

Safeguards Phase 1—Summary of Significant Comments on ED-1 and Task Force Proposals

How the Project Serves the Public Interest

This project addresses the clarity, appropriateness and effectiveness of safeguards in the extant Code. Phase I of the project includes revisions to safeguards in Section 100¹ and Section 200² of the extant Code.³ Phase II of the project deals with safeguards that pertain to non–assurance services (NAS) in Section 290⁴ and other conforming changes to the extant Code that are deemed necessary (see **Agenda Item 3-C, 3D and 3E**).⁵

Varying views exist about what constitutes a safeguard, as well as on the effectiveness and appropriateness of the examples of safeguards within the Code whether they are appropriate to eliminate threats to independence and compliance with the fundamental principles or reduce them to an acceptable level.

Enhanced requirements and application material about how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence (i.e., apply the conceptual framework (CF)), will support professional accountants (PAs) in fulfilling their responsibility to act in the public interest, and with respect to audits of financial statements, contribute to supporting audit quality.

Background and Introduction

1. The December 2015 Exposure Draft (ED), [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) included proposed revisions to Sections 100 and 200 of the extant Code, including the CF. The comment period on Safeguards ED-1 closed on March 21, 2016. Also released in December 2015 was ED, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure ED-1) with a comment deadline of April 18, 2016. The full text of Safeguards ED-1 is included in Structure ED-1. Feedback on Structure ED-1 and the Structure Task Force's (TF's) related preliminary proposals is included in Agenda Items 2. For purposes of this document, Safeguards ED-1 and Structure ED-1 will be referred to as "the December 2015 EDs."

Matters Presented in this Paper

2. This paper summarizes the significant issues raised by respondents to Safeguards ED-1 and the TF's proposals. The paper is organized as follows:
 - Overview of responses and general comments
 - Feedback on the enhancements to the CF

¹ Extant Section 100, *Introduction and Fundamental Principles*

² Extant Section 200, *Introduction* (Part B – Professional Accountants in Public Practice)

³ Phase I of the Safeguards project includes proposed revisions to paragraphs 100.12–100.16 and paragraphs 200.3–200.15 of the extant Code.

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

⁵ Phase II of the Safeguards project will explore proposals to revise:

- Paragraphs 290.100 to 290.101 of the extant Code, titled *Application of the Conceptual Framework Approach to Independence*.
- Paragraphs 290.154 to 290.216, *Provision of Non-Assurance Services to an Audit Client*.
- Conforming changes to other sections of the Code, including Section 291.

- Description of reasonable and informed third party
- Description of acceptable level
- Description of safeguards and conditions, policies and procedures
- Matters pertaining to the revision of proposed Section 300⁶
- Other matter

Overview of Responses and General Comments

3. Comment letters were received from 53 respondents, as listed in the Appendix to this paper. The respondents to Safeguards ED-1 comprise of the following:

Category of Respondent ⁷	Number of Responses	Percentage
Regulators and Oversight Authorities (Regulators)	7	13%
National Standard Setters (NSS)	2	4%
Firms	10	19%
Public Sector Organizations (Public Sector)	2	4%
Preparers of Financial Statements (Preparers)	1	2%
IFAC Member Bodies ⁸ and Other Professional Organizations (MBs)	30	56%
Individuals	1	2%
Total	53	100%

General Support for Revisions to the CF

4. The majority of respondents⁹ across all stakeholder groups expressed strong support for the overall objective of clarifying and enhancing safeguards in the Code. In addition to some editorial suggestions to clarify and refine the proposals, certain respondents:
- Questioned whether some of the revisions went beyond just reviewing the effectiveness of

⁶ Section 300, *Application of the Conceptual Framework to Professional Accountants in Public Practice*

⁷ Some of the respondents (e.g., 20EUAR, IOSCO, IFIAR, FEE, APESB) indicated in their letter that their response either: represent a collective view of various organizations; or incorporates input from various stakeholders within their respective jurisdictions based on targeted outreach about Safeguards ED-1.

⁸ Certain IFAC Member Bodies also hold the dual role of ethics standard setter in their jurisdictions.

⁹ **Regulators:** 20EUAR, IAIS; IFIAR, IOSCO, NASBA, UKFRC; **NSS:** APESB, NZAuASB; **Firms:** BDO, CHI, EYG, GTI, PWC, RSM; **Public Sector:** AGNZ, GAO; **Preparers:** VRC; **MBs:** ATT, ACCA, AICPA, ASSIREVI, CAANZ, FAR, HICPA, ICAEW, IDW, IPA, ISCA, JICPA, KICPA, NBA, NFCAAROC, OECFM, SMPC, WPK **Individuals:** DJuvenal

safeguards in the Code.¹⁰ Those respondents noted that:

- The scope of the safeguards project should be focused on addressing concerns about the clarity of safeguards in the Code, and should not change the meaning of concepts in the extant Code.
- Extensive revisions to the CF are likely to significantly impact national Codes, which in turn could potentially hinder the progress that is being made towards convergence or harmonization with the IESBA Code.¹¹
- Indicated that the conceptual framework should also address independence.¹²
- Indicated a need for additional guidance to clarify the IESBA's expectation about how compliance with the provisions in Safeguards ED-1 should be documented.¹³
- Suggested that the IESBA consider and determine how to accommodate national projects and initiatives with similar or relevant objectives (e.g., European Union Audit Reforms).¹⁴

