

## Agenda Item 2-C

### Structure of the Code Phase 2 – Proposed Revisions to Sections 800<sup>1</sup> and 900<sup>2</sup>

1. The proposed revisions in this paper are in accordance with the format and drafting conventions in the Structure Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*. Comment boxes next to the paragraphs below identify their source in the extant Code or indicate whether they are new material.
2. The text that is shaded in *gray and in italic font* in this paper indicates those areas that may be subject to conforming amendments as a result of the Safeguards project.
3. Section 940 Long Association of Senior Personnel with an Assurance Client will be presented by the Long Association Task Force at the Board's September 2016 meeting.
4. Section 950 *Provision of Non-assurance Services to an Assurance Client* will be developed after the June 2016 IESBA meeting once conclusions have been reached on the proposed revisions being put forward by the Safeguards Task Force with respect to Section 600, *Provision of Non-assurance Services to an Audit Client*.
5. Immediately after Section 290 of the extant Code, the 2015 IESBA handbook includes *Interpretation 2005 – 01 (Revised July 2009 to conform to changes resulting from the IESBA's project to improve the clarity of the Code)* (the Interpretation). The Interpretation has not been included in this document because the Task Force believes it is guidance illustrating the application of Section 291 to assurance engagements that are not financial statement audit engagements and do not part of the Code. The Task Force recommends that the Interpretation be repackaged as a guidance tool, if necessary, after the Code has been restructured.

#### I. Proposed Revisions to Section 800 Since the March 2016 IESBA Meeting (In Mark-up Text)

##### Section 800

##### Reports that Include a Restriction on Use and Distribution

##### Introduction

800.1 ~~The independence requirements in C1 apply to all audit engagements. However, in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution, and provided the conditions set out in paragraphs R800.3 and R800.4 are met, the independence requirements in C1 Sections 400 to 799 may be modified as provided in paragraphs 800.7 A1 to R800.14. These modifications are not permitted when an audit of financial statements is required by law or~~

Commented [IESBA1]: 290.500

<sup>1</sup> Section 800, *Reports that Include a Restriction on Use and Distribution* (i.e., paragraphs 290.500 to 290.514 of the extant Code)

<sup>2</sup> Section 900, *Independence – Other Assurance Engagements* (i.e., Section 291 of the extant Code)

The Conceptual Framework contained in Section 120 applies in all circumstances

~~regulation. No other modifications to the provisions of C1 are permitted.~~ Section 800 sets out modifications to the requirements in C1 which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution.

Commented [IS2]: 290.503

Commented [EH3]: New introductory material

800.2 For the purposes of this section, ~~the~~ a restricted use and distribution report that is issued in the circumstances set out ~~described~~ in paragraph ~~R800.34~~ is referred to as an "qualifying eligible restricted use report".

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## Requirements and Application Material

**R800.3** ~~When the firm prepares a qualifying restricted use A report on an audit of special purpose financial statements, which includes a restriction on use and distribution, shall not be eligible for the modifications that are provided by this Section to the requirements in Sections 400 to 799 unless; the firm shall not modify the requirements of C1 Sections 400 to 799 unless the intended users of the report:~~

Commented [IESBA5]: 290.500

(a) ~~The intended users of the report~~ Understand the purpose and limitations of the report ; and

Commented [EH6]: 290.501

(b) ~~Explicitly agree to the application of the modifications to the C1ed independence requirements permitted by this Section.~~

(b) ~~R800.4~~ ~~When the firm prepares a qualifying restricted use report, the firm shall communicate with the intended users of the report regarding the independence requirements that are to be applied in providing the audit engagement; and;~~

Commented [IS7]: 290.502

(c) ~~R800.5~~ ~~Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the independence requirements agreed to by their representative.~~

Commented [IS8]: 290.502

~~R800.4~~ ~~When the firm prepares a qualifying restricted use report, the firm shall communicate with the intended users of the report regarding the independence requirements that are to be applied in providing the audit engagement.~~

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800.34 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users. In either case, this participation helps the firm to communicate with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified independence requirements that are to be applied.

