

Review of Part C of the Code Phase I – Safeguard-Specific Conforming Amendment and Cross-over Issues

Background and Introduction

1. Consistent with the approach taken in the March 2016 IESBA meeting, certain paragraphs within the proposed restructured Part C Phase 1 close-off document (hereinafter referred to as extant material) have been shaded gray and have not yet been restructured by the Part C Task Force (**see Agenda Item 7-B**).¹ Those paragraphs are subject to conforming changes as a result of the Safeguards project.
2. At the March 2016 IESBA meeting, it was agreed that the Part C Task Force would work closely with the Safeguards Task Force to consider initial conforming changes that might be needed to those “gray” paragraphs in order for them to be aligned to the December 2015 Safeguards Exposure Draft, [*Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*](#) (Safeguards ED-1). The Board accepted that any safeguards-specific changes to the extant material would then need to be updated to incorporate the final revisions to Safeguards ED-1 in response to feedback from respondents.
3. The Part C Task Force was also asked, on behalf of the Safeguards Task Force, to consider whether there is a need to provide additional examples of threats or safeguards that might be relevant to professional accountant in business (i.e., Safeguards Phase 2). The Safeguards Task Force plans to consider these proposals at its July 2016 Task Force meeting with the intention of presenting them at the September 2016 IESBA meeting.
4. This paper provides an overview of the work performed by the Part C Task Force in support of the Safeguards Task Force and the issues identified to-date as part of developing the safeguards-specific conforming amendments (i.e., Safeguards Phase 1 conforming amendments). The paper also describes matters that might require joint consideration and coordination by the Part C, Safeguards and Structure of the Code Task Forces.

Issues

5. At their May 2016 meeting, the Part C Task Force considered safeguards-specific conforming amendments to the “gray” paragraphs in the extant material. The nature of changes as a result of those conforming amendments were either to:
 - Align the extant material to Safeguards ED-1; or

¹ The Part C Phase 1 close-off document was approved by IESBA at its November/ December 2015 meeting, and the Public Interest Oversight Board approved confirmation of due process during its March 2016 meeting. The close-off document was developed using the drafting conventions in the extant Code, and includes changes to the following sections of the extant Code:

- Section 320, *Preparation and Presentation of Information*;
- Section 370, *Pressure to Breach the Fundamental Principles*;
- Section 300, *Introduction*;
- Section 310, *Conflicts of Interest*;
- Section 330, *Acting with Sufficient Expertise*; and
- Section 340, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Conform the extant material to the drafting conventions and format set out by the Structure of the Code project.
6. The Chairs and Staff of the Part C, Safeguards and Structure Task Forces liaised via teleconference to discuss the best way to present the proposals to the IESBA. After deliberation, all parties agreed that it would be beneficial if the Safeguards Task Force and IESBA first considered revisions to Safeguards ED-1 to take into account the feedback from respondents before safeguards-specific conforming amendments on the extant material are put forward to the IESBA. It was agreed that the Part C Task Force's proposed safeguards-specific conforming amendments would be considered by the Safeguards Task Force during its July 2016 Task Force meeting with the final proposals being presented to the IESBA at its September 2016 meeting.

Duplication

7. In performing their initial restructuring of the "gray" paragraphs, the Part C Task Force observed that strict adherence to the Structure of the Code Drafting Guidelines would mean that:
- Certain requirements within the extant material might need to be demoted to application material in order to align the guidance to Safeguards ED 1 which cross-references to overarching requirements in the conceptual framework set out in Section 120.²
 - Certain guidance within the extant material might need to be deleted in order to align the guidance to Safeguards ED 1 where guidance has been deleted as it covered either as part of the conceptual framework set out in Section 120 or in Section 300.³
8. It was also noted that in some cases the material in Section 120 was not the exact wording of the extant material. This is illustrated in the example below where the deletion of extant material shown in strike through would be needed in order to align it to Safeguards ED-1.

Para ref. to Extant Code	March 2016 Part C Phase 1 Close-off Document	Proposed Part B Restructured	Matter for IESBA Consideration
300.7	Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:	Compliance with the fundamental principles might be threatened by a broad range of facts and circumstances. The following are categories of threats, and examples of facts and circumstances that might create those threats for a professional accountant when undertaking a professional	Should the guidance shown in strikethrough be deleted on the basis that it is encompassed in the conceptual framework set out in Section 120?

9. With respect to the potential demotion of requirements, the Part C Task Force expressed concerns that the deletion of requirements in the extant material on the basis that they are duplicative of

² Section 120, *The Conceptual Framework*

³ Section 300, *Application of the Conceptual Framework to Professional Accountants in Public Practice*

provisions that are already encompassed in Section 120 could result, or may be perceived to result, in a dilution of the requirement. This is because the provisions in Section 120, in some cases, contain high level requirements⁴ that are not sufficiently granular to address specific Part C issues.

Para ref. to Extant Code	March 2016 Part C Phase 1 Close-off Document	Proposed Part B Restructured	Matter for IESBA Consideration
310.8	The professional accountant in business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:	The professional accountant in business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:	Should the requirements shown in strikethrough in paragraphs 310.8, 330.3 and 340.3 be deleted on the basis that it is already encompassed in Section 120?
330.3	The significance of the threat will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:	The significance of the threat will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include...	
340.3	The significance of any threat created by financial interests, shall be evaluated and	The significance of any threat created by financial interests, shall be evaluated and	

⁴ **R120.3** The professional accountant shall apply the conceptual framework which involves identifying, evaluating and addressing threats to compliance with the fundamental principles.

R120.4 When applying the conceptual framework, the professional accountant shall exercise professional judgment, remain alert to changing circumstances, and take into account whether a reasonable and informed third party would likely conclude that the accountant has complied with the fundamental principles.

	<p>safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend on personal circumstances.</p>	<p>safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend on personal circumstances.</p>	
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Matter for IESBA Consideration

1. IESBA members are asked for their views about how to address issues pertaining to duplication of requirements and application material in Section 120 and the specific matters in the table above.