Feedback on Timing

5. Some respondents, including those who supported the proposals, urged IESBA to reconsider its planned timeline.¹⁵ Those respondents cautioned that having multiple on-going projects to revise various section of the Code at the same time creates practical challenges for translation and implementation. Some respondents also noted that current level of changes to the Code is confusing and makes it difficult for them to provide comments on pending proposals. Two respondents questioned whether the Board should consider having the Safeguards project subsumed into the Structure of the Code project,¹⁶ while another respondent suggested that the IESBA should finish its Structure of the Code project first before progressing its Safeguards project.¹⁷

General Concerns Raised

6. A few respondents¹⁸ objected to the proposals and expressed a preference for the extant provisions. One respondent was of the view that “the proposed revisions to the CF, together with the proposed restructure of the provisions, has transformed the principles-based fabric of the CF into a set of rules. This respondent considered the proposals in Safeguards ED-1 to be a new rules-based approach to the application of the CF, predicated on specific activities that the PA must perform. The respondent cautioned that this new rules-based approach might reduce the strength of the CF.¹⁹ There were two

¹⁰ **MBs:** AICPA, CNCC

¹¹ **Regulators:** NASBA; **MBs:** AICPA

¹² **Regulators:** IRBA; **Public Sector:** AGNZ

¹³ **MBs:** SMPC

¹⁴ **Regulators:** UKFRC; **MBs:** FEE

¹⁵ **Regulators:** IRBA; **Firms:** DTT, EYG; **MBs:** AICPA, CNCC, CPAC, IDW, FEE, FAR, ISJCE, IDW, SMPC, WPK

¹⁶ **MBs:** SMPC, SAICA

¹⁷ **MBs:** WPK

¹⁸ **Regulators:** IRBA; **Firms:** DTT; **MBs:** CNCC, FEE, SAICA

¹⁹ **Firms:** DTT

other respondents who reiterated a previously communicated view that the IESBA should hold off its standard setting activities, and instead focus its efforts on adoption and implementation of the Code.²⁰

General Feedback from Monitoring Group (MG)

7. There were three MG members who commented on Safeguards ED-1 and were generally supportive.²¹ However, it was suggested that the IESBA:
- Include an explicit description of the linkage between the fundamental principles in the conceptual framework, and the requirements and application material in the proposed revised Code, to mitigate the risk that some material could be seen as a list of examples to be addressed rather than material to support the assessments made by the PA.²²
 - Revisit how definitions are dealt with in the Code.²³
 - Clarify the purpose of Section 300,²⁴ consider establishing requirements for PAs in public practice, and consider improving the examples of safeguards.²⁵
 - Consider revising the title of Section 120,²⁶ to be “general framework” rather than a “conceptual framework” because Section 120 establishes an approach that the proposed restructure Code will require for all PAs.²⁷

Small and Medium Practice (SMPs) Considerations

8. Some respondents commented about the impact of Safeguards ED-1 on SMPs. Those respondents were supportive of the proposed revisions, in particular the new structure and format which they described as being clearer.²⁸ However, some respondents²⁹ were of the view that Safeguards ED-1 did not go far enough, and suggested that the Code include additional applicable material to help address the challenges that are unique to SMPs. Some respondents were of the view that the removal of certain conditions, policies and procedures as safeguards would make it even more difficult for SMPs to apply safeguards.³⁰ Further discussion of the feedback from SMPs on specific topics and issues is included below.

²⁰ **MBs:** FEE, FAR

²¹ **Regulators:** IAIS, IFIAR, IOSCO

²² **Regulators:** IFIAR

²³ **Regulators:** IFIAR, IOSCO

²⁴ Section 300, *Application of the Conceptual Framework to Professional Accountants in Public Practice*

²⁵ **Regulators:** IOSCO

²⁶ Section 120, *The Conceptual Framework*

²⁷ **Regulators:** IOSCO

²⁸ **MBs:** ACCA, FAR, ICAB, SMPC

²⁹ **MBs:** ACCA, SMPC, JICPA

³⁰ **MBs:** FEE, FSR

Need for IESBA/IAASB Liaison

9. Some respondents suggested that the IESBA should liaise with the IAASB to:
- Ensure that appropriate safeguards-specific conforming changes are made to the International Standards on Auditing (ISAs); to ensure that there is alignment between the Code and any relevant ISAs; and to avoid any differences or unnecessary duplication.³¹
 - Ensure there is clarity on the inter-dependence between the effectiveness of safeguards and quality controls.

TF Response to Overview and General Comments

10. The TF has taken into account the general feedback on Safeguards ED-1 above as it developed its proposed revisions. A number of comments, including those pertaining to timing, structure and format were referred to the Structure of the Code TF. With respect to the suggestion to liaise with IAASB, the TF has referred the comment to the IESBA Planning Committee. Also, Staff has referred the respondents' comments and topics of mutual interest to IAASB staff.
11. The comment letters received from two of the three MG members³² were received after the TF's May 2016 physical meeting. Accordingly, the TF plans to further consider those comments at its July 2016 meeting to determine whether further revisions are necessary.