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~~R800.5~~ ~~Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the independence requirements agreed to by the representative.~~

Commented [IS11]: 290.502

The Conceptual Framework contained in Section 120 applies in all circumstances

800.35 A24 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the lenders to meet the requirement for the firm to make such users aware of the independence requirements agreed to by the representative.

**R800.4** ~~The independence requirements in C1 apply to all audit engagements. However, in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution, and provided the conditions set out in paragraphs R800.3 and R800.4 are met, the~~ When the firm prepares an eligible restricted use report the firm shall apply the conceptual framework set out in Section 120 and any ~~modifications to independence~~ the requirements in C1— Sections 400 to 799 may ~~shall be limited to those set out modified as provided in paragraphs R800.67 A1 to R800.1314. The firm shall not apply~~ ~~these modifications are not permitted when an audit of financial statements is required by law or regulation. No other modifications to the provisions of C1 are permitted~~

Commented [IESBA12]: 290.500

Commented [IS13]: 290.503

**R800.56** If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply the provisions of sections 400 to 799 of C1 to that audit engagement. ~~When the firm prepares a qualifying restricted use report, the permitted modifications to those sections of C1 are limited to those modifications set out in paragraphs 800.7 A1 to R800.14.~~

Commented [IS14]: 290.503

Commented [IS15]: 290.504

#### Public Interest Entities

**R800.67 A1** ~~When the firm prepares an eligible~~ When the firm prepares an eligible restricted use report, the firm may choose ~~not~~ does not need to apply the additional requirements in C1 ~~Sections 400 to 799~~ that apply to audit engagements for public interest entities.

Commented [IESBA16]: 290.505

#### Related Entities

**R800.78** When the firm prepares an eligible ~~qualifying~~ restricted use report, references to audit client in ~~C1 Sections 400 to 799~~ do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Commented [IESBA17]: 290.506

#### Networks and Network Firms

**R800.89** When the firm prepares an eligible ~~qualifying~~ restricted use report, specific references to interests and relationships of network firms set out in C1 ~~Sections 400 to 799~~ may be disregarded. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

Commented [IESBA18]: 290.507

The Conceptual Framework contained in Section 120 applies in all circumstances

*Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships*

**R800.940** When the firm prepares an eligible-qualifying restricted use report:

Commented [IESBA19]: 290.508

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members;
- (b) The firm shall determine whether threats to independence are created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525 between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address the significance of any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Commented [IESBA20]: 290.510

800.940 A1 Others within the firm who can directly influence the outcome of the audit engagement include:

- (a) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement; and
- (b) Those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive or equivalent.

**R800.104** When the firm prepares an eligible-qualifying restricted use report the firm shall evaluate and address the significance of any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.5(c) and (d), R510.6 and R510.11(c) and (d).

Commented [IS21]: 290.510, 290.511

**R800.112** When the firm prepares an eligible-qualifying restricted use report, the firm, in applying the provisions set out in paragraphs R510.5(a), R510.7 and R510.8 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Commented [IS22]: 290.512

The Conceptual Framework contained in Section 120 applies in all circumstances

#### Employment with an Audit Client

**R800.123** When the firm prepares an eligible qualifying restricted use report, the firm shall evaluate and address the significance of any threats created by any employment relationships as set out in paragraphs 524.1 to 524.4.

Commented [IESBA23]: 290.513

800.123 A1 Examples of safeguards that might be appropriate include those set out in paragraph 524.3 A1.

Commented [IESBA24]: 290.513

#### Providing Non-Assurance Services

**R800.134** If the firm prepares an eligible qualifying restricted use report and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.6 to R800.89.

Commented [IESBA25]: 290.514

## II. Proposed Revisions to Section 800 Since the March 2016 IESBA Meeting (Clean Version)

### Section 800

#### Reports that Include a Restriction on Use and Distribution

##### Introduction

800.1 Section 800 sets out modifications to the requirements in C1 which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution.

Commented [EH26]: New introductory material

800.2 For the purposes of this section, a restricted use and distribution report that is issued in the circumstances set out in paragraph R800.3 is referred to as an "eligible restricted use report".

