional accountants in public practice. The IAIS is also of the view that doing so will clarify the linkage between both sections, thereby strengthening the foundational requirements and principles related to compliance with the fundamental principles of the Code.</p> <p>However, the IAIS has the following comments:</p> <p><input type="checkbox"/> Regarding the paragraph 300.2.A2 to .A5, the IAIS has the same concern as raised in regards to paragraph 120.5.A4;</p> <p><input type="checkbox"/> Regarding the paragraph 300.2 A7 and A8, the IAIS has the same concern as raised in regards to paragraphs R 120.7 and R 120.7 A1;</p> <p><input type="checkbox"/> Regarding the paragraph 300.2.A11, whether an entity is listed or not should generally not be considered as a potential effect to the manner in which a professional accountant should consider his or her compliance with the fundamental principles, but we agree that such a change may in a number of cases lead to a need to re-evaluate threats and the effectiveness of existing safeguards. In the context of public practice, there may be additional threats from such a change that mean the principles are applied differently in practice;</p> <p><input type="checkbox"/> About paragraph 300.2.A9, when considering whether a review carried out by another professional accountant can address a threat of self-review one should carefully consider the independence of the professional accountant;</p> <p><input type="checkbox"/> In regards to the same paragraph, considered in isolation, requesting another partner to carry out non-assurance services is likely not sufficiently effective for reducing the threat of self-review or familiarity at the firm level to an appropriate level.</p>
24.	ICAB	<p>Yes, we agree with the IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice.</p> <p>We have no suggestion for an alternative approach.</p>

#	Source	Detailed Comment
25.	ICAEW	<p>Subject to our observations on the examples (noted below) we agree with the approach taken.</p> <p>We note that the number of examples of both threats and safeguards has been reduced, compared to the current code. We agree with streamlining the number of examples in the code itself – there is a danger that too many examples result in people using them as a checklist. However, we note that those that remain do seem to be dominated by assurance–service related circumstances, particularly the threats in 300.2A1.</p> <p>As regards the examples deleted, it would be unfortunate for them to disappear from the public domain: in our experience, members find the current examples to be useful memory-joggers. We wonder if they could at least be maintained in the off-code tools that the structure project discussion refers to.</p>
26.	ICAG	<p>We agree with the approach. The revisions simplify the code and make requirements more direct and easier for professional accountants to understand. The ED better describes how the conceptual framework applies to professional accountants in public practice and clarifies (1) identifying threats (2)evaluating threats , (3)addressing threats (4) re-evaluating threats and (5) assessing the overall conclusion.</p>
27.	ICAS	<p>We find this difficult without having sight of the changes that will be proposed by Phase 2 of this project to better aid our understanding of the full impact of all of the proposed changes. However, based on the content available we agree with this proposed approach.</p> <p>We also believe that it would be helpful to include a summary of requirements, or bullet points from paragraph 14 of the Explanatory Memorandum in the introduction of this section, as this helps to signpost the guidance. Also, we note that there is no mention of the third party test in this section. We believe it would be helpful to the reader for it to be repeated here as people might not refer back to Section 120.</p>
28.	ICPAK	<p>Yes, we support the Board’s proposed approach to the revisions in the proposed section 300 for professional accountants in public practice.</p>
29.	ICJCE^	<p>we are pleased to confirm the total support of the ICJCE to the comments set out in FEE comment letter</p>