Matters for IESBA Consideration

1. IESBA members are asked to consider the general comments on Safeguards ED-1 and provide reactions to the TF.

Feedback on the Enhancements to the CF

12. The majority of respondents were supportive of the proposed enhancements to the CF, requiring a PA to identify, evaluate and address threats. They noted that the streamlined language in the CF made the requirements and application material in the Code clearer. However, some respondents believed that the timing for performing the various stages in the CF is unclear. One respondent questioned whether the CF should be described as a "five" versus a "three" step approach, given the proposed requirements for re-evaluating threats and for an overall assessment. That respondent also suggested that the Board consider adding a new step "designing and implementing safeguards" to the CF so that the PA would be required to consider the correlation between the specific threat that has been identified, and how to "build" a safeguard that is responsive to that threat.³³

³¹ IRBA, DTT IRBA notes, for example, in ISA 260: "A22(b) Safeguards created by the Profession, legislation or regulation, safeguards within the entity and safeguards with the firm's own system and procedure."

³² **Regulators:** IFIAR, IOSCO

³³ **Regulators:** IRBA

Identifying Threats

13. A few respondents commented on the proposed requirement to identify threats in paragraph R120.5 of Safeguards ED-1. Those respondents asked that the IESBA:
 - Develop new application material to assist in the identification of threats.³⁴ It was noted that the application material included in Safeguards ED-1 focused entirely on the creation of threats, rather than on their identification.
 - Withdraw the requirement, and instead provide only application material to assist the PA identify threats to compliance with the fundamental principles. The respondent was of the view that it is not feasible for the accountant to be required to understand all facts and circumstances that might compromise compliance with the fundamental principles.³⁵
 - Make it clear that there is a rebuttable presumption that every engagement or situation will have some threat.³⁶
 - Include some general information concerning the different types of self-interest threats in 120.5 A2.³⁷

TF Proposal

14. The TF considered the feedback and continues to believe that the requirements and the corresponding application material for identifying threats are appropriate. The TF has clarified paragraph 120.5 A4 of Safeguards ED-1 by including revisions to clarify that certain conditions, policies and procedures established by the profession, legislation, the firm or the employing organization may enhance the PA's ability to identify threats (see 120.5 A5 of **Agenda Item 3-B**).

Addressing Threats

15. Safeguards ED-1 included new application material that states "There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level." The aim behind the statement was supported, but a number of respondents were of the view that this application material should be stated more clearly to indicate that there are situations in which no safeguards are possible.³⁸ Another respondent suggested that this application material should be elevated to a requirement to make it clear that when there are no safeguards available, the PA is required to decline or discontinue the service "unless precluded from doing so by law or regulation".³⁹ One MG member⁴⁰ suggested that the IESBA reposition this provision so that it appears before R120.3 in Safeguards ED-1.

³⁴ **MBs:** ACCA

³⁵ **Firms:** DTT

³⁶ **Regulators:** IRBA

³⁷ **MBs:** ACCA

³⁸ **Regulators:** 20EUAR, IFIAR

³⁹ **Regulators:** IOSCO; **MBs:** IDW, SMPC

⁴⁰ **Regulators:** IOSCO

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16. Some respondents also commented on the sentence that refers to examples of those situations in the International Independence Standards in C1 and C2, and suggested that the Board:
- Avoid this approach, and instead, link those situations with the requirement to take action such as, depending on the circumstances, not accepting or resigning from an engagement.⁴¹
 - Strengthen the provision to specify three instances of non-compliance with the Code for which IESBA has predetermined that safeguards should not even be a consideration.⁴²
 - Also, include a reference to examples of those situations for all PAs, and not just for those who provide audit, review and other assurance engagements.⁴³

TF Proposal

17. In response to the feedback received, the TF has reversed the order of the provisions in 120.7 A1 and 120.7 A2 of Safeguards ED-1. The TF has also revised the wording in 120.7 A1 of Safeguards ED-1 to state that: “There are some situations when there can be no safeguards to eliminate the threats created or reduce them to an acceptable level. For example, the International Independence Standards in Parts C1 and C2 of the Code set out requirements and application material, including examples, of such situations” (see paragraph 120.8 A2 of **Agenda Item 3-B**).