Commented [IESBA27]: New paragraph

##### Requirements and Application Material

**R800.3** A report on an audit of special purpose financial statements, which includes a restriction on use and distribution, shall not be eligible for the modifications that are provided by this Section to the requirements in Sections 400 to 799 unless:

Commented [EH28]: 290.500

(a) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications to the C1 requirements permitted by this Section.

(b) The firm communicates with the intended users of the report regarding the requirements that are to be applied in providing the audit engagement; and

Commented [IS29]: 290.502

(c) Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm subsequently makes such users aware of the requirements agreed to by their representative.

Commented [IS30]: 290.501

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority

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The Conceptual Framework contained in Section 120 applies in all circumstances

to act for the intended users. In either case, this participation helps the firm to communicate with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified requirements that are to be applied.

800.3 A2 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the lenders to meet the requirement for the firm to make such users aware of the requirements agreed to by the representative.

**R800.4** When the firm prepares an eligible restricted use report the firm shall apply the conceptual framework set out in Section 120 and any modifications to the requirements in C1 Sections 400 to 799 shall be limited to those set out in paragraphs R800.6 to R800.13. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.

Commented [IESBA32]: 290.500

**R800.5** If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply the provisions of sections 400 to 799 of C1 to that audit engagement.

Commented [IS33]: 290.503

*Public Interest Entities*

**R800.6** When the firm prepares an eligible restricted use report, the firm may choose not to apply the additional requirements in C1 Sections 400 to 799 that apply to audit engagements for public interest entities.

Commented [IESBA34]: 290.505

*Related Entities*

**R800.7** When the firm prepares an eligible restricted use report, references to audit client in C1 Sections 400 to 799 do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Commented [IESBA35]: 290.506

*Networks and Network Firms*

**R800.8** When the firm prepares an eligible restricted use report, specific references to interests and relationships of network firms set out in C1 Sections 400 to 799 may be disregarded. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

Commented [IESBA36]: 290.507

*Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships*

The Conceptual Framework contained in Section 120 applies in all circumstances

**R800.9** When the firm prepares an eligible restricted use report:

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- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members;
- (b) The firm shall determine whether threats to independence are created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525 between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address *any threats* that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Commented [IESBA38]: 290.510

800.9 A1 Others within the firm who can directly influence the outcome of the audit engagement include:

- (a) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement; and
- (b) Those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive or equivalent.

**R800.10** When the firm prepares an eligible restricted use report the firm shall evaluate and address *the significance of any threats* that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.5(c) and (d), R510.6 and R510.11(c) and (d).

Commented [IS39]: 290.510, 290.511

**R800.11** When the firm prepares an eligible restricted use report, the firm, in applying the provisions set out in paragraphs R510.5(a), R510.7 and R510.8 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Commented [IS40]: 290.512

#### Employment with an Audit Client

**R800.12** When the firm prepares an eligible restricted use report, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.1 to 524.4.

Commented [IESBA41]: 290.513

800.12 A1 *Examples of safeguards that might be appropriate include those set out in paragraph 524.3 A1.*

Commented [IESBA42]: 290.513

#### Providing Non-Assurance Services

The Conceptual Framework contained in Section 120 applies in all circumstances

**R800.13** If the firm prepares an eligible restricted use report and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.6 to R800.8.

Commented [IESBA43]: 290.514

### III. Proposed Revisions to Section 900

1. This Section has been restructured based on extant Code language and does not yet reflect the terminology used in International Audit and Assurance Board's (IAASB) pronouncement ISAE 3000 (Revised).<sup>3</sup> As further discussed in Section II of Agenda Item 2-B, the consideration of the necessary updates to conform Section 291 of the extant Code to ISAE 3000 (Revised) is determined to be outside the Structure of the Code project's scope.
2. This documents does not include material that the Task Force believes will be subject to revisions as a result of conclusions reached on IESBA deliberations about proposed revisions to Section 600 (see note at page 1) and to proposed Sections 400.<sup>4</sup>

## C2 – INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS

### Section 900

The Selected test does not include equivalent material to proposed Sections 400 and 600.