#	Source	Detailed Comment
30.	IDW	<p>We refer to our general comments on the need to distinguish between objectives and requirements. Other than this, we agree with the Board's proposed approach, and comment specifically on the proposed section 300 as follows:</p> <p><u>Identifying threats</u></p> <p>We note that the examples of threats in section 300 largely mirror those in the extant Code, but that the word “firm” has been replaced by “professional accountant” in the context of issuing reports, and, in some instances, elsewhere. We would encourage the Board to consider where use of the term “firm or professional accountant” might be more appropriate, as in some jurisdictions reports may be issued in the name of the firm and in others in the name of an individual. In other cases similar considerations may be warranted e.g., besides an individual professional accountant, a firm might conceivably have a close business interest with a client, and we would encourage the Board to consider each example on a case by case basis.</p> <p>In streamlining the examples of threats and safeguards, the Board is proposing that certain examples present in the extant Code not be included in section 300. Their deletion could be problematical if it were misinterpreted as implying these specific examples no longer pose a threat. Given that the Code is intended for global application, it should retain material relevant to jurisdictions where such circumstances may be more commonly encountered.</p> <p><u>Evaluating threats</u></p> <p>We suggest the wording of paragraphs 300.2 A2 and 300.2 A3 be revised. We do not believe that the level of threat per se can change according to the factors listed in these paragraphs; rather it is the perception as to a threat's <i>significance</i> and what might be viewed as an <i>acceptable</i> reduction that might change. We suggest the Board clarify its intention in this context. This applies equally to 300.2 A5.</p>
31.	IFIAR^	N/A
32.	IOSCO^	<p><b>Application of the Conceptual Framework (Section 300)</b></p> <p>We note that paragraph 300.2A9 states that:</p> <p>“Safeguards vary depending on the facts and circumstances. The following are examples of actions that in certain circumstances might be safeguards in addressing threats:</p> <ul style="list-style-type: none"> <li>○ Having a professional accountant who was not involved with the non-assurance service provided to an audit client review the non-assurance work performed, or otherwise advise as necessary might address a self-review threat.</li> <li>○ Having a professional accountant who was not a member of the team review the work performed or otherwise advise as necessary might address self-review threats.</li> <li>○ Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.</li> </ul>



#	Source	Detailed Comment
		<p>○ Consulting those charged with governance or an independent third party, including a committee of independent directors, a professional regulatory body or another professional accountant might address advocacy or intimidation threats...”</p> <p>We note the first three examples in paragraph 300.2 A9 appear to involve using other professional accountants in the same firm (who were not part of the engagement team providing the services) to review the work performed by such engagement team. We question whether this is an appropriate safeguard given the self-interest and self-review threat that also exists on a firm-wide basis. For example, if the firm has provided a non-audit service that will be subject to audit, the firm is not independent, and so the three actions described above would not constitute suitable safeguards for an audit engagement in those circumstances. We are concerned that the language and implicit message would lead the public accountant to conclude that self-interest and self-review threats are only confined to the individuals on an engagement team, rather than to the entire audit and/or network firm itself.</p> <p>With respect to the fourth safeguard noted in paragraph 300.2 A9, we do not agree that the mere action of consulting is an adequate safeguard in itself. Receiving and implementing relevant feedback addressing specific threats as a result of consulting with those charged with governance or other independent third parties would be more appropriate to include as a safeguard.</p>
33.	IPA	<p>We agree with the overall changes and the referencing between Section 120 and Section 300 which gives consistency to the overall Code and removes potential duplication of specific areas.</p> <p>The list of examples provided in Section 300 of the Code relating to identifying and addressing the threat and applying safeguards are concise and clear, it should be emphasised that not all scenarios can be pre-determined and a firm's policies and procedures play a fundamental role in reducing the risk of not identifying a particular threat.</p> <p>Paragraph 300.1 of the revised Code suggests that “accountants are encouraged to be alert for such facts and circumstances”. The range of professional services offered by public practices can vary considerably and the impact of interests and relationships entered into by a firm or professional accountant vary in its level of threat. Whilst the changes to the Code provide the ability to apply the Code to various scenarios, it should be emphasised that the firm, individual professional accountant and assurance practitioners have varying degrees of responsibility to apply the Code effectively.</p>
34.	IRBA	<p>We are disappointed to note that there is only one requirement proposed under Section 300. The proposed amendments do not adequately capture why the professional accountant in public practice is so important that this warrants specific application material.</p> <p>We suggest that Section 300 should repeat the requirement in Section 120, but in the context of a professional accountant in</p>