Re-evaluating Threats and Overall Assessment

18. Some respondents, in particular regulators, were of the view that the PA's re-evaluation of threats should not be restricted to the emergence of new information or changes in facts and circumstances, but rather the PA should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the professional activity.⁴⁴ One of those respondents was of the view that the level of frequency for periodic re-evaluation might vary based on the nature of the services provided or relationship between the PA and the entity. For example, that respondent noted that threats to objectivity may necessitate a different frequency of re-evaluation than threats to professional competence and due care.⁴⁵
19. Many respondents asked for clarification about the new requirement for performing an overall assessment. Respondents sought clarification about:
- The expected timing of assessment.⁴⁶
 - Whether IESBA intended for there to be a difference between the requirements for re-evaluating threats and for performing the overall assessment.⁴⁷

⁴¹ **Regulators:** 20EUAR

⁴² **Regulators:** IOSCO

⁴³ **NSS:** APESB; **Firms:** DTT; **MBs:** FAR, FEE

⁴⁴ **Regulators:** 20EUAR, IFIAR, IOSCO

⁴⁵ **Regulators:** IOSCO

⁴⁶ **Regulators:** 20EUAR, IFIAR, IOSCO; **Firms:** DTT, PWC; **Public Sector:** AGNZ, GAO; **MBs:** ACCA, AICPA, ASSIREVI, CAANZ, CNCC, FAR, FEE

⁴⁷ **MBs:** AICPA

- Whether the overall assessment is considered to be a component of the CF.⁴⁸
 - Level of documentation requirement for an overall assessment.⁴⁹
 - Whether the IESBA believes that the overall assessment should be performed by someone other than the PA who identified and evaluated the threat.⁵⁰
 - Whether it is necessary to include the overall assessment in all sections of the Code. The respondent was of the view that it was sufficient to include the provision one time in Section 120.⁵¹
20. Some respondents suggested that guidance for re-evaluating threats and for performing an overall assessment should be provided in the form of application material rather than as requirements.⁵² One respondent suggested that the ordering of those two requirements be should be reversed;⁵³ while another respondent suggested that the titles of the headings “Re-evaluating Threats” and “Overall Assessment” should be revised in order to be more specific about the material presented in those respective provisions.⁵⁴

TF Proposal

21. The TF has taken on some of the suggestions made by respondents and (i) re-ordered the provisions relating to re-evaluating threats and performing the overall assessment, and (ii) changed the title of the headings above the respective provisions (see R120.7 and R120.9 in **Agenda 3-B**). With these changes the TF is clarifying its view that re-evaluating threats is not a new stage in the CF. The Task Force also made refinements to R120.4 (b) to clarify that the PA is required to remain alert for new information and to changes in facts and circumstances as part of applying the CF. The requirement in R120.7 was not intended to repeat this requirement, but rather is intended to clarify that when new information becomes available or when circumstances change, the PA is expected to perform the re-evaluation (i.e., R120.6–120.6 A3) of threats again.
22. Similarly, the new placement for the title of the heading above the requirement to perform an overall assessment makes it clear that this step is actually part of addressing threats to compliance with the fundamental principles.

Matters for IESBA Consideration

2. IESBA members are asked to consider the feedback on the enhancements to the CF and provide views on the related TF’s proposed revisions in **Agenda Item 3-B**, in particular the revisions to the provisions pertaining to:
- (a) Identifying threats;
 - (b) Evaluating threats, including the provision for consideration of new information or changes

⁴⁸ **Regulators:** IRBA; **NSS:** APESB; **Firms:** DTT

⁴⁹ **MBs:** ASSIREVI, CAANZ, ICAEW

⁵⁰ **MBs:** IPA

⁵¹ **MBs:** SMPC

⁵² **MBs:** CNCC

⁵³ **Firms:** EYG

⁵⁴ **MBs:** FSR

in facts and circumstances; and

- (c) Addressing threats, including the provision for consideration of significant judgements made and overall conclusions reached.

Description of Reasonable and Informed Third Party

23. Respondents from all stakeholder groups expressed strong support for having a description of reasonable and informed third party. However, respondents' views about the proposed wording for that description of reasonable and informed third party were mixed:
- One respondent was of the view that the words “skills, knowledge and experience” as used in Safeguards ED-1 implies that the reasonable and informed party is required to have similar skills and knowledge as a PA. This respondent suggested that the wording in the proposal should be revised to be “sufficient and relevant skills, knowledge and experience...”
 - One respondent suggested that the Board clarify that the test is being performed by the PA.⁵⁵
 - Several respondents urged the Board to avoid the word “hypothetical”.⁵⁶ There were suggestions that the word “hypothetical” be replaced with the word “independent”; “uninvolved”; or “objective”.
 - One respondent suggested that the Board should clarify the characteristics that the reasonable and informed third party should possess. For example, it was suggested that the IESBA indicate that this person is expected to have a reasonable knowledge of business and economic activities, a general understanding about auditing, and is expected to be diligent in their review and analysis of the relevant information.⁵⁷
24. Some respondents, in particular regulators,⁵⁸ suggested that the proposal be revised to avoid the notion that only a PA could perform the reasonable and informed third party test. On the other hand, one respondent was of the view that the reasonable and informed third party is a legal concept and disagreed with the Board's proposal which made the concept of the “reasonable and informed third party” seem like a real person.⁵⁹
25. A respondent⁶⁰ suggested that it would be helpful to explain that the reasonable and informed third party concept should be described as “one who has a legitimate interest in the PA meeting the ethical outcomes required by the fundamental principles – i.e., that the reasonable and informed third party test is intended to be applied through the objective lens of the public in whose interests the PA accepts a responsibility to act.” Thus, the test would 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.