### Section 905

#### Fees

##### Introduction

905.1 The level and nature of fees or other types of remuneration might create threats to independence. Section 905 sets out requirements and application material on applying the conceptual framework to fees or other remuneration.

Commented [IESBA44]: New paragraph

##### Requirements and Application Material

**R905.2** A firm shall apply the conceptual framework set out in Section 120 to fees or other remuneration.

Commented [IESBA45]: New paragraph

##### Fees—Relative Size

905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the

Commented [IESBA46]: 291.149

<sup>3</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>4</sup> Section 400, *Application of Conceptual Framework to Independence*



The Conceptual Framework contained in Section 120 applies in all circumstances

dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

905.3 A2 Examples of safeguards include:

- Reducing dependence on the client.
- External quality control reviews.
- Consulting a third party, such as a professional body or a professional accountant, on key assurance judgments.

Commented [IESBA47]: 291.149

905.3 A3 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

Commented [IESBA48]: 291.150

905.3 A4 An example of a safeguard is having an additional professional accountant who was not an assurance team member review the work or otherwise advise as necessary.

Commented [IESBA49]: 291.150

#### Fees—Overdue

R905.4 When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

Commented [IESBA50]: 291.151

- Whether the overdue fees might be equivalent to a loan to the client; and
- Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement because of the significance of the overdue fees.

905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally appropriate for the firm to require payment of such fees before any such report is issued. The provisions of Section 911 with respect to loans and guarantees might also be relevant to situations where such unpaid fees exist.

Commented [IESBA51]: 291.151

905.4 A2 An example of a safeguard is having another professional accountant who did not take part in the assurance engagement provide advice or review the work performed.

Commented [IESBA52]: 291.151

#### Contingent Fees

R905.5 A firm shall not charge, directly or indirectly, a contingent fee for an assurance engagement.

Commented [IESBA53]: 291.153

R905.6 A firm shall not charge directly or indirectly, a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

Commented [IESBA54]: 291.154

The Conceptual Framework contained in Section 120 applies in all circumstances

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.

Commented [IESBA55]: 291.152

905.6 A2 Paragraphs R905.5 and R905.6 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if such contingent fee arrangements are not precluded when providing a non-assurance service to an assurance client, threats might still be created. The existence and significance of any threats will depend on factors such as:

Commented [IESBA56]: 291.155

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.6 A3 Examples of safeguards include:

Commented [IESBA57]: 291.155

- Having a professional accountant review the relevant assurance work or otherwise advise as necessary.
- Using professionals who are not members of the assurance team to perform the non-assurance service.

## Section 906

### Gifts and Hospitality

#### Introduction

906.1 Accepting gifts or hospitality from an assurance client might create self-interest and familiarity threats. Section 906 sets out requirements on applying the conceptual framework to evaluating gifts and hospitality.

Commented [IESBA58]: 291.156

#### Requirements

R906.2 A firm shall apply the conceptual framework set out in Section 120 to accepting gifts or hospitality from an assurance client.

Commented [IESBA59]: New paragraph

R906.3 A firm or an assurance team member shall not accept gifts or hospitality from an assurance client unless the value is trivial and inconsequential.

Commented [IESBA60]: 291.156

The Conceptual Framework contained in Section 120 applies in all circumstances

## Section 907

### Actual or Threatened Litigation

#### Introduction

907.1 When litigation takes place, or appears likely, between an assurance client and the firm or an assurance team member, self-interest and intimidation threats are created. Section 907 sets out requirements and application material on applying the conceptual framework to such actual or threatened litigation.

Commented [IESBA61]: 291.157

#### Requirements and Application Material

R907.2 A firm shall apply the conceptual framework set out in Section 120 if there is actual or threatened litigation between the assurance client and:

Commented [IESBA62]: 291.157

- (a) The firm; or
- (b) An assurance team member.

907.2 A1 The relationship between client management and the assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. The adversarial positions which could result from actual or threatened litigation might affect management's willingness to make complete disclosures and create self-interest and intimidation threats. The significance of the threats created by actual or threatened litigation will depend on factors such as:

Commented [IESBA63]: 291.157

- (a) The materiality of the litigation.
- (b) Whether the litigation relates to a prior assurance engagement.