#	Source	Detailed Comment
		<p>public practice.</p> <p>There is room for improvement in the examples provided to highlight multiple threats, the interplay between the threats and their impact on the assessment to an acceptable level.</p> <p>Para 300.2 A4 and Para 300.2 A6 do not stress sufficiently that those are not examples of safeguards. We suggest that the number of examples be reduced or deleted.</p> <p>The examples of safeguards in 300.2 A9 might be improved by demonstrating how they would be effective in reducing threats.</p> <p>In finalising this amendment, we suggest that the Board considers whether there should be a requirement to disclose safeguards to those charged with governance. It may also be necessary to build into ISQC1 a requirement to review and/or disclose safeguards under the EQCR engagement review.</p>
35.	ISCA	n/a
36.	JICPA	We agree with the IESBA's approach to the revisions in proposed Section 300.
37.	KICPA	We support the general direction of the proposed revision, and please refer to our general comment.
38.	KPMG*	n/a
39.	MIA	We agree with the proposed Section 300.
40.	NASBA	NASBA generally supports the changes to Section 300. However, 300.1 would be stronger if it stated that accountants "should be alert" rather than "are encouraged to be alert."
41.	NBA	<p>We notice two possible inconsistencies in the proposals. In the application material to Section 100 is written that certain conditions, policies and procedures established by - here relevant - the firm can affect the PA's identification (120.5 A4) and potentially his evaluation of threats (120.6 A3). However, in the application material of Section 300, conditions, policies and procedures on the level of "the firm and its operating environment" are only mentioned regarding evaluating threats (300.2 A2, c, and 300.2 A6). Additionally we wonder whether the client and its operating environment might influence the awareness of threats and therefore affect the identification of threats as well. The client and its operating system are however only mentioned in relationship to evaluating threats (300.2 A2 and 300.2 A3 and 300.2 A4) and not in 120.5 A4. We encourage IESBA to take a look at this to ensure consistency.</p> <p>There is an inconsistency between R120.5 ("shall identify threats to compliance with the fundamental principles") and 300.1 ("encouraged to be alert for such facts and circumstances"). We strongly recommend to align these two paragraphs.</p>

#	Source	Detailed Comment
42.	NFCPAAROC	We agree with the IESBA's Approach to the revisions in proposed Section 300 for professional accountants in public practice owing to the streamlined examples and better description, which are helpful to the professional accountants to clarify and address the threats.
43.	NZAuASB	<p>The NZAuASB is supportive of the approach to the proposed revised section 300, that is, of the overarching requirement to apply the conceptual framework and the use of headings with appropriate application material under each section to place greater emphasis on the conceptual framework approach.</p> <p>The NZAuASB urges that IESBA carefully considers the use of the term “firm” or “professional accountant in public practice”. It appears that these terms are not used consistently. The NZAuASB understands that IESBA is considering the clarity of responsibility of individual accountants and firms under the restructuring of the Code project, but considers that the examples of threats identified in section 300 is another area where the use of these terms would benefit from clarification. The NZAuASB recommends that where appropriate the Code should be written to be applied by both individuals on an engagement team and the firm collectively, or appropriately identify the responsible party.</p> <p>The addition of examples of the types of threats that safeguards may address is particularly helpful. The NZAuASB therefore considers that there is no need to streamline the examples used and considers that the following examples that have been removed should be retained, whilst indicating that the examples are not exhaustive:</p> <p>Self-interest threats:</p> <ul style="list-style-type: none"> <li>• A member of the audit team entering into employment negotiations with the audit client;</li> <li>• A firm entering into a contingent fee arrangement relating to an assurance engagement</li> <li>• 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</li> </ul> <p>Self-review threats</p> <ul style="list-style-type: none"> <li>• The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement.</li> <li>• A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.</li> </ul> <p>Using different partners and engagement teams with separate reporting lines for the provision of NAS to an assurance client may not address the self-review threat, which is described in 120.5 A2 as “the threat that a professional accountant will not appropriately evaluate the results of a previous judgement made, or activity or service performed by...another individual within the accountant's firm”. In some instances, creating “information barriers” is the only practical solution for dealing with a</p>