⁵⁵ **Regulators:** IRBA

⁵⁶ **Regulators:** UKFRC; **Firms:** DTT, SRA; **Public Sector:** AGNZ; **MBs:** CNCC, CPAA, SAICA

⁵⁷ **Regulators:** IOSCO

⁵⁸ **Regulators:** 20EUAR, IFIAR, IOSCO, IRBA, UKFRC; **MBs:** ACCA,

⁵⁹ **Firms:** DTT

⁶⁰ **Regulators:** UKFRC

26. Some respondents cautioned that the IESBA should consider the meaning of the term reasonable and informed third party when it is translated into different languages, or when it is used in different jurisdictions.⁶¹ For example, it is noted that in South Africa, there is a term that is similar in name “reasonable man test”. Also, one respondent suggested that the concept be revised to be “objective reasonable and informed third party” so as to reflect the importance of the objectivity of the third party and also to align more closely with the wording in the 2014 EU Audit Regulation.⁶²

TF Proposal

27. The TF has revised the description of the reasonable and informed third party concept to make it clear that it is a test, that it is performed by the PA, and involves that PA’s consideration of whether an objective person who possesses sufficient skills, knowledge and experience to evaluate the appropriateness of the PA’s judgments and conclusions would likely reach the same conclusions (see 1240.4 A1 in **Agenda Item 3-B**). The TF agrees that although the PA performs the test, it is done from the “objective lens” of a person who may not necessarily be a PA, but rather knows enough about a PA’s work to understand and challenge the PA’s judgments made and conclusions reached.
28. The TF continues to believe that the focus of this test should be on what the PA is required to do based on the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time that the PA’s judgments and conclusions were made, but not when the test is performed. The TF has dropped the words “...to determine whether the accountant complies with the fundamental principles...” in an effort to keep the description of the term sufficiently general for it to be used elsewhere in the Code, and not just in the context of compliance with the fundamental principles. The TF believes that these words are picked up in the description of acceptable level.

Matters for IESBA Consideration

3. Do IESBA members agree with the TF’s proposed revisions to the description of reasonable and informed third party in 120.4 A1?

Description of Acceptable Level

29. More than half of the respondents expressed support for the proposed revised description of “acceptable level”.⁶³ However, some respondents suggested:
- The word “likely” should be dropped from the description.⁶⁴ One of those respondents suggested that the word “likely” be replaced with the word “probable” which in their view means more likely than not – a higher bar, that “likely”.
 - The extant words description of acceptable level should be retained.⁶⁵

⁶¹ **Regulators:** IRBA; **Firms:** CHI; **MBs:** ISCA, WPK

⁶² **Regulators:** UKFRC

⁶³ **Regulators:** IAIS; **NSS:** APESB, NZAuASB; **Firms:** CHI, EYG, GTT, RSM UK, RSM, SRA; **Public Sector:** AGNZ, GAO; **MBs:** ATT, CPAA, FAR, ICAB, ICAS, ICPAK, IDW, IPA, JICPA, KICPA, MIA, NASBA, NBA, OECFM, SAICA, SMPC

⁶⁴ **Regulators** IRBA, UKFRC

⁶⁵ **Firms:** DTT; **MBs:** AICPA, CNCC

- The description of acceptable level be more prominently positioned.⁶⁶
30. Some respondents were of the view that the “acceptable level” bar is too low⁶⁷ and suggested that the description be revised to be “... a level at which a reasonable and informed third party would likely conclude that PA’s compliance with the fundamental principles would not be compromised by the threat identified”⁶⁸ or “threats be eliminated or reduced to a level at which the fundamental principles would not be compromised”.⁶⁹ One of the respondents⁷⁰ who expressed this view suggested that the term “acceptable level” be withdrawn from the Code, thereby focusing the PA on ensuring that threats are eliminated or reduced to a level where the reasonable and informed third party test would be passed, rather than on finding a level of threats that is “acceptable”. This respondent believes that this (implicit) link to the reasonable and informed third party test would better accord with the expectations of stakeholders, and better support stakeholders’ confidence in the PA.
31. Some respondents were of the view that having “acceptable level” described affirmatively, is unnecessarily more stringent. Those respondents questioned the rationale for the change and asked for more guidance on how PAs would achieve the intended result.⁷¹

TF Proposal

32. The TF considered the feedback and continues to believe that describing “acceptable level” in an affirmative manner is clearer. The TF has noted some merit to the suggestion to avoid the use of the term “acceptable level”. However, the TF agreed to retain the concept since it is well established and well understood and is used pervasively throughout the Code.
33. The TF has agreed to include a subheading titled “Acceptable Level” above paragraph 120.6 A3 as a way of making the term more prominent.