907.2 A2 Examples of safeguards include:

Commented [IESBA64]: 291.157

- If the litigation involves an assurance team member, removing that individual from the assurance team.
- Having a professional review the work performed.

## Section 910

### Financial Interests

#### Introduction

910.1 Holding a financial interest in an assurance client might create a self-interest threat. The existence and significance of any threat created depends on:

Commented [IESBA65]: 291.104

- (a) The role of the person holding the financial interest.
- (b) Whether the financial interest is direct or indirect.
- (c) The materiality of the financial interest.

The Conceptual Framework contained in Section 120 applies in all circumstances

Section 910 sets out requirements and application material on applying the conceptual framework to financial interest.

910.2 A financial interest might be held through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or the ability to influence investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

Commented [IESBA66]: 291.105

910.3 Section 910 contains references to the materiality of a financial interest. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA67]: 291.103

**Requirements and Application Material**

R910.4 A firm shall apply the conceptual framework set out in Section 120 to financial interests.

Commented [IESBA68]: New paragraph

*Financial Interests Held by the Firm, Assurance Team Members and Immediate Family*

R910.5 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

Commented [IESBA69]: 291.106

- (a) The firm; or
- (b) An assurance team member or any of that individual's immediate family.

R910.6 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor that individual's immediate family member shall hold a direct or material indirect financial interest in that entity.

Commented [IESBA70]: 291.108

R910.7 Paragraph R910.5 shall apply to a financial interest in an assurance client held as trustee unless:

Commented [IESBA71]: 291.109

- (a) None of the following is a beneficiary of the trust: the trustee, that individual's immediate family member or the firm;
- (b) The interest in the assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, that individual's immediate family member or the firm.

*Unintended Acquisition of Interests*

R910.8 If a firm, an assurance team member, or that individual's immediate family member, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not be permitted to be held under this section, then:

Commented [IESBA72]: 291.111

The Conceptual Framework contained in Section 120 applies in all circumstances

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, or
- (b) If the interest is received by an assurance team member, or by that individual's immediate family member, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material.

*Financial Interests – Other circumstances*

**R910.9** In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:

- (a) If an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client. (Ref: Para. 910.9 A1).
- (b) If an assurance team member knows that a financial interest is held by other individuals, such as:
  - (i) Partners and professional employees of the firm, in addition to those who are specifically not permitted to hold such financial interests by paragraph R910.5, or their immediate family members; or
  - (ii) Individuals with a close personal relationship with an assurance team member. (Ref: Para. 910.9 A3)

Commented [IESBA73]: 291.107

Commented [IESBA74]: 291.110

910.9 A1 A self-interest threat might be created if an assurance team member has a close family member who the assurance team member knows has a direct financial interest or a material indirect financial interest in the assurance client. The significance of any threat created depends on factors such as

Commented [IESBA75]: 291.107

- The nature of the relationship between the assurance team member and the close family member; and
- The materiality of the financial interest to the close family member.

910.9 A2 Examples of safeguards include:

Commented [IESBA76]: 291.107

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- Having a professional accountant review the work of the assurance team member; or
- Removing the individual from the assurance team.

910.9 A3 Whether the interests set out in paragraph R910.9(b) create a self-interest threat might depend on factors such as:

Commented [IESBA77]: 291.110

The Conceptual Framework contained in Section 120 applies in all circumstances

- (a) The firm's organizational, operating and reporting structure; and
- (b) The nature of the relationship between the individual and the assurance team member.

910.9 A4 Examples of safeguards include:

- Removing the assurance team member with the personal relationship from the assurance team.
- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having a professional accountant review the work of the assurance team member.

Commented [IESBA78]: 291.110

## Section 911

### Loans and Guarantees

#### Introduction

911.1 A loan or a guarantee of a loan between a firm, an assurance team member or any of that individual's immediate family might create self-interest or other threats. Section 911 sets out requirements and application material on applying the conceptual framework to loans and guarantees.