#	Source	Detailed Comment
		<p>self-review threat, however, these information barriers need to be properly implemented and effectively monitored to ensure that they are effective in dealing with the threat. These barriers need to be well documented to be able to reassure clients and possibly others that the barrier is effective, i.e. they should be able to withstand external scrutiny not just meet internal processes.</p> <p>The NZAuASB notes that the examples of threats in proposed section 300 have been widened to refer to professional accountants, instead of members of the assurance team in many instances. The NZAuASB agrees that this is appropriate given that section 300 applies to all professional accountants in public practice and not just to those performing assurance engagements. (For example, a self-interest threat is a professional accountant having a direct financial interest in a client.) The independence sections will cover more specifically the prohibitions, threats or safeguards appropriate for a member of an audit or assurance team. The NZAuASB notes however that this has not been consistently done, and recommend that the following examples should also be broadened:</p> <p>Self-review threats (300.2 A1):</p> <ul style="list-style-type: none"> <li>• A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.</li> </ul> <p>We note that this example is assurance specific and will be dealt with specifically in C1 and C2, whereas the example of the firm performing a service for a client that directly affects the subject matter information of the engagement has been omitted. This example may be a more generic example for professional accountants in public practice and we recommend that the assurance example should rather be omitted at this stage and dealt with in C1 and C2, and the more generic example retained in section 300.</p> <p>Advocacy threats</p> <ul style="list-style-type: none"> <li>• A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties</li> </ul> <p>The NZAuASB considers that this example is assurance specific and is dealt with in the independence sections. Inclusion here is unnecessarily repetitive. We recommend that in proposed section 300 a more generic example may be more appropriate.</p> <p>Familiarity threats</p> <ul style="list-style-type: none"> <li>• Senior personnel having a long association with the assurance client.</li> </ul> <p>This threat is specific to an assurance client and will be dealt with specifically C1 and C2. The NZAuASB therefore queries the need to include this as an example for all professional accountants in public practice in section 300.</p> <p>Intimidation threats</p>

#	Source	Detailed Comment
		<ul style="list-style-type: none"> <li>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.</li> </ul> <p>This threat may apply more broadly than to an audit client. The NZAuASB therefore recommends that the term “audit” could be removed.</p>
44.	OECFM	Yes
45.	PWC*	<p><b>Identifying threats</b></p> <p>Proposed paragraph 300.2A1 provides examples of facts and circumstances that might create threats to compliance with the fundamental principles. This Section 300 applies to all activities and services provided by the professional accountant in public practice.</p> <p>The vast majority of the examples presented relate to facts and circumstances that create threats to independence and not to compliance with the fundamental principles.</p> <p>We recommend that the Board re-consider this list of examples and focus more specifically on those that are threats to compliance with the fundamental principles (and not threats to independence). All the proposed examples relate to objectivity (and/or independence) and there is no obvious reference to threats to compliance with the other four principles. We believe that all the fundamental principles should be addressed in the examples.</p> <p>The illustration could usefully be organised by fundamental principle, and then perhaps by type of threat to each. This would also help to address the point made by IOSCO regarding an overall focus on the fundamental principles. Examples include:</p> <p style="padding-left: 40px;">Objectivity - The interests of the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a professional service related to that matter are in conflict.</p> <p style="padding-left: 40px;">Professional Competence - the professional accountant lacks the professional knowledge and skill required to ensure that a client or employer receives competent professional service.</p> <p>The first of these clearly has the potential to create a self-interest threat. The second demonstrates the difficulty, at times, of establishing a clear link between the facts and circumstances and a threat to compliance with the fundamental principles (other than objectivity). None of the five threats seem relevant in terms of compliance with that fundamental principle.</p> <p>Such a re-emphasis could also help many users of the Code whose predominant activity or service is not audit.</p> <p>Furthermore, as proposed, by “generalising” a circumstance contained in the extant code we believe that the list suggests that such threats are created in a broader context. For example, in the extant code of “A member of the assurance team having a direct financial interest in the assurance client”, which is relevant in the context of C1, has been converted to “A</p>