Description of Safeguards and Conditions, Policies and Procedures

34. The majority of respondents were supportive of the enhancements to the description of safeguards.⁷² However, there was a view that the proposals could be further improved, if the Code:
- Emphasizes that safeguards are intended to eliminate or to reduce *specific* threats, define how specific safeguards address specific risks of non-compliance, and clarify that it is necessary for each threat to be linked to a specific action to be taken by the PA.⁷³ One of those

⁶⁶ **Regulators** IRBA

⁶⁷ **Regulators:** UKFRC, ISCA; **Public Sector:** AGNZ

⁶⁸ **MBs:** ISCA

⁶⁹ **Regulators:** UKFRC

⁷⁰ **Regulators:** UKFRC

⁷¹ **MBs:** FEE, CNCC

⁷² **Regulators:** IAIS, NASBA; **Firms:** BDO, CHI, EYG, GTI; PWC, RSM UK, RSM, SRA; **NSS:** NZAuASB; **Public Sector:** AGNZ, GAO; **MBs:** ATT, ACCA, ASSIREVI, CPAA, CPAC, FAR, HICPA, ICAB, ICAEW, ICAG, ICAS, ICAPK, IPA, JICPA, MIA, NBA, NFCPAAROC, OECFM, SAICA, SMPC, WPK; **Individuals:** DJuvenal

⁷³ **Regulators:** 20EUAR, IOSCO

respondents added that as part of the definition of safeguards, the Board should also consider including examples of actions taken by management to eliminate or reduce specific threats.⁷⁴

- Clarifies the description of safeguards 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 PA shall be responsible for the overall effectiveness of safeguards.”⁷⁵
 - Avoids the use of the words “that effectively...” in describing safeguards.⁷⁶
35. Some respondents were of the view that the IESBA should consider the impact that the new definition of safeguards will have on individual jurisdictions.⁷⁷ For example, it was suggested that the proposed description should be consistent with the description of safeguards used in the soon to be effective regulation that will be applicable in the EU for auditors of public interest entities.

Requests for Additional Application Material for Safeguards

36. Two respondents were of the view that the definition of safeguards should be supported by additional application material that explains its attributes.⁷⁸ For example, the application material may indicate that a safeguard can be disclosed; corroborated; or reproduced; and documented. Also, this application material should indicate that “safeguards must commensurate with the threats; must not itself further threaten independence or the public interest; is it not the first resort; and must not be subjective.”
37. One regulatory respondent was of the view the description of safeguard should make it explicit that:⁷⁹
- A safeguard to eliminate a threat to meeting the outcomes required by the fundamental principles might include removing a PA from any involvement in, or any position of influence over, an engagement, or withdrawing from the engagement;
 - 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.

Concerns Raised about the Description of Safeguards

38. Some respondents were concerned that the proposed description of safeguards⁸⁰ is burdensome and no longer allow for PA professional judgment. Generally, these same respondents opposed the proposal to withdraw certain conditions, policies and procedures that were formerly classified as safeguards (see the conditions, policies and procedures subsection below).

⁷⁴ **Regulators:** IOSCO

⁷⁵ **Firms:** BDO

⁷⁶ **Firms:** DTT; **MBs:** IDW

⁷⁷ **Regulators:** 20EUAR, UKFRC; **Individuals:** DJuvenal,

⁷⁸ **Regulators:** IRBA; **MBs:** NBA

⁷⁹ **Regulators:** UKFRC

⁸⁰ **MBs:** AICPA, CAANZ, FEE, FSR, ICJCE, IDW

Conditions, Policies and Procedures

39. Respondents views about whether the IESBA should withdraw the terms “safeguards created by the professional or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” from the Code were mixed. Some respondents, including MG members, expressed full support for IESBA’s proposals.⁸¹ Other respondents disagreed with the Board’s proposals and felt that the “safeguards created by the professional or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” form part of a holistic framework that is designed to assist the PA comply with the fundamental principles and should retained.⁸²
40. The respondents, including those who did not support the proposals, offered suggestions for improvement. They noted that the IESBA should:
- Incorporate revisions in 120.5 A4 to:
 - Be more positive by stating that “Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can enhance the likelihood ...” rather than “.... can affect...”⁸³ or
 - Make it clearer by stating that “....or the employing organization can affect the likelihood of the accountant’s identification occurrence of threats to compliance with the fundamental principles or to enhance the ability of the accountant to identify threats. Examples ...”⁸⁴
 - Clarify whether the safeguard definition is intended to apply to firms.⁸⁵
 - Consider transitional provisions for those policies and procedures that have been used as safeguards to remind PAs that they have been rescinded.⁸⁶
 - Explain why the provision “certain conditions...” appear twice in Section 120, first in the subsection titled identifying threats, and in a subsection titled evaluating threats, and then again in Section 300 in a different manner.⁸⁷
 - Reinstate wording from the extant Code 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 behaviour.”⁸⁸
 - Enhance the examples of safeguards in the proposals, by for example:⁸⁹

⁸¹ **Regulators:** IAIS, UKFRC; **NSS:** APESB, NZAuASB; **Public Sector:** AGNZ, GAO; **Firms:** BDO, CHI, GTI, PWC, RSM UK, RSM, SRA; **MBs:** ATT, ACCA, CPAA, CPAC, FAR, ICAB, IDW, MIA, NFCPAAROC, OECFM, SAICA, SMPC, WPK