Commented [IESBA79]: 291.112

911.2 Section 911 contains references to the materiality of a loan or guarantee. For the purpose of determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA80]: 291.103

#### Requirements and Application Material

R911.3 A firm shall apply the conceptual framework set out in Section 120 to loans and guarantees.

Commented [IESBA81]: New paragraph

R911.4 The firm, an assurance team member or that individual's immediate family member, shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Commented [IESBA82]: 291.112

911.4 A1 If a loan to a firm from an assurance client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the assurance client or firm receiving the loan, it might be possible to apply safeguards to reduce the self-interest threat to an acceptable level.

Commented [IESBA83]: 291.113

911.4 A2 An example of a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the assurance engagement nor received the loan.

Commented [IESBA84]: 291.113

911.4 A3 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution to an assurance team member, or that individual's immediate family member, does not create

Commented [IESBA85]: 291.114

The Conceptual Framework contained in Section 120 applies in all circumstances

a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

*Loans and Guarantees with a Client that is not a Bank or Similar Institution*

**R911.5** The firm or an assurance team member, or that individual's immediate family member, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

Commented [IESBA86]: 291.115

(a) The firm, or the assurance team member and the immediate family member receiving the loan or guarantee, as the case may be; and

(b) The client.

**R911.6** The firm, or an assurance team member, or that individual's immediate family member shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:

Commented [IESBA87]: 291.116

(a) The firm, or the assurance team member and the immediate family member making the loan or guarantee, as the case may be; and

(b) The client.

*Deposit or Brokerage Accounts*

**R911.7** The firm, an assurance team member or that individual's immediate family member shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Commented [IESBA88]: 291.117

## Section 920

### Business Relationships

#### Introduction

920.1 A close business relationship between a firm, an assurance team member or that individual's immediate family member might create self-interest or intimidation threats. Section 920 sets out requirements and application material on applying the conceptual framework to business relationships.

Commented [IESBA89]: 291.118

920.2 Section 920 contains references to the "materiality" of a business relationship. For the purpose of determining whether such a relationship is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA90]: 291.103

#### Requirements and Application Material

**R920.3** A firm shall apply the conceptual framework set out in Section 120 to business relationships.

Commented [IESBA91]: New paragraph

The Conceptual Framework contained in Section 120 applies in all circumstances

**R920.4** The firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the firm or the assurance team member and the client or its management, as the case may be.

Commented [IESBA92]: 291.118 (2<sup>nd</sup> and 3<sup>rd</sup> last paragraphs)

920.4 A1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

Commented [IESBA93]: 291.118

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

#### Buying Goods or Services

920.6 A1 The purchase of goods and services from an assurance client by the firm, or an assurance team member, or that individual's immediate family member does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

Commented [IESBA94]: 291.119

920.6 A2 Examples of safeguards include:

Commented [IESBA95]: 291.119

- *Eliminating or reducing the magnitude of the transaction.*
- *Removing the individual from the assurance team.*

## Section 921

### Family and Personal Relationships

#### Introduction

921.1 A family or personal relationship between an assurance team member and a director or officer or certain employees of the assurance client (depending on their role) might create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the assurance team, the role of the family member or other individual within the client, and the closeness of the relationship. Section 921 sets out requirements and application material on applying the conceptual framework to family and personal relationships.

Commented [IESBA96]: 291.120



The Conceptual Framework contained in Section 120 applies in all circumstances

## Requirements and Application Material

**R921.2** A firm shall apply the conceptual framework set out in Section 120 to family and personal relationships.

Commented [IESBA97]: New paragraph

### Immediate Family of Assurance Team Member

**R921.3** An individual shall not participate as an assurance team member when that individual's immediate family member:

Commented [IESBA98]: 291.121

- (a) Is a director or officer of the assurance client; or
- (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or
- (c) Was in such a position during any period covered by the engagement or the subject matter information.

921.3 A1 Threats to independence are created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

Commented [IESBA99]: 291.122

- The position held by the immediate family member.
- The role of the professional on the assurance team.

921.3 A2 Examples of safeguards include:

Commented [IESBA100]: 291.122

- Removing the individual from the assurance team.
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the immediate family member.