#	Source	Detailed Comment
		<p>professional accountant having a direct financial interest in a client”. A reading of this, even in the context of C1, could infer that interests of all the audit firm’s personnel need to be considered, rather than being limited to those who are addressed by the current Code, such as those on the audit team.</p> <p><b>Evaluating threats</b></p> <p>We plan to comment on the proposed term “International Independence Standards” in our response to the Board’s ED on Structure of the Code.</p> <p>Proposed 300.2 A6 contains a number of examples of environmental factors that may impact the level of a threat. We have the following observations:</p> <ul style="list-style-type: none"> <li>(a) The notion in the first bullet could usefully be mentioned in 300.2 A4 which addresses the client’s operating environment, such that “Leadership of the client entity promotes compliance with the fundamental principles”. This can impact the level of a threat to the professional accountant in public practice.</li> <li>(b) The fifth example is <i>“The engagement partner having authority for compliance with the fundamental principles, including decisions about the permissibility of services to an audit client”</i>. We do not see how this affects the level of a threat as it seems to focus on a process and further seems to place inappropriate responsibility in the hands of one individual. Having such “authority for compliance” is not clear and we suggest this needs clarification, if retained.</li> <li>(c) The last example could usefully extend to “concerns”, as a formal “complaint” may not always arise.</li> </ul> <p><b>Addressing threats</b></p> <p>We have the same concerns regarding paragraph 300.2 A9 as we have with 300.2 A1 above, in that at least four of the six examples derive from the independence section of the Code. While we believe that these are effective safeguards, we recommend that the examples are reviewed in the light of the comments above and that the examples are mapped to such revised examples, focusing on addressing threats to compliance with the fundamental principles (and not threats to independence in the main).</p> <p>We believe that the concepts should be consistent and recommend alignment with the NOCLAR wording.</p>
46.	RSM UK	It is very hard to anticipate exactly how this may impact, in the absence of knowing how the Phase 2 exercise may be determined.
47.	RSM*	We fully support the Board’s approach to the revisions in proposed Section 300.
48.	SAICA	Yes, SAICA agrees that the standard is improved by additional guidance and clarity of wording and improved definitions.

#	Source	Detailed Comment
		<p>In the examples of Safeguards, 300.2A1 instead of fully removing the previous example, “discussing the level of audit fees with those charged with Governance”, we would rather include an example of a safeguard as “the firm complies with a limit set by TCWG being a maximum of 10% of Audit fees allowed for Non-Assurance work” i.e. this example will illustrate that <u>specific rules and regulations</u> can be safeguards if and when they are applied and tested and found to be in place are now defined as a safeguard – the rule addresses a potential self-interest threat that prevents a breach of a fundamental principle being for example independence</p> <p>Under 300.2A1 (d) relating to the second bullet point SAICA believes that the limitation of a familiarity threat limited to just the engagement partner who has served recently may not be sufficient. EQCR partners and KAP should also be included in a manner similar to that proposed for partner rotation.</p>
49.	SMPC	<p>The SMPC generally agrees with the IESBA’s approach to the revisions in proposed Section 300, except for our comment in response to question 1 and our suggestion to replace the broad requirement to comply with each of the fundamental principles and apply the conceptual framework (R300.2) with an objective.</p> <p>We note that footnote 18 states that the term “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice. We encourage the Board to consider whether these should be considered on a case by case basis. For example, in some jurisdictions reports may be issued in the name of the firm and in others in the name of an individual.</p> <p>We acknowledge that with a new introduction, the inclusion of sub-headings and revised drafting, the Board has streamlined and clarified the examples of the types of threats that are included in the extant Code (300.2 A1). One concern raised is whether the removal of certain examples could imply that they are no longer considered a threat. As the Code is intended for global application, it should retain material relevant to jurisdictions where such circumstances may be more commonly encountered.</p>
50.	SRA	We concur with the text, proposed in the ED
51.	UKFRC	The FRC considers the revisions made by IESBA in proposed Section 300 to be helpful to professional accountants in public practice. The requirements and application material will, we expect, be of value in supporting those in public practice to carry out appropriate threats and safeguards assessments. However, we reiterate our responses to Questions 1 to 4.
52.	VRC	n/a
53.	WPK	We generally agree with IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice.

Safeguards ED-1 Supplement B – Compilation of Responses to Questions  
*IESBA Meeting (June, 2016)*

#	Source	Detailed Comment
		However, when comparing the Sections 120 and 300, there are some inconsistencies with re-spect to the question in which phase of the process “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization” have to be considered. Section 300 suggests the PA to consider these conditions when evaluating the threats whereas Section 120 recognizes that such conditions may impact the identification of the threats as well as the evaluation, Overall, we consider the more detailed descriptions of the dif-ferent types of threats as well as of the “facts and circumstances” helpful.