⁸² **Regulators:** NASBA; **Firms:** DTT; **MBs:** AICPA, CAANZ, FEE, FSR, IPA

⁸³ **MBs:** CPAC

⁸⁴ **Firms:** RSM

⁸⁵ **Regulators:** IRBA

⁸⁶ **MBs:** FEE

⁸⁷ **Firms:** EYG; **MBs:** ICAEW, WPK

⁸⁸ See paragraph 100.16 of extant Code

⁸⁹ **MBs:** ACCA, SMPC

- Including a statement within Section 120 to cross-refer to the examples of safeguards in Section 300.
 - Presenting the list of examples of safeguards and related threats in paragraph 300.2 A1 in a more innovative manner.
41. One respondent was of the view that the IESBA should undertake post implementation review that include a cost-benefit analysis at the end of the project and 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.⁹⁰

TF Proposal

42. Except for the feedback from IFIAR and IOSCO which was received after the TF meeting date, the TF considered the above feedback and confirmed that no change are needed to be made to the description of safeguards.
43. The TF also agreed to retain the proposal to withdraw the conditions, policies and procedures as safeguards, but has taken on some of the suggestions from respondents to clarify the proposals in 120.5 A4, 120.6 A3 and 300.2 A1 of Safeguards ED-1 (see revisions in 120.5 A5, 120.6 A2 and 300.5 A1 in **Agenda Item 3-B**).

Matters for IESBA Consideration

4. IESBA members are asked to consider the feedback from respondents to Safeguards ED-1 and react to the TF's proposed revisions in **Agenda Item 3-B**, in particular the revisions to the provisions pertaining to the description of safeguards, including the revised application material that explains that in some situations there can be no safeguards to eliminate threats to compliance with the fundamental principles or to reduce them to an acceptable level (see 120.8 A2 and paragraph 18 of this paper).
5. Do IESBA members agree with the TF's proposals to retain Safeguards ED-1 proposals to withdraw certain activities (e.g., firm-specific safeguards) which were formerly safeguards and the revisions made to clarify their importance (120.5 A5, 120.6 A2 and 300.5 A1 in **Agenda Item 3-B**)?

Matters Pertaining to the Revision of Proposed Section 300

44. Respondents were generally supportive of the IESBA's proposals in Section 300.⁹¹ However, many respondents found the structure unclear.⁹² It was suggested that the IESBA clarify the intended linkage between Section 120 and Section 300, for example, by repeating or cross-referring certain

⁹⁰ **MBs:** FEE

⁹¹ **Regulators:** IAIS, UKFRC; **NSS:** NZAuASB; **Firms:** CHI, EYG, GTI, RSM, SRA; **Public Sector:** GAO; **MBs:** ATT, ACCA, AICPA, CNCC, CPAA, CPAC, FAR, FSR, HICPA, ICAB, ICAEW, ICAG, ICAS, ICPAK, IDW, IPA, JICPA, KICPA, MIA, NCFPAAROC, OECFM, SAICA, SMPC, WPK; **Individuals:** DJuvenal,

⁹² **Regulators:** IAIS, IOSCO, IRBA; **NSS:** APESB; **Firms:** BDO, DTT; **Public Sector:** AGNZ; **MBs:** CAANZ, **MBs:** FEE, FSR, ICAS, ICJCE, WPK

requirements and application material to related provisions in Section 120.⁹³ Another source of confusion for some respondents is the use of the words “professional accountant”, “accountant”, “firm” and “professional accountant in public practice” in proposed Section 300.⁹⁴ This comment was referred to the Structure of the Code TF.

45. One respondent was of the view that the list of examples of threats in 300.2 A1 of Safeguards ED-1 should be examples of threats to compliance with the fundamental principles, rather than threats to independence. The respondent suggested that it would be useful to have illustrative examples that are first categorized by each of the fundamental principles, and then by each type of threat.⁹⁵
46. The following are other comments that respondents made on Section 300 with respect to the:
 - Examples of threats in 300.2 A1 of Safeguards ED-1. One respondent noted that the examples of “self-interest threats” in Section 300 all pertain to situations when the interests of the PA is very closely aligned with those of the client. It was suggested that IESBA include one or more examples of conflicting interests. Also, some respondents were disappointed to have fewer examples of the types of threats.⁹⁶
 - Examples of safeguards in para 300.2 A9 of Safeguards ED-1. Some respondents, including one of the MG members challenged whether some of the examples of safeguards were effective safeguards given that self-interest and self-review threats also exists on a firm-wide basis.⁹⁷ Other respondents suggested wording changes clarify the safeguards.⁹⁸
 - One respondent suggested that the IESBA consider, during the second phase of the project, having “joint audit” as an example of safeguard to address threats to independence. The respondent was of the view joint audits create a forum whereby joint auditors can challenge each other’s position in order to come to an agreement on a common position.⁹⁹
47. One respondent was of the view that Safeguards ED-1 should include a requirement that require PAs to disclose safeguards to TCWG.¹⁰⁰

TF Preliminary Proposal

48. The proposed revisions to Section 300 in **Agenda Item 3-B** reflect initial proposals to align to the TF’s conclusions on Section 120. The TF has not yet concluded its deliberations on the feedback received on Section 300 and is planning to do so at its July 2016 meeting.