### Close Family of Assurance Team Member

921.4 A1 Threats to independence are created when a close family member of an assurance team member is:

Commented [IESBA101]: 291.123

- A director or officer of the assurance client.
- An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

The significance of the threats will depend on factors such as:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the professional on the assurance team.

921.4 A2 Examples of safeguards include:

Commented [IESBA102]: 291.123

The Conceptual Framework contained in Section 120 applies in all circumstances

- *Removing the individual from the assurance team; or*
- *Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member.*

*Other Close Relationships of Assurance Team Member*

**R921.5** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Commented [IESBA103]: 291.124

**921.5 A1** The significance of the threats created by a relationship set out in paragraph R921.5 will depend on factors such as:

Commented [IESBA104]: 291.124

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the professional on the assurance team.

**921.5 A2** Examples of safeguards include:

Commented [IESBA105]: 291.124

- *Removing the professional from the assurance team.*
- *Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.*

**921.6 A1** Self-interest, familiarity or intimidation threats might be created by a personal or family relationship between (a) a partner or employee of the firm who is not an assurance team member and (b) a director or officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. The existence and significance of any threat will depend on factors such as:

Commented [IESBA106]: 291.125

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

**921.6 A2** Examples of safeguards include:

Commented [IESBA107]: 291.125

- *Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.*
- *Having a professional accountant review the relevant assurance work performed.*

**Section 922**

The Conceptual Framework contained in Section 120 applies in all circumstances

## Recent Service with an Assurance Client

### Introduction

922.1 Self-interest, self-review or familiarity threats might be created if an assurance team member has recently served as a director, officer, or employee of the assurance client. For example, an assurance team member might have to evaluate elements of the subject matter information when that individual prepared the relevant information while with the client. Section 922 sets out requirements and application material on applying the conceptual framework in circumstances where assurance team members have served with an assurance client.

Commented [IESBA108]: 291.130

### Requirements and Application Material

R922.2 A firm shall apply the conceptual framework set out in Section 120 when an assurance team member has served recently with an assurance client.

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R922.3 The assurance team shall not include an individual who, during the period covered by the assurance report:

Commented [IESBA110]: 291.131

- (a) Had served as director or officer of the assurance client; or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

922.3 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the assurance report, an assurance team member:

Commented [IESBA111]: 291.132

- (a) Had served as director or officer of the assurance client, or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

922.3 A2 The existence and significance of any threats will depend on factors such as:

Commented [IESBA112]: 291.132

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the professional on the assurance team.

922.3 A3 An example of a safeguard is conducting a review of the work performed by the individual as an assurance team member.

Commented [IESBA113]: 291.132

## Section 923

### Serving as a Director or Officer of an Assurance Client

#### Introduction

The Conceptual Framework contained in Section 120 applies in all circumstances

923.1 Self-review and self-interest threats are created if a partner or employee of the firm serves as a director or officer of an assurance client. Section 923 sets out requirements on applying the conceptual framework in these circumstances.

Commented [IESBA114]: New paragraph

923.2 The position of Company Secretary has different implications in different jurisdictions. Duties might range from; administrative duties, such as personnel management and the maintenance of company records and registers; to duties as diverse as ensuring that the company complies with regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

Commented [IESBA115]: 291.134

#### Requirements

R923.3 A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

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R923.4 A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

Commented [IESBA117]: 291.135

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

A firm shall apply the conceptual framework set out in Section 120 if a partner or employee of the firm performs those duties and activities for an assurance client. (See also Section 950 and Subsection 951 in relation to providing non-assurance services to an assurance client).

Commented [IESBA118]: 291.136

## Section 924

### Employment with an Assurance Client

#### Introduction

924.1 An employment relationship between a former partner or employee of a firm and an assurance client might create familiarity or intimidation threats. In particular, such threats might be created if any of the following individuals have been an assurance team member or partner of the firm:

Commented [IESBA119]: 291.126

- A director or officer of the assurance client, or
- An employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

Section 924 sets out requirements and application material on applying the conceptual framework to these employment relationships.

#### Requirements and Application Material

The Conceptual Framework contained in Section 120 applies in all circumstances

**R924.2** A firm shall apply the conceptual framework set out in Section 120 to employment with an assurance client.

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**R924.3** If a former partner joins an assurance client of the firm or a former assurance team member joins the assurance client as:

Commented [IESBA121]: 291.127

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement,

the individual shall not continue to participate in the firm's business or professional activities.

924.3 A1 The existence and significance of any familiarity or intimidation threats created when such an individual has joined the assurance client in such a position will depend on factors such as:

Commented [IESBA122]: 291.127

- The position the individual has taken at the client.
- Any involvement the individual will have with the assurance team.
- The length of time since the individual was an assurance team member or partner of the firm.
- The former position of the individual within the assurance team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.3 A2 Examples of safeguards include:

Commented [IESBA123]: 291.127

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning individuals to the assurance team who have sufficient experience in relation to the individual who has joined the client.
- Having a professional accountant review the work of the former assurance team member.

924.3 A3 The requirement to apply the conceptual framework also applies if, prior to an entity becoming a client of the firm, a former partner of the firm has joined the entity in a position set out in paragraph R924.3.

Commented [IESBA124]: 291.128

**R924.4** A firm shall:

Commented [IESBA125]: 291.129

- (a) Have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client; and
- (b) On receiving such notification, apply the conceptual framework.

The Conceptual Framework contained in Section 120 applies in all circumstances

924.4 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client some time in the future.

Commented [IESBA126]: 291.129

924.4 A2 Examples of safeguards include:

Commented [IESBA127]: 291.129

- Removing the individual from the assurance team.
- A review of any significant judgments made by that individual while on the team.

As noted at page 1, Section 940 will be presented by the Long Association Task Force at the Board's September 2016 meeting.

As noted at page 1, Section 950 will be developed after the June 2016 IESBA meeting once conclusions have been reached on the proposed revisions being put forward by the Safeguards Task Force with respect to Section 600.

## Section 999

### Reports that Include a Restriction on Use and Distribution

#### Introduction

999.1 Section 999 sets out certain modifications to the requirements in C2 which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution.

Commented [IESBA128]: 290.500

999.2 For the purposes of this section, a restricted use and distribution assurance report that is issued in the circumstances set out in paragraph R999.3 is referred to as an "eligible restricted use assurance report".

Commented [IESBA129]: New paragraph

#### Requirements and Application Material

R999.3 A report on an assurance engagement which includes a restriction on use and distribution shall only be considered to be an "eligible restricted use assurance report" if:

- (a) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modified requirements;
- (b) The firm communicates with the intended users of the report regarding the requirements that are to be applied in providing the assurance engagement; and
- (c) Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm subsequently makes such users aware of the requirements agreed to by their representative.

Commented [EH130]: 291.21

Commented [IESBA131]: 291.22

Commented [IESBA132]: 291.22

The Conceptual Framework contained in Section 120 applies in all circumstances

999.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users. In either case, this participation helps the firm to communicate with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified independence requirements that are to be applied.

Commented [IESBA133]: 291.21

999.3 A2 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the requirements agreed to by the representative.

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R999.4 When the firm prepares an eligible restricted use assurance report, the firm shall apply the conceptual framework set out in Section 120 and any modifications to the requirements of C2 Sections 900 to 999 shall be limited to those modifications set out in paragraphs R999.5 to R999.7.

Commented [EH135]: 291.24

R999.5 When the firm prepares an eligible restricted use assurance report:

Commented [EH136]: 291.25

(a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;

(b) The firm shall determine whether threats to independence are created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members;

Commented [EH137]: 291.25

(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships, between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

Commented [EH138]: 291.25

999.5 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

Commented [EH139]: 291.25

R999.6 When the firm prepares an eligible restricted use assurance report, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

Commented [EH140]: 291.26

The Conceptual Framework contained in Section 120 applies in all circumstances

**R999.7** When the firm prepares an eligible restricted use assurance report, the firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

Commented [EH141]: 291.27

As noted at page 1, the Task Force proposes to exclude the extant material in the Interpretation from the Phase 2 Structure of the Code ED-2.