⁹³ **Regulators:** IRBA; **NSS:** APESB; **Firms:** BDO; **Public Sector:** AGNZ; **MBs:** CAANZ, CNCC, CPAC, FAR, FEE, IDW, NBA, WPK

⁹⁴ **NSS:** NZAuASB; **Firms:** DTT; **MBs:** CPAC, IDW, SMPC

⁹⁵ **Firms:** PWC

⁹⁶ **NSS:** NZAuASB; **Firms:** DTT; **MBs:** ACCA, ICAEW, SMPC

⁹⁷ **Regulators:** IOSCO

⁹⁸ **Regulators:** IAIS, IOSCO, IRBA, NASBA; **Public Sector:** GAO; **NSS:** APESB, NZAuASB; **Firms:** CHI, DTT, PWC; **MBs:** ASSIREVI, CPAA, IDW, IPA, SAICA

⁹⁹ **MBs:** CNCC

¹⁰⁰ **Regulators:** IRBA

Matters for IESBA Consideration

6. IESBA members are asked to express views about the feedback on Section 300 and the related TF's proposed revisions.
7. What other revisions do IESBA members believe should be made to Section 300?

Other Matter

49. The proposals in Safeguards ED-1 may be subject to other changes based on conclusions reached as a result of the Structure of the Code project. For example, the use of the word "might" or "may" in particular at paragraphs R120.5, 120.5 A1, 300.2 A1, 300.2 A3 and 300.2 A11 of Safeguards ED-1 may be changed. Those revisions will be included in the September 2016 versions of the revised proposals.

Matter for IESBA Consideration

8. IESBA members are asked to express any other views about the feedback on Safeguards ED-1 and the related TF's proposed revisions, including whether they believe that the adequate consideration has been given to feedback from SMP constituents.

Appendix (Para. 3)

List of Respondents to Safeguards ED-1

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

#	Abbrev.	Respondent (53)	Region
Regulators and Oversight Authorities (7)			
1.	20EUAR	Group of 20 European Audit Regulators	EU
2.	IAIS	International Association of Insurance Supervisors	GLOBAL
3.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
4.	IOSCO	International Organizations of Securities Commissions	GLOBAL
5.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
6.	NASBA	National Association of State Boards of Accountancy	NA
7.	UKFRC	United Kingdom Financial Reporting Council	EU
National Standard Setters (2)			
8.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
9.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Firms (10)¹⁰¹			
10.	BDO*	BDO International Limited	GLOBAL
11.	CHI	Crowe Horwath International	GLOBAL
12.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
13.	EYG*	Ernst & Young Global	GLOBAL
14.	GTI*	Grant Thornton International Ltd	GLOBAL
15.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
16.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
17.	RSM*	RSM International	GLOBAL
18.	RSM UK	RSM United Kingdom	EU
19.	SRA	Samenwerkende Accountantskantoren	EU
Public Sector Organizations (2)			
20.	AGNZ	Office of the Auditor General of New Zealand	AP
21.	GAO	United States Government Accountability Office	NA

¹⁰¹ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

Preparers of Financial Statements (1)			
22.	VRC	Vereniging van Registercontrollers Netherlands Association of Registered Controllers	
IFAC Member Bodies and Other Professional Organizations (30)¹⁰²			
23.	AAT	Association of Accounting Technicians	EU
24.	ACCA	Association of Chartered Certified Accountants	GLOBAL
25.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
26.	ASSIREVI	Associazione Italiana Revisori Contabili	EU
27.	CAANZ	Chartered Accountants Australia and New Zealand	AP
28.	CNCC	Compagnie Nationale des Commissaires aux Comptes	EU
29.	CPAA	CPA Australia	AP
30.	CPAC	Chartered Professional Accountants of Canada (CPA Canada) Public Trust Committee	AP
31.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
32.	FEE	Fédération des Experts Comptables Européens - Federation of European Accountants	EU
33.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
34.	HICPA	Hong Kong Institute of Certified Public Accountants	AP
35.	ICAB	Institute of Chartered Accountants of Bangladesh	AP
36.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
37.	ICAG	Institute of Chartered Accountants Ghana	SA
38.	ICAS	Institute of Chartered Accountants of Scotland	EU
39.	ICJCE	Instituto de Censores Jurados de Cuentas de España	NA
40.	ICPAK	Institute of Certified Public Accountants of Kenya	AP
41.	IDW	Institut der Wirtschaftsprüfer	EU
42.	IPA	Institute of Public Accountants	AP
43.	ISCA	Institute of Singapore Chartered Accountants, including the ISCA Ethics Committee	AP
44.	JICPA	Japan Institute of Certified Public Accountants	AP
45.	KICPA	Korean Institute of Certified Public Accountants	AP
46.	MIA	Malaysian Institute of Accountants	AP
47.	NBA	Royal Netherlands Institute of Chartered Accountants	EU

¹⁰² Certain IFAC Member Bodies hold the dual role of ethics standard setter in their jurisdictions.

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48.	NFCPAAROC	The National Federation of Certified Public Accountant Associations of the Republic of China	AP
49.	OECFM	Ordre des Experts Comptables et Financiers de Madagascar (OECFM)	MEA
50.	SAICA	South African Institute of Chartered Accountants	MEA
51.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
52.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
Individuals (1)			
53.	DJuvenal	Denise Silva Ferreira Juvenal	SA